

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3356
FEBRUARY 3, 1994

R E S O L U T I O N

RESOLUTION E-3356. SIERRA PACIFIC POWER COMPANY
REQUESTS AUTHORITY TO ADJUST ITS RATES FOR THE ANNUAL
ATTRITION ADJUSTMENT.

BY ADVICE LETTER 232-E, FILED ON OCTOBER 20, 1993.

SUMMARY

1. Sierra Pacific Power Company (SPPC) has filed for an Attrition Rate Adjustment (ARA) as authorized in Decision (D.) 93-04-056 in Application (A.) 92-05-040. The requested revenue increase is \$951,000 (2.64%).
2. This Resolution authorizes the requested increase in rates.
3. The Division of Ratepayer Advocates (DRA) protested the ARA process and SPPC's computation of Post-retirement Benefits Other than Pensions (PBOP). The protest on the attrition process is denied without prejudice. The Commission will not consider a major policy issue such as eliminating the ARA process in an advice filing. The Commission does not agree with DRA's interpretation of the ordering paragraphs (OP) of Decision (D.) 92-12-015, the Commission guidelines on PBOP. The protest of SPPC's computation is also denied.

BACKGROUND

1. SPPC was authorized to implement an ARA to request rate changes between its general rate case proceedings by D. 93-04-056. SPPC filed Advice Letter 232-E on October 20, 1993, supplemental Advice Letter 232-E-A on December 14, 1993, and substitute tariff sheets on February 1, 1994, to request its 1994 ARA.
2. SPPC filed A. 93-05-008 to request a cost of capital determination for the rates to be used in its ARA. The decision in A. 93-05-008 is D. 93-12-022.
3. After issuance of D. 93-12-022, SPPC issued Advice Letter No. 232-E-A, an addendum, revising the final attrition revenue requirement to reflect the Commission-approved 1994 weighted cost of capital.

4. Commission Decision 92-12-015, issued December 3, 1992, established the PBOP accounting program to be followed by utilities that are under traditional cost of service ratemaking and the new regulatory framework.

NOTICE:

1. Public notice of this filing has been made by publication in the Commission's calendar on October 29, 1993 and by mailing copies to interested parties specified by General Order 96A.

PROTESTS

1. The Division of Ratepayer Advocates (DRA) filed a timely protest and two protest addendums. SPPC responded to the protest and addendums in a timely manner.

DISCUSSION

1. SPPC requests a \$951,000 ARA. Of the total amount, SPPC requests \$258,000 to cover changes in operational costs and inflation, and \$693,000 to meet the revenue requirement for PBOPs.

2. DRA protested the ARA procedure, and SPPC's calculation and verification of its PBOP revenue adjustment. DRA argues that ARA results in increased energy rates that have not been litigated and can be higher than rates set in a litigated proceeding. DRA concludes that the ARA process allows utilities to recover not only substantial changes in operational costs, but also minor inflation which all other businesses and residents in California must absorb. DRA urges that the filing be denied because the ARA process is unsatisfactory.

3. To modify the ARA process to meet DRA's argument would be to impose a new rate concept on SPPC that differs from the ARA filing. This would constitute a major policy change that should be examined in a proceeding with opportunity for offering evidence and cross examination. An advice filing is not a mechanism for major policy change.

4. SPPC requests a revenue requirement of \$693,000 for recovery of costs associated with PBOPs. This amount consists of \$323,000 which is equal to the 1993 PBOP contribution, and \$370,000 which is equal to 1 percent of SPPC's California 1993 operating revenue.

5. D. 92-12-015 specifies the guidelines and conditions for recovery of costs associated with PBOP. These conditions include:

- o the Financial Accounting Standards Board Statement of Accounting standards No. 106 (FAS 106) must be adopted with certain modifications (OP 1)
- o utilities should make trust agreements and accounting records available to Commission Advisory and Compliance Division (CACD) and DRA upon request (pg. 50, footnote 30)
- o PBOP funds must be placed in a trust established exclusively for PBOP (OP 2)
- o PBOP funds must be tax deductible (OP 2)
- o recovery of tax deductible contributions in any given year should not increase over the prior year's PBOP expense recovery by more than 1 percent of the utilities' total prior year's operating revenue. (OP 2)

6. OP 11 of D. 92-12-015 provides an exemption from the requirements for utilities with 10 percent or less of their operations in California. Nonetheless, these utilities are required to impute the effect of accrued PBOP as explained in the decision, and earnings on imputed PBOP should be set at the authorized weighted cost of capital.

7. CACD interprets this part of OP 11 to mean that if the utility so chooses, it may follow the ordering paragraphs of D. 92-12-015 for its PBOP recovery. SPPC has complied with the requirements. DRA has challenged SPPC's compliance on several points.

8. OP 11 also requires that earnings on the imputed PBOP contributions must be set at the authorized cost of capital rate. SPPC's actuary used a 9 percent investment return to estimate SPPC's California portion of the FAS 106 expense. The weighted cost of capital rates are 9.82 percent for 1993 and 9.18 percent for 1994. SPPC contends that even at 9 percent, the accrued PBOP is over a self-imposed 1 percent cap.

9. DRA found SPPC's actuarial data was insufficient. DRA requested that the Commission hold resolution of this advice letter until SPPC provides a 1994 actuarial valuation for PBOB for California. CACD has determined that an extrapolation from 1993 data by an actuary is adequate because PBOP is based on a forecast and must be trued up each year.

10. The FAS 106 expense amount used for 1994 is an estimate based on an extrapolation from the 1993 actuarial valuation. The actual amounts will not be available until mid-February, 1994.

Thus, final amounts presented in this advice letter would be an estimate based on extrapolation regardless of whether the authorized weighted cost of capital or 9 percent is used.

11. In its 1995 attrition filing, SPPC must correctly calculate the 1994 regulatory asset to show the 1993 and 1994 earnings. At which time all calculations must specifically follow the guidelines and the necessary data must be available.

12. DRA's also argues that SPPC has not yet contributed the PBOP funds to a designated PBOP trust, and is therefore out of compliance with PBOP requirements. CACD concludes that to be in compliance, contributions to the trust may be made as late as the year of recovery. SPPC has stated that the funds will be contributed to a PBOP trust in 1994 and, therefore, will be in compliance.

13. DRA's protest was particularly focussed on OP 2f; the utility may only increase the amount of PBOP recovery by 1 percent of the previous year's operating revenue. DRA has correctly pointed out that D. 92-12-015 does not guarantee an increase of 1 percent of operating revenue each year. The utility must demonstrate through actuary valuation that it has a regulatory asset equal to or greater than the 1 percent of the previous year's operating revenue and less than the tax deductible limit.

14. DRA argues that in SPPC's 1993 General Rate Case settlement agreement (D. 93-04-056), OP 16, SPPC's revenue requirement was limited to \$323,000. The settlement agreement states that \$323,000 is 1 percent of SPPC's "authorized 1992 California gross revenues." SPPC's 1993 actuarial valuation and other data show that the revenue requirement for 1993 PBOPs was \$562,535. The difference between the cost recovered by SPPC (\$323,000 or 1 percent of California gross operating revenue) and the revenue requirement is SPPC's regulatory asset. SPPC claims it is entitled to recover its regulatory asset up to the tax deductible limit, and not greater than 1 percent of its California gross operating revenue. SPPC has imposed on itself the 1 percent limit to avoid rate shock.

15. SPPC has calculated an increase of \$370,000 for 1994, based on 1 percent of its California gross operating revenue. Of that amount, \$97,080 is regulatory asset, leaving a regulatory asset of \$142,455 to carry over into the 1995 attrition filing.

16. Finally, SPPC originally used different escalator values than DRA, but revised the calculations using values that DRA produces, at DRA's request. SPPC has used DRA's escalators in past decisions and should be consistent in its filings. DRA also pointed out a change in federal income tax rates for corporations. SPPC acknowledged the change and filed substitute tariff sheets on February 1, 1994.

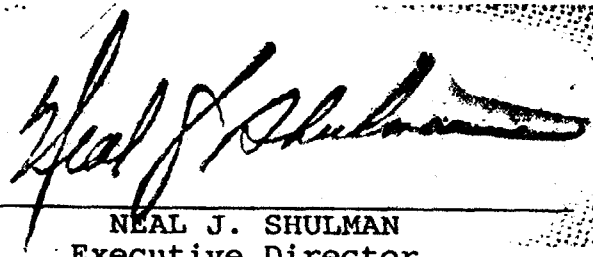
FINDINGS

1. The revenue increase requested and rate changes proposed by SPPC in Advice Letters 232-E and 232-E-A, and substitute tariff sheets are in conformance with Commission Decisions 93-04-056 and D. 92-12-015.
2. Major policy changes should result from formal proceedings during which the issues can be fully exposed for public review and comment. Major policy changes by the Advice Letter procedure are inappropriate.
3. SPPC may follow the requirements for calculating PBOP recovery ordered in D. 92-12-015, even if it is eligible for exemption.
4. Recovered funds are to be put in a PBOP trust at the latest in the year it is collected.
5. SPPC's filing was adequate only after responses to DRA's and CACD's data requests and supplemental tariff sheets.

THEREFORE, IT IS ORDERED that:

1. Advice Letters 232-E, 232-E-A and substitute tariff sheets shall be marked to show they were approved by Commission Resolution E-3356.
2. SPPC shall use the data requests from this filing as guidance on the level of specificity of data for its filing next year.
3. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 3, 1994. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
Commissioners