



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application of SIERRA PACIFIC POWER COMPANY (U903 E) To, Among Other Things, Increase Its Authorized Revenues For Electric Service In 2009, Establish Marginal Costs, Allocate Revenues, And Design Rates.

Application No. 08-08-004  
(Filed August 1, 2008)

## **PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES**

### **I. INTRODUCTION**

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) submits this Protest to the Application (A.) of Sierra Pacific Power Company (Sierra Pacific or Sierra) for authority to, among other things, increase its authorized revenues for electric service in 2009, establish marginal costs, allocate revenues and design rates.

In its Application, Sierra Pacific says that it is seeking an increase in general rates totaling \$6.6 million, or 8.1% overall based on present rates, effective April 1, 2009.<sup>1</sup> Sierra Pacific requests an authorized Return on Equity (ROE) of 11.4% resulting in an overall Rate of Return on rate base of 8.81%.<sup>2</sup> Sierra Pacific also seeks authorization to increase its energy efficiency program budget by 33% and offer its SolarGenerations

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<sup>1</sup> A.08-08-004, Vol. 1, p. 1.

<sup>2</sup> A.08-08-004, Vol. 1, p. 1.

program to its California customers.<sup>3</sup> Finally, Sierra Pacific asks the Commission to adopt a Post Test-Year Adjustment Mechanism.

Sierra Pacific filed this General Rate Case (GRC) Application on August 1, 2008. Since the Application first appeared on the Commission's Daily Calendar on August 11, 2008, this Protest is timely.

## **II. BACKGROUND**

Sierra Pacific's last rate increase was approved by the Commission in D.06-08-024. That increase consisted of a general rate increase of \$3.9 million and an increase in energy efficiency programs of \$0.2 million. The increases were implemented on September 1, 2006.<sup>4</sup>

In this GRC, Sierra Pacific says that "...an overall revenue requirement increase of \$6.6 million is required to earn a rate of return of 8.81%, reflecting a return on equity of 11.4%."<sup>5</sup> Sierra Pacific's Application says that its proposed \$6.6 million increase is composed of \$4.5 million for Generation, \$0.4 million for Transmission and \$1.7 million for Distribution. Sierra Pacific's Application identifies as the "main contributors to the proposed increase" (1) the inclusion of the new Tracy Combined Cycle Power Plant (the Tracy CC Plant) which became operational on July 1, 2008; (2) an increase in the proposed Rate of Return from 8.73% to 8.81%; (3) investments in new transmission and distribution facilities; and (4) increases in Sierra Pacific's Energy Efficiency program budgets.<sup>6</sup>

According to its Application, Sierra Pacific's proposed increase would result in a 7.67% rate increase to residential customers, a 6.10% increase or a 5.64% increase to small commercial customers, depending on their rate schedules, a 6.56% increase to medium commercial customers, a 13.03% increase to large commercial and industrial

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<sup>3</sup> A.08-08-004, Vol. 1, p. 2.

<sup>4</sup> A.08-08-004, Vol. 1, p. 2.

<sup>5</sup> A.08-08-004, Vol. 1, p. 3.

<sup>6</sup> A.08-08-004, Vol. 1, p. 4.

customers,<sup>7</sup> a (25.78%) decrease to Irrigation (PA) customers, and a 11.91% increase to Street Lighting (SL/OL) customers. Sierra Pacific is also proposing a Post Test-Year Adjustment Mechanism.

DRA is reviewing Sierra Pacific's Application and Testimony and Workpapers. DRA needs to verify the accuracy of the information they contain and perform its own independent analysis.<sup>8</sup> As of this writing, DRA has identified a number of issues which are discussed in more detail below.

### **III. ISSUES**

For the test year 2009, Sierra Pacific is proposing an increase in the electric distribution base revenue requirement of \$6.6 million. This rate increase is substantial in light of the fact that Sierra Pacific has only approximately 46,000 California customers.

The issues listed below are those DRA considers relevant to the Commission's review of Sierra Pacific's GRC Application. The list is not exhaustive, and DRA reserves the right to raise other issues in its testimony after DRA has had the opportunity to conduct discovery. Discovery and analysis may eliminate some of these issue areas and others may arise.

At present, DRA has identified the following issues for this Protest:

#### **A. Summary of Earnings/ Results of Operations**

The Summary of Earnings presents the revenue requirements based on projections of revenues, expenses, net earnings, rate base and rate of return. These elements are inputs to the Results of Operations (RO) model, which is used to develop the Summary of Earnings. DRA will perform a thorough review and evaluation of Sierra Pacific's RO model calculations and inputs to ensure the integrity of the model, compliance with the Commission's policies and regulatory principles. The Summary of Earnings will

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<sup>7</sup> A.08-08-004, Vol. 1, p. 4.

<sup>8</sup> *See, for example*, the Proposed Rate Change for Total Revenue. In the Application, this is listed as a 8.14% increase. (Application, Vol. 1, p. 4.) In the text, this is referred to as a 9.03% increase. (Testimony, Vol. 4, p. 12-1.)

compare the estimated revenue requirements that DRA recommends with those Sierra Pacific requests.

**B. Sales, Customers and Revenues**

Operating revenues are the product of estimated sales, customers, and billing factors including effective rates. Sierra Pacific’s sales and customer forecasts are based on a forecast it prepared in February 2008. Sierra Pacific says that it derives its forecast of total California sales primarily through statistical measures.<sup>2</sup>

DRA will review the company’s estimates and derive its own forecast.

**C. Operation & Maintenance (O&M) and Administrative & General (A&G) Expenses**

Sierra Pacific’s forecasts for Operation and Maintenance (O&M) expenses include expenses for the categories of “Steam Generation, Other Generation, Other Power Supply, Transmission, Distribution, Customer Accounts, Customer Service and Administrative & General Costs.”<sup>10</sup> Sierra Pacific asserts that its “2009 O&M forecast for the California Jurisdiction is \$12,854,000.”<sup>11</sup>

Sierra Pacific says that its forecasted test year California O&M expenses were arrived at by escalating the normalized base year labor and non-labor O&M costs.<sup>12</sup> Sierra Pacific states that it adjusted these forecasted costs to include new O&M expenses associated with its new gas-fired generator placed in service after the end of the base year. Sierra Pacific says that the overall O&M increase is comprised of increased costs for Production (\$2.386 million), Transmission (\$0.388 million), Distribution (\$2.147 million), Administrative & General (\$12.854 million), and Customer Accounting (\$2.567 million).

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<sup>2</sup> A.08-08-004, Vol. 2, p. 2-1.

<sup>10</sup> Id.

<sup>11</sup> Response to Clarifying Questions Submitted by DRA Q/A 2; A.08-08-004, Vol. 2, pp. 21-22, Table 3-1 and pp. 25-26 (Table 3-2).

<sup>12</sup> A. 08-08-004, Vol. 1, 2, p. 3-2.

DRA will conduct discovery, evaluate Sierra's proposals, and develop its own independent analysis and forecast of these expenses.

#### **D. Energy Efficiency Programs**

Sierra Pacific is requesting a budget of \$600,000, or a 33% increase, for its Energy Efficiency program budget. Sierra Pacific's budget was \$250,000 in 2002 and increased to \$450,000 in 2006. Sierra Pacific also requests authorization to offer its Solar Generations Program<sup>13</sup> to its California customers as part of its Energy Efficiency programs.

DRA will conduct discovery and investigate the reasonableness of the requested increase in budgets and programs.

#### **E. Plant Additions**

Sierra Pacific says that its 2008 forecast for plant additions is \$659,866,410, of which \$632,291,616 is for electric plant additions and \$6,936,975 is for common plant additions.<sup>14</sup> For 2009, Sierra Pacific forecasts \$193,670,274 of which \$163,702,928 is for electric plant additions and \$8,857,143 is for common plant additions.<sup>15</sup>

DRA will review Sierra's projections for plant additions by evaluating Sierra's methodology, reviewing major projects and other functional areas with forecast plant additions in order to develop independent forecasts.

#### **F. Depreciation Expense**

Depreciation expense is related to the magnitude of the company's plant-in-service. As new plant items are placed in service, the level of depreciation increases. Recovery of this expense allows the company to recoup the original cost of capital investments, less any estimated net salvage over the useful life of the asset.

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<sup>13</sup> Sierra Pacific describes its SolarGenerations Program as a "capacity based rebate program under which Sierra offers incentives to customers for installation of small on-site photo-voltaic systems." A.08-08-004, Vol. 2, p. 4-5.

<sup>14</sup> Response to Clarifying Questions, Q/A 8, referring to Vol. 5, Workpapers, Chapter 7, p. 71.

<sup>15</sup> Response to Clarifying Questions, Q/A 7, referring to Vol. 5, Workpapers, Chapter 7, p. 73.

Sierra Pacific says that the rates it used in its forecasted 2009 depreciation expense “...reflect the latest rates approved by the Public Utilities Commission of Nevada.”<sup>16</sup> Sierra Pacific’s proposed California Jurisdictional Electric depreciation expense is \$9,514,000.<sup>17</sup>

DRA will review the net increase and associated accrual rates by examining the various elements of depreciation (plant balances and reserves, service lives, survivor curves, net salvage rates, cost of removal, and net salvage) for each plant account and will develop independent forecasts of depreciation rates, expense and reserve. In particular, DRA will review the depreciation rate being used for the new Tracy CC Plant.

### **G. Taxes**

Sierra Pacific states that its “Total Electric” tax data ties to its Allocated Electric Cost of Service Study.<sup>18</sup> Sierra Pacific used statutory tax rates of 35% and 8.84% for federal income tax and California franchise tax calculations which were effective April 1, 2008. DRA will conduct discovery and investigate the reasonableness of the tax rates and data utilized in the test year forecast. DRA will also prepare forecasts of property and payroll taxes.

### **H. Rate Base**

Rate base is the net investment in facilities, equipment, and other property a utility has constructed or purchased to provide utility service to its customers, and is the basis for the return, or earnings, that the utility is allowed to recover from its ratepayers. Sierra Pacific estimates its 2009 California Jurisdiction rate base at \$136,136,000.<sup>19</sup>

DRA will analyze the components of rate base, including plant-in-service, working capital, deferred taxes, depreciation reserve, materials and supplies, customer

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<sup>16</sup> A.08-08-004, Vol. 2, Chapter 5, p. 7-1.

<sup>17</sup> A.08-08-004, Vol. 2, Table 5-1.

<sup>18</sup> A.08-08-004, Vol. 2, p. 6-1.

<sup>19</sup> A.08-08-004, Vol. 2, p. 7-5, Table 7-1.

advances, capitalization of overheads, vacation accrual and other issues, and present its own forecast of rate base.

### **I. Cost Allocations**

Sierra Pacific provides electric service in three jurisdictions – California, Nevada and FERC.<sup>20</sup> Sierra Pacific states that it uses a “jurisdictional allocation study to identify the appropriate revenue requirement for each jurisdiction.”<sup>21</sup>

DRA will analyze Sierra’s allocation methodology and factors.

### **J. Cost of Capital**

Sierra Pacific proposes a Rate of Return on rate base (ROR) of 8.81% as compared to its currently authorized ROR of 8.73%. Sierra proposes a Return on Equity (ROE) of 11.4% as compared to its authorized ROE of 9.92% adopted in a Settlement in Sierra’s last GRC.<sup>22</sup>

DRA will review Sierra’s proposal and make its own analysis of the appropriate level of return that is commensurate with market returns on investments having similar risks and that is adequate to enable a utility to attract investors to finance the replacement and expansion of its facilities. DRA will develop its ROE recommendation by using results from financial models such as the Capital Asset Pricing Model (CAPM), and Discounted Cash Flow (DCF) analysis in conjunction with other factors and informed judgment.

### **K. Post Test-Year Adjustment Mechanism**

Sierra Pacific is proposing a Post Test-Year Adjustment Mechanism (PTAM) which is intended to recover changes in non-ECAC<sup>23</sup> related costs during the two years in between rate cases. Sierra’s proposed PTAM is in two parts. Part 1 provides for an increase in authorized O&M expenditures based on the published increase in the

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<sup>20</sup> A.08-08-004, Vol. 4, p. 9-1.

<sup>21</sup> Id.

<sup>22</sup> Responses to Clarifying Questions, Q/A 6 citing D.06-08-024, Settlement Agreement, p. 3, Item 3.2 Rate of Return.

<sup>23</sup> Energy Cost Adjustment Clause.

Consumer Price Index minus a productivity factor; Part 2 provides for the addition to ratebase of capital projects that exceed \$20 million on a total company basis (California and Nevada). Sierra Pacific asserts that "...only the California allocated share of such additions will be added to Sierra's California ratebase."<sup>24</sup>

DRA will analyze Sierra's request and present its own proposals.

#### **L. Audit**

Consistent with the authority and mandates set forth in Sections 309.5 and 314 and 314.5 of the Public Utilities Code, DRA will conduct an audit of Sierra's books and records and present its findings in a Report on the Results of Examination.

#### **M. Other Issues**

Sierra Pacific requests that the Commission adopt its proposal for its Irrigation customers (PA) to "restore the type of discounted rate treatment that was approved by the Commission in 1987, when the PA schedule was reinstated as an optional schedule with interruptible requirements."<sup>25</sup> DRA will conduct discovery and investigate the reasonableness of Sierra Pacific's proposal.

DRA will also evaluate Sierra Pacific's marginal cost allocation and rate design proposal, and develop independent proposals where appropriate.

### **IV. CATEGORIZATION OF PROCEEDING**

DRA agrees with Sierra Pacific's categorization of this proceeding as ratesetting.

### **V. PROCEDURAL ISSUES**

The Rate Case Plan provides for hearings in major general rate cases and Sierra Pacific proposes a procedural schedule which includes hearings. DRA agrees that hearings will likely be needed to resolve issues raised by the application. DRA does not agree to the schedule proposed by Sierra Pacific.

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<sup>24</sup> A.08-08-004, Vol. 1, p. 6.

<sup>25</sup> A.08-08-004, Vol. 4, p. 12-3.

Sierra's proposed schedule has DRA serving its testimony on October 31, 2008, with Rebuttal testimony being served on November 21, 2008, hearings from December 15-17, Opening Briefs filed January 5, 2009, and Reply Briefs filed January 19, 2009. This proposed schedule does not provide DRA with sufficient time to prepare and serve its reports.

DRA recommends a schedule similar to that adopted in Sierra Pacific's last GRC. In the last case, Sierra filed its Application in June 2005.<sup>26</sup> By the schedule adopted for that case, the Commission allowed DRA and Intervenors over five months from the time Sierra Pacific filed its Application to conduct discovery, perform their analyses and serve their testimony.<sup>27</sup>

To enable DRA and other interested parties sufficient time to review the numerous issues raised by Sierra's Application, conduct discovery, thoroughly evaluate the Application and Testimony, and develop independent forecasts and recommendations in its reports, DRA recommends the following schedule:

Application appears on Daily Calendar	August 11, 2008
Pre-hearing conference	TBD
DRA and Intervenor Testimony Served	February 11, 2009
DRA Cost Allocation and Rate Design Testimony Served	February 25, 2009
Rebuttal Testimony Served	March 10, 2009
Hearings	April 1-8, 2009
Opening Briefs Filed	May 1, 2009
Reply Briefs Filed	May 15, 2009
Proposed Decision Issued	August 17, 2009
Final Commission Decision Issued	TBD

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<sup>26</sup> A.08-08-004, Vol. 1, p. 2.

<sup>27</sup> D.06-08-024, p. 4.

## VI. CONCLUSION

DRA respectfully recommends that the proceeding be categorized as ratesetting, that the matter be set for hearing and that the scope of the proceeding include, but not be limited to, the issues identified in this protest. DRA also recommends that a prehearing conference be held and that the schedule DRA recommends above be adopted.

Respectfully submitted,

/s/ Laura Tudisco

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September 10, 2008

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served a copy of **PROTEST OF THE OFFICE OF RATEPAYER ADVOCATES** in **A.08-08-004** by using the following service:

**E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

**U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses.

Executed on September 10, 2008 at San Francisco, California.

/s/ Nelly Sarmiento

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Nelly Sarmiento

**SERVICE LIST**  
**A.08-08-004**

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