ATTACHMENT A

BEFORE THE CALIFORNIA PUBLIC UTILITIES COMMISSION

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 08-08-004 (Filed August 1, 2008)

SETTLEMENT AGREEMENT BETWEEN SIERRA PACIFIC POWER COMPANY, THE DIVISION OF RATEPAYER ADVOCATES, AND THE A-3 CUSTOMER COALITION

1. General

1.1 The Parties to this Settlement Agreement ("Settlement") before the California Public Utilities Commission ("Commission") are Sierra Pacific Power Company ("Sierra"), the Division of Ratepayer Advocates ("DRA"), and the A-3 Customer Coalition ("A-3CC"). The Parties, desiring to avoid the expense and uncertainty attendant to litigation of the matters in dispute between them, have agreed on this Settlement Agreement.

1.2 Since this Settlement Agreement represents a compromise by them, the Parties have entered into each component of this Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding or in any other proceeding before the Commission. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding.

1.3 The Parties agree that no signatory to this Settlement Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission.

1.4 The Parties agree that this Settlement Agreement is an integrated agreement, so that if the Commission rejects or modifies any portion of this Settlement Agreement, each Party has the right to withdraw from it.

1.5 All issues between the Parties have been resolved.

1.6 Included in this Settlement Agreement are supporting references to Sierra's application and direct testimony filed on August 1, 2008 ("*Sierra Application*"), Sierra's amendment to its application filed on December 19, 2008 ("*Sierra Amendment*"), DRA's Report on the Results of Operations served April 3, 2009 ("*DRA Revenue Requirements Testimony*"), DRA's Report on Revenue

Allocation and Rate Design served on April 17, 2009 ("*DRA Rate Design Testimony*"), the testimony of A-3CC served on April 17, 2009 ("*A-3CC Testimony*"), and Sierra's rebuttal testimony served on May 29, 2009 ("*Sierra Rebuttal*").

2. Cost of Capital

2.1 **Capital Structure:** Sierra proposed a capital structure of 43.71% Equity; 56.29% Debt. *Sierra Application*, Vol. 3, at 8B-2. No Party opposed this proposal.

2.2 **Cost of Debt:** Sierra proposed a cost of debt of 6.8%. *Sierra Application*, Vol. 3, at 8B-2. No Party opposed this proposal.

2.3 **Return on Equity:** Sierra proposed an ROE of 11.4%. *Sierra Application*, Vol. 3, Chapter 8A; *Sierra Rebuttal* at 92-105. DRA proposed an ROE of 10.5%. *DRA Revenue Requirements Testimony* at 9-4 through 9-27. As part of this negotiated Settlement Agreement, the Parties agree to an ROE of 10.7%.

2.4 **Rate of Return:** Sierra proposed a weighted average rate of return of 8.81%, based on its proposed capital structure, cost of debt, and ROE. *Sierra Application*, Vol. 3, at 8B-2. Under this negotiated Settlement Agreement, the capital structure, cost of debt, and ROE agreed to by the Parties produces a weighted average rate of return of 8.51%. As part of this negotiated Settlement Agreement, the Parties accept this rate of return.

3. Requested Revenue Requirement

3.1 In its application, filed on August 1, 2008, Sierra requested an increase in its revenue requirement of $6.613 million representing an overall 8.1% increase to the company's retail customers to become effective on April 1, 2009. On December 19, 2008, Sierra filed the *Sierra Amendment*, in which it revised its requested revenue requirement increase to $8.911 million, representing an overall 11% increase to the company's retail customers. The increase requested by Sierra included a proposed authorized rate of return of 8.81% with a return on equity of 11.4%. *Sierra Application*, Vol. 3, at 8B-2.

3.2 DRA proposed adjustments in revenue requirement that in the aggregate would produce a revenue requirement increase of $4.259 million, or an adjustment of $4.652 million. *DRA Revenue Requirements Testimony* at 1-2.

3.3 The effect of the adjustments agreed to as part of this Settlement Agreement is an increase of $5.50 million to Sierra's revenue requirement, representing an overall average increase of 7.75% over the current revenue requirement. As part of this

negotiated Settlement Agreement, the Parties agree to this increase in revenue requirement.

4. Adjustments to Revenue Requirement

4.1 **Depreciation Expense Correction:** Sierra proposed depreciation expense of $9.937 million for its California jurisdiction. *Sierra Amendment* at Table 5-1. Subsequent to the filing of the Amendment, Sierra discovered a summary error in the spread sheet where the depreciation expense was calculated. The error had the effect of overstating the California jurisdiction depreciation expense by $1.408 million. Sierra alerted DRA to the error in response to a data request, and DRA proposed this correction in its testimony. *DRA Revenue Requirements Testimony* at 7-13. Sierra accepted this correction in its rebuttal testimony. *Sierra Rebuttal* at 4. As part of this negotiated Settlement Agreement, the Parties agree to a correction in California-jurisdiction depreciation expense of $1.514 million, incorporating allocation updates.

4.2 **Rate of Return, Return on Equity, and Cost of Debt:** The agreement of the Parties on ROE on (10.70%) and cost of debt (6.80%) outlined in Section 2 above produces a reduction in Sierra's proposed revenue requirement of $690 thousand. The Parties agree to this adjustment.

4.3 **Other Revenues:** DRA proposed an adjustment to increase Other Operating Revenues by $140 thousand based on a different forecasting methodology from that used by Sierra. *DRA Revenue Requirements Testimony* at 1-10 through 1-11. As part of this negotiated Settlement Agreement, Sierra accepts this adjustment.

4.4 **Operations and Maintenance Expenses (O&M), Administrative and General (A&G):** Sierra proposed O&M expenses, including A&G expenses, of $13.551 million. *Sierra Amendment* at Table 3-1. DRA recommended adjustments totaling $1.141 million, including adjustments to a number of different line items. *DRA Revenue Requirements Testimony* at 4-1 through 4-6 and 6-1 through 6-21. Sierra opposed these adjustments. *Sierra Rebuttal* at 40-65. As part of this negotiated Settlement Agreement, the Parties agree to an adjustment of $733 thousand to O&M expenses on a cumulative basis. Individual O&M components on which the parties disagree are not addressed individually and no precedent is established with respect to those individual components.

4.5 **Forecasted Plant:** No Party took issue with Sierra's forecasted plant additions for distribution, transmission, general, and common plant. With respect to production plant additions, DRA recommended a reduction of $2.976 million in California jurisdictional plant from Sierra's forecast additions, based on DRA's use of 2008 actual recorded expenditures, in place of the forecast production plant additions that Sierra used in its Application. *DRA Revenue Requirements Testimony* at 8-9, 8-10. The 2008 actual recorded expenditures were available by

the time DRA submitted its Revenue Requirements Testimony. As part of this negotiated Settlement Agreement, Sierra agrees to the use of actual recorded expenditures for production plant additions. This reduction in forecasted California jurisdictional plant results in an adjustment of $331 thousand to Sierra's requested California revenue requirement, incorporating allocation updates and tax effects. As part of this negotiated Settlement Agreement, Sierra accepts this adjustment.

4.6 **Other Rate Base:** DRA proposed adjustments to other Rate Base items, exclusive of the adjustment to forecasted production plant. *DRA Revenue Requirements Testimony* at 7-2 through 7-10. As part of this negotiated Settlement Agreement, Sierra agrees to $2.059 million in adjustments to rate base, which result in an adjustment to revenue requirement of $227 thousand, including revised tax impacts.

4.7 **Taxes:** DRA estimated the tax impacts resulting from its proposed adjustments and stated that final tax impacts would have to be updated during the comparison phase. In making the adjustments outlined in this section 4, Sierra recalculated the tax impacts. Sierra also included tax adjustments for the events that occurred subsequent to the Sierra Application and the Sierra Amendment. *Sierra Rebuttal* at 89. Tax impacts are included in each of the adjustments and are not stated separately here.

4.8 **Energy Efficiency Programs:** DRA proposed a reduction to Sierra's Energy Efficiency Programs of $200,000 and made recommendations for carryover funds from the utility's last rate case cycle as well as carryover funds from this rate case cycle. *DRA Revenue Requirements Testimony* at 5-5 through 5-12. In its Rebuttal, Sierra accepted DRA's reduction and recommendations. *Sierra Rebuttal* at 4.

5. Marginal Cost Study

5.1 Sierra made a number of changes to its Marginal Cost Study in this rate case, including the following:

5.1.1 Allocating all annual marginal transmission demand costs to hours of the year using Sierra's system (California and Nevada) Probability of Peak ("POP");

5.1.2 Allocating marginal transmission demand costs between customer classes exclusively on the basis of customer class coincident peak allocator, a change from the previous 80% coincident/20% non-coincident peak allocation used since its 1993 GRC (D.93-04-056);

5.1.3 Allocating annual marginal distribution demand costs to hours of the year using Sierra's California-system-specific POP ("CA POP") allocator

(rather than the System POP), causing California marginal distribution system demand costs to be concentrated in the Winter period when Sierra's California system experiences its peak load;

5.1.4 Allocating 100% of substation marginal costs and 50% of the non-revenue feeder marginal costs to hours of the year and eventually to customer classes using the CA POP (rather than the System POP), with the balance of the non-revenue feeder costs allocated using the non-coincident demand allocator;

5.1.5 The use of Sierra's facilities (or line extension project) database (actual costs) to determine customer and facilities costs by class, and separation of these line extension facilities costs as non-coincident demand-driven distribution costs; and

5.1.6 Increased the reserve margin from 5% to 15%, consistent with Sierra's Resource Plan filing.

Sierra Amendment at 11-5 through 11-10.

5.2 DRA agreed with or did not oppose most aspects of the Marginal Cost Study, including the changes summarized in Section 5.1 above, but did take issue with several aspects of the Marginal Cost Study. *DRA Rate Design Testimony* at 11-3 through 11-11. A-3CC opposed various aspects of the Marginal Cost Study, including the changes summarized in Sections 5.1.1-5.1.5 above. *A-3CC Testimony* at 2-17. Sierra disputed those items that DRA and A-3CC identified in testimony on the Marginal Cost Study. *Sierra Rebuttal* at 134-154.

5.3 A-3CC also recommended that the *median* non-coincident peak ("NCP") demand, rather than the *mean* NCP demand, be used to develop the NCP demand allocator for the A-3 class, because four large customers in the class positively skew the distribution for the A-3 class and increase the total non-coincident demand costs for the class. *A-3CC Testimony* at 4-8. Sierra opposed this recommendation. *Sierra Rebuttal* at 135-142.

5.3 As part of this negotiated Settlement Agreement, the Parties accept Sierra's Marginal Cost Study as filed for purposes of designing rates in this case.

6. Revenue Reconciliation

6.1 **System Average Increase in Revenue Requirement:** Based on revenue requirement agreed to in this negotiated Settlement Agreement, the Parties agree that the overall system average increase in revenue requirement is 7.75%, based on base rate revenues and ECAC revenues but excluding ECAC balancing revenues and surcharges.

6.2 **Constraints on Cost Based Allocation:** Sierra proposed re-allocation of class Revenue Requirements based on Equal Percentage of Marginal Cost ("EPMC") constrained by a 5% increase (cap) above the overall percentage increase. *Sierra Amendment* at 12-2; *Sierra Rebuttal* at 131-132. DRA recommended using EPMC limited by a 4.5% cap with no class being permitted to receive a decrease (0% floor). *DRA Rate Design Testimony* at 11-13. In its testimony, A-3CC did not specifically address the issue of a cap as a means for mitigating the impact of changes made by Sierra to its Marginal Cost Study.

6.3 The changes made by Sierra to its Marginal Cost Study have the effect, in the aggregate, of shifting significant costs to certain rate classes. In an effort to ameliorate the impact of those shifts, as part of this negotiated Settlement Agreement, all Parties agree to use EPMC with a 2% cap above the overall percentage increase. This cap is adjusted so the rate increase to the Residential class is limited to the overall system average increase of 7.75%, and subject to the subsidy to the PA class explained in Section 7.2 below. This revenue reconciliation results in the following percentage increases by customer class (exclusive of surcharges):

6.3.1 Residential (D-1): 7.75%;

6.3.2 A-1: 6.20%;

6.3.3 A-2: 7.46%;

6.3.4 A-3: 9.75%;

6.3.5 Street lighting: 9.43%;

6.3.6 OLS: 7.49%; and

6.3.7 PA: 14.91% rate reduction (explained in Section 7.2 below).

7. Rate Design

7.1 **Monthly Customer Charge:** Sierra and DRA disagreed on the level at which to set the customer charge for several of the rate classes:

Class	Current	Sierra Proposed	DRA Proposed
Residential (D-1)	$6.00	$7.00	$6.50
A-1	$11.00	$13.50	$12.00
A-2	$100.00	$113.00	$110.00
A-3	$550.00	$602.00	$469.00
PA	$11.00	$13.50	$12.00

It is Sierra's position that the customer charges levels it proposed for the Residential, A-1 and PA classes are still below the full marginal cost, while the customer charge levels it proposed for the A-2 and A-3 classes equal the marginal cost. *Sierra Amendment* at pages 12-24, 12-25, 12-32, 12-35, and 12-40; *Sierra Rebuttal* at pages 124-128. DRA disagreed with Sierra's calculations and proposed smaller increases in the customer charges of all classes and a decrease in the customer charge for the A-3 class. *DRA Rate Design Testimony* at 11-17 through 11-18. A-3CC did not take a position on these proposals. As part of this negotiated Settlement Agreement, Sierra and A-3CC accept DRA's proposed customer charge for the Residential class of $6.50 and DRA's proposed customer charge for the A-1 and PA classes of $12.00, while DRA and A-3CC accept Sierra's proposal that the A-2 and A-3 customer charges be set at the cost-based levels, as proposed by Sierra. However, Sierra has recalculated the A-2 and A-3 customer charges. They are now lower than proposed by Sierra due to the reduced revenue requirements agreed to as part of this Settlement Agreement. The A-2 customer charge will be $107, while the A-3 customer charge will be $565.

7.2 **PA (Irrigation) Class Subsidy:** Sierra proposed to increase the existing $9,000 subsidy to $27,000 to reduce the significant rate disparity between the PA class rate and the rate charged to Sierra's Nevada irrigation customers (the IS-2 class) under Nevada law, in order to bring the PA line into conformity with Commission Resolution E-3050. *Sierra Amendment* at 12-3 and 12-4; *Sierra Rebuttal* at 128-131. DRA recommended eliminating the PA class subsidy. *DRA Rate Design Testimony* at 11-22 and 11-23. A-3CC did not take a position on this issue. As part of this negotiated Settlement Agreement, the Parties agree to set PA class rates based on a total subsidy of $17,099.

7.3 **Residential Time Of Use ("TOU") Rate Option:** Sierra proposed the addition of optional TOU rate schedules for the Residential, CARE, A-1 and A-2 customer classes. DRA agreed with that proposal provided that customers are made aware of the possible benefits and risks of moving from a flat-rate schedule to one that includes time differentiated rates. As part of this negotiated Settlement Agreement, Sierra agrees to:

7.3.1 Provide information on its website to inform customers of the nature of TOU rates compared to the flat rate alternatives, and Sierra staff will assist customers with questions regarding differences between flat rate schedules and TOU schedules; and

7.3.2 Offer to Residential and CARE customers the Guaranteed Lowest Rate ("GLR") feature that is currently in effect for the first year for our Nevada residential customers who try the optional TOU schedule, and will add to its optional residential TOU rate schedules the language provided in its Rebuttal Testimony (at 132-133).

7.4 **Other Rate Design Elements:** All other elements of Sierra's proposed rate design are accepted as part of this negotiated Settlement Agreement, including updated residential baseline and excess rates based on a composite tier differential of 17.5%, and the updated master meter billing credit (which amount will be updated to be consistent with the Settlement).

8. Post Test Year Adjustment Mechanism ("PTAM")

8.1 Sierra proposed establishment of a two-part PTAM to recover cost increases, other than those recovered through Sierra's Energy Cost Adjustment Clause, during the two years between general rate cases. The PTAM Sierra proposed consists of an Attrition Component reflecting the forecasted Consumer Price Index ("CPI") less a productivity factor, and a Major Plant Additions Component for additions greater than $20 million on a total company basis, similar to the mechanism approved by the Commission in PacifiCorp's 2005 General Rate Case (D.06-12-011). Rate changes under the PTAM would be filed under advice letter starting in October 2009 requesting an effective date of January 1, 2010. *Sierra Amendment* at 14-2. DRA recommended two adjustments to Sierra's proposed PTAM: (1) setting the attrition factors now by establishing the forecasted CPI for 2010 and 2011instead of using the latest CPI projections at the time of the advice letters; and (2) denying the Major Plant Additions component. *DRA Rate Design Testimony* at 10-2. Sierra opposed both of DRA's recommendations but agreed to provide DRA advance notice of any planned major plant additions. *Sierra Rebuttal* at 110-112.

8.2 As part of this negotiated Settlement Agreement, the Parties agree to the implementation of the PTAM proposed by Sierra, with the following clarifications:

8.2.1 The attrition rate factor will be based on the September Global Insight U.S. Economic Outlook forecast for CPI, minus 0.5% productivity factor (but will not be less than zero); and

8.2.2 For the Major Plant Additions component, Sierra will provide advance notice to DRA and the A-3CC of any plan to make a major plant addition.

9. Uncontested Items

All items that appear in Sierra's direct case that are not discussed in this Settlement Agreement are accepted by the Parties.

IN WITNESS WHEREOF, the parties have executed this Settlement Agreement on July 1, 2009.

ATTACHMENT A

SIERRA PACIFIC POWER COMPANY

By: _____

Christopher A. Hilen
Associate General Counsel
Sierra Pacific Power Company
6100 Neil Road
Reno, NV 89511
Telephone: (775) 834-5696
Fax: (775) 834-4811
E-mail: chilen@nvenergy.com

DIVISION OF RATEPAYER ADVOCATES

By: _____

Dana S. Appling
Director
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-2544
Fax: (415) 703-2057
E-mail: dsa@cpuc.ca.gov

THE A-3 CUSTOMER COALITION

By: _____

Jeffrey P. Gray
DAVIS WRIGHT TREMAINE LLP
Attorneys for The A-3 Customer Coalition
505 Montgomery Street, 8th Floor
San Francisco, CA 94111
Telephone (415) 276-6500
Fax (415) 276-6599
E-mail: jeffgray@dwt.com

ATTACHMENT A

SIERRA PACIFIC POWER COMPANY

By: _____

Christopher A. Hilen
Associate General Counsel
Sierra Pacific Power Company
6100 Neil Road
Reno, NV 89511
Telephone: (775) 834-5696
Fax: (775) 834-4811
E-mail: chilen@nvenergy.com

DIVISION OF RATEPAYER ADVOCATES

By: _____

Dana S. Appling
Director
Division of Ratepayer Advocates
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Telephone: (415) 703-2544
Fax: (415) 703-2057
E-mail: dsa@cpuc.ca.gov

THE A-3 CUSTOMER COALITION

By: _____

Jeffrey P. Gray
DAVIS WRIGHT TREMAINE LLP
Attorneys for The A-3 Customer Coalition
505 Montgomery Street, 8th Floor
San Francisco, CA 94111
Telephone (415) 276-6500
Fax (415) 276-6599
E-mail: jeffgray@dwt.com