

Decision 02-01-015 January 9, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Sierra Pacific Power Company, for authority to establish authorized rate of return on common equity for electric distribution for Year 2001. (U 903 E)

Application 00-05-018
(Filed May 8, 2000;
Petition for Modification
filed September 10, 2001)

ORDER MODIFYING DECISION 00-12-062

On September 10, 2001, Sierra Pacific Power Company (Sierra) filed a Petition to Modify Decision (D.) 00-12-062, to delete the Ordering Paragraph that requires Sierra to file an unbundled distribution services cost of capital application. In the alternative, Sierra seeks a change in the application filing date from November 4, 2001 to May, 2002.

D.00-12-062 established a reasonable return on equity for Sierra and replaced its annual cost of capital filing with an automatic trigger mechanism. It also established a procedure to address the limited issue of whether a one-time return on equity adjustment related to a distribution risk discount or unbundling adjustment should be included in its automatic trigger mechanism, which is the subject of this petition.

Sierra states that it will not be able to assess the impact of unbundling for three reasons. First, D.01-03-013 denied Sierra's request to sell its generation assets, in part, because of a recently-enacted California statute that prohibits the sale of public utility generation assets before January 1, 2006 if the assets are

currently serving California ratepayers.¹ Second, Sierra is precluded from divesting its Nevada generation assets before July 1, 2003, pursuant to Nevada's Assembly Bill 369 signed into law by the Governor of Nevada on April 18, 2001. Finally, Sierra has not divested itself of any generation assets and has no direct access customers.

The Office of Ratepayer Advocates (ORA) opposes Sierra's petition on the basis that the recent dramatic change in economic conditions (uncertainty in the financial markets, and weak employment and business spending) warrant the filing of a cost of capital application as required by D.00-12-062.

We observe that each of the three major energy utilities (San Diego Gas and Electric Company, Pacific Gas and Electric Company, and Southern California Edison Company) were relieved of the requirement to file 2002 cost of capital applications, pursuant to D.01-05-054. By that same decision, the major energy utilities are required to file individual 2003 cost of capital applications on or before May 8, 2002. Sierra should be treated no differently in its filing of a cost of capital application.

Although we deny Sierra's request to forego its filing of a cost of capital application, we find it reasonable to allow Sierra to defer its application. Hence, Ordering Paragraph 4 of D.00-12-062 should be modified to require Sierra to file a 2003 cost of capital application by May 8, 2002.

Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.7 of the Rules of Practice

¹ Chapter 2, Statutes of 1999-2000, First Extraordinary Session, enacted January 18, 2001.

and Procedure. Comments were filed by ORA, on December 24, 2001. Although Sierra did not file any reply comments, it did submit a December 26, 2001 letter supporting ORA's position that Sierra should file a 2003 cost of capital application. To the extent that these comments required discussion or changes to the Proposed Decision, the discussion or changes have been incorporated into the body of this order.

Findings of Fact

1. There is a moratorium on the divestiture of generation assets by California jurisdictional electric utilities until 2006.
2. Sierra has not divested itself of any generation assets and has no direct access customers.
3. The major energy utilities are required to file individual 2003 cost of capital applications on or before May 8, 2002.

Conclusions of Law

1. Sierra should be treated no differently from the other California energy companies in filing a cost of capital application.
2. Sierra's petition should be granted as set forth below.
3. This decision should be effective today so that Sierra may prepare its application expeditiously.

IT IS ORDERED that:

1. Ordering Paragraph 4 of Decision 00-12-062 shall be modified, as detailed in Attachment A to this order, to require Sierra Pacific Power Company to file a 2003 cost-of-capital application on or before May 8, 2002.

2. Application 00-05-018 remains open to address requests for compensation.

This order is effective today.

Dated January 9, 2002, at San Francisco, California.

LORETTA M. LYNCH
President

HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

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DECISION 00-12-062 as MODIFIED BY DECISION 02-01-015

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company's (Sierra) cost of capital for 2001 is as follows:

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	47.56%	7.47%	3.55%
Preferred Stock	7.67	8.10	0.62
Common Equity	<u>44.77</u>	<u>10.80</u>	<u>4.84</u>
Total:	100.00%		9.01%

2. Sierra shall adjust its authorized revenue requirement to reflect the Return on Equity (ROE) being adopted in this decision and to adjust its rate components associated with the change in revenue requirement by an advice letter filing five days after the effective date of this order. Sierra shall use its 2001 distribution rate base set forth in its Cost of Service and Performance-Base Ratemaking (PBR) Application (A.) 00-07-001. Sierra shall true-up its distribution rate base to that rate base subsequently adopted in its Cost of Service and PBR application. The advice letter shall become effective January 1, 2001, subject to Energy Division's finding that the advice letter is in compliance with this order.

3. An automatic trigger mechanism for Sierra's ROE shall be adopted and replace the annual cost of capital filing as set forth in the body of this decision. Capital structure adjustments shall not be made through the automatic trigger

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mechanism. Applications required at the five-year interval and upon the triggering of an offramp shall be used to address any change in Sierra's capital structure. The automatic trigger mechanisms are summarized as follows:

- A benchmark shall be established based on AA utility bonds and triggered upon a change of at least 100 basis points.
 - The ROE shall be updated by 50% of the change in interest rates when the trigger is exceeded.
 - The interest rate measurement period shall be April to September of the same year.
 - An offramp of 260 basis points shall be established.
 - A formal cost-of-capital application shall be filed every five years from 1999, regardless of whether or not an automatic trigger mechanism offramp is reached prior to that time.
 - Sierra shall file a yearly advice letter detailing the results of its trigger mechanism by November 1st of each year.
4. Sierra shall file a 2003 cost-of-capital application on or before May 8, 2002.
 5. A.00-05-018 is closed.

This order is effective today.

Dated December 21, 2000, at San Francisco, California.

(END OF ATTACHMENT A)