

STUDY OF THE  
FEASIBILITY AND DESIRABILITY OF  
BASING PUBLIC UTILITIES' RATES  
UPON ESTIMATES OF  
ANTICIPATED COSTS  
AND REVENUES



*Bulletin No. 89-17*

LEGISLATIVE COMMISSION  
OF THE  
LEGISLATIVE COUNSEL BUREAU  
STATE OF NEVADA

AUGUST 1988



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August 1988



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Senate Concurrent Resolution No. 44--Committee on  
Legislative Affairs and Operations  
FILE NUMBER 139

SENATE CONCURRENT RESOLUTION--Directing the Legislative Commission to conduct  
an interim study concerning the basing of public utilities' rates upon anticipated  
revenues and expenses.

WHEREAS, The basing of public utilities' rates solely upon past experience necessarily results in a lag between the incurring of costs and their recovery through charges to customers which can only be met by changing the rates; and

WHEREAS, Public utilities in this state have sought relief from this practice through legislation empowering or requiring the Public Service Commission of Nevada to base allowed rates on estimates of anticipated results, with provisions for adjustment as experience confirms or corrects those estimates; and

WHEREAS, Such estimates, called in regulatory circles "future test year," are so used in other jurisdictions, notably by the State of California and the Federal Energy Regulatory Commission; and

WHEREAS, Interest rates and other costs are currently comparatively stable, so that a transition to the practice of using anticipated results could be accomplished without drastic changes in rates and the effects of the practice observed and the practice itself refined if appropriate; now, therefore, be it

RESOLVED BY THE SENATE OF THE STATE OF NEVADA, THE ASSEMBLY CONCURRING, That the Legislative Commission is hereby directed to conduct an interim study of the feasibility and desirability of basing public utilities' rates in this state upon estimates of anticipated costs and revenues, including at least:

1. A comparison between the methods used and results obtained from those methods and from the use of historical costs and revenues;

2. The methods of adjusting rates derived from such estimates to reflect actual results, drawing upon the experience of California and the Federal Energy Regulatory Commission, before another general change in rates is considered; and

3. The possibility under this method of limiting the frequency of applications for general changes in rates and the scheduling of such applications to spread out the work of the Public Service Commission of Nevada, and the advantages which may be derived from this limitation and scheduling of work;

and be it further

RESOLVED, That this study be conducted by a subcommittee comprised of members of both houses of the Legislature; and be it further

- 2 -

**RESOLVED,** That the results of this study and any recommendations for legislation be reported to the 65th Session of the Legislature.

19  87

## REPORT OF THE LEGISLATIVE COMMISSION

TO THE MEMBERS OF THE 65TH SESSION OF THE NEVADA  
LEGISLATURE:

This report is submitted in compliance with Senate Concurrent Resolution No. 44 of the 64th session of the Nevada legislature which directed the legislative commission to study the feasibility and desirability of basing public utilities' rates upon estimates of anticipated costs and revenues.

The members of the subcommittee appointed by the legislative commission to conduct the study were:

Assemblyman Bob L. Kerns, Chairman  
Senator Dean A. Rhoads, Vice Chairman  
Senator William R. O'Donnell  
Assemblyman James J. Banner  
Assemblyman Vivian L. Freeman  
Assemblyman Leonard V. Nevin

Legislative counsel bureau staff services for the subcommittee were provided by Jan K. Needham and James W. Penrose, Principal Deputies Legislative Counsel and Debbie Crosson of the legal division (subcommittee secretary).

In this report, the subcommittee has attempted to concisely present its findings and recommendations. All the supporting documents and the minutes of subcommittee hearings are on file with the research library of the legislative counsel bureau and are available for review.

This report is transmitted to the members of the 65th session of the Nevada legislature for their consideration and appropriate action.

Respectfully submitted,

Legislative Commission  
Legislative Counsel Bureau  
State of Nevada

Carson City, Nevada  
August 1988

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## LEGISLATIVE COMMISSION

Senator Lawrence E. Jacobsen, Chairman  
Senator Sue Wagner, Vice Chairman

Senator James I. Gibson  
Senator Nicholas J. Horn  
Senator Ann O'Connell  
Senator John M. Vergiels

Assemblyman Louis W. Bergevin  
Assemblyman Joseph E. Dini, Jr.  
Assemblyman John B. DuBois  
Assemblyman Robert M. Sader  
Assemblyman Jim Schofield  
Assemblyman Danny L. Thompson

## SUMMARY OF RECOMMENDATIONS

Authorize the Public Service Commission of Nevada to consider estimated revenues, expenses, investments and costs of capital for a future period of operation in determining rates for public utilities. (BDR 58-216)



REPORT TO THE LEGISLATIVE COMMISSION  
FROM THE SUBCOMMITTEE TO STUDY THE FEASIBILITY  
AND DESIRABILITY OF BASING PUBLIC UTILITIES' RATES  
UPON ESTIMATES OF ANTICIPATED COSTS AND REVENUES

I. INTRODUCTION

In 1987, the 64th Session of the Nevada Legislature adopted Senate Concurrent Resolution No. 44 which directed the Legislative Commission to conduct an interim study of the feasibility and desirability of basing public utilities' rates upon estimates of anticipated costs and revenues, commonly referred to as a "future test year." The Legislative Commission was required to include in the study:

1. A comparison between the methods used and results obtained from the use of estimates of future expenses and from the use of historical costs and revenues;

2. The methods of adjusting rates derived from such estimates to reflect actual results; and

3. The possibility under this method of limiting the frequency of applications for general changes in rates and the scheduling of such applications to disperse the work of the public service commission of Nevada, and the advantages which may be derived from this limitation and scheduling of work.

The Legislative Commission appointed a subcommittee to conduct the study. The members of the subcommittee were:

Assemblyman Bob L. Kerns, Chairman  
Senator Dean A. Rhoads, Vice Chairman  
Senator William R. O'Donnell  
Assemblyman James J. Banner  
Assemblyman Vivian L. Freeman  
Assemblyman Leonard V. Nevin

The subcommittee held four meetings. The first meeting was held in Las Vegas, Nevada, and was devoted to hearing testimony presented by public utilities who provide services in this state. The second meeting was held in Carson City, Nevada, and was devoted to hearing testimony presented by the public service commission of Nevada. At the third meeting, held in Reno, Nevada, testimony was presented by the advocate for customers of public utilities. At each of these meetings, testimony from members of the general public was also heard. The subcommittee made its findings and recommendations at its fourth meeting, which was also held in Carson City, Nevada.

In addition to studying the subjects required by Senate Concurrent Resolution No. 44, the subcommittee devoted part of its time to studying the method by

which public utilities' rates are presently determined, the expense to the public service commission of Nevada in determining rates based on estimates of future expenses, and whether the rates of customers of public utilities would be increased by using estimates of future expenses to determine those rates. The subcommittee also studied the effect, if any, the use of estimates of future expenses would have on public utilities' bond ratings and shareholders' profits.

## II. METHOD BY WHICH PUBLIC UTILITIES' RATES ARE PRESENTLY DETERMINED

Every public utility in this state is required to furnish reasonably adequate service and facilities, and the charges made for any service rendered or to be rendered, or for any service in connection therewith or incidental thereto, must be just and reasonable. Every unjust and unreasonable charge for the service of a public utility is unlawful. (See NRS 704.040). Unless otherwise exempt, a public utility is required to file with the public service commission of Nevada schedules which must be open to public inspection, showing all rates, tolls and charges which it has established and which are in force at the time for any service performed or product furnished in connection therewith by any public utility controlled and operated by it. (See NRS 704.070).

Except for utilities which sell gas to generating, industrial and large commercial customers, certain public utilities which furnish water or services for the disposal of sewage, or both, and certain public utilities furnishing telephone service, no changes may be made in the schedule of a public utility, including schedules of joint rates, or in the rules or regulations affecting any rates or charges, except upon 30 days' notice to the public service commission of Nevada, and all changes must be plainly indicated. In lieu of filing such a notice, a public utility may file new schedules 30 days before the time the schedules are to take effect. (See NRS 704.100). Whenever there is filed with the commission any schedule stating a new or revised individual or joint rate, fare or charge, or any new or revised individual or joint regulation or practice affecting any rate, fare or charge, or any schedule resulting in a discontinuance, modification or restriction of service, the commission may, upon complaint or upon its own motion without complaint, investigate or, upon reasonable notice, conduct a hearing concerning the propriety of the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice. Pending the investigation or hearing and the decision thereon, the commission, upon delivering to the public utility affected thereby a statement in writing of its reasons for the suspension, may suspend the operation of the schedule and defer the use of the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice, but not for more than 150 days beyond the time when the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice would otherwise go into effect. (See NRS 704.110).



Whenever there is filed with the commission any schedule stating an increased individual or joint rate, fare or charge for service or equipment, the public utility is required to submit with its application a statement showing the recorded results of revenues, expenses, investments and costs of capital for its most recent 12 months for which data were available when the application was prepared. During any hearing concerning the increased rates, fares or charges determined by the commission to be necessary, the commission is required to consider evidence in support of the increased rates, fares or charges based upon actual and recorded results of operations for the same 12 months, adjusted for increased revenues, any increased investment in facilities, increased expenses for depreciation, certain other operating expenses as approved by the commission and changes in the costs of securities which are known and are measurable with reasonable accuracy at the time of filing and which will become effective within 6 months after the last month of those 12 months. However, no new rates, fares or charges may be placed into effect until the changes have been experienced and certified by the utility to the commission. The commission is also required to consider evidence supporting expenses for depreciation, calculated on an annual basis, applicable to major components of the public utility's plant placed into service during the recorded test period or the period for certification as set forth in the application. Adjustments to revenues, operating expenses and costs of securities are required to be calculated on an annual basis. Within 90 days after the filing with the commission of the statement showing the recorded results of revenues, expenses, investments and costs of capital for the most recent 12 months, or before the expiration of any period of suspension, whichever is longer, the commission is required to make such an order in reference to those rates, fares or charges as may be required by law. (See NRS 704.110).

After full investigation or hearing, whether completed before or after the date upon which the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice is to go into effect, the commission may make such an order in reference to the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice as would be proper in a proceeding initiated after the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice has become effective. (See NRS 704.110).

If, upon any hearing and after due investigation, the rates, tolls, charges, schedules or joint rates of a public utility are found to be unjust, unreasonable or unjustly discriminatory, or to be preferential, or otherwise in violation of any provisions governing the regulation of public utilities, the commission may fix and order substituted therefor such rates, tolls, charges or schedules as are just and reasonable. The commission may at any time, upon its own motion, investigate any of the rates, tolls, charges, rules, regulations, practices and service, and, after a full hearing, make such changes as may be just and reasonable, the same as if a formal complaint had been made. (See NRS 704.120).

### III. WHAT IS A FUTURE TEST YEAR?

As previously discussed, the rates of public utilities in Nevada are based on a historical test year. Under this system, the rates are determined using revenues, expenses, investments and costs the utility experienced during a 12-month period of operation before an application for a change in rates is prepared. Preferably, this is the 12-month period immediately preceding the date of the application. For example, if a public utility is proposing a change in its rates to go into effect on January 1, 1988, the rates are calculated using the costs incurred and the revenues received by the utility during the year 1987. A future test year is a 12-month period in the future, preferably starting with the date that rates are proposed to go into effect. Although historic data is used as a base to determine a fair forecast of the future, rates are determined by using estimates of revenues and expenses for the future period of operation. For example, if a public utility was proposing a change in its rates to go into effect on January 1, 1988, the rates would be calculated using estimates of expected costs and revenues during the year 1988.

### IV. HISTORY OF LEGISLATION PROPOSING THE USE OF A FUTURE TEST YEAR

The subcommittee reviewed legislation proposed in previous sessions of the Nevada Legislature providing for the use of estimated revenues, expenses, investments and costs of capital for a future period of operation in determining rates for public utilities. The following is a brief history of that legislation:

#### A. Senate Bill No. 298 of 1985

Senate Bill No. 298 of 1985 (see Appendix A) was introduced by the Senate Committee on Commerce and Labor on March 27, 1985. The bill provided for the use of estimated revenues, expenses, investments and costs of capital for a future period of operation in determining rates for public utilities. The estimates were required to be calculated on an annual basis to provide in prospective rates, to the extent possible, for the recovery of costs utilities would incur after the rates became effective. The estimated rate base would include the average for the plant and property used and useful in providing service during the future period of operation. In addition, the public service commission of Nevada was required to review the books and records of each public utility with an annual operating revenue in Nevada of at least \$2,500,000, and determine whether an adjustment of its rates was necessary based on its increased expenses of operation, maintenance and investment in the plant and property used and useful in providing service during its future period of operation.

The bill was referred to the Senate Committee on Commerce and Labor for general discussion. The committee voted to amend the bill to authorize public

utilities to elect to use a current period of operation or a future period of operation to determine its rates. In addition, a provision was added which required the public service commission of Nevada to review the books and records of each public utility which selected a future period of operation for determining its rates, in order to determine whether an adjustment of its rates was necessary, based on the difference between the estimate of revenue which was used to determine its rates and the actual revenue realized during that period. If the commission determined an adjustment was necessary, the public utility was required to adjust its rates to recover from its customers any amount it was authorized to collect and did not, or to return to its customers any amount collected which exceeded its authorized margin. Margin was defined as the difference between the revenue which a public utility derived from a service or commodity and the cost of providing that service or producing that commodity, at the level adopted for the utility's future period of operation.

The Senate Committee on Commerce and Labor recommended that Senate Bill No. 298 be passed as amended. The bill was then rereferred to the Senate Committee on Finance for a consideration of the fiscal impact of the bill on the proposed budgets of the public service commission of Nevada and the office of the advocate for customers of public utilities. After receiving testimony on that question, the committee voted to send the bill out of committee without recommendation.

#### B. Senate Bill No. 332 of 1985

Senate Bill No. 332 of 1985 (see Appendix A) was introduced by the Senate Committee on Commerce and Labor on April 4, 1985. In its original form, the bill modified the scope of regulation by the public service commission of Nevada of certain types of public utilities and required the use of a petition for the reconsideration or rehearing of an order of the commission. The committee recommended that the bill be passed with minor amendments. The Senate agreed and the bill was sent to the Assembly on May 15, 1985.

The Assembly referred the bill to the Assembly Committee on Government Affairs. While in committee, an amendment was proposed which authorized the public service commission of Nevada, when determining rates for public utilities, to consider changes in revenue, expenses, investments and costs of capital for a future period of operation. The estimates were required to be calculated on an annual basis to provide in prospective rates, to the extent possible, for the recovery of costs which utilities would incur after the rates became effective. The estimated rate base would include the average for the plant and property used and useful in providing service during the future period of operation. The committee voted to pass the bill as amended. The Assembly did so and the bill was returned to the Senate, which concurred in the amendment.

On June 7, 1985, Senate Bill No. 332 was enrolled and delivered to the governor. On June 14, 1985, the bill was vetoed. In his message specifying his objections, the governor stated:

The speculative nature of basing utility rates on projections of a future test year causes me great concern when the reasonableness of those utility rates is critically important to Nevada consumers and my goal of economic diversification for the state. Moreover, I am not convinced by the argument that the present system creates a chronic inability for utilities to earn an appropriate return.

Testimony before the Senate Committee on Commerce and Labor on May 3, 1985 regarding Senate Bill 298 highlighted the regulatory impacts of a transition to a future test year. A fiscal note submitted by the Public Service Commission illustrated a need for at least \$493,415 in additional budget for the agency. This funding would be essential for the Commission to hire engineers and economists, and to obtain the necessary computer programming to develop adequate future test year regulations and analyze future test year rate case filings. This funding is not provided in the bill.

In late 1984 the Public Service Commission established a task force of interested persons to study the future test year concept. That task force should be allowed to complete its efforts before major changes are made to utility regulation as occurs in Senate Bill 332.

For the reasons noted above, I am hereby exercising my Constitutional authority to veto Senate Bill 332.

Senate Bill No. 332 was returned to the 1987 session of the Nevada Legislature. On January 28, 1987, the Senate voted to sustain the veto of the governor.

#### C. Assembly Bill No. 564 of 1987

Assembly Bill No. 564 of 1987 (see Appendix A) was introduced by the Assembly Committee on Government Affairs on April 9, 1987. The bill allowed public utilities to elect to use a current period of operation or a future period of operation to determine its rates. In addition, the public service commission of Nevada was required to review the books and records of each public utility which selected a future period of operation for determining its rates, in order to determine whether an adjustment of its rates was necessary, based on the difference between the estimate of revenue which was used to determine its rates

and the actual revenue realized during that period. If the commission determined an adjustment was necessary, the public utility was required to adjust its rates to recover from its customers any amount it was authorized to collect and did not, or to return to its customers any amount collected which exceeded its authorized margin. Margin was defined as the difference between the revenue which a public utility derived from a service or commodity and the cost of providing that service or producing that commodity, at the level adopted for the utility's future period of operation.

After receiving testimony, the Committee on Government Affairs voted to postpone the bill indefinitely.

#### D. Senate Concurrent Resolution No. 44 of 1987

Finally, Senate Concurrent Resolution No. 44, directing the Legislative Commission to conduct this study, was introduced by the Senate Committee on Legislative Affairs and Operations on June 4, 1987. The Senate adopted the resolution on June 7, 1987. The Assembly referred the resolution to the Committee on Legislative Functions. Testimony was presented to the committee which indicated that, even though public utilities are doing relatively well financially at the present time, there are times when utilities have financial difficulty, when inflation rates are excessive and when major construction projects have an adverse impact on the operations of the utilities. It was suggested that the time to study methods of determining rates is when the public utilities providing services in this state are not financially distressed. During this time, a transition to the practice of using projected data to determine rates could be accomplished without drastic changes in rates and the effects of the practice could be observed and the practice refined, if appropriate. Therefore, the committee recommended the adoption of the resolution. The resolution was subsequently passed by the Assembly and enrolled and delivered to the Secretary of State on June 16, 1987.

#### V. TYPE OF TEST YEAR USED IN OTHER STATES

The office of the advocate for customers of public utilities presented to the subcommittee a survey of the types of test years used by other states to determine rates for public utilities. According to this survey, four types of test years are used. First, a majority of the states use a test year in which the most recent 12 months of previous operating data available at the time of a utility's application for a change in rates is considered, adjusted for known and measurable expenses which would be experienced in the future. Second, certain states use a test year which combines historical and projected data. Third, states use projected data which is compared with and updated to actual data that becomes available for review during a rate case. Finally, the remaining states use a test year in which estimates of future expenses are used, with little or no comparison to historical

data. A summary of the types of test years used in the various states is contained in Appendix D of this report.

## VI. DISCUSSION OF ISSUES

### A. ABILITY OF PUBLIC UTILITIES TO EARN THEIR AUTHORIZED RATES OF RETURN

The subcommittee heard testimony regarding the inability of public utilities to earn their authorized rates of return if rates are determined by using historical data. Testimony was presented which indicated that the principle aim of the state's regulatory scheme is for the public service commission of Nevada to establish requirements for revenue for a public utility which allows that utility to produce sufficient revenues to cover all operating expenses and provide a fair return to investors. A public utility is entitled to a reasonable opportunity to earn its authorized rate of return. However, the commission determines the level of expenses charged to customers and the authorized level of return based upon operations conducted during a historic 12-month period of operation. Because there is a delay of at least 6 months in carrying out new rates, the historic period may have little relationship to the period for which rates will be in effect. If costs increase, the rates established by the commission do not adequately cover costs incurred during the period when rates are in effect. Under current practices, there is no way to recover quickly increased costs. The authorized rate of return, therefore, cannot be attained. This deficiency leads to higher capital costs which are ultimately recovered from the utility's customers.

The use of a historic test year functions reasonably well when economic conditions are stable. However, under inflationary conditions when costs are rapidly changing, historic data becomes increasingly more difficult to use in a manner that results in rates which produce the revenue necessary to cover the costs of serving customers properly. If rates are to reflect the cost of providing service during a specific period, data which is more representative of the conditions which will most likely exist during that period must be used to determine those rates. Furthermore, mechanisms for the adjustment of those rates which recognize current changes in the marketplace must be used. The use of a future test year, with appropriate mechanisms for adjusting rates, recognizes that the price to be charged for a product or service provided during a specific period should reflect the costs being incurred during that period.

Finally, it was pointed out that a public utility must remain competitive in the capital markets in order to remain financially stable and provide long-term benefits to its customers. To do this, public utilities must be able to attract investment. The ability of a utility to earn its authorized rate of return is a contributing factor in determining whether it is able to maintain its credit and, thus, induce investors to put money into its business. Such investments are needed to finance properly future construction which is required to keep up with

growth and the demand for service, and to keep rates down over the long term. To maintain credit, a public utility must be able to preserve the integrity of investments. It can do so if it is given the opportunity to earn its authorized rate of return. The use of a future test year would provide this opportunity.

In opposition to this argument, testimony was given indicating that the use of a future test year may not be necessary for a public utility to earn its authorized rate of return. The time between when a utility's costs of operation change and when those costs are reflected in its rates is relatively short in Nevada as a public utility is allowed to file for a change in rates every 6 months. Also, a utility may update its case for an increase in expense levels up to 90 days before there is a change in rates. If it is assumed that 30 days are needed to prepare for filing, there is only a 120-day delay in the recovery of costs. Furthermore, Nevada has the shortest statutory period between the time when an application for a change in rates is filed until the time when the public service commission of Nevada must enter a decision.

There are also adequate mechanisms in place for the recovery of costs incurred by a public utility. Much of a utility's cost of operations is either collected on a guaranteed dollar for dollar basis or collected in advance of the expenditure, and a public utility may recover interest on costs when there is a delay in recovery. It was also pointed out that the current regulatory framework in Nevada allows many adjustments to historic data which make the data reflect current situations. There is also a mechanism for adjusting rates through deferred energy accounting to allow for recovery of any increases in cost of fuel or purchased power.

Finally, it was suggested that poor management practices can lead to excessive costs and prevent a public utility from earning its authorized rate of return. A public utility which does not operate efficiently or which does not control operating and maintenance expenses will incur unnecessary costs which will prevent it from earning its authorized profit. Therefore, the use of a future test year may not be needed for a public utility to earn its authorized rate of return.

## B. GUARANTEED RATE OF RETURN

The issue of whether the use of a future test year would guarantee that public utilities would earn their maximum allowable profit was discussed by the subcommittee. It has been suggested that the use of a future test year, along with mechanisms for the adjustment of rates to ensure that a public utility has collected an amount from its customers which is not substantially greater or less than that which is authorized, allows the utility to recover from its customers the total amount it is authorized to collect, thereby guaranteeing that the utility would earn its maximum allowable profit. Testimony was presented in opposition to this argument which suggested that the procedure did not guarantee a rate of

return, but improved the ability of a public utility to earn its authorized rate of return. The utility is still required to maintain its expenses at a level authorized by the commission in order to earn its authorized return. With the use of a future test year, a utility would be allowed to recover expenses incurred from forces beyond its control, such as fluctuating sales due to abnormal weather, but would be required to account for those items within its control. If a utility did not control its expenses, it would not earn its authorized rate of return. Therefore, the use of a future test year would improve the ability of the utility to earn its authorized rate of return only if its management controlled expenses.

### C. UNCERTAINTY OF ESTIMATED REVENUES AND EXPENSES.

The ability of a public utility to predict accurately its future revenues and expenses was also discussed by the subcommittee. Those persons objecting to the use of a future test year pointed out that the numbers upon which rates would be based would be inferior because they would be based upon budgets and opinions instead of audited actual results. This gives the public utility a significant advantage by being able to select the information to present to the public service commission of Nevada for its consideration. Historical data shows actual costs and can be verified, whereas projected data developed by a utility is virtually impossible to challenge. In addition, projected data may over-emphasize inflationary projections and anticipated future demands. Because projections and estimates used for a future test year may not be precise, they may produce a rate of return in excess of that authorized by the commission.

However, testimony was also presented in support of the argument that, although projected data may be imprecise, estimates of revenues and expenses based on reasonable forecasts consistently come closer to predicting future conditions than does historical data. It was emphasized that projected revenues and expenses are much more relevant in predicting what will occur during the time rates will be in effect than data which, in most cases, needs to be updated to reflect accurately the needs of a public utility and its customers. The use of a future test year, if not infallible, would be an improvement over the use of historical data.

Finally, it was pointed out to the subcommittee that in 1983, the Nevada Legislature passed Senate Bill No. 161, better known as the Resource Planning Act, which requires certain public utilities which supply electricity to submit plans containing predictions of future demands for their services and appropriate measures for acquiring resources to meet or reduce those demands. (See NRS 704.741). Under this measure, the utility is required to project 20 years into the future to estimate sales, growth, the effects of conservation, future financial requirements and requirements for generation. After extensive hearings, the public service commission of Nevada authorizes a utility's plan. It was suggested to the subcommittee that it is inconsistent for the process for planning a utility's resources to look 20 years into the future when the utility's requirements for



revenue are determined and its rates are established based on historical data. This inconsistency makes the financing of future resources at the lowest possible cost virtually impossible.

#### D. EFFECT ON UTILITIES' RATES

The subcommittee reviewed the effect the use of a future test year would have on the rates of public utilities in this state. Testimony was heard which indicated that the use of a future test year in determining rates would cause a dramatic and immediate increase in rates of the past. The use of a future test year increases the profits of public utilities because all projected increases are realized. The money that increases those profits comes from the customers who will be required to pay higher rates for the services provided. In addition, information was presented to the subcommittee comparing the rates of utilities in three states with a full forecast future test year (California, New York and Wisconsin) which suggested that rates had increased in two of those states.

In opposition to these statements, testimony was presented which indicated that the use of a future test year in determining rates would stabilize rates and reduce the likelihood of large increases in rates which hurt the utilities' customers. Higher rates are caused by prolonged periods of generally inadequate returns which weaken public utilities financially and result in an increase in risks and capital costs. This, in turn, causes an increase in rates. In addition, it was pointed out that there was simply no proof that the use of a future test year would cause an increase in past rates. In fact, if a future test year had been used from 1984 to 1987, with appropriate mechanisms in place for adjusting rates, decreases in rates would have occurred. Finally, information was presented indicating that the three major electric utilities in Wisconsin, which uses a future test year with appropriate adjustment mechanisms, have had a total of six general decreases in rates since 1984 totaling \$88,600,000. Therefore, it cannot be said that the use of a future test year to determine rates of public utilities would increase the rates of public utilities in this state.

#### E. EXPENSE OF REGULATION

The issue of whether the use of a future test year would have an adverse fiscal impact on the state was studied by the subcommittee. Testimony was presented which indicated that forecasts needed for a future test year are expensive and exceed the technical resources and expertise of the public utilities and regulatory agencies of this state. Smaller utilities have limited staffs which are not always accustomed to the proper accounting procedures needed to estimate revenues and expenses. In addition, changes in the procedures for reviewing and hearing rate cases and in the composition of members of the staffs of regulatory agencies would be required. New positions would have to be added to the budgets of those regulatory agencies to operate efficiently a ratemaking process

using a future test year. Finally, the case load of the regulatory agencies would not only be increased, but the cases would take more time and would be more complex. All of these factors would contribute to the cost which would be incurred by the state.

However, testimony was also presented which indicated that public utilities in this state have adequate resources and the expertise to budget expenses and revenues. Utilities are doing this at the present time to produce the 20-year resource plans required by NRS 704.741. In addition, the regulatory agencies currently have the personnel needed to analyze those resource plans. That expertise could be used to evaluate rates based on a future test year. The current members of the staffs of the regulatory agencies are capable employees who have the ability to understand fully the concept of a future test year. The use of a future test year would require only a change from auditing historic records to auditing budgeted records. The agencies are capable of making this change. Finally, the pressures of the personnel employed by those agencies would be reduced because the frequency of rate cases would be significantly reduced. Therefore, the fiscal impact of basing utilities' rates on estimates of revenues and expenses would be minimal.

## VII. FINDINGS AND RECOMMENDATIONS

The subcommittee recognized that the costs of heat, light and power have become a major source of concern and frustration for residents of this state. Therefore, the subcommittee requested and received considerable input from public utilities providing services in Nevada, the public service commission of Nevada, the office of the advocate for customers of public utilities and members of the general public, regarding the method by which rates of public utilities are determined. Of primary concern to the subcommittee was providing a means by which utility services can be provided to the growing population of this state at a reasonable cost. After hearing the testimony, the subcommittee noted that basing the rates of public utilities upon past experience results in a lag between the time when costs are incurred and when they are recovered. This, in turn, results in higher costs to the utility which are ultimately recovered from the utility's customers. Furthermore, the subcommittee felt that public utilities are entitled to a reasonable opportunity to earn their authorized rates of return, assuming those rates are properly established. However, in many instances, the authorized rates of return are not earned because rates are based on a historic period of operation which may have little relationship to a future period of operation for which the rates will be in effect. Prolonged periods of inadequate returns will weaken a public utility financially, as the opportunity to earn its authorized rate of return affects the utility's ability to borrow money for future construction and makes it difficult for the utility to attract investors. The resulting increases in risks and capital costs are then eventually passed on to the utility's customers. The subcommittee felt that the use of a future test year would give the public utilities a better opportunity to control these costs by allowing them to earn their

authorized rates of return. In addition, the subcommittee recognized that a transition to the practice of using estimated costs and expenses must be accomplished without drastic changes in rates. Therefore, the subcommittee recommends that the public service commission of Nevada be authorized to consider estimated revenues, expenses, investments and costs of capital for a future period of operation in determining rates for public utilities.



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## **APPENDIX A**

### **PAST LEGISLATION**



(REPRINTED WITH ADOPTED AMENDMENTS)

SECOND REPRINT

S. B. 298

SENATE BILL NO. 298—COMMITTEE ON COMMERCE AND LABOR

MARCH 27, 1985

Referred to Committee on Commerce and Labor

SUMMARY—Makes various changes in law governing rates of certain public utilities.  
(BDR 58-797)

FISCAL NOTE: Effect on Local Government: No.  
Effect on the State or on Industrial Insurance: No.



EXPLANATION—Matter in *italics* is new; matter in brackets [ ] is material to be omitted.

AN ACT relating to public utilities; providing for the use of future estimates in determining rates; authorizing the public service commission of Nevada to review annually the rates for utilities; and providing other matters properly relating thereto.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE AND  
ASSEMBLY, DO ENACT AS FOLLOWS:

- 1    **Section 1.** NRS 703.374 is hereby amended to read as follows:  
2    703.374   1. A court of competent jurisdiction, after hearing, may  
3    issue an injunction suspending or staying any final order of the commis-  
4    sion if:  
5       (a) The applicant has filed a motion for a preliminary injunction;  
6       (b) The applicant has served the motion on the commission and other  
7    interested parties within 20 days after the rendition of the order on  
8    which the complaint is based;  
9       (c) The court finds there is a reasonable likelihood that the applicant  
10   will prevail on the merits of the matter and will suffer irreparable  
11   injury if injunctive relief is not granted; and  
12       (d) The applicant files a bond or other undertaking to secure the  
13   adverse parties in such manner as the court finds sufficient.  
14   2. The decision of the commission on each matter considered shall  
15   be deemed reasonable and just until set aside by the court, and in all  
16   actions for injunction or otherwise the burden of proof is upon the party  
17   attacking or resisting the order of the commission to show by clear and

1 satisfactory evidence that the order is unlawful, or unreasonable, as the  
2 case may be.

3 3. If an injunction is granted by the court and the order complained  
4 of is one which permanently suspends a schedule of rates and charges  
5 or a part thereof filed by any public utility pursuant to NRS 704.070 to  
6 704.110, inclusive, and sections 4 to 9, inclusive, of this act or by any  
7 motor carrier pursuant to NRS 706.321 to 706.346, inclusive, or which  
8 otherwise prevents the schedule or any part thereof from taking effect,  
9 the public utility or motor carrier complaining may keep in effect or put  
10 into effect, as the case may be, the suspended schedule or any part  
11 thereof pending final determination by the court having jurisdiction, by  
12 filing a bond with the court in such an amount as the court may fix,  
13 conditioned upon the refund to persons entitled to the excess amount if  
14 the rate or rates so suspended are finally determined by the court to be  
15 excessive.

16 Sec. 2. Chapter 704 of NRS is hereby amended by adding thereto  
17 the provisions set forth as sections 3 to 9, inclusive, of this act.

18 Sec. 3. *Except as may otherwise be provided by the commission*  
19 *pursuant to NRS 704.095, the provisions of NRS 704.100 and 704.110*  
20 *and sections 4 to 9, inclusive, of this act, apply to any public utility*  
21 *which has an annual operating revenue in this state of at least*  
22 *\$2,500,000.*

23 Sec. 4. *As used in NRS 704.100 and 704.110 and sections 5 to 9,*  
24 *inclusive, of this act, unless the context otherwise requires:*

25 1. *"Current period of operation" means the most recent 12 con-*  
26 *secutive months or the most recent calendar year for which data are*  
27 *available at the time of filing, the last day of which may not be more*  
28 *than 15 months before the date of filing.*

29 2. *"Future period of operation" means a period of 12 consecu-*  
30 *tive months which begins on the date selected by the public utility which*  
31 *must not be later than 12 months after the date on which the schedule*  
32 *for the proposed rate or charge is filed.*

33 3. *"Margin" means the difference between the revenue which a*  
34 *public utility derives from a service or commodity and the cost of pro-*  
35 *viding that service or producing that commodity, at the level adopted*  
36 *for the utility's future period of operation.*

37 Sec. 5. *The commission shall determine by regulation the margin*  
38 *for each type of public utility, using generally accepted accounting prin-*  
39 *ciples.*

40 Sec. 6. 1. *Within 90 days after the last day of a period which was*  
41 *selected as a future period of operation and annually thereafter, the*  
42 *commission shall, to ensure that a public utility has collected an*  
43 *amount from its customers which is not greater or less than its autho-*  
44 *rized margin for that period, review the books and records of each pub-*  
45 *lic utility which has selected a future period of operation for determin-*  
46 *ing its rates, and shall determine whether an adjustment of its rates is*

1 necessary, based on the difference between the estimate of revenue  
2 which was used to determine its rates and the actual revenue realized  
3 during that period.

4 2. If the commission determines an adjustment is necessary, the  
5 public utility shall adjust its rates to recover from its customers any  
6 amount it was authorized to collect and did not, or to return to its cus-  
7 tomers any amount collected which exceeded its authorized margin. The  
8 commission shall not authorize an adjustment in an amount which  
9 would result in a rate of return in excess of the rate of return approved  
10 by the commission for the public utility's last general increase in rates.

11 3. The estimated revenue during the public utility's future period of  
12 operation must be determined by using the operating revenue and the  
13 monthly factors approved by the commission for the public utility's  
14 future period of operation which was included in its last general  
15 increase in rates.

16 4. The public utility may file with the commission any information  
17 concerning the adjustment including its proposed:

18 (a) Formula to calculate the adjustment;

19 (b) Method of accounting to record its monthly estimated revenue and  
20 actual revenue; and

21 (c) Procedure to revise its rates pursuant to the adjustment.

22 5. A public utility which has elected to use a future period of opera-  
23 tion for determining its rates may not revoke its election in relation to  
24 any subsequent application made for an increase in its rates without the  
25 prior approval of the commission.

26 6. The commission shall adopt regulations prescribing the formula  
27 used to determine the adjustment and such other regulations as it deems  
28 necessary to carry out the provisions of this section.

29 Sec. 7. 1. At least 90 days before the last day of a period which  
30 was selected as a future period of operation and annually thereafter,  
31 unless any subsequent 12-month period is selected as a future period of  
32 operation for a subsequent application for an increase in rates, the  
33 commission may review the books and records of each public utility  
34 which has selected a future period of operation for determining its  
35 rates, and determine whether an adjustment of its rates and margin are  
36 necessary based on the utility's showing of the estimated changes and  
37 its subsequent expenses of operation, maintenance and investment in the  
38 plant and property used and useful in providing service during that sub-  
39 sequent period of 12 months.

40 2. In determining the adjustment, the commission shall consider all  
41 factors which may contribute to those increased expenses during the 12-  
42 month period.

43 3. If the commission determines an adjustment is necessary, the  
44 public utility shall adjust its rates within 45 days after the commission  
45 issues the order. The commission shall not authorize an adjustment or  
46 any portion thereof in an amount which would result in a rate of return

1 in excess of the rate of return approved by the commission in the public  
2 utility's last general increase in rates.

3 4. The commission shall adopt regulations prescribing the formula  
4 used to determine the adjustment for those increased expenses and such  
5 other regulations as it deems necessary to carry out the provisions of  
6 this section.

7 Sec. 8. Whenever an application is filed by a public utility for an  
8 increase in any rate, fare or charge based upon increased costs in the  
9 purchase of fuel or power, and the public utility has elected to use  
10 deferred accounting for costs of the purchase of fuel or power in accor-  
11 dance with the commission's regulations, the commission, by appropri-  
12 ate order after a public hearing, shall allow the public utility to clear  
13 the deferred account not more often than every 6 months by refunding  
14 any credit balance or recovering any debit balance over a period not to  
15 exceed 1 year as determined by the commission. The commission shall  
16 not allow a recovery of a debit balance or any portion thereof in an  
17 amount which would result in a rate of return in excess of the rate of  
18 return most recently granted the public utility.

19 Sec. 9. 1. Except as provided in subsection 2, whenever an appli-  
20 cation for an increased rate, fare or charge for, or classification, regu-  
21 lation, discontinuance, modification, restriction or practice involving  
22 service or equipment has been filed with the commission, a public utility  
23 shall not submit another application until all pending applications for  
24 rate increases submitted by that public utility have been decided unless,  
25 after application and hearing, the commission determines that a sub-  
26 stantial financial emergency would exist if the other application is not  
27 permitted to be submitted sooner.

28 2. A public utility may not file an application to recover the  
29 increased cost of purchased fuel, purchased power or natural gas pur-  
30 chased for resale more often than once every 30 days.

31 Sec. 10. NRS 704.095 is hereby amended to read as follows:

32 704.095 The commission shall adopt regulations which provide a  
33 simplified procedure for a change of rates for [those] :

34 1. Those public utilities which furnish water or sewer service, or  
35 both, to persons within this state for compensation, and which:

36 [1.] (a) Serve 1,200 persons or less;

37 [2.] (b) Had during the immediately preceding 12-month period  
38 gross sales for water or sewer service, or both, amounting to \$150,000  
39 or less; and

40 [3.] (c) Do not own or control any other business entity furnishing  
41 water or sewer service, or both, within this state.

42 2. Any public utility which has an annual operating revenue in this  
43 state of less than \$2,500,000.

44 Sec. 11. NRS 704.100 is hereby amended to read as follows:

45 704.100 [Except as may otherwise be provided by the commission  
46 pursuant to NRS 704.095:]



1 1. No changes may be made in any schedule, including schedules of  
2 joint rates, or in the rules and regulations affecting any rates or  
3 charges, except upon 30 days' notice to the commission, and all  
4 changes must be plainly indicated, or by filing new schedules in lieu  
5 thereof 30 days before the time the schedules are to take effect. The  
6 commission, upon application of any public utility, may prescribe a  
7 **[less]** shorter time within which a reduction may be made.

8 2. Copies of all new or amended schedules must be filed and posted  
9 in the stations and offices of public utilities as in the case of original  
10 schedules.

11 3. Except as provided in subsection 4, the commission shall not  
12 consider an application by a public utility if the justification for the new  
13 schedule includes any items of expense or rate base which are set forth  
14 as justification in a pending application, are the subject of pending liti-  
15 gation **[,]** which was instituted by the public utility, or have been con-  
16 sidered and disallowed by the commission or a district court.

17 4. A public utility may set forth as justification for a rate increase  
18 items of expense or rate base which have been considered and  
19 disallowed by the commission, only if those items are clearly identified  
20 in the application and new facts or policy considerations for each item  
21 are advanced in the application to justify a reversal of the commission's  
22 prior decision.

23 5. If the commission receives an application that is within the prohi-  
24 bition of subsection 3, it shall, within 30 days, notify the public utility  
25 that the application is dismissed.

26 6. The commission shall determine whether a hearing must be held  
27 when the proposed change in any schedule stating a new or revised  
28 individual or joint rate, fare or charge, or any new or revised individ-  
29 ual or joint regulation or practice affecting any rate, fare or charge,  
30 will result in an increase in annual gross revenue as certified by the  
31 applicant of \$2,500 or less.

32 7. In making the determination the commission shall first consider  
33 all timely written protests, any presentation the staff of the commission  
34 may desire to present, the application and any other matters deemed  
35 relevant by the commission.

36 **Sec. 12.** NRS 704.110 is hereby amended to read as follows:

37 704.110 **[Except as may otherwise be provided by the commission**  
38 **pursuant to NRS 704.095:]**

39 1. Whenever there is filed with the commission any schedule stating  
40 a new or revised individual or joint rate, fare or charge, or any new or  
41 revised individual or joint regulation or practice affecting any rate, fare  
42 or charge, or any schedule resulting in a discontinuance, modification  
43 or restriction of service, the commission may, either upon complaint or  
44 upon its own motion, **[without complaint,]** at once, without answer or  
45 formal pleading by the interested utility, investigate or, upon reasonable

1 notice, conduct a hearing concerning the propriety of the rate, fare,  
2 charge, classification, regulation, discontinuance, modification, restric-  
3 tion or practice.

4 2. **[Pending]** *Except as otherwise provided in subsection 3, pending*  
5 *the investigation or hearing and the decision thereon, the commission,*  
6 *upon delivering to the utility affected thereby a statement in writing of*  
7 *its reasons for the suspension, may suspend the operation of the sched-*  
8 *ule and defer the use of the rate, fare, charge, classification, regula-*  
9 *tion, discontinuance, modification, restriction or practice, but not for a*  
10 *longer period than 150 days beyond the time when the rate, fare,*  
11 *charge, classification, regulation, discontinuance, modification, restric-*  
12 *tion or practice would otherwise go into effect.*

13 3. *Whenever there is filed with the commission any schedule which*  
14 *is based on a selected future period of operation, the commission may*  
15 *suspend the operation of the schedule and defer the use of any rate,*  
16 *fare or charge specified in the schedule for not longer than 1 year after*  
17 *it is filed.*

18 4. Whenever there is filed with the commission any schedule stating  
19 an increased individual or joint rate, fare or charge for service or  
20 equipment, the public utility shall submit with its application a state-  
21 ment showing the recorded **[results of]** revenues, expenses, investments  
22 and costs of capital for its **[most recent 12-month period.]** *current*  
23 *period of operation.* During any hearing concerning the increased  
24 rates, fares or charges **[determined by the commission]** *alleged by the*  
25 *utility to be necessary, the commission shall consider evidence in sup-*  
26 *port of the increased rates, fares or charges based upon [actual*  
27 *recorded results of operations for the most recent 12 consecutive*  
28 *months for which data are available at the time of filing,] one of the*  
29 *following, as the utility may elect:*

30 (a) *The results of operations for the current period of operation,*  
31 *adjusted on an annual basis for increased revenues, any increased*  
32 *investment in facilities, increased depreciation expenses, certain other*  
33 *operating expenses as approved by the commission and changes in the*  
34 *costs of securities which are known and are measurable with reasonable*  
35 *accuracy at the time of filing and which will become effective within 6*  
36 *months after the last month of the [actual 12-month results of opera-*  
37 *tions;] current period of operation; but no new rates, fares or charges*  
38 *may be placed into effect until the changes have been experienced and*  
39 *certified by the utility to the commission. [The commission shall also*  
40 *consider evidence supporting depreciation expenses, calculated on an*  
41 *annual basis, applicable to major components of the public utility's*  
42 *plant placed into service during the recorded test period or the certifi-*  
43 *cation period as set forth in the application. Adjustments to revenues,*  
44 *operating expenses and costs of securities must be calculated on an*  
45 *annual basis.] Within 90 days after the filing with the commission of*  
46 *the certification required in this [subsection,] paragraph, or before the*

1 expiration of any period of suspension ordered pursuant to subsection  
2 2, whichever time is longer, the commission shall make such order in  
3 reference to those rates, fares or charges as may be required by this  
4 chapter.

5 *(b) The estimated revenues, expenses, investments and costs of capital*  
6 *for the future period of operation. The estimates must be calculated on*  
7 *an annual basis to provide in prospective rates, to the extent possible,*  
8 *for the recovery of costs which the utility will incur after the rates*  
9 *become effective. The estimated rate base must include the average for*  
10 *the plant and property used and useful in providing service during the*  
11 *future period of operation.*

12 [4.] 5. After full investigation or hearing, whether completed before  
13 or after the date upon which the rate, fare, charge, classification, regu-  
14 lation, discontinuance, modification, restriction or practice is to go into  
15 effect, the commission may make *effective prospectively* such order in  
16 reference to the rate, fare, charge, classification, regulation, discon-  
17 tinuance, modification, restriction or practice as [would] *may* be  
18 proper . [in a proceeding initiated after the rate, fare, charge, classifi-  
19 cation, regulation, discontinuance, modification, restriction or practice  
20 has become effective.

21 5. Whenever an application is filed by a public utility for an  
22 increase in any rate, fare or charge based upon increased costs in the  
23 purchase of fuel or power, and the public utility has elected to use  
24 deferred accounting for costs of the purchase of fuel or power in accor-  
25 dance with the commission's regulations, the commission, by appropri-  
26 ate order after a public hearing, shall allow the public utility to clear  
27 the deferred account not more often than every 6 months by refunding  
28 any credit balance or recovering any debit balance over a period not to  
29 exceed 1 year as determined by the commission. The commission shall  
30 not allow a recovery of a debit balance or any portion thereof in an  
31 amount which would result in a rate of return in excess of the rate of  
32 return most recently granted the public utility.

33 6. Except as provided in subsection 7, whenever an application for  
34 an increased rate, fare or charge for, or classification, regulation, dis-  
35 continuance, modification, restriction or practice involving service or  
36 equipment has been filed with the commission, a public utility shall not  
37 submit another application until all pending applications for rate  
38 increases submitted by that public utility have been decided unless, after  
39 application and hearing, the commission determines that a substantial  
40 financial emergency would exist if the other application is not permitted  
41 to be submitted sooner.

42 7. A public utility may not file an application to recover the  
43 increased cost of purchased fuel, purchased power or natural gas pur-  
44 chased for resale more often than once every 30 days.]

45 Sec. 13. A public utility may not file a schedule stating a new or  
46 revised individual or joint rate, fare or charge based on a selected  
47 future period of operation before January 1, 1986.



CHAPTER.....

AN ACT relating to public utilities; modifying the scope of regulation by the public service commission of certain types of utilities; authorizing the use of future estimates in determining rates; and providing other matters properly relating thereto.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:

**Section 1.** NRS 703.191 is hereby amended to read as follows:

703.191 1. Each public utility, common and contract motor carrier and broker which is regulated by the commission shall:

(a) Keep uniform and detailed accounts of all business transacted in the manner required by the commission by regulation, and render them to the commission upon its request.

(b) Furnish an annual report to the commission in the form and detail which it prescribes by regulation.

2. Except as provided in subsection 3, the reports required by this section must be prepared for each calendar year and submitted not later than ~~April 15~~ *June 30* of the year following the year for which the report is submitted.

3. A motor carrier *or a public utility* may, with the permission of the commission, prepare the reports required by this section for a year other than a calendar year which the commission specifies, and submit them not later than a date specified by the commission in each year.

4. If the commission finds that necessary information is not contained in a report submitted pursuant to this section, it may call for the omitted information at any time.

**Sec. 2.** NRS 703.310 is hereby amended to read as follows:

703.310 1. When a complaint is made against any public utility, common or contract carrier or broker by any person, that any of the rates, tolls, charges or schedules, or any joint rate or rates are in any respect unreasonable or unjustly discriminatory, or that any regulation, measurement, practice or act affecting or relating to the transportation of persons or property, or any service in connection therewith, or the production, transmission or delivery or furnishing of heat, light, gas, coal slurry, water or power, or any service in connection therewith or the transmission thereof is, in any respect, unreasonable, insufficient or unjustly discriminatory, or that any service is inadequate, the division of consumer relations shall investigate the complaint. After receiving the complaint, the division shall give a copy of it to the public utility, carrier or broker against whom the complaint is made. Within a reasonable time thereafter, the public utility, carrier or broker shall provide the division with its written response to the complaint according to the regulations of the commission.

2. If the division of consumer relations is unable to resolve the complaint, the division shall transmit the complaint, the results of its investigation and its recommendation to the commission. If the commission determines that probable cause exists for the complaint, it shall order a hearing thereof, give notice of the hearing and conduct the hearing as it would any other hearing.

3. *Upon request by the complainant and a showing of good cause, the commission may issue an interim order prohibiting the termination of service to the complainant pending the final decision of the commission.*

4. No order affecting a rate, toll, charge, schedule, regulation, measurement, practice or act complained of may be entered without a formal hearing unless the hearing is dispensed with as provided in NRS 703.320.

**Sec. 3.** NRS 704.110 is hereby amended to read as follows:

704.110 Except as otherwise provided in section 1 of [this act] *Assembly Bill No. 491 of this session* or as may otherwise be provided by the commission pursuant to NRS 704.095:

1. Whenever there is filed with the commission any schedule stating a new or revised individual or joint rate, fare or charge, or any new or revised individual or joint regulation or practice affecting any rate, fare or charge, or any schedule resulting in a discontinuance, modification or restriction of service, the commission may, either upon complaint or upon its own motion without complaint, at once, without answer or formal pleading by the interested utility, investigate or, upon reasonable notice, conduct a hearing concerning the propriety of the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice.

2. Pending the investigation or hearing and the decision thereon, the commission, upon delivering to the utility affected thereby a statement in writing of its reasons for the suspension, may suspend the operation of the schedule and defer the use of the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice, but not for more than 150 days beyond the time when the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice would otherwise go into effect.

3. Whenever there is filed with the commission any schedule stating an increased individual or joint rate, fare or charge for service or equipment, the public utility shall submit with its application a statement showing the recorded results of revenues, expenses, investments and costs of capital for its most recent 12 months for which data were available when the application was prepared. During any hearing concerning the increased rates, fares or charges determined by the commission to be necessary, the commission shall consider evidence in support of the increased rates, fares or charges based upon actual recorded

results of operations for the same 12 months, adjusted for increased revenues, any increased investment in facilities, increased expenses for depreciation, certain other operating expenses as approved by the commission and changes in the costs of securities which are known and are measurable with reasonable accuracy at the time of filing and which will become effective within 6 months after the last month of those 12 months, but no new rates, fares or charges may be placed into effect until the changes have been experienced and certified by the utility to the commission. The commission shall also consider evidence supporting expenses for depreciation, calculated on an annual basis, applicable to major components of the public utility's plant placed into service during the recorded test period or the period for certification as set forth in the application. Adjustments to revenues, operating expenses and costs of securities must be calculated on an annual basis. Within 90 days after the filing with the commission of the certification required in this subsection, or before the expiration of any period of suspension ordered pursuant to subsection 2, whichever time is longer, the commission shall make such an order in reference to those rates, fares or charges as may be required by this chapter.

4. *In addition to changes in revenue, expenses and costs which have been experienced, the commission may consider estimated revenues, expenses, investments and costs of capital for a future period of operation. The estimates must be calculated on an annual basis to provide in prospective rates, to the extent possible, for the recovery of costs which the utility will incur after the rates become effective. The estimated rate base must include the average for the plant and property used and useful in providing service during the future period of operation.*

5. After full investigation or hearing, whether completed before or after the date upon which the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice is to go into effect, the commission may make such an order in reference to the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice as would be proper in a proceeding initiated after the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice has become effective.

[5.] 6. Whenever an application is filed by a public utility for an increase in any rate, fare or charge based upon increased costs in the purchase of fuel or power, and the public utility has elected to use deferred accounting for costs of the purchase of fuel or power in accordance with the commission's regulations, the commission, by appropriate order after a public hearing, shall allow the public utility to clear the deferred account not more often than every 6 months by refunding any credit balance or recovering any debit balance over a period not to exceed 1 year as determined by the commission. The commission shall not allow a recovery of a debit balance or any portion thereof in an

amount which would result in a rate of return in excess of the rate of return most recently granted the public utility.

**[6.] 7.** Except as provided in subsection **[7]** 8 or in section 1 of **[Senate Bill No. 290,]** *chapter 180, Statutes of Nevada 1985*, whenever an application for an increased rate, fare or charge for, or classification, regulation, discontinuance, modification, restriction or practice involving service or equipment has been filed with the commission, a public utility shall not submit another application until all pending applications for increases in rates submitted by that public utility have been decided unless, after application and hearing, the commission determines that a substantial financial emergency would exist if the other application is not permitted to be submitted sooner.

**[7.] 8.** A public utility may not file an application to recover the increased cost of purchased fuel, purchased power or natural gas purchased for resale more often than once every 30 days.

**Sec. 4.** NRS 704.183 is hereby amended to read as follows:

**704.183 1.** The commission may order an examination of the condition and management of any public utility under its jurisdiction which is a community antenna television system, telephone company, electric light, heat and power company or a natural gas company.

**2.** The commission and the public utilities shall establish, and revise annually, a list of not less than 20 persons qualified to conduct such examinations.

**3.** If an examination is ordered:

(a) The public utility *and the commission* shall select **[a person]** *one or more persons* to conduct the examination from such list; and

(b) The commission, the public utility and the person selected shall determine the manner, scope and cost of the examination and the content and form of reports issued at the conclusion of the examination.

**4.** Except where the commission, after a hearing, determines that an examination of a public utility is in the public interest, the commission shall not order an examination if a prior examination has been conducted within the preceding 5 years.

**5.** The costs of an examination are allowable expenses of the public utility for the purpose of **[rate making.]** *establishing rates.*

**Sec. 5.** NRS 704.860 is hereby amended to read as follows:

**704.860** "Utility facility" means:

**1.** Electric generating plants and their associated facilities;

**2.** Electric transmission lines and transmission substations designed to operate at **[200]** 60 kilovolts or more, and not required by local ordinance to be placed underground when constructed outside any incorporated city, *except for a public utility's transmission lines and substations designed to operate at less than 200 kilovolts;*

**3.** Gas transmission lines, storage plants, compressor stations and their associated facilities when constructed outside any incorporated city;



4. Telephone, telegraph and community antenna television equipment buildings, their associated facilities and the sites thereof, when constructed outside any incorporated city;

5. Water storage and transmission facilities; and

6. Sewer transmission and treatment facilities.

**Sec. 6.** NRS 704.940 is hereby amended to read as follows:

**704.940** 1. In a mobile home park where the landlord is billed by a serving utility and in turn charges the tenants for the utility service, and the park:

(a) Is equipped with individual meters for each lot, the landlord shall not charge a tenant for that service at a rate higher than the rate the tenant would be charged if he were receiving service directly from the utility.

(b) Is not equipped with individual meters for each lot, the landlord shall prorate the cost of the utility service equally among the tenants of the park who use the service, but the prorated charges must not exceed in the aggregate the cost of the utility service to the landlord.

2. The landlord may assess and collect a service charge for utilities from the tenants of the park, but the amount of the charge must not be more than the tenants would be required to pay the serving utility. The landlord shall **[keep]** :

(a) *Keep* the money from such charges in a separate account . **[and may expend it]**

(b) *Maintain a complete record of all deposits and withdrawals of money in the account. The records must indicate the number of tenants in the park and must be retained for 6 years.*

(c) *Expend money in the account only for repairing or replacing utility lines or equipment . **[when ordered to do so by the commission.] Expenditures of more than \$500 must be approved by the commission.***

3. The landlord shall itemize all utility charges on all rent bills. He may pass through to the tenant any increase in a utility rate and shall pass through any decrease in a utility charge as it becomes effective.

4. The landlord shall retain for at least 3 years a copy of all billings for utilities made to his tenants and shall make these records available upon request to the commission for verification of utility charges made to tenants.

5. *Upon termination of the landlord's interest in a mobile home park, the landlord shall transfer to his successor in interest the balance in the account for service charges for utilities remaining at the time of the transfer of interest.*

**Sec. 7.** Section 3 of this act becomes effective at 12:02 a.m. on July 1, 1985.



ASSEMBLY BILL NO. 654--COMMITTEE ON GOVERNMENT AFFAIRS

APRIL 23, 1987

Referred to Committee on Commerce

SUMMARY--Requires health insurance to provide coverage for medical transportation.  
(BDR 57-1728)

FISCAL NOTE: Effect on Local Government: No.  
Effect on the State or on Industrial Insurance: No.



EXPLANATION--Matter in italics is new; matter in brackets [ ] is material to be omitted.

AN ACT relating to insurance; requiring coverage under a policy of health insurance for the direct payment of a provider of medical transportation; and providing other matters properly relating thereto.

THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN SENATE  
AND ASSEMBLY, DO ENACT AS FOLLOWS:

- 1    **Section 1.** Chapter 689A of NRS is hereby amended by adding thereto a  
2    new section to read as follows:  
3    1. *Except as otherwise provided in subsection 3, every policy of health*  
4    *insurance amended, delivered or issued for delivery in this state after July 1,*  
5    *1987, must contain a provision for the direct reimbursement of a provider of*  
6    *medical transportation for covered services if that provider does not receive*  
7    *reimbursement from any other source.*  
8    2. *The insured or the provider may submit the claim for reimbursement.*  
9    *The provider shall not demand payment from the insured until after that*  
10   *reimbursement has been granted or denied. The insured is responsible for*  
11   *any portion of the charges for the provider's services not reimbursed by the*  
12   *insurer.*  
13   3. *Subsection 1 does not apply to any agreement between an insurer and*  
14   *a provider of medical transportation for the direct payment by the insurer for*  
15   *the provider's services.*  
16   **Sec. 2.** NRS 689A.330 is hereby amended to read as follows:  
17   689A.330 If any policy is issued by a domestic insurer for delivery to a  
18   person residing in another state, and if the insurance commissioner or

1 corresponding public officer of that other state has informed the  
2 commissioner that the policy is not subject to approval or disapproval by that  
3 officer, the commissioner may by ruling require that the policy meet the  
4 standards set forth in NRS 689A.030 to 689A.320, inclusive [.] , and  
5 *section 1 of this act.*

6 **Sec. 3.** Chapter 689B of NRS is hereby amended by adding thereto a  
7 new section to read as follows:

8 *1. Except as otherwise provided in subsection 3, every policy of group*  
9 *health insurance amended, delivered or issued for delivery in this state after*  
10 *July 1, 1987, must contain a provision for the direct reimbursement of a*  
11 *provider of medical transportation for covered services if that provider does*  
12 *not receive reimbursement from any other source.*

13 *2. The insured or the provider may submit the claim for reimbursement.*  
14 *The provider shall not demand payment from the insured until after that*  
15 *reimbursement has been granted or denied. The insured is responsible for*  
16 *any portion of the charges for the provider's services not reimbursed by the*  
17 *insurer.*

18 *3. Subsection 1 does not apply to any agreement between an insurer and*  
19 *a provider of medical transportation for the direct payment by the insurer for*  
20 *the provider's services.*

21 **Sec. 4.** Chapter 695B of NRS is hereby amended by adding thereto a  
22 new section to read as follows:

23 *1. Except as otherwise provided in subsection 3, every contract for*  
24 *medical service amended, delivered or issued for delivery in this state after*  
25 *July 1, 1987, must contain a provision for the direct reimbursement of a*  
26 *provider of medical transportation for covered services if that provider does*  
27 *not receive reimbursement from any other source.*

28 *2. The subscriber or the provider may submit the claim for*  
29 *reimbursement. The provider shall not demand payment from the subscriber*  
30 *until after that reimbursement has been granted or denied. The subscriber is*  
31 *responsible for any portion of the charges for the provider's services not*  
32 *reimbursed by the corporation for medical service.*

33 *3. Subsection 1 does not apply to any agreement between a corporation*  
34 *for medical service and a provider of medical transportation for the direct*  
35 *payment by the corporation for the provider's services.*

36 **Sec. 5.** Chapter 695C of NRS is hereby amended by adding thereto a  
37 new section to read as follows:

38 *1. Except as otherwise provided in subsection 3, every evidence of*  
39 *coverage amended, delivered or issued for delivery in this state after July 1,*  
40 *1987, must contain a provision for the direct reimbursement of a provider of*  
41 *medical transportation for covered services if that provider does not receive*  
42 *reimbursement from any other source.*

1     2. *The enrollee or the provider may submit the claim for reimbursement.*  
2     *The provider shall not demand payment from the enrollee until after that*  
3     *reimbursement has been granted or denied. The enrollee is responsible for*  
4     *any portion of the charges for the provider's services not reimbursed by the*  
5     *health maintenance organization.*

6     3. *Subsection 1 does not apply to any agreement between a health*  
7     *maintenance organization and a provider of medical transportation for the*  
8     *direct payment by the organization for the provider's services.*

9     Sec. 6. NRS 695C.190 is hereby amended to read as follows:

10    695C.190 The commissioner may require the submission of whatever  
11 relevant information he deems necessary in determining whether to approve  
12 or disapprove a filing made pursuant to NRS 695C.170 to 695C.200,  
13 inclusive [.] , and section 5 of this act.

14    Sec. 7. NRS 287.010 is hereby amended to read as follows:

15    287.010 The governing body of any county, school district, municipal  
16 corporation, political subdivision, public corporation or other public agency  
17 of the State of Nevada may:

18    1. Adopt and carry into effect a system of group life, accident or health  
19 insurance, or any combination thereof, for the benefit of its officers and  
20 employees, and the dependents of officers and employees who elect to  
21 accept the insurance and who, where necessary, have authorized the  
22 governing body to make deductions from their compensation for the payment  
23 of premiums on the insurance.

24    2. Purchase group policies of life, accident or health insurance, or any  
25 combination thereof, for the benefit of such officers and employees, and the  
26 dependents of such officers and employees, as have authorized the purchase,  
27 from insurance companies authorized to transact the business of such  
28 insurance in the State of Nevada, and, where necessary, deduct from the  
29 compensation of officers and employees the premiums upon insurance and  
30 pay the deductions upon the premiums.

31    3. Provide group life, accident or health coverage through a self-  
32 insurance reserve fund and, where necessary, deduct contributions to the  
33 maintenance of the fund from the compensation of officers and employees  
34 and pay the deductions into the fund. The money accumulated for this  
35 purpose through deductions from the compensation of officers and employees  
36 and contributions of the governing body must be maintained as a trust and  
37 agency fund as defined by NRS 354.580. The trust funds must be deposited  
38 in a state or national bank authorized to transact business in the State of  
39 Nevada. The trust instrument must be approved by the commissioner of  
40 insurance as to the reasonableness of administrative charges in relation to  
41 contributions collected and benefits provided. Any independent administrator

1 of a fund created under this section is subject to the licensing requirements  
2 of chapter 683A of NRS, and must be a resident of this state. The provisions  
3 of NRS 689B.030 to 689B.050, inclusive, *and section 3 of this act*, apply to  
4 coverage provided pursuant to this subsection.

5 4. Defray part or all of the cost of maintenance of a self-insurance fund  
6 or of the premiums upon insurance. The funds for contributions must be  
7 budgeted for in accordance with the laws governing the county, school  
8 district, municipal corporation, political subdivision, public corporation or  
9 other public agency of the State of Nevada.

Ⓢ

## **APPENDIX B**

### **PRESENTATION BY THE PUBLIC UTILITIES**





NEVADA POWER COMPANY

IN SUPPORT OF THE FUTURE TEST YEAR FOR RATEMAKING

BEFORE

THE INTERIM LEGISLATURE COMMITTEE TO STUDY FUTURE TEST YEAR

PRESENTATION BY STEVE RIGAZIO



NEVADA POWER COMPANY  
PRESENTATION BY STEVE RIGAZIO  
IN SUPPORT OF THE FUTURE TEST YEAR FOR RATEMAKING  
BEFORE  
THE INTERIM LEGISLATURE COMMITTEE TO STUDY FUTURE TEST YEAR  
JANUARY 12, 1988

Chairman and Members of the Committee my name is Steve Rigazio and I am the Manager of Rates and Regulations for Nevada Power Company. I would like to thank you for the opportunity to be able to present our Company's position on the concept of using a Future Test Year for utility ratemaking in Nevada. I would like to briefly describe what a Future Test Year is and why we think it is both important and necessary if Nevada Power Company is going to be competitive in the capital markets in the next 20 year period, and beyond, which is a critical time for providing electric power to meet the tremendous growth in Southern Nevada as evidence by the Company's 1986 Resource Plan. I believe the best way to do this is to tell you what the Future Test Year is and what it is not. I believe there has been alot of misinformation presented in the past two legislative sessions about this topic.

In reviewing the presentations before the last two legislative sessions, and the media accounts after those sessions, I have noticed certain grossly inaccurate statements which are repeatedly used in attempts to discredit the use of the Future

Test Year. I am sure the same statements will be presented to you again in a dramatic fashion to make the Future Test Year appear to be something that it is not. I would like to go over some of these previous statements and give to you the realities instead of the myths.

1. MYTH: A FUTURE TEST YEAR GUARANTEES A CERTAIN PROFIT LEVEL.

- a) "First the future test year proposal guarantees Nevada utilities would earn a maximum profit allowed." B. Miller, 5/29/87, Testimony ACR 61.
- b) "These people (who own utility stock) would be guaranteed a maximum profit, S. Cragie, 5/14/87, LV Sun.

These statements are simply not true. In no way, shape or form does the Future Test Year guarantee a profit level. It simply better matches revenues and expenses with relevant time periods. The regulatory commission still sets expense levels which the utility must meet in order to earn its authorized return. In reality the utilities rarely earn the authorized return levels. The only guarantee with utility regulation in Nevada is that the utility cannot earn it's authorized level of profit on a sustained basis.

Getting back to the second quote about the people who own utility stock, the Utility Shareholders Association of Nevada can

probably give you a profile of these people and one thing I can guarantee, the majority are not institutional investors.

- c) "We would guarantee they would make a full profit...we go back and see profits they missed out on the year before and we are going to increase rates to give them the past profits they missed out on.".... S. Craigie, Action Seniors, 8/2/87.

This is retroactive ratemaking which is specifically not allowed in Nevada, not supported by the utilities and does not occur with the use of a Future Test Year. This statement shows a lack of understanding of how the adjustment mechanisms really work and their purpose.

2. MYTH: THE CURRENT USE OF HISTORIC REGULATION IS ADEQUATE AND HAS KEPT NEVADA UTILITIES IN GOOD FINANCIAL SHAPE.

- a) "...utilities backing the bill are doing well financially." S. Craigie, C.C. Appeal, 5/14/87.

This is awfully short sighted when looking at a 20 year growth pattern and construction requirements as set forth in Nevada Power Company's approved 1986 Resource Plan. Nevada Power Company has been financially healthier the last 2 to 3 years than in the 1970's or early 1980's. This is due to lower inflation rates, lower fuel costs, non recessionary economy and no major

construction projects. Unfortunately these sweet times are ending quite rapidly. One only needs to look at the 1970's and early 1980's to see the disastrous financial conditions which the utilities can face when conditions are not perfect and when short sightedness prevails. The historic performance of Nevada's utilities is not the issue here; the ability to adequately meet the needs of the future through flexible regulation is the issue.

b) "...this is not a system that needs repair." S. Craigie, LV Sun, 5/28/87.

Again, this is awfully shortsighted. The system, "Historic Test Year", did not work too well in the 1970's or early 1980's. Nevada utilities were in very poor financial condition and could do little to improve because of the inherent deficiencies in the Historic Test Year system. If the economic conditions of the 1970's or early 1980's prevail again, or if the capital requirements set forth in Nevada Power Company's approved 1986 Resource Plan do indeed occur, and we expect them to, the current system will once again assure that Nevada utilities will not have the flexibility to be in a competitive position in the capital markets. This type of system is indeed in need of repair. If this philosophy would have prevailed in the 1983 legislature I doubt the Resource Planning Act, SB161, would have been passed.

3. MYTH: THERE ARE MANY WAYS TO MEASURE UTILITY EARNINGS AND THEY ALL SHOW THAT NEVADA UTILITY SHAREHOLDERS HAVE ALWAYS DONE WELL.

- a) "....current stockholders of either of Nevada's major electric utilities achieved reasonable and significant returns on their investments." OCA Testimony, A.B. 564, 5/13/87.

I ask, "compared to what?," and "what is significant?."

I presume that this is based on certain holding periods as set forth in a report by the National Association of Regulatory Utility Commissioners (NARUC) entitled Electric Utility Shareholder Returns by Michael Foley. I am familiar with that report and would welcome the opportunity in a future procedure to rebutt that report.

- b) "For example if a person who invested \$1,000 in Nevada Power on July 1, 1983 would have made \$805 by January 1, 1987." S. Craigie, RJ, 5/14/87.

I can just as easily pick an arbitrary time period to show a negative return. For example, a person who invested \$1000 in Nevada Power Company on July 28, 1986, and sold on October 1, 1987 would have lost \$220 (23%), and this was during a time when the Dow Jones Industrial Average increased by 865 points (49%).

- c) "There are many ways to measure earnings." OCA Testimony, AB 564, 5/13/87.

From the utilities perspective there is only one way to measure earnings and that is net income available to common

stockholders, this is earnings after all expenses are met. Exhibit B of the white paper shows Nevada Power Company's dismal record of not meeting the authorized return levels set by the Commission.

4. MYTH: THE USE OF A FUTURE TEST YEAR WILL IMMEDIATELY INCREASE UTILITY RATES IN NEVADA.

- a) "Judging from newspaper reports that came out of last session (1985) when an attempt was made to pass a future test year bill, our utility rates could climb by \$200 a year for every customer." B. Miller, Testimony, 5/29/87.

I have looked and cannot find whom ever made this calculation and statement. I would like to review and challenge anyone to verify the calculation. This figure keeps getting repeated with no justification that I am aware of.

- b) "It would mean a dramatic and immediate increase in rates of the past." S. Craigie, Action Series, 8/2/87.

There is simply no proof to this statement. I believe that if you look at the recent past 1984-1987, you would have found that if a Future Test Year, with adjustment mechanisms, was in place rate decreases would have occurred. A review of the three major electric utilities in Wisconsin, which has the Future Test



Year with appropriate adjustment mechanisms, shows this to be true. The three major electric utilities in Wisconsin have had a total of six (6) general rate decreases totaling \$88.6 million since 1984.

5. MYTH: THE FUTURE TEST YEAR IS RELATED TO A STATE INCOME TAX.

- a) "I put a Future Test Year concept in the same category with proposals to implement a state income tax - both ideas are unpalatable to Nevadans." B. Miller, 5/29/87, Testimony.

There is no relationship between the Future Test Year and a State Income Tax. This statement is irrelevant and inaccurate.

6. MYTH: MOST NEVADA UTILITIES DO NOT SUPPORT THE FUTURE TEST YEAR.

- a) "...most Nevada utilities, including telephone companies, don't support using a future test year." LV Sun, 5/28/87.

There are two major electric utilities and one major gas utility in the State of Nevada and all three support the Future Test Year. The telephone industry is significantly different in many ways than the electric and gas industries. This is evidenced by the necessity of a separate regulation, G.O. 42 which allows the telephone companies to file an application, separate from a

general rate case, to adjust charges for access and rates for service necessary to offset the loss of settlement revenues from interstate and intrastate pools. I don't know if the two major telephone companies in Nevada support the Future Test Year or not, but whether they do or not is irrelevant to the need for the Future Test Year for the electric and gas industries.

7. MYTH: FUTURE TEST YEAR RATEMAKING IS UNRELIABLE BECAUSE IT INVOLVES LOOKING TO THE FUTURE.

- a) "...future test year method is guesswork...you get out your oujia board set rates."

B. Miller, S. Craigie, L.V. RJ, 5/14/87.

If you need a Ouija board to estimate expenses, sales and capital cost 12 months into the future, what kind of board is needed to make the guesses in the Resource Plan, SB161. The estimates of population growth, sales growth, load growth, inflation, revenue requirements, demand side reductions and supply side additions are made for a 20 year future period in the Resource Plan.

The Future Test Year involves reviewing budgets for a period into the future which is shorter than the period the PSC and OCA use in setting their budgets. The PSC and OCA budgets, presented before the Legislature, are based upon recent experience and estimates of future requirements and inflation. It is amazing how confident we can be, presumably, in certain types of futuristic projections and not so in others.

- b) "The data which the Future Test Year Methodology is based is so inherently unreliable and subject to individual interpretation..." OCA Testimony, AB564, 5/13/87.

The data is based upon budgeted levels of revenue, expense and capital costs, using current inflation estimates, 1-18 months into the future. This is significantly more relevant than historic data, easily audited and much less subjective than the inflation rates projected for a 20 year period in the resource planning process. Regulatory Commissions in twenty-two States now use the Future Test Year and apparently are confident with their interpretation of data provided by the utilities they regulate.

8. MYTH: THE USE OF A FUTURE TEST YEAR LEAVES NO INCENTIVE TO MANAGE EFFICIENTLY.

- a) "The future test year removes all incentives natural to other businesses which encourage a utility to "run a tight ship" OCA Testimony AB564 5/13/87.

Other businesses, not regulated, can change prices and inventories to respond to changes in the market place utilities cannot. Under the Future Test Year the utility must still control commission authorized expenses levels in order to earn its authorized return. Adjustment mechanisms involve fluctuating sales levels, inflation factors and capital costs, not expense levels.

9. MYTH: FUTURE TEST YEAR REGULATION IS DIFFICULT TO DO AND IS EXPENSIVE.

- a) "... Future Test Year Forecasts are very expensive and exceed the technical resources and expertise of the States utilities and resources of the OCA and Commission Staff" OCA Testimony AB564 5/13/87.

Nevada Power Company has the resources and expertise to budget expenses and revenues, we do it now. It is amazing that the Resource Plan forecasts for 20 years, and the OCA and PSC Staff have the technical expertise for that process and not this one.

- b) The OCA indicated in his testimony in AB564 that he would have to add 2 new position and \$55,000 for consultants and the PSC indicated it would need 7 new positions totaling over \$335,000 in order to handle Future Test Year ratemaking.

I find this incredible. All we are talking about is going from auditing historic records to budgeted records. We are simply changing one ratemaking methodology. We are not adding a new regulation like G.O.43 (Resource Planning). I find it interesting that the PSC must add 7 new positions to handle one change in accounting methodology when they were willing to regulate an entirely new and completely different industry, the hospitals, without adding any new staff. LV Sun 3/10/87 S. Craigie.

I have always felt that the Commission Staff, especially Audit and Economic, is very capable and can easily grasp the concept of a Future Test Year. To think otherwise, would not be giving a good staff credit for its expertise.

10. MYTH: THE FUTURE TEST YEAR IS OPERATED AT THE UTILITY'S DISCRETION.

AB564 (Future Test Year)... allows a utility the option to pick and choose data which will increase rates the most. OCA Testimony AB464 5/13/87.

This is simply not true and is a gross misstatement and hardly worthy of a public servant from Nevada. The utility files a rate case as it normally does, and all budgeted revenues, expenses and capital costs are subject to PSC and OCA audits as usual.

11. MYTH: CALIFORNIA AND OTHER STATES ARE ABANDONING THE FUTURE TEST YEAR.

- a) "Even the few states which currently use a future test year (such as California), are retreating from the concept. The revenue adjustment mechanism proposed in AB564 is similar to a California mechanism which is now being phased out." OCA Testimony AB564 5/13/87.

This again is a gross misrepresentation of the revenue mechanism in California.

I would like to give you a summary of what really happened in California with the revenue adjustment and why it happened.

On May 29, 1987 the California Public Utilities Commission issued an order in which it formulated transition procedures which eliminate the adjustment mechanisms applicable only to certain Large Light and Power customers. The purpose is to help combat bypass of the utility by customers in favor of certain self-generation by allowing the utility more flexibility in pricing electricity and allowing them to retain increased net revenues which normally would flow back directly to ratepayers.

The opinion and order affirmed the benefits of marginal cost pricing and made it clear that the revenue and inflation adjustment was to be eliminated for this one class of customer. It also stated that this class of customer has sales which are much less sensitive to weather than other classes such as residential.

Getting back to the myth that States are retreating from the use of the Future Test Year, there is simply no evidence that this is true of any of the 22 states that use it. My research does not indicate any State "retreating" from the concept. This is especially true in the three bell weather states of California, New York and Wisconsin.

There is certainly no question where the financial community stands on this issue. There is no retreat from their support of the Future Test Year. A recent rate case summary by Argus

Utility Regulatory Service, about Southwest Gas Corporation stated that while the ... "PSC decision was slightly positive, on balance, from an investor's viewpoint"... "the negatives are the use of the historic test year...". On the other side of the coin, in a recent review of Wisconsin Regulation, Argus stated, "while authorized return on equity levels have historically been below industry averages, ... the low return on equity levels have been partly made up for by the PSC's use of fully forecasted test year and the PSC's policy of deciding rate cases as close to the beginning of the test year as possible. These two factors combine to enable the utilities to have a fair chance of actually earning the authorized level during the first full year rates are in effect."

The support of the financial community is vital if the utilities in Nevada are to be competitive in the financial market place in the future.

In the 1987 Legislature, Nevada Power Company prepared a white paper for distribution entitled "Future Test Year Ratemaking". This paper more than adequately describes what Future Test Year ratemaking is and why it is so relevant and important. I have updated some of the exhibits from that paper to reflect more current data and would like to highlight some of the salient points in that paper.

The principle aim of regulation is for the regulatory commission to set a revenue requirement for the utility which will

provide that utility an opportunity to produce sufficient revenues to cover all operating expenses and provide a fair return to investors for the use of their funds. The regulatory commission determines the level of expenses charged to ratepayers and level of return authorized to investors based upon operations by the utility during a specific twelve month period.

In Nevada this determination is based upon a historic twelve month period as mandated in NRS 704.110.3. Since there is at least a six month delay in implementing new rates, this historic period may have little relationship to the period for which rates are to be in effect. As costs increase, the rate levels set by the Public Service Commission will be inadequate to cover costs incurred during the period when rates are in effect, and thus the authorized return level cannot usually be attained. This deficiency will lead to higher capital costs which must ultimately be recovered from utility customers. It simply does not make sense to set rates or prices of your product for 1988 or 1989 based upon cost levels experienced in 1987. No other type of business that I know can do this and survive.

What is needed in the utility regulatory environment in Nevada, in order to make our utilities competitive in the capital markets with most of the 105 other investor owned electric and combination utilities, is to make test year data more representative of the conditions which will most likely exist during the period when rates are in effect and allow adjustment mechanisms



which recognize realities of changes in the marketplace on a current basis. This is a Future Test Year concept and regulatory commissions in over 22 states are now using it. The use of a Future Test Year, with appropriate adjustment mechanisms, better recognizes the bottom line which is simply that yesterdays sales and costs will not match those during the period for which rates are set.

Just like with the use of a Historic Test Year the utility must still be held responsible for holding expenses to within levels last authorized by the regulatory commission if it is to earn its authorized return for its investors. There is no "guarantee of profit" as has been repeatedly misstated. The Future Test Year, simply, will improve the ability of the utility to earn its authorized return if its management controls expenses because current economic conditions are recognized when setting rate levels and market realities are recognized in a timely fashion with adjustment mechanisms.

The benefits to ratepayers are evident. The use of the Future Test Year, with appropriate adjustment mechanism, provides rate stability, reduces the chances of large rate increases (rate shock), and reduces the frequency of rate case filings.

The resource planning process in Nevada requires that the utility project 20 years into the future to estimate sales, load growth, effects of conservation, generation requirements and

financial requirements. It is totally inconsistent that the utility resource planning process requires looking 20 years into the future to establish credence yet the utility's revenue requirement determination and resultant rates are set for the future based on purely historic data.

Under any scenario, Nevada Power Company's approved 1986 Resource Plan clearly indicates that the Company will have to add about 4 billion dollars worth of plant additions in the next 20 years in order to keep up with the tremendous growth in demand for electricity in Southern Nevada. The most important point to be made in this presentation is that a Future Test Year must be in place to make Nevada Power Company competitive in the market place during this time period. Also, the Future Test Year must be in place to help Nevada's utilities avoid the serious financial conditions which occurred in the 1970's and early 1980's due to runaway inflation, skyrocketing capital costs and major construction requirements. The elimination of the restrictive language in NRS 704.110.3, which mandates a Historic Test Year would be a major step towards these two goals.

Finally, continuing to provide our customers' energy demands during the 20 year planning horizon will require regulatory practices which reflect the realities of providing service to a growing number of customers. Given the necessary supportive regulatory practices, the Company is confident in its ability to finance the resources necessary to provide the electricity needs of a growing Southern Nevada at the lowest possible cost.

**FUTURE**

**TEST**

**YEAR**

**RATEMAKING**



The principle aim of regulation is for the regulatory commission to set a revenue requirement for the utility which will produce sufficient revenues to cover all operating expenses and, in addition, provide a fair return to investors for the use of their funds. The regulatory commission determines the level of expenses charged to ratepayers and level of return authorized to investors based upon levels experienced by the utility during a specific twelve month period.

In Nevada this determination is based upon a historic twelve month period which may have little relationship to the period for which rates are to be in effect. If the rate level set by the commission to cover operating and financing costs is not adequate, the utility's investors will not earn their authorized rate of return. This is an extreme likelihood when historic test year data is used for rate making purposes.

Nevada Power Company supports the use of a future test year for the purpose of utility rate making. At least 20 regulatory jurisdictions allow some form of a future test year ratemaking concept (Exhibit A). The current historic test year concept of setting rates for a prospective time period which is based upon the operating and financing costs of a past period of time is simply inadequate. This fact is evidenced by the historic inability of Nevada utilities to earn their authorized rates of return. See Nevada Power Company's earned versus authorized returns (Exhibit B).

This inability to earn an authorized return is not because of poor management or because of a poor regulatory climate. The

reason is that a historic test year for ratemaking purposes can not overcome a phenomenon called attrition.

Attrition is the phenomenon of a utility's achieved earnings eroding over a period of time. The erosion in earnings occurs when a utility experiences changes in operating costs and revenues which are not recognized by regulation in a timely manner with changes in rates. Simply stated, rates are set on a periodic basis, while costs upon which those rates are based increase in nearly continuous fashion. Nevada has no mechanism in place to account for this problem.

There cannot be finger pointing as to the causes of attrition since most are out of control of both the utility and the regulatory commission; however, the solution is well within the authority of the legislature.

First, what are some of the causes of attrition for which there exists no specific offsetting regulatory treatment?

1. Ordinary growth in demand where the costs to serve the increment are greater than the average costs included in rates.
2. Inflation where operating costs already exceed the levels used to set rates by the time rates take effect.
3. New facilities which are added, are used and useful in generating electricity, but cannot be put into rates until several months after the facilities have already been providing electricity to ratepayers.
4. Securities issued at current costs which exceed the embedded costs for which rates are set.

5. Changes in the mix of debt to equity occur, cost changes occur, but those changes are not recognized in current rates.

Attrition does not necessarily deal with the increase in the costs associated with the five above mentioned areas, but rather with the cost increases which for at least some period of time are inadequately recognized in ratemaking. The enduring presence of this situation can contribute significantly to such long term problems as numerous rate increase requests, rate and revenue instability and reduced cash flows. These, in turn can produce delays in construction of generating facilities necessary in providing electric services. One only needs to look at Nevada Power Company's most recent 20 year Resource Plan to see that additional construction of generating facilities is critical in meeting the growing demand for electrical service in Southern Nevada (Exhibit C).

What is needed to reduce attrition? The simple answer is:

Make test year data more representative of the conditions which will most likely exist during the period when rates are in effect.

Specifically, this can be addressed by the use of a future test year rate making concept with appropriate adjustment mechanisms.

Typically, in a rate case, a test year approach is used under which data for the utility's operations for a twelve month period is used as the basis for analysis of the utility's revenue requirement or rates. This selection of which twelve month

period to use is critical in recognizing the reality of the cost of the utility's operations during the period when rates are to be in effect. In Nevada, utility rate proceedings are based on historic data pertaining to revenues and expenses, rather than on forward looking data supporting its revenue requirements for which it proposes future rates. It must base this request on historic data which has little relevance to the period for which the rates are to be in effect. As costs increase, the rate levels set will be inadequate to cover costs incurred during the period when rates are in effect, and thus the authorized return level can not usually be attained. This deficiency will lead to higher capital costs which must ultimately be recovered from utility customers.

Historic test year data functioned well during the 1950's and 1960's when inflation was low and economies of scale produced lower average costs as the utility's system grew. However, these conditions ended in the 1970's. Economies of scale disappeared, the Arab oil embargo began and inflation soared which escalated operating expenses and financing costs. While these conditions have gone through various levels of change they have not disappeared and show no signs of doing so in the future.

Under these conditions, the use of historic data for setting rates has become inadequate to provide the revenues necessary to cover the costs to serve. This inadequacy leads to weakened financial conditions which leads to higher capital costs which translates to higher utility bills in the long run. For rates to best reflect the cost of providing service during a specific



period, cost data for that period should be used. This can only be accomplished with a future test year. The use of a future test year concept better recognizes the bottom line which is simply that yesterdays sales and costs will not match those during the period for which rates are set. This simple reality has been partially recognized by at least 20 jurisdictions. California in particular has utilized a future test year for rate making purposes for a decade.

Appropriate adjustment mechanisms must also be implemented, such as those in place in California, which recognize the realities of changes in sales and capital structures and costs during the period when rates are to be in effect. For example, sales adjustment mechanisms recognize that sales volumes can not be predicted with perfect accuracy. The adjustment to sales will more fairly allow the utility the ability to recover its authorized margin, which is the difference between revenues and costs of the electricity sold. The utility must still be held responsible for holding cost (expense) levels to within that last authorized in order to earn its authorized return. This mechanism is thus not a guarantee of a rate of return, but it will simply improve the ability to earn the authorized return to a utility whose management can control its expenses. Those forces beyond the utility's control, such as fluctuating sales due to abnormal weather, are recognized and those items within the utility's control must be accounted for by the utility.

The concept of a future test year with adjustment provisions for utility rate making should not be interpreted as a

"guarantee" but an opportunity to earn an authorized return for its shareholders by recognizing the realities of the market place when determining rates. This reality goes a long way in providing the long run financial stability to the utility which is paramount in providing long term quality of service at a reasonable price to customers.

The benefits to ratepayers are evident. The use of the future test year concept with an appropriate adjustment mechanism provides rate stability, reduces the chances of large rate increases (rate shock), and reduces the frequency of rate case filings in periods of heavy construction.

Finally, in 1983, the Nevada Legislative passed Senate Bill 161, better known as the Resource Planning Act. The Resource Plan codified as PSCN General Order Number 43 is considered by some to be the most progressive resource planning act of its kind in the country. The Plan requires that the utility project 20 years into the future to estimate sales, growth, effects of conservation, generation requirements and financial requirements. After extensive hearings the Commission authorizes a plan.

It is totally inconsistent that the utility resource planning process requires looking 20 years into the future to establish credence yet the utility's revenue requirement determination and resultant rates are set for the future based on purely historic data. This inconsistency will make the financing of future resources virtually impossible. Under any scenario, Nevada Power Company's 1986 Resource Plan clearly indicates that the Company will have to add about 4 billion dollars

worth of plant additions in the next 20 years. The best of all assumptions including reduction of regulatory lag will make this effort difficult at best. Evidence of this was presented to the Commission in the 1986 Resource Plan hearings by Nevada Power Company's Manager of Financial Planning, Cynthia K. Gilliam. Ms. Gilliam said in her testimony ... Ratemaking practices such as projected future test year with revenue adjustment mechanisms, interim rate relief, and/or the inclusion of construction work in progress in the Company's rate base will need to be adopted if the Company's financial integrity is to be maintained. ... However, under current Nevada PSC regulatory practices, the lag in the recovery of operating expenses would be greater than zero because the increased expenses associated with the new plant would not be included in rates until after they had been experienced. ... Projected financial results would change significantly should these assumptions prove incorrect. For instance, a longer regulatory lag would necessitate greater external financing requirements since internal cash generation would be less without required and timely rate relief. The AFUDC percentages of common equity earnings would also increase. In addition, projected earned returns on rate base would all decline. Since the authorized rate of return is earned only in those years when regulatory lag is zero, any lag above zero clearly eliminates the possibility of the Company's earning the return authorized and based upon a historical test year. ... under current Nevada regulatory practices, it is clearly improbable that the Company will earn the authorized rate of return except

in years when the regulatory lag is zero. A regulatory lag that exceeds zero by even as little as one month would result in the Company's inability to earn whatever rate of return the PSC would authorize, based upon a historical test year. Finally in her summary of the Company's financial analyses Ms. Gilliam said, "Financial analyses of the Company's 1986 Resource Plan shows that NPC will face major financial challenges during the next twenty years as a direct result of inflation and the rate of load growth projected for the Company's service territory. Although many of the financial assumptions used in the planning models are very optimistic (100% rate relief granted on a timely basis, ability to raise unlimited capital on a regular basis, minimal lag times, etc.), the results still reflect a deterioration of the Company's financial integrity. Continuing to provide our customers' energy demands during the planning horizon will require regulatory practices which reflect the realities of providing service to a growing number of customers. Given the necessary supportive regulatory practices, the Company is confident in its ability to finance the resources necessary to provide the electricity needs of a growing Southern Nevada - at the lowest possible cost."

EXHIBIT A

REGULATORY JURISDICTIONS

WHICH ALLOW

FUTURE TEST YEAR

ARKANSAS	MICHIGAN
CALIFORNIA	MINNESOTA
COLORADO	MISSISSIPPI
DELAWARE (PARTIAL)	NEW JERSEY
FLORIDA (PARTIAL)	NEW YORK
GEORGIA	NORTH DAKOTA
HAWAII	OHIO (PARTIAL)
IDAHO (PARTIAL)	OREGON (PARTIAL)
ILLINOIS	PENNSYLVANIA (OPTIMAL)
MAINE	UTAH (PARTIAL)
MARYLAND	WISCONSIN

Sources: Argus, Regulatory Research Association, Salomon Brothers, NARUC Annual Report, Transcomm, Inc. Study for EEI, 1984.



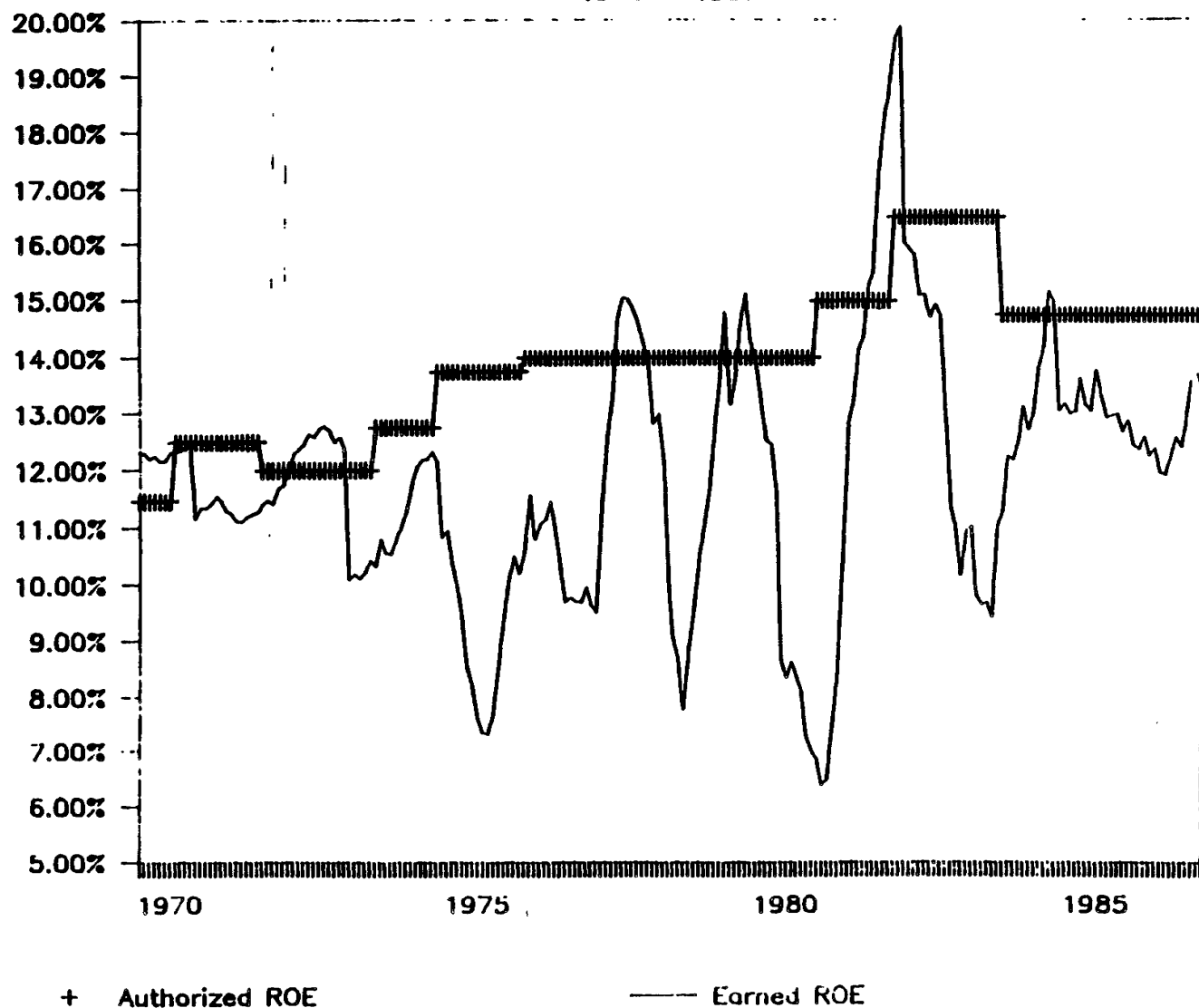
**NEVADA POWER COMPANY**  
**Earned and Authorized Returns on Common Equity**

Year	January	February	March	April	May	June	July	August	September	October	November	December
<b>1970</b>												
Earned	12.31%	12.28%	12.18%	12.26%	12.16%	12.17%	12.31%	12.32%	12.35%	12.41%	12.47%	11.15%
Authorized	11.47%	11.47%	11.47%	11.47%	11.47%	11.47%	11.47%	12.50%	12.50%	12.50%	12.50%	12.50%
<b>1971</b>												
Earned	11.36%	11.33%	11.42%	11.84%	11.46%	11.29%	11.23%	11.10%	11.09%	11.19%	11.23%	11.27%
Authorized	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%
<b>1972</b>												
Earned	11.40%	11.47%	11.41%	11.67%	11.74%	11.97%	12.26%	12.36%	12.45%	12.63%	12.58%	12.72%
Authorized	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
<b>1973</b>												
Earned	12.77%	12.69%	12.48%	12.58%	12.36%	10.08%	10.18%	10.10%	10.22%	10.42%	10.32%	10.80%
Authorized	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.75%	12.75%
<b>1974</b>												
Earned	10.85%	10.82%	10.79%	11.00%	11.27%	11.74%	12.04%	12.17%	12.16%	12.31%	12.14%	10.82%
Authorized	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	12.75%	13.75%	13.75%
<b>1975</b>												
Earned	10.94%	10.35%	9.94%	9.37%	8.83%	8.21%	7.63%	7.34%	7.32%	7.69%	8.54%	9.38%
Authorized	13.75%	13.75%	13.75%	13.75%	13.75%	13.75%	13.75%	13.75%	13.75%	13.75%	13.75%	13.75%
<b>1976</b>												
Earned	10.08%	10.80%	10.19%	10.60%	11.56%	10.78%	11.05%	11.14%	11.44%	10.97%	10.28%	9.69%
Authorized	13.75%	13.75%	13.75%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
<b>1977</b>												
Earned	9.77%	9.69%	9.68%	9.96%	9.64%	9.51%	11.47%	12.59%	13.30%	14.69%	15.05%	15.01%
Authorized	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
<b>1978</b>												
Earned	14.67%	14.62%	14.29%	13.91%	12.80%	12.96%	12.13%	10.08%	9.08%	8.63%	7.79%	8.89%
Authorized	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
<b>1979</b>												
Earned	9.88%	10.87%	11.12%	11.76%	12.76%	13.66%	14.79%	13.14%	13.66%	14.65%	15.12%	14.27%
Authorized	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
<b>1980</b>												
Earned	14.00%	13.25%	12.49%	12.42%	11.52%	8.64%	8.33%	8.61%	8.37%	8.10%	7.27%	7.00%
Authorized	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%	14.00%
<b>1981</b>												
Earned	6.84%	6.36%	6.48%	7.39%	8.38%	10.86%	12.82%	13.27%	14.13%	14.39%	15.25%	15.52%
Authorized	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
<b>1982</b>												
Earned	17.35%	16.28%	16.95%	16.69%	16.89%	16.03%	16.90%	16.81%	16.09%	15.11%	14.71%	14.95%
Authorized	15.00%	15.00%	15.00%	15.00%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%
<b>1983</b>												
Earned	14.74%	12.98%	11.30%	10.95%	10.14%	10.92%	11.01%	9.79%	9.62%	9.67%	9.40%	11.00%
Authorized	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%	15.50%
<b>1984</b>												
Earned	11.26%	12.22%	12.13%	12.48%	13.12%	12.68%	13.00%	13.80%	14.20%	15.17%	14.97%	13.01%
Authorized	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%
<b>1985</b>												
Earned	13.17%	12.86%	13.01%	13.64%	13.13%	13.02%	13.79%	13.29%	12.69%	12.94%	12.97%	12.64%
Authorized	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%
<b>1986</b>												
Earned	12.87%	12.41%	12.32%	12.58%	12.21%	12.36%	11.92%	11.88%	12.21%	12.56%	12.36%	12.98%
Authorized	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%	14.75%
<b>1987</b>												
Earned	13.71%	13.70%	13.41%									
Authorized	14.75%	14.75%	14.75%									

EXHIBIT B

# Authorized vs Earned Returns on Equity

1970 - 1987





**NEVADA POWER COMPANY**  
**LOADS AND RESOURCES - MEGAWATTS 1986 THROUGH 2015**  
Base Load Forecast: No Winter

Table 4.12.C.20

RESOURCE	TYPE	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
1. Hoover1	Hydro (P)	100	146	203	233	226	211	222	240	237	235	235	235	235	235	235	235	235	235	235	235
2. Montalvo	Oil (P)	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30	30
3. Clark 1	Gas (I)	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
4. Clark 2	Gas (I)	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66	66
5. Clark 3	Gas (I)	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67	67
6. Clark 4	Gas (P)	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50	50
7. Sunrise 1	Gas (I)	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80	80
8. Sunrise 2	Gas (P)	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69	69
9. Gardner 1	Coal (B)	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110
10. Gardner 2	Coal (B)	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110
11. Mohave 1	Coal (B)	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111
12. Mohave 2	Coal (B)	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111	111
13. Navajo 1	Coal (B)	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85
14. Navajo 2	Coal (B)	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85
15. Navajo 3	Coal (B)	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85	85
16. Gardner 3	Coal (B)	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110	110
17. Clark 5	Gas (P)	70	70	70	70	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
18. Clark 6	Gas (P)	70	70	70	70	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
19. Clark 7	Gas (P)	70	70	70	70	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
20. Clark 8	Gas (P)	70	70	70	70	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
21. Gardner 4	Coal (B)	24	24	24	24	24	24	24	24	24	24	24	24	38	51	92	105	119	132	132	132
22. Gardner 4	Purch (P)	226	226	226	226	226	226	226	226	226	226	226	226	212	199	158	145	131	118	118	118
23. CC 1	Gas (I)					210															
24. CC 2	Gas (I)						210	210	210	210	210	210	210	210	210	210	210	210	210	210	210
25. CT 1	Oil (P)								70	70	70	70	70	70	70	70	70	70	70	70	70
26. CT 2	Oil (P)									70	70	70	70	70	70	70	70	70	70	70	70
27. Allen 1	Coal (B)										125	125	125	125	125	125	125	125	125	125	125
28. Allen 2	Coal (B)												125	125	125	125	125	125	125	125	125
29. Allen 3	Coal (B)														125	125	125	125	125	125	125
30. Allen 4	Coal (B)																125	125	125	125	125
31. WPPP 1	Coal (B)																		112	112	112
32. WPPP 2	Coal (B)																			113	113
33. Indefinite Resources		89	1003	106	1293	1233	150	201	186	176	120	191	121	177	110	169	104	174	134	96	171
34. Total Resources		1930	1987	2050	2103	2160	2242	2304	2367	2434	2501	2572	2627	2683	2741	2810	2860	2930	3002	3077	3152
35. Peak Load		1609	1658	1708	1760	1813	1868	1920	1973	2028	2084	2143	2189	2236	2284	2333	2383	2442	2502	2564	2627
36. Required Reserves2		322	332	342	352	363	374	384	395	406	417	429	438	447	457	467	477	488	500	513	525
37. Required Resources		1930	1990	2050	2112	2176	2242	2304	2367	2434	2501	2572	2627	2683	2741	2800	2860	2930	3002	3077	3152
38. Base Coal Capacity		831	831	831	831	831	831	831	831	831	956	956	1061	1095	1232	1267	1385	1399	1524	1631	1664

1/ Present Hoover contracts expire in 1987. Renewal of present capacity plus estimated additional Hoover capacity for 1987 and beyond is shown.

2/ Required Reserves = 20% of peak load.

3/ Limited by system transfer capability.

EXHIBIT C

... NEVADA POWER COMPANY

1986 RESOURCE PLAN

PLANT ADDITIONS

1986 - 2005

<u>UNIT</u>	<u>YEAR</u>	<u>SIZE</u>
COMBINED CYCLE #1	1990	70 MW
COMBINED CYCLE #2	1991	70 MW
COMBUSTION TURBINE #1	1993	70 MW
COMBUSTION TURBINE #2	1994	70 MW
HARRY ALLEN #1	1995	125 MW
HARRY ALLEN #2	1997	125 MW
HARRY ALLEN #3	1999	125 MW
HARRY ALLEN #4	2001	125 MW
WHITE PINE #1	2003	112 MW
WHITE PINE #2	2004	113 MW

January 12, 1988

James D. Salo  
Senior Attorney  
Sierra Pacific Power Company  
P.O. Box 10100  
Reno, NV 89520  
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**BEFORE THE LEGISLATIVE COMMISSION'S SUBCOMMITTEE  
TO STUDY THE FEASIBILITY AND DESIRABILITY  
OF BASING PUBLIC UTILITIES' RATES UPON  
ESTIMATES OF ANTICIPATED COSTS AND  
REVENUES (S.C.R. 44)**

**Comments of James D. Salo on Behalf of  
Sierra Pacific Power Company**

Chairman and Members of the Subcommittee:

I am James D. Salo, Senior Attorney for Sierra Pacific Power Company of Reno, Nevada. I appear today on behalf of Sierra Pacific to offer abbreviated comments in support of the utility ratemaking methodology generally described as Future Test Year Ratemaking. My comments today are brief because other witnesses have already admirably described and supported the reasonableness and desirability of Future Test Year Ratemaking and we have no desire to unnecessarily usurp the valuable time of the members of this Committee and others present today.

Sierra Pacific believes that Future Test Year Ratemaking should be allowed at the option of the utility once the Commission has drafted appropriate regulations to establish procedural guidelines and safeguards. To be most effective and useful in the furtherance of the long term best interests

energy utilities in that state on a tri-annual basis with only revenue or attrition adjustments during the intervening biennium.

In conclusion, Sierra Pacific believes, based upon its experience under both Historic and Future Test Year Ratemaking, that a fairly implemented and administered Future Test Year Ratemaking procedure coupled with revenue and attrition adjustments most accurately ties approved rates to the costs actually being incurred by the affected utility thereby enhancing the long term interests of all interested parties. We support an effort to allow Future Test Year Ratemaking as a permissible methodology for the establishment of just and reasonable utility rates.

Thank you for the opportunity to appear today.

POSITION OF SOUTHWEST GAS CORPORATION  
REGARDING FUTURE TEST YEAR LEGISLATION IN NEVADA

Southwest Gas Corporation is a natural gas utility company whose utility services are regulated by the Federal Energy Regulatory Commission and the state regulatory commissions of Arizona, California and Nevada. As such, Southwest has experience with a wide range of regulatory practices governing the preparation of general rate case applications.

A test year is the basis for a general rate case application. There are two basic types of test years in use: an historical test year, such as the method used in Nevada and a future test year, such as the method used in California.

Based on Southwest's experience with the two basic types of test years, Southwest supports the use of a future test year because it more accurately matches the company's costs during the period of time that rates are in effect.

Under an historical test year concept, a company receives revenues to recover costs only after the costs have been experienced. Simply put, today's rates are based on yesterday's costs. During inflationary times, today's costs exceed yesterday's costs and are almost always less than tomorrow's costs. Thus, rates become deficient almost as soon as they are set and the utility must file another rate case within a short time.

A future test year attempts to account for inflation and the resulting higher utility costs. It is very similar to preparing a budget for the coming year. If the company is able to keep expenses within budgeted amounts, it is reasonably assured of earning the rate of return authorized by the commission. Southwest has found that a future test year will result in a reduction in the frequency of the number of general rate case applications and will tend to provide more stable rates and better rate continuity for the customer.

A future test year is not a panacea. The most difficult and controversial problem in utilizing a future test year for ratemaking purposes is the setting of projected sales volumes. Both supply and weather conditions can dramatically affect the level of sales. Because of the difficulty in projecting sales volumes with reasonable accuracy, the commission in California established a margin tracking mechanism in 1978 to function in conjunction with the future test year concept. This mechanism eliminates the controversy over what the proper sales level is upon which to set rates in a general rate case application, because differences between projected levels and actual results are accounted for and subsequently collected or returned to the customers.

In summary, Southwest supports the use of a future test year for setting natural gas rates in the state of Nevada, but only with the inclusion of a margin tracking mechanism. Without such a mechanism, Southwest believes that future test year legislation would result in a step backward, rather than forward, toward enlightened utility regulation.



**APPENDIX C**

**PRESENTATION BY THE PUBLIC SERVICE  
COMMISSION OF NEVADA**





PUBLIC SERVICE COMMISSION OF NEVADA

OVERVIEW OF THE CURRENT BALANCE IN  
NEVADA RATEMAKING PRACTICES

BEFORE

THE LEGISLATIVE COMMISSION'S SUBCOMMITTEE  
TO STUDY THE FEASIBILITY AND DESIRABILITY  
OF BASING PUBLIC UTILITIES' RATES UPON  
ESTIMATES OF ANTICIPATED COSTS AND REVENUES

MICHAEL A. PITLOCK, COMMISSIONER

Mr. Chairman, members of the Committee. My name is Michael Pitlock, Commissioner with the Nevada Public Service Commission and former Director of Regulatory Operations for the Nevada Public Service Commission. I have been involved in public utility regulation in Nevada since 1979, and prior to that I practiced as a Certified Public Accountant.

Historically, the utility industry has testified that the current regulatory scheme in Nevada is biased against them. However, I will demonstrate that much of the current regulatory practices in Nevada are favorable to the utilities. There are many theories of utility regulation with "gives and takes" which historically have worked to reach a balance of all the competing interests. Over the years the Nevada regulatory scheme has evolved into a balanced set of rules, regulations and statutes which are fair and reasonable to all parties.

Nevada has been described as a historical test year state. I view Nevada to be more of a current test year state. Because much of a utility's cost of operations are either collected on a guaranteed dollar for dollar basis or collected well in advance of the actual expenditure by the utility.

For example, take the two major electric utilities in the State: Nevada Power and Sierra Pacific. The combined total cost of fuel and purchased power for these utilities is about \$233,000,000 per year. This is collected from rate payers on a guaranteed dollar for dollar basis. This component of cost represents about 32% of these companies' total cost of operation. They also collect about \$4,000,000 per year in resource planning costs on a guaranteed dollar for dollar basis.

On the other hand, the natural gas utilities picture is even brighter. More than 50% of their total cost of operations is recovered on a guaranteed dollar for dollar basis.

Further, the utilities are allowed to recover interest on the above mentioned costs if there even is a slight delay in the recovery of those costs.

Federal income taxes are another example of the costs collected in advance of the actual expenditure being made. The federal government requires state regulations to allow public utilities to collect future taxes from its rate payers. A substantial portion of federal income taxes are collected as much as 15 to 20 years before they are paid to the Internal Revenue Service. The reality of this situation is that rate payers are being forced to make hundreds of millions of dollars in interest free loans to utilities under the guise of future tax expense. To date the three largest energy utilities in the state, Sierra Pacific Power, Nevada Power and Southwest Gas, have collected about \$300,000,000 dollars in future federal income taxes. Much of this \$300,000,000 is customer money which will not be paid to the IRS for ten to 20 years. Some of the \$300,000,000 will never be paid to the Internal Revenue Service.

Another significant portion of a utilities' total cost is the profit and associated tax the utilities are authorized to earn on their investments in utility plant. The profit and associated tax must be considered together because the profit of the company is subject to federal income tax. Because of taxes, before the company may earn a dollar of profit it must collect about \$1.50 from its rate payers. Based on current financial data, the portion of the utilities' cost ranges from approximately 13% of total cost for Southwest Gas, to approximately 35% of total cost for Sierra Pacific. One of the main factors in determining the level of this cost in a rate case is the overall rate of return or profit level authorized by the Commission. Even under current law, the Commission considers several forward looking factors in its determination of authorized profit levels. For example, projections of future

OVERVIEW  
February 29, 1988  
Page -3-

growth and anticipated levels of inflation all go into the development of the authorized profit.

The remaining costs of a utility are recovered from rate payers based on historical levels. The use of the term "historical" may make you believe that we are addressing the level of costs experienced years in the past. On page 14 of the testimony given by Steve Rigazio of Nevada Power that you heard on January 12th, 1988, he states, "Since there is at least a six month delay in implementing new rates, this historic period may have little relationship to the period for which rates are to be in effect." In reality the cost levels are experienced as early as four months prior to a change in rates. A utility can update its case for an increase in expense levels and increases in plant up to 90 days before a change in rates. If we assume 30 days to prepare this certification filing there would be only a 120 day delay in the recovery of costs.

Also a utility does not have to experience an entire year's worth of a cost in order to recover the amount from its rate payer. For example, when an item of plant is placed in service on the last day of the certification period, the rate payers have gotten the benefit of the use of that plant for one day in the test period, but will be asked to pay a whole year's depreciation expense, a whole year's worth of return and future federal income taxes associated with that plant which won't be paid by the utility for almost 20 years. Another example is salaries; a utility can grant all of its employees a pay raise on the last day of the certification period and by experiencing only one day's increased payroll in the test year be entitled to recover an entire year's worth of increase from its customers.

The typical general rate case takes six months to complete from the day of filing to the day the Commission reaches a decision. The utility must base

OVERVIEW  
February 29, 1988  
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its request for a rate increase on the most recent 12 month period for which data is available at the time of preparing the case. The utility is then allowed in a subsequent filing to update some of the information up to six months after the end of the initial test period. A case in point is the pending Sierra Pacific rate cases for its gas and water operations. Sierra is based on an August, 1987 test year, which the company has updated to December 31, 1987 information even though by law they could update the case to January 31, 1988. Further, in the last eight major rate cases since July, 1983 only twice did the filing utility take advantage of the entire six months certification period available to them under current law. The timing of any rate case is at the discretion of the utility. The more efficient a company is in preparing a rate case the less the regulatory lag. Many adjustments are made to the historical data. For example, in Sierra Pacific's pending rate case in its gas operations, the company proposes 38 different adjustments to the recorded revenue, expense and investment.

In summary, Nevada is not strictly an historical test year state. Our current regulatory framework allows for many adjustments to historic data. The guaranteed recovery mechanisms, forward looking adjustments for federal income taxes, help make the historical data reflect current situations.

Regulation is a balancing act. Our job as regulators, just as yours as legislators, is to balance the interests of all parties involved. I believe our current system has struck that balance and I see no need for change.

Thank you, I will be happy to answer any questions you may have.



## FUTURE TEST YEAR

Good morning Mr. Chairman and other distinguished members of the SCR 44 subcommittee. My name is Tom Stephens and I have been a Nevada Public Service Commissioner for the past three and a half years. I want to thank you for the opportunity to share my views on use of a future test year for utility ratemaking.

One argument in support of using a future test year is that Nevada's use of a current test year, based on known and measurable data, is somehow "unfair." In our country, the final arbitrator of fairness is the court system. If statutes and regulations are unfair, the courts will step in to invalidate them. For example, there is a series of court decisions which require that utility companies be given the opportunity to earn the same rates of return on their investment as if they were unregulated companies in private industry. The courts have reviewed, analyzed, and ruled on Nevada's current test year and have never taken exception to its use. Nevada's current test year is a fair method of establishing revenue requirements.

Regulation is a substitution for competition. The forces at work in the free market which balance the interests of buyer and seller are not present in the relationship of ratepayer and utility company. Utility companies may be private enterprise but they are not free enterprise. A utility company has been given a monopoly franchise for an essential service and the Public Service Commission has been charged with the responsibility of overseeing that monopoly franchise.

When true competition enters the picture, regulation has been relaxed. In the telephone industry you now have a choice of long distance carriers. You now buy your own telephone instead of having to rent it from the local telephone company. The Public Service Commission supported SB387 passed by the 1985 Legislature which allowed us to further detariff and deregulate a variety of other telecommunications services for which true competition exists. The Public Service Commission also supported AB491 which has allowed Southwest Gas and Sierra Pacific to write competitive gas supply contracts with large users who can switch to fuel oil. We have also approved wide latitude in the setting of gas transportation rates to allow large customers the alternative of purchasing their own natural gas on the spot market. However, most of Nevada's essential electric, gas, and water service is still a monopoly. Short of government ownership, no acceptable substitute has yet been found for regulation.

Now getting back to the subject at hand. The utility companies claim that without a future test year, their financial health is threatened by the potential recurrence of past inflation. In their view, this potential harm can only be mitigated by allowing rates to be raised for the effects of inflation prior to that inflation taking place. Let's look and see what happened to these companies in the inflationary periods of the past two decades. Table 1 compares inflation to earnings on book value for the Dow Jones Industrial companies and the Big 3 Nevada Energy Utilities.



TABLE 1  
Earnings on Book Value Dow Jones Industrial Companies vs  
Nevada Utilities

	CPI Inflation	DJI % Earned on Book Value	NPC % Earned on Book Value	SPPCo. % Earned on Book Value	SWG % Earned on Book Value
1972	3.3	10.4	12.8	10.9	11.0
1973	6.2	12.5	11.6	10.7	10.9 Oil Embargo 10/73
1974	11.0	13.3	11.0	11.5	9.8
1975	9.2	9.7	9.5	8.5	11.6
1976	5.7	12.1	10.5	12.1	8.3
1977	6.5	10.6	15.2	12.9	13.8
1978	7.6	12.7	9.9	12.1	10.6
1979	11.3	14.5	15.8	12.4	14.2 Iran Revolution 1/79
1980	13.5	13.1	7.5	10.2	8.6 Gulf War 9/80
1981	10.4	11.6	15.7	10.2	9.0
1982	6.2	7.0	15.7	12.1	14.6
1983	3.2	9.6	11.5	11.2	13.4
1984	4.3	13.1	13.3	13.9	15.1
1985	3.6	11.2	12.9	12.2	15.4
1986	1.9	11.5	13.1	10.8	10.3
1987	3.8E	13.0E	14.3E	11.7E	11.2E
16/yr avg	6.7	11.6	12.5	11.5	11.7

Source: Value Line

It does not appear to me that past inflation has affected Nevada's utility companies any worse than the American industry as a whole. In fact, Nevada's regulated utilities have done just as well as American's premier industrial companies. At least as far as earnings are concerned, Nevada regulation appears to have been a good substitute for competition. For the past 16 years the Big 3 Nevada energy utilities have earned an average of 11.9% on book value as compared to 11.6% earned by the Dow Jones Industrial companies. In 1986, the Big 3 averaged 11.4% compared to 11.5% for the DJI. The jury is still out on 1987 but we expect the Big 3 did very well. You might want to ask them about their 1987 earnings.

Let's next take a look at how ratemaking is accomplished. Ratemaking is much more complicated than the following explanation and if you'd like me to go into more depth I'd be happy to do so. The following formulas provide a simplified view of how rates are set:

$$\text{RATES} = \text{O\&M EXPENSES} + \text{DEPRECIATION} + \text{TAXES} + \text{RETURN ON RATE BASE}$$

$$\text{RETURN ON RATE BASE} = (\text{RATE OF RETURN}) \times (\text{RATE BASE})$$

$$\text{RATE BASE} = \text{COST OF UTILITY PLANT} + \text{MATERIAL INVENTORY} + \text{WORKING CAPITAL} - \\ \text{ACCUMULATED DEPRECIATION} - \text{CONTRIBUTIONS FROM CUSTOMERS}$$

$$\text{RATE OF RETURN} = \frac{(\text{Interest on Debt} + \text{Profit})}{(\text{Debt} + \text{Equity})}$$

$$\text{PROFIT} = (\% \text{ RETURN ON EQUITY}) \times (\text{EQUITY})$$

Notes:

- (1) Rate of Return is sometimes called the Cost of Capital.
- (2) Profit is the return on investment. The percentage return on investment is usually referred to as Return on Equity or ROE.
- (3) The largest item of Operation and Maintenance Expenses is the cost of fuel which in Nevada is recovered dollar for dollar through the utilization of a balancing account and a rate surcharge/credit mechanism.
- (4) Cost of Utility Plant includes interest on financing which is accumulated utilizing an "Allowance for Funds Used During Construction" (AFUDC). Another method for paying for construction financing costs is to put these costs in current rates during the construction period. This charge is known as "Construction Work In Progress" (CWIP). The difference between the AFUDC and CWIP treatment of construction financing is the cash flow. Generally, in Nevada CWIP, is not utilized unless a utility has trouble financing construction. For example, a variation of CWIP in the form of a surcharge is allowed for small water company improvements.

Calculation of the return on equity is one of the most important items in a general rate case. This is the profit level the utility is given the opportunity to achieve. A series of expert witnesses utilize numerous methodologies to determine what they consider to be a fair and reasonable return on equity. Many of these methodologies are forward looking based on such items as expected dividend or earnings growth. The return on equities most recently set for Nevada's major energy utilities are as follows:

<u>UTILITY</u>	<u>ROE</u>	<u>DATE OF O&amp;O</u>
NV Power	<u>14.75%</u>	<u>12/20/83</u>
SPPCo.	<u>14.3%</u>	<u>10/28/85</u>
SWG(North)	<u>16.0%</u>	<u>11/30/82</u>
SWG(South)	<u>15.2%</u>	<u>4/ 9/84</u>

That's how rates are set. If you want to find out how much profit the company actually made in a given year, the actual or achieved return on equity is calculated as follows:

$$\% \text{ RETURN ON EQUITY} = \frac{\text{NET OPERATING INCOME} - \text{INTEREST ON DEBT}}{\text{EQUITY}}$$

$$\text{NET OPERATING INCOME} = \text{OPERATING REVENUES} - \text{O\&M EXPENSES} - \\ \text{DEPRECIATION} - \text{TAXES}$$

Achieved returns rarely reach the level of authorized returns except in Wisconsin which our Nevada companies point to as being the epitome of an enlightened regulatory atmosphere. Table 2 compares Nevada Power and Sierra Pacific with the Wisconsin electric utilities and the national average.

TABLE 2 - Authorized vs. Achieved ROE

ELECTRIC INDUSTRY			NEVADA				WISCONSIN					
Year			NPC		SPPCo.		WI Energy		WI P&L		WIPS	
	AUTH	ACH	AUTH	ACH	AUTH	ACH	AUTH	ACH	AUTH	ACH	AUTH	ACH
1981	15.22	12.50	15.0+	15.7	15.0	9.6	14.75	14.0	14.75	14.0	15.0	13.2
1982	15.78	13.30	16.5	16.3	16.6	10.8	14.75	15.0	14.75	15.1	15.0	13.0
1983	15.36	14.60	14.75+	11.1	15.5	11.0	14.75	15.5	14.75	15.9	15.0	15.2
1984	15.32	14.60	14.75	13.1	15.0	12.6	14.75	16.3	14.75	15.5	14.75+	15.7
1985	15.20	14.30	14.75	12.7	14.3+	12.0	14.5	16.1	14.5	15.4	14.75	15.5
1986	13.93	13.70	14.75	13.0	14.3	10.4	13.0	14.9	13.5	14.8	12.9+	13.6
1987			14.75	14.0E	14.3	11.5E	13.0	15.0E	13.0	14.0E	12.9	13.5E
1981-86 Avg	15.1	13.8	15.1	13.7	15.1	11.1	14.4	15.2	14.5	15.1	14.6	14.4
Difference	1.3%		1.4%		4.0%		0.8%		0.6%		0.2%	

Source: Regulatory Research Associates & Value Line

Nevada Power was about average compared to the national norm. Sierra Pacific Power was significantly lower than the average. Perhaps Sierra Pacific Power's lower performance, as compared to Nevada Power, is at least partly related to their gas and water operations.

Even though Nevada's energy utilities do not usually achieve their authorized return on equity, as previously stated, there is nothing unfair about Nevada's ratemaking methods. Nevada Power has demonstrated that Nevada energy utilities can achieve their authorized returns on equity. In fact at your hearing in Las Vegas, Nevada Power President Chuck Lenzie said, "Obviously we don't need a future test year at this point." Maybe if the Big 3 had had a future test year they would not only achieved their authorized returns but actually exceed them as the Wisconsin companies are doing. But excess profits should not ever be the goal of regulatory action.

What kind of rate increases would have been required for Nevada Power and Sierra Pacific Power to have achieved their authorized return each year throughout the 1981-86 period? A ball park estimate is that Nevada Power would have had to collect \$6 million more annually and Sierra Pacific Power would have needed about \$13 million more a year.

For the six years 1981-1986, these two utilities would have had to collect as much as \$100 million more than they did in order to achieve their authorized rates of return. To have guaranteed this profit level, rates would have had to have been \$100 million higher. No wonder they want a future test year. Do the people of Nevada really want to support their utility companies at the same high level those in Wisconsin have evidently become accustomed to?

Notes:

- (1) The achieved rate of return on rate base for Nevada Power, with a 47% common equity ratio would have had to have been 0.66 percentage points higher in 1981-86 for the return on equity to have been 1.4 percentage points higher. With a rate base of \$603 million as of 1983, rates would have to have been \$6 million a year higher to have achieved this improvement in earnings. ( $0.66\% \times \$608 \times 1.5$ )
- (2) For Sierra Pacific Power, with a 41% common equity ration, the rate of return on rate base would have to have been 1.65 percentage points higher to increase the return on equity by 4.0 percentage points in the 1981-86 period. With a rate base of \$532 million as of 1985, rates would have to have been increased by \$13 million a year to achieve this improvement in earnings. ( $1.64\% \times \$532 \text{ M} \times 1.5$ )

I do not believe we on the Nevada Commission should somehow be considered anti-utility because we opposed granting already healthy utility companies rate increases which could exceed \$23 million a year (including Southwest Gas). Our track record demonstrates that the Nevada Commission has achieved a balanced regulatory approach to the interests of the utilities and the ratepayers. Regulatory rating agencies agree. As demonstrated by the following tables, the major rating agencies rate Nevada regulatory climate in the middle.

TABLE 3 Ratings of Regulatory Climate by Investment Community		
<u>Regulatory Research Associates</u>	<u>Merrill Lynch</u>	<u>Salomon Bros.</u>
Above Average 2 5(CA,WI)	Highest 1	B 2(WI)
Above Average 3 6(OR,WA)	Above Avg +	B 5(CA)
Average 1 8(UT)	Above Avg 3 (WI)	C+ 10(OR,UT,WA)
Average 2 7(NV,NM)	Above Avg - 2	C 8(NV)
Average 3 12(AZ,CO,ID)	Average + 3	C- 16(AZ,CO,MT,NM,WY)
Below Avg 1 6	Average x 13(CA)	D+ 3(ID)
2 5(MT,WY)	Average - 5(NV,UT,WA)	D 3
3 1(LA)	Below Avg + 8(CO,NM,OR)	E 2(LA)
50	Below Avg 5(AZ)	Total 48
(NV:20th to 26th)	Below Avg 5(ID)	(NV:18th to 26th)
	Lowest + -	
	Lowest 4(MT,WY)	
	Lowest - 1(LA)	
	50	
	(NV:23rd to 27th)	

#### VALUE LINE

Above Average	4 (FERC, WI, NM)
Average	35 (AZ,CA,CO,ID,MT,NV,OR,UT,WA, WY)
Below Average	10 (LA)

#### NOTE:

A. G. Edwards also provides ratings but is not considered a major rater of regulatory climate. Because their ratings are generally low, they are, however, often quoted by the utility industry. A. G. Edwards rates the regulatory climate by company rather than by state so it is difficult to determine what rating they give to states who are served by multi-state companies. Of 94 rated companies, none were designated as having "A" regulatory climates and only 17 were given "B" regulatory climates (14 of these 17 "B" companies were in just four states: FL, IL, IN, & WI). A review of A. G. Edwards' ratings is as follows:

<u>Rating</u>	<u>% of Companies in Category</u>
A --	0%
B WI	18%
C NM,OR,UT	34%
D AZ,CA,CO,NV,WA	43%
E ID,MT,LA	5%

Curiously, Southwest Gas Corporation has stated it supports a future test year only if it has a margin tracking mechanism. This would guarantee the return on equity. If customers conserve energy in response to the rate increase that a future test year would cause, the so called margin tracking mechanism would trigger an additional rate surcharge to make up for the reduced sales. This is like wanting a Wisconsin Christmas tree only if it comes fully decorated.

In closing, I would like to say I do not blame the energy utility companies for trying to get legislation passed to maximize their profits. I just don't believe it is in the public interest. However, you the Legislature make the final determination and if you pass such legislation into law, I will implement it in accordance with your intent.

Thank you for your consideration. I welcome any questions you may have.

Prepared for presentation on  
February 29, 1988





PERCENT OF TOTAL OUTSTANDING COMMON STOCK  
HELD BY INSTITUTIONAL INVESTORS

<u>Date</u>	<u>Company</u>	<u>Outstanding</u>	<u>Number of Shares Held By Institutional Investors</u>	<u>Percent of Total</u>
2 qtr 87	Nevada Power	26,197,897	3,738,000	14.27%
2 qtr 87	Sierra Pacific	20,870,566	2,619,000	12.55%
3 qtr 87	Southwest Gas	18,121,308	4,917,000	27.13%
2 qtr 87	Wisconsin Pub. Svc.	23,200,552	2,972,000	12.81%
2 qtr 87	Wisconsin P&L	13,236,601	1,991,000	15.04%
2 qtr 87	Wisconsin Energy	66,578,654	24,359,000	36.59%
2 qtr 87	Idaho Power	33,977,000	8,271,000	24.34%
2 qtr 87	Montana Power	23,549,769	10,781,000	45.78%
2 qtr 87	Utah P&L	58,953,462	9,053,000	15.36%
2 qtr 87	Pacificorp	69,402,868	21,214,000	30.57%
2 qtr 87	Pacific Gas & Elec.	379,719,905	124,626,000	32.82%
<hr/>				
3 qtr 87	General Motors	316,483,758	128,352,000	40.56%

SOURCE = Value Line Investors Service



If you had invested \$1,000 in each company on July 1, 1983...

	<u>N P C</u>	<u>S P P C O</u>	<u>S W G</u>
SHARES PURCHASED	36	70	95
DIVIDENDS RECEIVED	\$448.56	\$501.90	\$518.70
CAPITAL GAINS	\$377.00*	\$513.75	\$935.63
...On New Year's Day 1988 your gain would have been:	\$825.56*	\$1,015.65	\$1,454.33
FOR AN ANNUALIZED RETURN OF	18.3 percent*	22.6 percent	32.3 percent*

Source: ValueLine Investors Service

\* Reflects two for one stock split  
during November, 1986.

**Stock Purchase and Return Analysis**  
**For the Period 7-1-83 Through 12-31-85**

**Assumptions**

- A) \$1,000 invested in each Company on 7-1-83
- B) Two and one-half years of dividends received by shareholders

	<u>NPC</u>	<u>SPPCO</u>	<u>SWG</u>
1) Total Shares Purchased	36	70	95
2) Total Dividends Received (thru 12-31-85)	\$248	\$272	\$287
3) Total Capital Gains (thru 12-31-85)	<u>\$212</u>	<u>\$411</u>	<u>\$713</u>
4) Total Return (thru 12-31-85)	<u>\$460</u>	<u>\$683</u>	<u>\$1,000</u>

**Source: ValueLine Investors Service**

New York Commission

Commission Staff: Approx. 625 members

Major Rate Case Decisions for the major energy companies during the period January 1984 through December 1987

Decreases total \$9.2 million. Increases total \$937.3 million.

California Commission

Commission Staff: Approx. 1,040 members

Major Rate Case Decisions for the major energy companies during the period January 1984 through December 1987.

Decreases total \$165 million. Increases total \$211.2 million.

Wisconsin Commission

Commission Staff: Approx. 180 members operating in six divisions.

Major Rate Case Decisions for the three major energy companies during the period Jan. 1984 through Dec. 1987.

Decreases total \$104.3 million. Increases total \$65.1 million.



# MARKET TO BOOK VALUE ANALYSIS

	<u>ACTUAL VALUE</u>	<u>MARKET VALUE</u>	<u>RATIO</u>
NEVADA POWER COMPANY	\$13.72	\$19.125	1.39:1
SIERRA PACIFIC	\$16.28	\$21.625	1.33:1
SOUTHWEST GAS CORPORATION	\$19.25	\$20.375	1.06:1

A ratio of 1:1 is considered desirable prior to a public sale of common equity securities.

Actual values are estimates.

All data shown is as of January 1, 1988.





# NEVADA POWER COMPANY

## Company Specific Material

	<u>7-01-83</u>	<u>1-01-85</u>	<u>1-01-86</u>	<u>1-01-87</u>	<u>1-01-88</u>
*/** Stock Price	\$27.50/sh	\$28.75/sh	\$33.62/sh	\$20.25 <sup>(1)</sup>	\$19.125/sh
Bond Rating (Moody's)	BAA1	A2	A2	A2	A2
* Avg. Market-to-Book Ratio	1.15:1	1.16:1	1.19:1	1.56:1	1.39:1
* Avg. Return on Book Equity	11.1%	13.5%	13.0%	12.5%	14.80%
* Equity Ratio	46.1%	47.5%	48.0%	46.5%	49.0%
* Dividends per Share	\$2.68/sh	\$2.74/sh	\$2.84/sh	\$1.43/sh	\$1.48/sh
* Earnings per Share	\$2.74/sh	\$3.45/sh	\$3.34/sh	\$1.62/sh	\$1.98/sh
* Payout Ratio	98%	79%	84%	88.27%	75%

## \*\* Economic Data

	<u>7-01-83</u>	<u>1-01-85</u>	<u>1-01-86</u>	<u>1-01-87</u>	<u>1-01-88</u>
** Prime Rate	10.50%	10.50%	9.50%	7.50%	8.75%
** 90-Day T-Bills	9.10%	7.86%	7.04%	5.67%	5.68%
** 5-Year T-Notes	10.50%	11.26%	8.50%	6.81%	8.33%
** 20/30-Year T-Bonds	11.125%	12.23%	9.52%	7.49%	8.95%

\* Per Value Line Investment Service

\*\* Per Wall Street Journal and Federal Reserve Statistical Release

\*\*\* Estimate

(1) After 2-for-1 stock split - one share of 1/1/86 stock worth \$40.50  
(2 x \$20.25) on 1/1/87 with equivalent dividends of \$2.86/share  
(2 x \$1.43) and earnings of \$3.24/share (2 x \$1.62)

(SIERRA PACIFIC RESOURCES)  
SIERRA PACIFIC POWER COMPANY

Company Specific Material

	<u>7-01-83</u>	<u>1-01-85</u>	<u>1-01-86</u>	<u>1-01-87</u>	<u>1-01-88</u>
*/** Stock Price	\$14.25/sh	\$16.25/sh	\$20.12/sh	\$25.125/sh	\$21.625/sh
Bond Rating (S&P)	BBB	BBB	BBB	A-	A-
*/** Avg. Market-to-Book	94:1	1.04:1	1.31:1	1.54:1	1.33:1
* Return on Book Equity	11.0%	12.5%	11.50%	11.50%	11.90%
* Equity Ratio	37.4%	40.5%	38.0%	42.0%	41.8%
* Dividends per Share	\$1.50/sh	\$1.57/sh	\$1.66/sh	\$1.69/sh	\$1.76/sh
* Earnings per Share	\$1.70/sh	\$2.07/sh	\$1.80/sh	\$1.81/sh***	\$1.91/sh
* Payout Ratio	88%	76%	92%***	93.37%	92.0%

\*\* Economic Data

	<u>7-01-83</u>	<u>1-01-85</u>	<u>1-01-86</u>	<u>1-01-87</u>	<u>1-01-87</u>
** Prime Rate	10.50%	10.50%	9.50%	7.50%	8.75%
** 90-Day T-Bills	9.10%	7.86%	7.04%	5.67%	5.68%
** 5-Year T-Notes	10.50%	11.26%	8.50%	6.81%	8.33%
** 20/30-Year T-Bonds	11.125%	12.23%	9.52%	7.49%	8.95%

\* Per Value Line Investment Service

\*\* Per Wall Street Journal and Federal Reserve Statistical Release

\*\*\* Estimate

# SOUTHWEST GAS CORPORATION

## Company Specific Material

	<u>7-01-83</u>	<u>1-01-85</u>	<u>1-01-86</u>	<u>1-01-87</u>	<u>1-01-88</u>
** Stock Price	\$10.50/sh	\$14.00/sh	\$18.00/sh	\$17.875/sh	\$20.375/sh
* Bond Rating (Moody's)	BAA3	BAA3	BAA3	BAA3	BAA3
(2) Market-to-Book Ratio	0.99:1	1.24:1	1.65:1	1.21:1	1.06:1
(2) Avg. Return on Equity	12.57%	15.9%	15.8%	13.70%	12.13%
(2) Avg. Equity Ratio	37.45%	31.80%	36.0%	42.0%	41.0%
(2) Dividends per Share	\$1.16/sh	\$1.20/sh	\$1.24/sh	\$1.28/sh	\$1.30/sh
(2) Earnings per Share	\$1.50/sh	\$1.70/sh	\$1.92/sh	\$1.66/sh	\$2.15/sh
(2) Payout Ratio	77%	71%	65%	77%	59%

## \*\* Economic Data

	<u>7-01-83</u>	<u>1-01-85</u>	<u>1-01-86</u>	<u>1-01-87</u>	<u>1-01-87</u>
** Prime Rate	10.50%	10.50%	9.50%	7.50%	8.75%
** 90-Day T-Bills	9.10%	7.86%	7.04%	5.67%	5.68%
** 5-Year T-Notes	10.50%	11.26%	8.50%	6.81%	8.33%
** 20/30-Year T-Bonds	11.125%	12.23%	9.52%	7.49%	8.95%

\* Moody's Public Utility Manual

\*\* Wall Street Journal and Federal Reserve Statistical Release

(1) Denotes the effect of 11-1-84 acquisition of Arizona properties; 100% leveraged position had a negative effect on total company equity position.

(2) Company-supplied data for the period 7-1-83 through 1-1-86; 1987 data acquired from Value Line Investors Service.

INTEREST COVERAGE RATIO

<u>Company</u>	<u>1986 Total Long-Term Coverage (Pre-Tax)</u>	<u>1986 Total Debt Coverage (Pre-Tax)</u>	<u>1987 Total Long-Term Coverage (Pre-Tax)</u>	<u>1987 Total Debt Coverage (Pre-Tax)</u>
Nevada Power	3.2:1	3.2:1	3.5:1	3.5:1
Sierra Pacific	2.9:1	2.9:1	3.1:1	3.1:1
Southwest Gas	2.6:1	2.4:1	2.7:1	2.5:1
Centel	4.1:1	4.1:1		
Telesis	4.1:1	4.1:1		

Source - Value Line Investors Service

NOTE: The following depicts the approximate range employed by bond rating agencies when utilizing pre-tax coverage ratios in their analysis:

<u>Rating</u>	<u>Approximate Range</u>
AAA	4.50 and above:1
AA	3.50/5.00:1
A	2.50/4.00:1
BBB	1.50/3.00:1

BOND RATINGS - Senior Securities

<u>Company</u>	<u>As of</u> <u>7-1-83</u>	<u>As of</u> <u>1-1-84</u>	<u>As of</u> <u>7-1-84</u>	<u>As of</u> <u>1-1-85</u>	<u>As of</u> <u>7-1-85</u>	<u>As of</u> <u>1-1-86</u>	<u>As of</u> <u>1-1-87</u>	<u>As of</u> <u>1-1-88</u>
Nevada Power	BBB (S&P) BAA (M)	BBB BAA <sub>1</sub>	BBB BAA <sub>1</sub>	BBB A <sub>2</sub> *	BBB A <sub>2</sub>	BBB A <sub>2</sub>	A-* A <sub>2</sub>	A- A <sub>2</sub>
Sierra Pacific	BBB (S&P) BAA (M)	BBB BAA <sub>1</sub>	BBB BAA <sub>1</sub>	BBB BAA <sub>1</sub>	BBB BAA <sub>1</sub>	BBB BAA <sub>1</sub>	A-*** A <sub>2</sub> ***	A- A <sub>2</sub>
Southwest Gas	BBB (S&P) BAA (M)	BBB BAA <sub>3</sub>	BBB BAA <sub>3</sub>	BBB BAA <sub>3</sub>	BBB BAA <sub>3</sub>	BBB BAA <sub>3</sub>	BBB BAA <sub>3</sub>	BBB BAA <sub>3</sub>
Telesis	n/a n/a	A+*** (S&P) A <sub>1</sub> *** (M)	A+ A <sub>1</sub>	A+ A <sub>1</sub>	A+ A <sub>1</sub>	A+ A <sub>1</sub>	A+ A <sub>1</sub>	
Centel	A+ (S&P) AA (M)	A+ AA <sub>2</sub>	A+ AA <sub>2</sub>	A+ AA <sub>2</sub>	A+ AA <sub>2</sub>	A+ AA <sub>2</sub>	A+ AA <sub>2</sub>	

S&P - Standard & Poors  
M - Moodys

\* During November 1984 Moodys upgraded Nevada Power's bond rating to an A<sub>2</sub> level from a BAA<sub>1</sub> level; in November 1985 S&P raised NPC's bond rating to A- from BBB.

\*\* Both major bond rating agencies raised Sierra's senior debt rating to the "A" level during 1986.

\*\*\* Rating for senior debt of Pacific Bell.

EQUITY RATIO

<u>Company</u>	<u>As of</u> <u>1-1-85</u>	<u>As of</u> <u>1-1-86</u>	<u>1985</u> <u>Change</u>	<u>As of</u> <u>1-1-87</u>	<u>1986</u> <u>Change</u>	<u>As of</u> <u>1-1-88</u>	<u>19</u> <u>Cha</u>
Nevada Power	46.3%	46.3%	0	46.9%	+ 0.6%	49.0%	+ 2
Sierra Pacific	37.9%	40.4%	+ 2.5%	42.1%	+ 1.7%	44.0%	+ 1
Southwest Gas	32.8%	37.6%	+ 4.8%	44.6%	+ 7.0%	41.0%	- 3
Centel	49.9%	52.5%	+ 2.6%	53.0%	+ 0.5%		
Telesis	52.0%	53.5%	+ 1.5%	57.5%	+ 4.0%		

Source - Value Line Investors Service

\* Change reflects leveraged acquisition of Nevada Savings & Loan

Quarterly Comparison of Electric Companies  
Ranked by Total Industrial Bill  
December 1986

Service Area	Company Name	Major Source of Energy	Residential Rates		Commercial Rates		Industrial Rates		
			500 KWH	1,000 KWH	5,000 KWH	10,000 KWH	Demand 2,500 KW	Energy 1,100 MWH	Total Bill
Boise	Idaho Power	Hydro, Coal	\$ 20.97	\$ 41.95	\$ 203.70	\$ 407.41	\$ 7,225.00	\$ 22,065.89	\$ 29,290.89
Spokane	Washington Water Power	Hydro	19.99	39.84	286.25	544.20	5,000.00	29,018.00	34,018.00
Olympia	Puget Sound Power & Light	Hydro, Purch. Pwr.	25.07	48.86	238.86	473.96	10,877.27	25,586.00	36,463.27
Las Vegas	Nevada Power	Coal, Gas	28.30	53.10	259.53	515.56	2,750.00	37,939.00	40,689.00
Houston	Houston Lighting & Power	Gas	35.44	75.16	264.17	506.48	17,275.00	25,410.34	42,685.34
Sacramento	SMUD *	Hydro, Nuclear	31.80	61.20	254.60	500.60	11,397.35	31,916.25	43,313.60
Helena	Montana Power	Hydro, Coal	27.08	51.70	226.57	440.40	11,612.05	32,737.80	44,349.85
Baltimore	Baltimore Gas & Electric	Nuclear, Oil, Coal	40.70	66.59	411.35	814.20	12,550.00	31,983.60	44,533.60
Dallas	Dallas Power & Light	Gas, Coal	39.10	61.31	324.67	606.60	14,295.00	32,882.30	47,177.30
Atlanta	Georgia Power	Coal	31.94	58.20	361.92	687.05	-	50,790.20	50,790.20
St. Louis	Union Electric	Coal	35.70	65.65	225.25	415.25	21,465.00	31,350.00	52,815.00
Milwaukee	Wisconsin Electric	Coal, Nuclear	37.15	70.80	364.50	720.00	17,225.00	35,915.00	53,140.00
Salt Lake City	Utah Power and Light	Coal	42.97	84.95	312.69	627.73	16,394.35	37,667.30	54,061.65
Portland	Portland General Electric	Hydro, Nuclear, Coal, Purch. Pwr.	23.51	46.91	324.20	568.30	10,911.25	44,220.00	55,131.25
Cincinnati	Cincinnati Gas & Electric	Coal	37.44	71.57	381.06	712.86	20,587.58	34,961.80	55,551.38
Washington D. C.	Potomac Electric Power	Coal, Oil	27.69	65.87	414.45	744.34	15,285.00	40,282.44	55,567.44
Denver	Public Service of Colorado	Coal	37.44	69.82	310.16	615.26	24,410.90	32,857.00	57,267.90
<b>Bene-Spanish</b>	<b>Sierra Pacific Power Co.</b>	Coal, Purch. Pwr., Oil, Gas	<b>41.00</b>	<b>80.00</b>	<b>398.00</b>	<b>742.68</b>	<b>23,278.00</b>	<b>36,430.79</b>	<b>59,708.79</b>
Pittsburgh	Duquesne Light Co.	Coal	58.68	92.40	387.54	726.29	24,748.00	37,566.10	62,314.10
Hawaii	Hawaiian Electric Co.	Oil	19.17	72.33	479.52	878.03	15,350.00	47,097.00	62,447.00
Miami	Florida Power & Light	Oil, Nuclear, Gas	19.00	74.85	374.55	610.70	15,795.00	47,531.00	63,326.00
Wilmington	Delmarva Power & Light	Oil, Gas, Coal, Nuclear	50.28	90.86	340.63	674.89	25,297.50	38,903.59	64,201.09
Chicago	Commonwealth Edison	Nuclear, Coal	45.08	67.92	381.25	754.22	26,559.60	38,818.60	65,378.20
Phoenix	Arizona Public Service	Coal, Gas, Oil	47.26	83.06	465.88	870.35	26,455.00	39,818.90	66,273.90
Atlantic City	Atlantic Electric	Oil, Coal, Nuclear	55.52	89.48	468.24	949.94	13,450.67	55,044.19	68,494.86
Toledo	Toledo Edison	Coal, Gas, Oil, Nuclear	49.92	95.59	345.35	678.55	29,405.00	39,653.40	69,058.40
San Francisco	Pacific Gas & Electric **	Oil, Hydro, Gas	39.31	94.11	461.90	923.80	4,270.00	65,449.12	69,719.12
El Paso	El Paso Electric	Gas, Oil, Coal Purch. Pwr.	45.86	85.21	357.96	685.47	42,087.15	27,819.00	69,906.15
Cleveland	Cleveland Electric Illuminating	Oil, Coal Nuclear	47.35	91.83	507.94	926.23	19,751.50	50,469.47	70,220.97
Los Angeles	Department of Water & Power *	Oil, Coal	37.07	74.15	386.40	728.50	750.00	69,933.60	70,683.60
Hartford	Connecticut Light & Power	Nuclear, Oil	50.08	92.90	447.48	877.10	15,202.70	58,696.00	73,898.70
Boston	Boston Edison	Oil	46.44	86.88	492.92	898.05	11,241.60	63,692.75	74,934.35
Peoria	Central Illinois Light	Coal, Gas, Purch. Pwr.	47.45	90.75	401.55	793.71	36,404.14	39,198.50	75,602.64
Long Island	Long Island Lighting	Oil	55.81	106.04	465.69	913.77	9,825.00	66,647.90	76,472.90
Savannah	Savannah Electric	Oil	41.90	72.88	489.25	861.25	10,100.00	69,140.00	79,240.00
Philadelphia	Philadelphia Electric	Oil, Nuclear, Hydro	61.78	118.81	418.78	794.94	20,082.20	60,271.00	80,353.20
Albuquerque	Public Service of New Mexico	Coal, Gas	45.52	89.05	425.58	890.80	27,850.00	52,928.15	80,778.15
New Haven	United Illuminating	Oil	53.56	101.82	487.20	958.30	23,163.00	57,775.90	80,938.90
<b>Sierra Pacific</b>	<b>Sierra Pacific Power Co. **</b>	Coal, Purch. Pwr., Oil, Gas	<b>44.44</b>	<b>87.00</b>	<b>474.70</b>	<b>946.40</b>	<b>18,822.25</b>	<b>66,184.00</b>	<b>85,007.05</b>
Newark	Public Service Electric & Gas	Oil, Coal, Nuclear	54.12	100.25	481.59	962.82	21,662.50	66,759.06	88,421.56
Detroit	Detroit Edison	Coal	42.35	87.25	463.58	918.75	24,311.25	68,955.60	93,266.85
New York	Consolidated Edison	Oil, Nuclear	60.29	114.68	488.54	984.14	18,104.94	51,559.30	69,664.24
San Diego	Southern California Edison **	Oil, Gas, Coal	51.81	92.57	511.75	1,006.50	10,018.50	82,478.54	92,497.04
San Diego	San Diego Gas & Electric **	Oil, Gas, Coal	58.81	127.42	601.15	1,192.30	18,295.00	97,508.64	115,803.64

\* Electric Municipal

\*\* Residential rates include basic lifeline allowances.

Figures do not include taxes where applicable.





# ELECTRIC UTILITY INDUSTRY

<u>Year</u>	<u>ROE Authorized (%)</u>	<u>ROE Earned (%)</u>
1972	12.50% e	12.30%
1973	12.50% e	11.70%
1974	13.00%	10.60%
1975	13.20%	11.30%
1976	13.10%	11.70%
1977	13.30%	11.80%
1978	13.20%	11.50%
1979	13.50%	11.30%
1980	14.23%	11.50%
1981	15.22%	12.50%
1982	15.78%	13.30%
1983	15.36%	14.60%
1984	15.32%	14.60%
1985	15.20%	14.30%
1986	13.93%	13.70%

- Sources: 1. 1971 through 1979 - Argus Research; Public Utilities Fortnightly (2-26-81; pg. 21)
2. 1980 through 1986 - Regulatory Research Associates; Electric Utility Financial Review (4-25-84 and 5-5-87) Regulatory Research Associates - Major Rate Case Decisions (1-19-88)

e = estimate



## **APPENDIX D**

### **PRESENTATION BY THE OFFICE OF THE ADVOCATE FOR CUSTOMERS OF PUBLIC UTILITIES**



**SCR 44 Legislative Commission's Subcommittee to Study the Feasibility and  
Desirability of Basing Public Utilities Rates Upon Estimates of Anticipated Costs and  
Revenues**

**Tuesday, March 29, 1988  
Washoe Co. Library Auditorium - 9:30 am**

**Attorney General's  
Office of Consumer Advocate (OCA)  
Outline of Presentation:**

- **The Future Test Year method (FTY) will increase rates and create regulatory problems**
- **Current system already flexible to utilities' construction and/or growth problems, and similar to most states**
- **Nevadans are not the majority of shareholders in Nevada's utilities and therefore, will not profit from a FTY**
- **FTY does not prevent over-earnings**
- **The OCA proposes an amendment to law that will prevent overearnings in the future**



**OFFICE OF CONSUMER ADVOCATE  
TEST YEAR SURVEY**

**MARCH 1988**





## **Type of Test Year Used In Determining Rates**

This chart compares test year practices between states. Results are from a survey completed by the Nevada Office of Consumer Advocate (OCA) in 1988 and have two formats; a summary sheet by test year and a detailed alphabetical state listing.

The following categories of test year are used:

**Current or Combination Test Year** defined as

- 1) a test year using the most recent 12 months of previous operating data available at the time of a utility's application with adjustments for known and measurable future occurrences; or
- 2) a test year combining both historical and projected data; or
- 3) a test year in which all or part of the projected data is compared with, and updated to actual data as it becomes available during a rate case

**Future Test Year** defined as a test year using fully projected data, with little or no comparison to actual data at hearing

The following abbreviations have been used:

<b>FTY</b>	<b>Future Test Year</b>
<b>O&amp;O</b>	<b>Opinion and order</b>
<b>ADA</b>	<b>All data actual and compared with projections by hearing</b>
<b># / #</b>	<b>Refers to the months of actually experienced data versus months of projected data used as a test year at the time application</b>
<b>(#/#)</b>	<b>Refers to the months of actually experienced data versus months of projected data at the time of hearings. For example: a utility's application may use 12 months of projected data. However, if at the time of hearing 6 months of the data is experienced and compared to projected data, and only 6 months data remains projected, the chart refers to this practice as "(6/6)".</b>

Also, a survey is attached completed by the National Association of Regulatory Utility Commissioners (NARUC) in 1985.

**Current or Combination Test Year States:**

Alabama  
Alaska  
Arizona  
Arkansas  
Colorado  
Connecticut  
Delaware  
Georgia  
Idaho  
Indiana  
Iowa  
Kansas  
Kentucky  
Louisiana  
Maine  
Maryland  
Massachusetts  
Minnesota  
Mississippi  
Missouri  
Montana  
Nevada  
New Hampshire  
New Jersey  
North Carolina  
North Dakota  
Ohio  
Oklahoma  
Pennsylvania  
Rhode Island  
South Carolina  
South Dakota

Tennessee  
Texas  
Utah  
Vermont  
Virginia  
West Virginia  
Washington  
Wyoming

**total: 40**

**Future Test Year States:**

California  
Florida  
Hawaii  
Michigan  
New York  
Wisconsin

**total: 6**

**Other:**

**District of Columbia**

Utilities have option of Historical or Future Test Year. Future Test Year is never "risked" because of strict regulations.

**Illinois**

Utility can choose 12 months of previous data, a combination of actual and projected, or a completely projected test year ending no later than 24 months after new tariffs are on file.

**Nebraska**

Utilities not regulated

**New Mexico**

recently changed to allow Future Test Year but no utility has used it because procedure is too burdensome.

**Oregon**

Gas Utilities use Historical Test Year, Electric utilities use Future Test Year

**total: 5**

**Test Year Used In Determining Rates**  
**Detail listing by state**

**State:**

- AL:** Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments for an unspecified time outside the test year, O&O within 7 mos. by statute
- AZ:** Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments for an unspecified time outside the test year,
- AR:** Most recent 12 months of previous operating data (6/6)  
O&O within 7 mos. by regulation
- AK:** Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year
- CA:** FTY  
each elec. utility req'd  
to file every 3 yrs, test year  
ends 24 mos from date  
of application. Very formal procedure,  
with pre-filing period  
where staff reviews and negotiates  
the completeness of the application.  
O&O within 12 mos  
by regulation
- CO:** 2 options: may file  
9/3, 6/6 in application as long as  
ADA by hearing or recent 12 mos of  
previous operating data with  
Out of test year adjustments  
for known events within 1 year (ex: FICA  
rate change, known price changes)  
No deadline for O&O,  
usually issued in 7 mos.

CT:	<p>Most recent 12 mos of operating data required with known and measurable adjustments allowed for events 6 mos into the "rate year "</p> <p>Just this year they have begun allowing projections of both revenue and expense levels. At first only expense projections were allowed but this "mismatch" of data created utility excess earnings. Statutes are silent to rate setting, require an O&amp;O within 6 months.</p>
DE:	<p>Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year, O&amp;O within 7 mos. by statute</p>
DC:	<p>Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year. Combined test year also allowed, but never used.</p>
FA:	<p>Combination test year most common, no statute to limit projections except practice of "reasonable anticipation", (4/8) common by hearing O&amp;O within 8-12 mos</p>
GA:	<p>12 mos fully projected for elect. by statute, others by reg. Usually (9/3) or (10/2) by O&amp;O which is within 6 mos. of application</p>

HA: 12 mos. projected data  
there is a proposed rule to return  
to the use of a HTY.

ID: Usually 8/4 or 4/8 mos. allowed,  
as long as ADA by time of hearing  
(except known and actual changes to capital costs  
which can go 15 - 16 months)  
O&O within 7-9 mos. by statute

IL: Utility can choose 12 months of previous data, a  
combination of actual and projected, or a  
completely projected test year ending no later than  
24 months after new tariffs are on file.  
"There is no audit requirement  
for O&M but there is a trend to want  
to see objective third party  
assessment of the reasonableness  
of O&M projections"  
-Michael Kelly, Advocate  
O&O within 4-10 mos. by statute

IN: Most recent 12 months of previous operating data  
available at the time of a utility's application with  
known and measurable adjustments outside the  
test year,  
no time limit for O&O

IA: Most recent 12 months of previous operating data  
available at the time of a utility's application with  
known and measurable adjustments outside the  
test year,  
O&O within 10 mos. by statute

KS: Most recent 12 months of previous operating data  
available at the time of a utility's application with  
known and measurable adjustments outside of the  
test year,  
O&O within 8 mos. by statute

KY: Most recent 12 months of previous operating data  
available at the time of a utility's application with  
known and measurable adjustments outside the  
test year

LA:	Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year which are reasonable and finite with a substantial degree of certainty, and these occur very rarely, O&O within 12 mos. by statute
ME:	Most recent 12 months of previous operating data available at the time of a utility's application with attrition adjustments allowed 50% of time for earnings erosion, by both statute and regulation
MD:	Combination test year (8/4) O & O within 7 mos. by statute inflation adjustment is allowed on revenue requirement but not recurring
MA:	Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year for events up to six months into rate year
MI:	FTY O&O within 9 mos. by statute
MN:	3/12, (8/7) Combination with 12 mos. of projections allowed for "strict" known and measurable expenses. Projections and actual data compared at hearing O & O within 5 mos. by statute
MS:	Combination (4/8) projected data required by law to be compared with actual data to the extent that that data becomes available O & O within 4 mos. by statute
MO:	Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year

MT: Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year for occurrences up to 12 mos. in the future, O&O within 9 mos. by statute

NE: not regulated

NV: Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year

NH: Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year allowed very rarely up to 12 mos. beyond the test year, O&O within 12 mos. by statute

NJ: Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments 6-9 months outside the test year allowed for very reliable forecasts.  
 "(NJ) relies almost exclusively on actual test year, except for some proforma adjustment... these adjustments are allowed beyond the test year where there are very reliable forecasts"  
 -Bob Genovesi, Deputy Public Advocate

NM: Most common is a "base period"; the most recent 12 months of previous operating data available at the time of a utility's application with known and measurable changes or adjusted for annualization. 12 projected months also allowed but never used because procedure is so burdensome  
 O&O within 9-12 mos. by statute

NY: FTY (5/11)  
 forecasted data must have "verifiable link" with HTY  
 O&O within 11 mos. by regulation

NC: Most recent 12 months of previous operating data available at the time of a utility's application with some known and measurable adjustments outside the test year within reasonable period provided that it is based upon changes in time before the hearing is closed, O&O within 6-9 mos. by statute

ND: No Test Year Prescribed  
FTY commonly used, with historical data always as backup. Projections are also compared with actuals during suspension period. No limit to projections but "Commission will criticize a too distant FTY", O&O within 8 mos. by statute

OH: Combination (6/6, 3/9)  
18 mos by law for O&O,  
9 mos. by practice,  
freeze plant at end of 6 mos. annual

OK: Most recent 12 months of previous operating data (ending no later than 6 mos at the time of application) with known and measurable adjustments outside the test year  
no deadline for O&O

OR: For gas - Current test year;  
For elec: combination with no test year specified  
"Never have used the same test year in two rate cases"-Jerry Lindeen OR. PSC  
O&O within 9 mos. by statute

PA: Combination -(9/3)  
O&O within 9 mos. by regulation

RI: Most recent 12 months of previous operating data then company is allowed to update rate base for known and measurable changes through rate year,  
O&O within 21 mos. by regulation



SC:	Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year
SD:	Most recent 12 months of previous operating data available at the time of a utility's application with known and measurable adjustments outside the test year allowed for reasonable changes up to 24 mos from the last month of the test period, O&O within 6 mos.
TN:	Most recent 12 months of previous operating data available at the time of a utility's application with with known and reasonable adjustments outside the test year allowed up to 1 yr. , O&O within 6 mos by statute
TX:	Most recent 12 months of previous operating data available at the time of a utility's application with with known and measurable adjustments allowed outside the test year
UT:	12 mos. of projected data is used as a test year, by hearing (3/9), (4/8)
VM:	Most recent 12 months of previous operating data available at the time of a utility's application with with known and reasonable adjustments outside the test year allowed up to 1 yr. O&O within 7.5 mos. by statute
VA:	Most recent 12 months of previous operating data available at the time of a utility's application with with known and measurable adjustments allowed outside the test year
WA:	Most recent 12 months of previous operating data available at the time of a utility's application with with known and measurable adjustments outside the test year allowed
WV:	Most recent 12 months of previous operating data available at the time of a utility's application with with known and measurable adjustments outside the test year allowed

**WI:** FTY, no fuel adjustment procedure

**WY:** Most recent 12 months of previous operating data available at the time of a utility's application with with known and measurable adjustments outside the test year allowed

Additional comments given during survey:

- FA: "Very difficult to rebut projections of Company....Commission basically gives the utility the presumption, and accepts their projections" -Assistant State Consumer Advocate
- HA "I used to be in favor of FTY, ) but am moving to support historic test year because FTY has given companies such an opportunity to manipulate the ratemaking process" -Former State Consumer Advocate
- UT "This puts Utah at a great disadvantage because a utility that operates in more than one state will be able to get more revenue from the Future Test Year states than the non -Future Test Year states. This is the case with UP&L in Idaho and Wyoming as partial Future Test Year states - the Utah ratepayers get hit the hardest of the three states." - Director of Consumer Services
- VM: Vermont recently returned to "Basics" -Vermont Board Economist, after briefly using some projections in rate cases.
- WI: " The California revenue adjustment mechanism is a license to steal... a Wisconsin utility attempted to get that kind of mechanism into the Wisconsin regulations and it was rejected by the Commission." - A Legal Staff person at the Wisconsin Commission



## Who Owns Nevada's Electric Utilities? USAN vs. OCA View of a 1983 Shareholder Survey

Utility Shareholders  
Association of Nevada  
Summary Sheet from 1983  
Survey of Sierra Pacific Power Co.  
Shareholders

OCA review of same 1983  
Survey

Title of Summary Sheet:  
"WHO OWNS NEVADA'S ELECTRIC  
UTILITIES?"

Data represents a  
questionnaire sent to 36,000  
shareholders, and returned by  
5,637 respondents or a 25.7  
return rate. Only 8% of  
Shareholders represented in  
this survey are Nevadans, or  
less than 500 respondents.

### Age:

25 and under	1%
26-35	4%
36-45	8%
46-55	14%
56-65	26%
Over 65	45%

Median age for  
SPP shareholder is  
64.5 years

### Marital status:

Married	72%
Single	15%
Widow/Widower	11%

Typical shareholder is  
married,  
65 years old,  
a college graduate, with  
an average income of  
\$37,600/yr.

Employment Status:

Employed:	40%	Professionals	29%
Retired:	55%	Retired	55%

Reason for Owning Utility Stock:

Question not asked

Current income	47%
Future retirement	21%
Long term growth	23%

96% of shareholders hold stock in another company.

Of these, 95% hold stock in at least one other utility company.

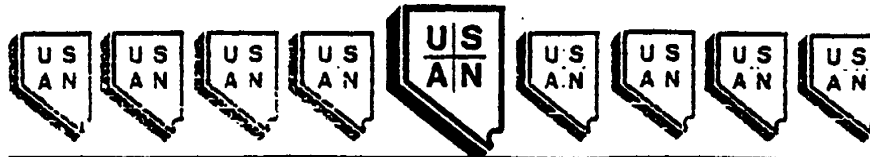
90% said Sierra Pacific's stock was a minor part of their investment portfolio.

Median number of shares is 224

Total yearly dividends paid for 224 shares (at \$1.76 per share) as of 1987/88 is

**\$394.24**

This represents 1.05 % of an annual income of \$37,600



**UTILITY SHAREHOLDERS ASSOCIATION of Nevada, INC.**  
**WHO OWNS NEVADA'S ELECTRIC UTILITIES?**

The information concerning Nevada Power Co. shareholders is from a late 1986 survey. That from Sierra Pacific shareholders is from 1983.

	<u>Nevada Power</u>	<u>Sierra Pacific</u>	
<u>AGE</u>			
25 AND UNDER	3%	1%	
26-35	6%	4%	
36-45	8%	8%	
46-60	20%	14%	
OVER 60	64%	26%	} 71%
		Over 65	
		45%	
<u>Median age for SP shareholders is 64.5 years</u>			

MARITAL STATUS

Married	69%	72%
Single	16%	15%
Widow/widower	15%	11%

EMPLOYMENT STATUS

Employed	37%	40%
Retired	60%	55%

REASON FOR OWNING UTILITY STOCK

Current income	39%	question not asked
Future retirement	20%	
Growth	35%	
Other (i.e. college, children)	7%	

NUMBER OF SHARES OWNED

Under 500	72%	<u>median</u> number of shares is 224
501 - 1000	18%	
1001-2000	8%	
2001 or more	3%	





THE NEVADA STATE LEGISLATIVE COMMITTEE OF THE  
AMERICAN ASSOCIATION OF RETIRED PERSONS [MARCH 1988]  
BEFORE THE LEGISLATIVE COMMISSION'S SUBCOMMITTEE ON THE  
STUDY CONCERNING BASING OF PUBLIC UTILITY RATES UPON  
ANTICIPATED REVENUES AND EXPENSES [S.C.R. 44]

Applications for rate increases should be based on a retrospective and not a prospective test year.

Retrospective data shows actual costs. Prospective data may 'load' excessive inflationary projections, especially when bridging from one economic cycle to another; it may 'load' future demand forecasts far greater than reality achieves (e.g., the Disney complex never materialized at Independence Lake, yet once was listed as a prospective demand load; the same is true of the MX Missile program.) Prospective data developed by a utility would be next to impossible to be challenged by consumer intervenors, thus working against public policy, whereas retrospective data can be verified.

Forecasts may include anticipated future demands by new businesses coming 'online.' Yet, more and more businesses are generating their own power. "Non-utility generation now represents about 4 percent of the nation's total electricity production, according to the Edison Electric Institute, the electric utility trade group. But some estimates expect that amount to double by 1995. And non-utility generators now account for the majority of new power generating equipment being ordered, according to the Department of Energy."<sup>1</sup>

Further, the potential for, and the development of, geothermal energy in Nevada may have a direct bearing on the need for the more traditional sources of electric power.<sup>2,3,4</sup>

One of the elements concerned is cost of capital, and the utility has, in the past stressed its need for a certain rate of return to show a specific return on investment in order to attain an improved bond rating; it stresses some elements that go into the structuring of a bond rating, usually interest costs and return on investment. But the rating company includes other elements in its formulation of a rating, such as the quality of management, an element rarely, if ever, put on the table in any critical examination by a utility in relation to the structuring of its financial rating. We need to look not only how management intends to perform in the future, but also how it has performed in the past.

Further, in an effort to sustain its case on the cost of capital the utility has brought in expert witnesses, supposedly to testify from an objective viewpoint. However, such witnesses are usually connected in one way or another to the underwriting of the utility's stock or bond offerings.<sup>5</sup>

Prospective rate methodology is a 'back door' way of getting construction works in progress (CWIP) into the rate base and its application in this regard should be seriously examined.

In the testimony of the Nevada Power Company before this committee, presented by Steve Rigazio, he stated: "...The system, "Historic Test Year", did not work too well in the 1970's or early 1980's. Nevada utilities were in very poor financial condition and could do little to improve because of the inherent deficiencies in the Historic Test Year system..." (page 4) Yet the average yields on Standard & Poor's composite index was 5.5% whereas Sierra Pacific's yield was 9.2% and went from 4.5% in 1971 to 10.9% in 1982. Similarly, in its special issue of December 28, 1981/January 4, 1982, BUSINESS WEEK reported on 900 of the

nation's largest corporations. Only 40 of those corporations paid dividends of 10 percent or more, of which 29 were public utilities; of the 900 listed stocks, the average yield as 4.4%.

In industry comparisons, in 1974 the return on common equity was for:

Airlines:	7.5%	Appliances	6.1%
Automobiles:	7.0%	Savings & Loan	9.1%
Textiles & Apparel	8.8%	Tire & Rubber	9.7%
UTILITIES:		11.1%	

Utilities broke into double digits while these other industries couldn't.

In the same light, Eugene Meyer, in the testimony cited above before the S.C.R. 7 committee in 1983, set an analogy that Sierra Pacific Power Company did not enjoy the enviable position as did such concerns as General Motors (GM). Attached is a chart showing how SPPCO fared relatively far better than GM.

Implicit throughout Mr. Rigazio testimony is the theme utility rates should be higher. Your attention is drawn to some quotes from the Hope Natural Gas case before the U.S. Supreme Court<sup>6</sup> concerning the "just and reasonable" doctrine: "...[the Act] also empowers the Commission to order a 'decrease where existing rates are unjust,...unlawful, or are not the lowest reasonable rates'..."; "...The fixing of prices, like other applications of the police power, may reduce the value of the property which is being regulated. But the fact the value is reduced does not mean that the regulation is invalid..."; "...Rates...cannot be condemned as invalid, even though they might produce a meager return on the so-called 'fair-value' rate base..."; "...the primary aim of this legislation was to protect consumers against exploitation at the hands of natural gas companies.....We cannot find in the words

of the Act or in its history the slightest intimation or suggestion that the exploitation of consumers by private operators through the maintenance of high rates should be allowed to continue..." In another utility case<sup>7</sup> the Court said "...The ultimate test of industry structure in the communication common carrier field must be the public interest, not the financial interests of those who have until now enjoyed the fruits of de facto monopoly..."

And that is what is at issue here: the public interest with legislatures and regulatory bodies preserving the public trust by conserving the public interest. The future test year system runs counter to that public policy.

An analogy has been attempted likening future test methodology to the preparation of own's budget, but the analogy is incomplete and the dissimilarities remain. For example: in March, one plans on buying Christmas gifts when the Christmas season arrives but uncertain as to what will be available on the market then and what the cost will be, a general amount is projected. If that person were operating under a future test methodology, a pro-rata amount would be deducted from the personal bank account to pay some department store for some uncertain thing costing some uncertain price with some uncertain warranty.

This committee is urged to petition the Nevada Public Service Commission and the Legislative Counsel Bureau for the records of past hearings relating to this issue. Many hearings have been held and expert testimony given. The record is replete with reasoning why future test methodology is counter to public policy and consumer interests, yet utilities insist on returning time and again to petition on this issue, assumedly for that one time when there will be no consumer rebuttal and prior case review will not occur.

The greatest public service this committee could perform, beyond rejecting the future test year methodology, would be to aggregate a bibliography of the cases conducted on this issue in the past 15 years.

There should be no reason to again expend taxpayer money on an issue so clearly benefitting monopolies at the expense of the consumers.

NOTES TO FUTURE TEST YEAR PRESENTATION OF THE  
NEVADA SLC OF THE AARP BEFORE S.C.R. 44 SUBCOMMITTEE

1. THE NEW YORK TIMES, August 12, 1987.
2. Paper No. 79-20R, THE PROSPECTS FOR DEVELOPMENT OF GEOTHERMAL RESOURCES IN NORTHERN NEVADA: IMPACTS AND CONSIDERATION by William R. Eadington, Phillip Taylor, and Michael Tissier, College of Business Administration, University Of Nevada, Reno, February 1980.
3. ENERGY IN NEVADA, A Summary of Historical and Projected Energy Uses, NEVADA DEPARTMENT OF ENERGY, May 1980.
4. GEOTHERMAL RESOURCE AREA 5, Area Development Plan, Nevada Department Of Energy, 1981.
5. When testifying on behalf of Sierra Pacific Power Company [SPPCo] concerning 'cost of capital' before the COMMITTEE TO STUDY THE RATES CHARGED BY PUBLIC UTILITIES (S.C.R. 7), chaired by Senator Floyd Lamb in 1983, Eugene Meyer, from the New York office of Kidder, Peabody, told the committee his only interest in appearing before the committee was to testify on cost of capital and that he had no interest with SPPCo. In fact, Kidder, Peabody had participated at the time in at least four issues of SPPCo stock: 1978: 1,000,000 shares; 1980: 1,500,000 shares; 1981: 1,500,000 shares, and 1982: 1,500,000 shares. And on a more current note, according to a news item of February 2, 1988, Kidder, Peabody is one of several co-partners with SPPCo in a power plant venture.
6. Federal Power Commission et al, v. Hope Natural Gas Co. (320 U.S. 591)
7. MCI Telecommunications Corp. v. F.C.C. (561 F.2d 365(1977))

## **APPENDIX E**

### **SUGGESTED LEGISLATION**





**SUMMARY**--Authorizes use of future estimates in determining rates for public utilities.  
(BDR 58-216)

**FISCAL NOTE:**       Effect on Local Government: No.  
                          Effect on the State or on Industrial Insurance: No.

**AN ACT** relating to public utilities; authorizing the use of estimated revenues, expenses, investments and costs of capital for a future period of operation in determining rates; and providing other matters properly relating thereto.

**THE PEOPLE OF THE STATE OF NEVADA, REPRESENTED IN  
SENATE AND ASSEMBLY, DO ENACT AS FOLLOWS:**

**Section 1.** NRS 704.110 is hereby amended to read as follows:

704.110 Except as otherwise provided in NRS 704.075 or as may otherwise be provided by the commission pursuant to NRS 704.095:

1. Whenever there is filed with the commission any schedule stating a new or revised individual or joint rate, fare or charge, or any new or revised individual or joint regulation or practice affecting any rate, fare or charge, or any schedule resulting in a discontinuance, modification or restriction of service, the commission may, either upon complaint or upon its own motion without complaint, at once, without answer or formal pleading by the interested utility, investigate or, upon reasonable notice, conduct a hearing concerning the propriety of the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice.

2. Pending the investigation or hearing and the decision thereon, the commission, upon delivering to the utility affected thereby a statement in writing of its reasons for the suspension, may suspend the operation of the schedule and defer the use of the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice, but not for more than 150 days beyond the time when the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice would otherwise go into effect.

3. Whenever there is filed with the commission any schedule stating an increased individual or joint rate, fare or charge for service or equipment, the public utility shall submit with its application a statement showing the recorded results of revenues, expenses, investments and costs of capital for its most recent 12 months for which data were available when the application was prepared. During any hearing concerning the increased rates, fares or charges determined by the commission to be necessary, the commission shall consider evidence in support of the increased rates, fares or charges based upon actual recorded results of operations for the same 12 months, adjusted for increased revenues, any increased investment in facilities, increased expenses for depreciation, certain other operating expenses as approved by the commission and changes in the costs of securities which are known and are measurable with reasonable accuracy at the time of filing and which will become effective within 6 months after the last month of those 12 months, but no new rates,

fares or charges may be placed into effect until the changes have been experienced and certified by the utility to the commission. The commission shall also consider evidence supporting expenses for depreciation, calculated on an annual basis, applicable to major components of the public utility's plant placed into service during the recorded test period or the period for certification as set forth in the application. Adjustments to revenues, operating expenses and costs of securities must be calculated on an annual basis. Within 90 days after the filing with the commission of the certification required in this subsection, or before the expiration of any period of suspension ordered pursuant to subsection 2, whichever time is longer, the commission shall make such order in reference to those rates, fares or charges as may be required by this chapter.

*4. In addition to changes in revenue, expenses and costs which have been experienced, the commission may consider estimated revenues, expenses, investments and costs of capital for a future period of operation. The estimates must be calculated on an annual basis to provide in prospective rates, to the extent possible, for the recovery of costs which the utility will incur after the rates become effective. The estimated rate base must include the average for the plant and property used and useful in providing service during the future period of operation.*

5. After full investigation or hearing, whether completed before or after the date upon which the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice is to go into effect, the commission may make such order in reference to the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice as would be proper in a proceeding initiated after the rate, fare, charge, classification, regulation, discontinuance, modification, restriction or practice has become effective.

[5.] 6. Whenever an application is filed by a public utility for an increase in any rate, fare or charge based upon increased costs in the purchase of fuel or power, and the public utility has elected to use deferred accounting for costs of the purchase of fuel or power in accordance with the commission's regulations, the commission, by appropriate order after a public hearing, shall allow the public utility to clear the deferred account not more often than every 6 months by refunding any credit balance or recovering any debit balance over a period not to exceed 1 year as determined by the commission. The commission shall not allow a recovery of a debit balance or any portion thereof in an amount which would result in a rate of return in excess of the rate of return most recently granted the public utility.

[6.] 7. Except as provided in subsection [7] 8 or in NRS 707.350, whenever an application for an increased rate, fare or charge for, or classification, regulation, discontinuance, modification, restriction or practice involving service or equipment has been filed with the commission, a public utility shall not submit another application until all pending applications for increases in rates submitted by that public utility have been decided unless, after application and hearing, the commission determines that a substantial

financial emergency would exist if the other application is not permitted to be submitted sooner.

[7.] 8. A public utility may not file an application to recover the increased cost of purchased fuel, purchased power, or natural gas purchased for resale more often than once every 30 days.