

Chairman Dini called the Joint Meeting of the Assembly Government Affairs Committee and the Senate Commerce and Labor Committee to order at 4:05 P.M. in Room 131 of the Legislative Building.

Attached to the minutes of this meeting is EXHIBIT A, the Meeting Agenda.

Attached to the minutes of this meeting is EXHIBIT B, the Attendance Roster.

ASSEMBLY GOVERNMENT AFFAIRS MEMBERS PRESENT:

Chairman Dini  
Vice Chairman Schofield  
Mr. Craddock  
Mr. DuBois  
Mr. Nicholas  
Mr. Polish  
Mr. Prengaman  
Mr. Redelsperger

ASSEMBLY GOVERNMENT AFFAIRS MEMBERS EXCUSED:

Assemblyman Jeffrey  
Assemblyman May  
Assemblyman Mello

SENATE COMMERCE AND LABOR MEMBERS PRESENT:

Senator Thomas R. Wilson, Chairman  
Senator Richard Blakemore, Vice Chairman  
Senator Don Ashworth  
Senator Melvin Close  
Senator Clifford McCorkle  
Senator William Raggio

SENATE COMMERCE AND LABOR MEMBERS EXCUSED:

Senator William Hernstadt

Mr. Dini stated that today the Public Utilities have been invited to come and give us their concerns and their statements on the subject matter.

Mr. Dini indicated that we would lead off first with the representative from Nevada Bell.

Mr. Russell Scharman, Vice President and General Manager of Nevada Bell testified. A copy of Mr. Scharman's testimony is attached to the minutes of this meeting as EXHIBIT C.

Mr. Dini asked how many phone companies in the state provide life-line telephone service throughout the state - just Nevada Bell?

Mr. Scharman stated just Nevada Bell, to his knowledge. Most of the telephone companies do not need to because the rates are rather low to begin with in the outlying communities.

Mr. Dini asked if Nevada Bell controlled the long distance dialing throughout the state - in the northern part of the state.

Mr. Scharman stated that they provided most of the long distance facilities in cooperation with all ten other telephone companies. We request permission to set rates for long distance and it has to be a cooperative venture on the part of all companies, but they usually enter the filing because they represent the largest portion of long distance revenue and we all settle together. We share the revenue.

Senator Wilson stated that he gathered that the bottom line or main thrust of Mr. Scharman's testimony is that AB 58 as written would not allow the commission to be given its proposed staffing levels under AB 58 to be responsive to your day to day business in filing with the commission.

Mr. Scharman stated that Senator Wilson was correct. He further stated that it appears that additional staff would be needed to review the filings, but the way it is written, as I understand it, it doesn't even provide that the commission would hear the day to day filings of tariffs. They would be reviewed by the agency and be recommended to the commission.

Senator Wilson stated that ultimately the commission has to make a decision and presumably it is going to rely upon its own staff to some extent on reaching a judgment. The staff under AB 58 being adversary on the one hand and the utility on the other of course being adversary. Now the material that we have been provided with on AB 58 by the Governor's office provides in that section addressed to the PSC staff and under AB 58 reorganization, the commission would have a total of twenty positions as shown in the organization chart with 19 of those positions being on the payroll and the deputy attorney general being paid out of other operating expenses, namely from his budget. What that means is based upon supplementary testimony given by Mr. Capone in our hearings, the commission staff would be reduced to nine technical personnel, eleven administrative personnel, one of which would be a deputy attorney general. My question to you is whether or not

you think staffing of that kind and of that level is going to be adequate for the commission on day to day operations quite apart from the decision on rate cases, and I gather your position is no, it would not be adequate.

Mr. Scharman stated that he felt that the staffing is inadequate under that proposal.

Mr. Dini asked if there were any additional questions from the committee.

Mr. Chuck King, representing Central Telephone Company. Mr. King stated that he is an employee of Central Telephone Company and had been for the past 26 years.

Mr. King stated that speaking to the principles of the proposed legislation and how they affect the telephone industry is what he would be addressing. Within the past few years there have been a series of orders issued by the Federal Communications Commission aimed at detariffing and deregulation. Customers have been allowed to attach their own equipment to utility lines. This permission has opened a highly competitive communications market. The result has been to place continued investment in telephone terminal equipment by companies in some jeopardy; jeopardy from the standpoint of continued use of capital recovery. Now customers may buy from other than the telephone company. We are no longer the only game in town.

Sometimes in order to be competitive, drastic changes must be made and tariffs filed quickly. I brought along with me a sampling of a tariff and in this particular tariff we filed this on October 14th, and the tariff was aimed at allowing us to provide in our electronic switching exchanges a Call Waiting Feature and a Three-Way Calling Feature. This was approved on December 29, 1980 about two months. I will leave a copy of this with you in case you would like to see what is involved in a tariff filing. Mr. King's Tariff Filing is attached to the minutes of this meeting as EXHIBIT D.

Mr. King stated that Tariff Filings are somewhat different. They are a lot different than filing for a rate increase. In 1964 we filed and received our last general rate increase. In a general rate increase you are looking at improving or lowering your reoccurring revenue. This is the revenue that you are receiving next month from your customers for primary service or additional equipment. Also in 1972 we filed for another rate increase; we filed for \$2,000,000 this time and we received nothing. In 1975 we filed for a rate of increase to allow us to charge more for installation rates and at this time we filed for \$1,052,000 and received \$1,019,000 and that just increases the rates of our installations.

General rate filings are involved and complex and Central Telephone really does not have any problem either with the consumer advocate reviewing these general rate increases. We do feel though, that the consumer advocate division needs a great deal of expertise in the field of all of the methods of depreciation. We have at Central Telephone, four different types of switching - central office switching - here, that need to be depreciated differently along with a multitude of PBX's and other ancillary equipment. They need to have a recognition of allowable expenses, a determination of the productivity level of that utility. Financial necessity for growth and recognition of customer or correct amount of growth for that time period. Reasonableness for the rate of return, and lastly, the ability to analyze information and to render a fair decision.

In the competitive field we too have a lot of competition in the Las Vegas area. Besides Sears and Wards and the Radio Shack we have four companies operating in Las Vegas that are in competition with us and that are not regulated as we are. They are Las Vegas Communications, Nevada Telco, Executone and Comsystems. In our area the PBX's we have are over 200 lines and some of them are up to 2,000 lines that are not owned by us that are either owned by the customer or provided by others and I will give you some examples. The Airport Inn, Sam's Town, California Hotel, Desert Springs Hospital, Dunes Hotel, Sahara Hotel, Silverbird Hotel, Shennandoah Hotel and The Las Vegas Club Hotel. In addition to this there are 64 PBX's that are not owned by us that are under the 200 lines. And further, there are 443 business communication key systems operated by somebody else and are owned by somebody else. Lastly there are thousands upon thousands of telephones in residences that belong to the customer. We are also suffering a syphoning off of our toll business in Las Vegas. There are three inter-connect companies there, two of them in operation presently.

Southern Pacific Communications has 53 trunks leaving Las Vegas. U.S. Transmission Systems which is owned by ITT, one of the world's largest corporations has 14 trunks and getting ready to expand, MCI, which is Microwave Communications, Inc., is also in the process of filing. These companies handle the high toll routes. They are really are getting the cream of the crop going into the major cities.

Dr. Schwartz testified when he was here on one occasion that the telephone industry is a declining cost utility, and I somewhat agree that we are declining in some of our costs and I will give you some examples of what we are paying for our equipment.

In 1965 it cost us \$236.00 to provide a line of central office equipment. Fifteen years later, in 1980, it cost us \$249.00 a line, so there is not too much of an increase. However, technology and obsolescence has hurt us. In the regional equipment that we put in, which is a step by step central office equipment, it was good for about twenty to thirty years in place. We have put in a cross bar type of equipment with common controled electronic equipment which is good for about fifteen to twenty-five years. Our electronic

is good for about ten to fifteen years and the newest type of equipment that we have just put in is the digital equipment. It will probably be good for five years and who knows what is going to come next.

The cables that we install, in 1965 a common cable for us cost \$2.50 a foot. Today that same cable cost \$12.00 a foot. Central Telephone's budget for the year 1981 will be expending \$18,000,000 on our central office equipment or right around 18% of our budget. Our cable, \$15,000,000, or 15%. Station equipment, \$10,000,000 and PBX's \$4,000,000. And one of our biggest costs is our labor, which since 1965 has increased approximately 130% and this year we will expend \$40,000,000 or 40% of our budget. We also feel that we have been holding down our costs by aggressively selling the vertical services that we have to offer in the marketplace. For example, our extensions, our touchtone features, answering devices and other types of equipment and this, along with technology, has helped us to maintain our current levels for not accelerating them as high as others have been going.

Through the testimony there were some questions that I had in my mind that I hadn't heard addressed yet.

1. In states where consumer advocate divisions operate, I am concerned with being able to show that there has been a savings in the telephone utilities.
2. In states where the savings has been substantial what effect has the reduced rates had on utilities' ability to construct a plant that will be required for future use down the road.
3. In states where consumer advocacy is in effect, has the interest rate which the utility company pays to borrow capital for construction increased more than the utilities who have not experienced rate depressed rollbacks. And if there are additional costs to borrowing money, is that not a cost that would be eventually warranted by the subscriber?

In closing, I guess what I am attempting to point out is that the PSC does do a good job in regulating the telephone industry. They do this by reviewing our policies, monitoring our service levels and auditing us on an ongoing basis. I also subscribe to you that both technology and competition are assisting to regulate the telephone rates. Finally we don't want to see an agency created that would ignore our duty to provide service and deter our responsibility for capital improvement.

Senator Wilson asked Mr. King if we can expect any legal discussion of the provisions of any of these bills, or does your testimony broadly address the policy.

Mr. King stated that his did not.

A copy of Mr. King's testimony is attached as EXHIBIT E.

Senator Wilson asked if any of the other utilities going to provide any testimony with respect to the jurisdictional legal questions on the operation of any of the three bills?

The question was answered in the affirmative.

Mr. William Laub of Southwest Gas testified next. I want to thank you for inviting us here today and listening to us. That's something that doesn't happen in the marketplace many times. I am well aware of the fact that on a scale of one to ten, utility executives probably rate one step below politicians who are one step below used car dealers, but be that as it may we do have a very great interest in what is going on here.

It is not my intent as you just asked, Senator Wilson, to offer a comparative critique of the various proposals that have been submitted on AB 58, AB 85 and the Initiative Petition. I want to address myself to some concerns of ours and I hope that I can share that with you. I should remind you that I only speak for Southwest Gas. I do not speak for any other energy utilities. We have met, the three of us, Nevada Power, Sierra Pacific and Southwest one time last week, and as you can imagine in a room full of lawyers there was no concensus nor agreement among anybody. I think I can say also that we probably don't disagree very much from what we are going to say.

First of all we are not opposed to the consumer advocate. In fact we would be supportive of that in the sense that this is an idea whose time probably has come. In saying that I don't want to downgrade the work of the Public Service Commission over the past many years. We've had our disagreements with them but we think that they have done, generally, a fair job in balancing the interests of the state, of the consumer and of the companies as best they can. It's a horrendous job. One I would not have. I am also aware though, on that same scale of one to ten, they are classed right along with us as far as credibility is concerned; credibility with the general public and for this the idea has come forward. I am well aware of the number of people who voted for - or rather signed the petition and that indicates the frustrations that the people of the state feel in being beset with increasing energy rates at every turn and we share that frustration. I am mostly concerned with the fact that however this consumer advocate is structured is sold to the public, or explained to the public, I for one do not believe that there will be any great savings or any great reduction in rates that will result from the creation of such an office. The Nevada utilities are not fat. I can merely point to our record of 1980 in Southwest Gas, for instance, our securities are rated B AA. AAA is tops, AA is next, A is next and B AA is next, now that means that our securities, our debt securities, have a definite speculative characteristic applied to them by the financial community, and that means the risk is higher if you should buy these securities and you should expect a higher return which means we have to finance probably between 2 or 3% more expensively than were we AAA. That is a direct result of the fact

that we are not overcharging the public. We did not in 1980 cover our common dividend. We had been paying \$1.16 per share; we earned 91¢ last year. I submit to you, where do you find any fat to cut an operation like that? I also want you to be aware that in our case, 81% of our overall costs are the costs of gas and fuel. Of that 81%, every bit of it is regulated by the federal government as to cost to us. I did not do a Nevada survey. We operate in three states, Arizona, California and Nevada. Our breakdown, probably on an average, is 45% Nevada, 40% Arizona and 15% California. If I broke it down by Nevada, I suspect that our percentage of cost of gas in Nevada is even higher because in Northern Nevada we buy Canadian gas - 70% of the gas supplied to Northern Nevada comes from Canada and that is the most expensive gas that is available to us. I suspect 81% is the company average and I suspect 83, 84 or 85% may be the Nevada average. Nine percent of our costs are directly related to operations and maintenance, 4% to debt coverage, and 3% to preferred and common dividends. All the percentages I gave you will add up in the case of 1980 to 101% which means that we had to borrow money. At short term rates, we can't even borrow at prime. We borrow at above prime for short term money. We had to borrow money to pay our dividend. That's pretty costly. We had nothing to plow back in. I only give you this kind of a horror story to emphasize the point that I don't believe that any kind of a consumer advocate should be expected to show great savings for the utilities.

Senator McCorkle indicated that was quite an important point. He asked Mr. Laub if he might respond to some of the statistics that David Schwartz gave the committee in previous testimony. He was talking about fairly substantial savings resulting from this advocate position, and, specifically, I will take for example, he said Columbia Gas of Ohio and Columbus - a 1/3 million dollar savings. I would think their circumstances would probably be similar to your company. The areas where they found savings were working capital, prepaid gas allocation - \$87,000; elimination of working capital of material and supplies - \$44,000; customer deposits, elimination of prepayments, deferred tax rate base deduction, cost of gas calculation and other things. Could you address those? I've always been under the impression that gas companies have a fixed price and that's the reason we pay such a high cost, and there's really nothing we can do about it, but this seems to indicate differently.

Mr. Laub stated that he did not want to directly confront those figures because he was not aware of what Dr. Schwartz testified nor where he got them and really, states do vary and companies vary as to the way they allocate costs. Columbia Gas, for instance, operates, I believe, in about twenty states in the east and allocations amongst them are difficult and different. There is another fact that I am aware of and that is in some states, not in Nevada and not in California, where the utilities ask for rate increases, they ask for an excess of what they expect to need. This is a little game they play sometimes. Ask for more than they expect to need and to get and when they are cut down by the commission, the consumer advocate or whoever else is involved in the hearing takes credit for that. I really can't speak to those

particular statistics Senator. If you wish I would be glad to research it from out point of view and if I can come up with an answer that would be helpful, I will submit it at a later date.

Mr. Dini indicated that he felt that it would be appropriate if he would.

Mr. Laub stated that it could be that the answer is that they don't know, but if that is the case we will tell you.

Mr. Laub stated that he is concerned with the expectations of great things to happen and then if they don't happen, frustration sets in by the people and frustration turns to cynicism, cynicism turns to anger and anger turns to, eventually, complete disregard of the rule of law, complete disrespect for people in authority and we have enough of that today. I think we see that every place, a disrespect for those whom we have elected and whom are appointed. You see it in the rising crime rate, you see it in various incidious ways and it is borne out of being mislead to attract great things and they don't happen.

Back in 1966 I was appointed Chairman of the Equal Rights Commission by then Governor Laxalt, and I was confronted then with the crisis expectations by minorities that suddenly equality and justice was going to happen because we mandated it to be such, but it did not happen and we became frustrated and we saw what happened during the 1960's. I don't want the same thing to happen here. So that is a big fear - how this agency is sold to the public and the expectations that the public may derive from it.

We have concern that the audit functions and the safety functions be split away from the commission and put with the advocate. We have grave concern. Audit should be impartial, it should be objective - the facts are the facts, the figures are the figures We think that that has no place in an advocate's office. The same with safety, the same with engineering specifications and compliance. Those matters are for someone other than an advocate. An advocate by definition takes a partisan point of view and represents a certain class of people. When we have this advocate, however he is designated and to whomever he reports, we should remember that he should represent all consumers. I think that means residential consumers and if that is the case, we should say it. In saying residential consumers, be aware that industrial consumers are entitled to their day in court and commercial and municipal consumers and also a whole class of people out there in Ely and in Pahrump and Pioche and Caliente, people heating with propane and heating oil who are not represented here and not paying their fair share under the taxation merit on the levy. Are they consumers? Are they utility consumers? They are not gas consumers, because we don't serve those areas, so there are some things that should be remembered as we go forward in these deliberations. One thing that I want to point out is the method of funding. Under one bill it is implicit that the method of funding continue.



I am referring to the mill tax levy on revenues. I think the Initiative Petition provides for that as well. I would hope that it would not be indexed to increasing revenues, because this could create a conflict right there. The consumer advocate representing residential customers and they get a whopping boost - somebody will come along and say he didn't really care. I don't think that's what you have intended and I don't think that's what the public calls for. I would like to see the funding come from the general fund and be paid by all taxpayers. I would like to see the consumer advocate be able to hire competent help, competent consultants, competent engineers, competent auditors, people of high regard who will testify and will not be commercial prostitutes. I would like to see him funded on an ad hoc basis. I don't have the figures here, I have them in my briefcase, but gas and electric, I assume, but gas for certain, is going to increase in cost over the next five years. That's about as far as we can look out. We had a long meeting with our principal supplier in the south, El Paso Natural Gas Company, and they gave us their five year forecast for gas costs. Now remember the gas that we buy we resell to people, customers. It comes under the Natural Gas Policy Act of 1978 and in that Act there are certain escalations mandated. If our gas goes up either 3 or 4%, and it just changed in 1981, plus inflation, so if you assume, and I think it is reasonable to assume for the next five years a 9% inflation rate, plus mandated increases in the federal law, our gas in the next five years - and it becomes deregulated in 1985 - we expect 189% increase over that period of time. Now we've got to reflect that back down. So over a five year period we reflect that back down to increases in the mill tax levy and you will have the best funded office you have ever seen here - gold plated, I assume, so I think that this office should be funded through the general fund on an ad hoc basis. It should not be indexed to energy price increases.

In that case let me be specific in one other thing and that just applies to gas. Our mill tax now I believe is assessed on those sales that we sell to Sierra Pacific and Nevada Power Company for steam generation of electricity and then that electricity is taxed again in revenues and it is a double bang, and I think that's unfair and I don't think that should be. We should eliminate inter-utility sales. That about covers the general concepts that I think that you should be aware in coming up with a good, decent workable piece of legislation for a consumer advocate. I want to also say that our people would be more than willing to work with your subcommittee on particular legislation in helping with some of the things that might get overlooked. We sometimes are at a disadvantage because the electricians are so much bigger and their problems seem to be more newsworthy and I want you to know that they don't necessarily speak for us and our problems are different in many cases, than theirs. That is the reason for offering to supply whatever help from us would be helpful to your staff.

Senator Ashworth asked if in Mr. Laub's field if he had a double prong problem with the escalation that we are all aware of in the energy area - that's one problem - and the other problem is because

of the inflation we have and the rate return on the dollar and the amount of money that it costs us for interest and when you try to get the rate of return for your investor, don't you run into a paradoxical problem there.

Mr. Laub stated that that was the problem that the Public Service Commission has had forever. They have responded to it as best they can. He further stated that he fixed that to his people all the time. We have four constituencies that we the gas company are responsive to. Our customers, our stockholders, our employees and the communities in which we live. It is our job to find an equitable balance between those four constituencies. That is not too far different that the charge of the Public Service Commission - to find a balance between reasonable service at a reasonable cost.

Senator Ashworth stated that what has happened if you look and try to graph out your rate of return to your stockholders, let's say over the last fifteen years, which has got to be a known factor, is that going to swing up like the inflation dollar - what I am trying to say is that if you would have had a rate of return, let's say back in 1960 of 6 or 7% which would have been good but today a 6 or 7% return in today's market just wouldn't cut it.

Mr. Laub agreed that it would not. We have to be competitive in the marketplace for funds - for financing - and to be competitive we have to raise our return and our rates. An 8% return 10 years ago is probably a 12% return now. Mr. Laub further stated that most of the consumer advocate's work would probably be in rate design, given a certain amount of revenue dollars that these utilities need. Who are we going to get it from? Industrial class? Commercial class - well that's little shops and big MGMs and who is best able to bear the burden. That is one of the things that he is going to be faced with and the Commission is faced with now.

Senator Wilson stated that most of Mr. Laub's comments were addressed with reference to the consumer advocate in the petition. In that connection, with reference to the mill tax funding of that office, I gather your concern goes to the level of funding in the light of accelerating energy costs to which the mill taxes apply rather than looking to that revenue as the source of funding.

Mr. Laub stated yes.

Senator Wilson stated that in other words you could cap it within the budget fixed by the legislature and that would eliminate your concerns.

Mr. Laub stated yes, kind of like the bracket treatment by the Internal Revenue Service.

Senator Wilson stated that with respect to AB 58 which is one of

alternatives, would you agree with the comment made by Mr. Scharman of Nevada Bell that the residual staff left to the commission for its day to day work is not adequate. You will recall that he was speaking to the fact that the 20 personnel left in the bill, consisting of nine technical people, ten administrative people and one deputy AG would not be sufficient to adequately service the commission which has to make the decisions in the last analysis, do you concur or do you have another view?

Mr. Laub stated that he had no view. I haven't studied it from the point of view of the workload of the Commission and what is expected of the Commission under that proposal.

Senator Wilson stated that in light of the fact that the agency staff under that bill would be adversary and would be autonomous both jurisdictionally and physically separate from the commission itself and I assume the only decision-making body left then is the commission, not just with respect to rate cases but with day to day orders that have to be entered, and with respect to rules, tariffs a whole series of questions that come before it daily. My question is then obvious.

Mr. Laub stated that that depended on what residual duties are left to the commission. They need to be staffed, and they need to be well staffed. Our complaint with Commission in years before, and I am not addressing this particular question, but we always opted for higher compensation for the people working for the Commission hoping that we could attract a higher grade of people, rather than paying at the bottom end of the scale and not being able to fill positions. There is no question about regulation - it's here and we will adjust ourselves to whatever is there, but good regulation is what we are after. If it takes more people - well I can't really comment on Mr. Scharman's testimony because I have not studied it.

*Which is the residual?*  
~~Mr. Dini stated that Mr. Laub had testified that when you were to provide the dividend, what did you the law division returns come in?~~ Is it because you can't increase the cost fast enough? Is the overhead going up faster than your increases by the PSC or at what point did this set in?

Mr. Laub stated that looking at last year alone, the principal reason - nobody can do anything about this. That contingency was taken into account by the commission in setting rates so if we had a warm winter as we did rates were not compensatory and did not go with the ongoing operation of the utility. Rate relief-in years past you've heard us talk about regulatory lag. We don't talk about that quite so much - in fact we don't talk about it in Nevada. Nevada has been really good about regulatory lag. We have a six month statute and we can live with that. It is what we have had problems with and the other gentlemen following me I am sure will talk more articulately on this than I have. The rates granted have not produced the revenues that the commission has said we were entitled to. You start with the fact that we are

a monopoly and we are not guaranteed a rate of return thereby. We are only guaranteed freedom from competition. There are no other gas companies in this state, but it does not mean that we don't have competition from other fuels - oil, propane and electric. We are not guaranteed a rate of return. All we are granted is the opportunity to earn the rate of return and the opportunity did not present itself in 1980 for ourselves and I suspect for the other energy utilities because we did not recover costs as quickly as they were incurred. It is a combination of things. I hope it is not repeated but it is the third time in our history that we did not earn dividends. 1956, 1976 and 1980.

Mr. DuBois stated that Mr. Laub mentioned his concern about having the auditing group shifted over to the consumer advocate's office. Is your concern based upon the fact that you think that in their auditing of the revenues and costs and so forth, that they will tend to slant their findings, stripping the residential side and perhaps shortchange -

Mr. Laub stated that he thought it was a very definite point - yes. By definition auditors should be objective and impartial and I don't see how they can be - working for a boss who is an advocate for a point of view. Exactly so - I am afraid there would be a built in bias - unintentional perhaps, but I don't see how people can avoid it. You tend to respond to your boss. If your boss is an advocate you tend to respond. It isn't just a black and white case of the books are the books, really, it is the interpretation that is put on them by others and I just don't think that you can avoid bias and you should try to avoid that situation. Again, we are talking in perceptions with the consumer advocate. I don't think he is needed, but the people think he is needed so perceptions are more important than reality. Let's don't get into a case where people perceive this matter biased. Let's keep him out there where he has no question of being impartial and objective.

Mr. DuBois asked if Mr. Laub felt that the consumer advocate would be more effective if the audit staff remained under the commission and then derived all of their information and data from that audit.

Mr. Laub stated that as he stated before, he should be funded sufficiently to be able to provide himself such auditing, such accounting services, financial services, engineering services as he would deem necessary in order to present the peoples' case. I think he should be funded for those positions; otherwise we will have what we have now. We, they say, have all the experts. The people have none. Let's make sure that they are properly and well represented, but not by the commission staff - by the audit staff of the commission.

Mr. Laub indicated that he would like to submit some remarks to the committee, not as he spoke of them during his testimony and also an article from the Wall Street Journal dated February 2, 1981 on the possible bankruptcies of electricians that he felt the committee should have. These are attached to the Minutes of this Meeting as EXHIBIT F.

Mr. Dini indicated that at this time the meeting would be turned over to Senator Wilson, who is the co-chairman of the day.

Senator Wilson indicated that the next speaker would be Gene Mattucci and Chief Counsel of Nevada Power Company. He stated that he was here to address the committee and to answer any questions he might be able to concerning AB 85, AB 58 and the Initiative Petition.

He stated that he did not have any prepared testimony to pass out and in this respect that he would like to point out to the committee, the position of the Nevada Power Company with respect to the Consumer Advocate. First, as quite eloquently expressed by Mr. Laub, we do not believe that a consumer advocate will be able to prevent the ever-increasing costs of the electric utility or the gas utility. We believe that the energy crisis is the contributing factor largely to the ever-increasing costs to the utility services. To this end, we favor any agency that might come out of this body with respect to improving the credibility of the regulatory process. I think that is what we are really talking about. That the consumers in the State of Nevada appreciate and approve of the regulatory process. To this extent I believe that my remarks will be more directed toward AB 58 than AB 85 and the Initiative Petition. The reason primarily is that AB 58 is much more definitive with respect to its terms than the other two pieces of legislation. Mr. Laub pointed out that the consumer advocate is representing all consumers. To this end I would like to point out that Nevada Power Company has annual revenues of approximately \$200,000,000 annually. This revenue is contributed by about 190,000 customers of which about 165,000 are residential customers and 25,000 are commercial and industrial customers. The breakup of the contributing factors between those two classes of customers to the total revenue is about 50-50. So the 25,000 customers of the 190,000 are picking up about 50% of the revenue. To this respect it is going to be extremely difficult for any advocate, consumer or otherwise, to represent all consumers on an impartial basis.

Senator Wilson asked if he was talking about the Initiative Petition and AB 58 in that context.

Mr. Mattucci stated yes. He further stated that with respect to percentages of income, in AB 58, he agrees with Mr. Laub that tying mill tax to electric revenues will create with the increasing revenues that we anticipate over the next five years being necessary because inflation alone would create such a well-funded body that it could probably take care of most of all of the agencies of the State of Nevada. On \$200,000,000 the 2.75 mills that we are now earning would be \$550,000 annually. In AB 58, the additional 1-1/4 mills provided therein for the PSC would be an additional \$250,000,000 annually, which is about \$800,000.00 annual on our revenues alone. Now when that's added to the revenues of the other utilities, it gets to be quite a sum. If we say these figures often enough and fast enough, it pretty quickly gets to be some real dollars.

Senator Raggio asked if Mr. Mettucci had any objection to that type of revenue, that there is a cap placed on it as Senator Wilson suggested?

Mr. Mettucci stated absolutely not. We do think that it might be better for the consumers to have it funded out of the general fund under that cap as opposed to increasing costs based on the increased utility rates for the reason that these costs are passed on to the consumer themselves. The more that it goes up the higher the utility goes up, so it's really a never-ending situation. It is similar to, and collected, primarily like a franchise fee or a business license fee.

Senator Ashworth asked if Mr. Mettucci had anything similar to what Mr. Laub had as far as a five-year projection on total increase over a five year period as far as his rate is concerned?

Mr. Mettucci stated that they did not. Our construction budget alone for the next three years was pegged at \$300,000,000. I am not going to tell you what the five year figure is because that is not definitive enough. The MX and our growth in Southern Nevada created problems. It is just a never-ending situation. We have a great amount of difficulty keeping up with it.

Senator Ashworth stated that we had an expert, a gentleman that testifies all over the United States in rate hearings who testified that maybe one of the solutions would be for the State to have an inter-tie, let's say, between the North and the South because the peak load argument - the peak load that they require in the North is at the opposite time that we require the peak load in Las Vegas, and, consequently, the capital expenditures throughout the State could be cut down by doing that. Could you give us any incite - do you have any incite as to transmission lines and tie-up between the two? There aren't any, are there?

Mr. Mettucci stated that at this point there isn't a complete inter-tie agreement between the North and South. It is anticipated that through the White Pine Project there would be a complete inter-tie from the North to the South when that project has been completed. It would be of some assistance because the peak in the North is, of course, in the wintertime and our peak is in the summertime, but we also have a winter peak which is rather substantial. Mr. Laub testified, I think rightly, that they are in competition for their services with the electric utilities in both the North and the South, which is true and we have a substantial winter peak also.

Senator Ashworth asked if we linked into Utah.

Mr. Mettucci stated yes, for inter-tie through Hell's Canyon.

Senator Ashworth asked if we inter-tied clear to Salt Lake City.

Mr. Mettucci stated that we inter-tied through USBR.

Senator Ashworth stated that it would appear to him that being familiar with both areas that Salt Lake City's peaks would be very similar to Reno's.

Mr. Mettucci stated they were and that they sell quite a bit of energy to Utah during the wintertime. Mr. Mettucci further stated that we sell a lot of energy to California from the Northwest through the inter-tie also.

Mr. McCorkle stated in discussing this position, we have really not mentioned MX and you did bring it up. I wonder what the impact of MX would be and how we deal with rate hikes. Is there an accomodation in this legislation that we should make to deal with the MX potential?

Mr. Mettucci stated that he was not technically completely familiar with that and I can tell you this. They have both the Air Force and the State Energy Division and Mr. Clark have been meeting with our technical experts on that. The load - we've heard numbers of 130 megawats, 30 megawats, these are large numbers -

Mr. McCorkle stated that his question was not how do you adjust, but how do we adjust in this legislation. Are there peculiar problems of MX which should be dealt with in this bill?

Mr. Mettucci stated no. I don't think so. Not in my opinion.

Mr. Mettucci stated all he meant to infer was that there will be a certain amount of fall-off on MX because assuming that it is developed at Coyote Springs, the main base, I would say a larger than 50% chance that a lot of those people will reside in our service area. This growth creates problems for us. When I say problems - growth is a problem for the electric utility industry today. But I don't think that you can address it in this bill.

Mr. McCorkle stated that one of the things that we are going to do in this bill was to define the number of staff. Well it may be that because of MX we will want to beef up the staff for five years, perhaps and then with the idea of cutting back. Is there something like that that we might want to take into account?

Mr. Mettucci stated that his personal opinion was that if he was sitting in Mr. McCorkle's position - it is kind of in a vacuum. He thought that the consumer advocate's bureau should be adequately staffed. I think they should have all the experts necessary whether or not they could actually employ technical people of the magnitude that they are now having testify, with the qualifications of their experts now testifying in rate cases, is problematical. I don't know whether they can get that type or quality in an individual or not in a staff on a daily basis.

Mr. Dini asked if the industry had a preference of placing the consumer advocate under the attorney general's office or your concept of leaving it under the governor's appointment?

Mr. Mettucci stated that he could only speak for his company in that respect. We do not believe that the attorney general should represent both the commission and the consumer advocate. We believe that's a complete conflict of authority. If the attorney general is going to represent the consumer advocate then the PSC should have the right to employ their own counsel to represent them in matters. I believe and we believe that it should be under the executive branch of government, whether or not it is subject to the advice and consent of the legislature, of course, is something for you gentlemen to discuss. We believe that it is properly placed under the executive branch. We liken it to the Commerce Department, the Insurance Department and the Real Estate Department or something of that nature. We do believe that AB 58 must be amended as it went to the printer in at least two respects with regard to the very question you have asked.

Mr. Mettucci stated that Section 40 precludes the PSC from becoming a party to any lawsuit or any appeal. I think that has to be eliminated. After all it is the PSC's order and if we can't take them to court on their order or the consumer advocate can't take them to court on their order, then it's kind of a wasted act. We believe a person could tie you up forever and frustrate the suspension periods of the statute or the act. There are some other minor, technical things of that nature which has to be amended out of it.

Senator Wilson stated that he assumed the same observation with respect to the AG's conflict would apply under AB 58. I think it has the AG representing both the commission and the customer's representative agency. Senator Wilson indicated that Mr. Mettucci raised the point that we had raised in the course of our hearings and that's what the jurisdictional implication may be under AB 58 of the commission not being a party. It can't be sued, it is not a party to an appeal, it is not named in the appeal taken to District Court by the agency or the advocate cannot I guess on its own motion respond in an appeal and I gather you feel that that's a jurisdictional defect of AB 58.

Mr. Mettucci stated yes they do. We feel that the PSC should have the right to sustain its position in front of the court, its jurisdiction in front of the court and the reasons for its action in front of the court.

Senator Wilson stated that the question he had is that if the agency or the advocate or some third party of the utilities seeks to stay the commission's order, or the district court on judicial review seeks to stay or remand it for further findings on a redetermination based upon those findings, I always thought you had to have the commission or the party before it to have jurisdiction to do that.



Mr. Mettucci stated that he believed it would too, but I can tell you that in the seven years that I represented Nevada Power we have never been able to get a stay.

Senator Wilson stated that he would like not to process a bill and find that a District Court doesn't have the jurisdiction to do the things it perhaps ought to do in review of a commission decision or order.

Mr. Mettucci stated that another reason why he believed that the commission should have the right to go to court and should have their own independent counsel to sustain their position.

Senator Wilson asked if Mr. Mettucci's company had a view with respect to the staffing level left in the commission office under AB 58, that is to say, the 20 personnel, nine of whom are technical, one of whom is a deputy AG and 10 of whom are administrative?

Mr. Mettucci stated not really. He indicated that the only position that they would have on that is that the present staff of the commission, I don't know how they want to divide it up in numbers, at least in our matters we believe that they have always taken the position that is anti or opposite what the company believes and in favor of the consumer already in their auditing procedures.

As far as numbers go, Mr. Mettucci stated, I am not in a position to comment on it as to what the numbers are.

Senator Wilson stated that he hoped that somebody does on this question sooner or later because I have some reservations in my judgment, frankly, as to what the Public Service Commissioner said, what the proponents of AB 58 have said, what the proponents of AB 85 have said with respect to the requisite staffing levels necessary in the commission. The problem I am having is that AB 58 would take all of the staff and make that staff agency an advocate and would leave with the commission merely the staff that I just suggested on the theory that that staff would aid the commission in making the ultimate decisions and orders, but that the new consumer representative agency then would become an advocate, with the job to advocate the consumer's point of view. What I have been trying to get from witnesses, not just today, but earlier, and from the governor's office as well as the commission, is some kind of a judgment as to whether or not the staffing provided in AB 58 is adequate or whether under that proposal down the line we are going to find ourselves building a duplicate staff and doubling the budget because of what we have provided in that bill is not adequate.

Mr. Mettucci stated that he did not believe that that would be to the benefit of either the consumers or the PSC.

Senator Wilson explained that that was why he raised the question.

Mr. Mettucci stated that as to the numbers he did not have any idea and I am certain that the committee was more familiar with the number of employees they have. He indicated that he could tell the committee that there are certain people in his company that believe that they already have too many people on the staff but he really can't comment.

Mr. Mettucci stated that they thoroughly audit every time we have a matter. They are required to hire some outside experts occasionally and they have been hiring expert experts recently. I would think that the staff that they now have is more than adequate for this.

Senator Wilson stated that what he was saying was that the bill proposes to transfer all of them save 20 to the consumer representative agency.

Mr. Mettucci questioned Senator Wilson if it would be all but 20.

Senator Wilson indicated that it would be all but 20 and that would be 60 or 70 people and what Senator Wilson was trying to say that there would be only 20 people left to the Commission, none of which are technical, 10 of which are administrative and one of which is a deputy AG and the question I have is that whether or not you have left with the Public Service Commission adequate staff, both administrative and technical, but particularly technical to assist the commission in making a balanced judgment not just in rate matters but on the day to day traffic that comes from the office that requires orders and resolutions. I understand your feeling about the size of the staff and the fact that perhaps it is already adversary enough; my concern is whether or not the judges left in this matter, the Commission itself, will be adequately staffed to do an adequate job.

Mr. Mettucci stated that he really could not answer that question.

Senator Wilson stated that that was fundamental to the thrust of AB 58 in my judgment and one thing I don't want to do frankly is in two years see that what we've done is had to duplicate in the Commission, the staff we have separated off and made autonomous with the utility customers' representative agency. Presumably we will get some probing and incisive testimony from the Nevada Public Service Commission on this proposition, which is a proponent of the bill, but we've not had it from a proponent yet. I thought perhaps the utilities which come before the Commission might have some judgment because they experience the effectiveness of that staff on a day to day basis

Mr. Mettucci stated that he thought that if you were and required to and did staff the PSC and the consumer advocacy on a one to one basis you would be doing a disservice to the consumers and to the State of Nevada.

Mr. Vernon Dalton testified next. Mr. Dalton told the committee that he was a cattle rancher 12 miles south of Wells, Nevada and he has also served on the Board of Wells Rural Electric Company since its inception. Mr. Dalton presented copies of his presentation to the committee which is attached as EXHIBIT G to the Minutes of this meeting.

Senator Blakemore asked Mr. Dalton what his rate was per kilowatt hour.

Mr. Dalton replied that they had several different rates, but to the average consumer it would be about 8¢ per kilowatt hour at this time.

Senator Wilson stated that Mr. Dalton made a point, but he wanted to be sure that he was clear on it, that Mr. Dalton - the cooperatives are not now, subject to the PSC jurisdiction. Is that correct?

Mr. Dalton stated that most of the cooperatives are not. He believed that Valley is subject to it. He stated that he knew that Mt. Wheeler and Wells Rural Electric are not.

Senator Wilson asked if Mr. Dalton knew off-hand what the distinguishing factor is as to whether or not one is and one is not.

Mr. Dalton indicated that he did. You have to have 100% membership of consumers to be exempt.

Senator Wilson stated that with respect to that classification, 100% of your consumers are members. Those are not now subject to PSC jurisdiction.

Mr. Dalton stated that was correct.

Senator Wilson stated that Mr. Dalton then was saying that they ought not be under any new bill.

Mr. Dalton indicated yes.

Senator Wilson further indicated that perhaps what Mr. Dalton was saying was that if any consumers are not members, they ought to be whether status quo or under a new bill.

Mr. Dalton stated that he would think it would behoove any consumer from a cooperative to be a member.

Mr. McCorkle stated that Mr. Dalton had just brought up an interesting point. He stated that he was thinking of the Trans-Sierra Water District which they are just considering taking over. He asked Mr. Dalton what would happen with that? He indicated that he thought it would be an improvement district or a water district of some nature, perhaps its limitations should be broadened beyond the verbage-exempt cooperative utilities to some other term. What was

Trans Sierra Pacific? Was it an improvement district.

Senator Wilson indicated it was a 318 Improvement District and I don't think they are regulated per se by the PSC. I think that that is the case.

Mr. Dini stated that there are two types of water companies that are not covered by the PSC and one is a cooperative and there is another class. Most of the problems with the small utilities has been that they can't get their rates fast enough to retain their solvency and that is why it was looked at in our water survey last summer.

Mr. Joe L. Gremban, President of Sierra Pacific Power Company testified next. Mr. Gremban testified that they have been asked a number of times whether or not we would support such a bill or such a position and very definitely we would. We have testified in the last two sessions in opposition to such a position. We were primarily concerned about the cost involved, the way it had been proposed at that time it would have added anywhere from \$250,000 to \$500,000 in additional cost which would have had to have been borne by the consumer. It has not changed any actually as far as the new bills are concerned, our estimate on AB 85 would be anywhere from \$200,000 to \$300,000 and on AB 58 it could run about \$330,000 just to Sierra Pacific Power itself, as far as that mill tax rate is concerned. We questioned at that time to whom the consumer advocate would represent. Once the total revenues of the utility are established, then the question becomes how those revenues are to be determined as to how much we get from each class of customers we serve and we do serve the residential, residential with electric heat, commercial, industrial, large industrial, the governmental entities and we have always said there is no free lunch. If you take it away from one, you have to apply it to the balance of the customers involved so that had been a very distinct concern of ours.

We also felt that the public utilities commission had been doing an adequate job and I think looking back to 1974 when we were first hit with these rising utility costs we have been able to determine that of the total amount of rate relief we had requested, the Public Service Commission only granted us 63%. However, we feel also that it is the perception of the public that the Public Utilities Commission does not adequately represent them and in view of that I think we should have a consumer advocate office where they could feel that they have specific representation.

I believe there is one thing we should caution the consumers on, however, and that is the fact there just aren't going to be hundreds of millions of dollars in rate relief available to them. Our own revenues are only \$235,000,000, so I think it is quite obvious that hundreds of millions are not available.

I think if it is permitted, I would like to share with you some of the reasons why utility costs as far as they affect Sierra have been

rising. I am sure that they have been rising just as rapidly for Nevada Power and Southwest Gas, but we will speak for ourselves only.

If I may, I would like to use some charts to support the comments I have to make.

We have been very much concerned about the comments regarding rising utility costs ever since the cost began to skyrocket following the oil embargo in December of 1973. In trying to determine just what the major impacts were, we reviewed all of the rate cases we had since that period of time and discovered that in the electric area we had had about \$120,000,000 in rate relief, \$90,000,000 or 75% is attributable specifically to rising fuel costs and to the cost of power that we purchased from other utilities. In the gas department, we have had approximately \$53,000,000 in rate relief and of that amount \$50,000,000, or 96% is specifically attributable to the cost of natural gas that we purchased.

We then separated the two so that we had the fuel cost increases and the general rate relief that we had requested and compared this to the consumer's price index and that is part of what I would like to review with you.

Mr. Gremban then explained the various charts which he had provided to the committee and which are attached to the minutes of this meeting as EXHIBIT H.

Mr. Polish indicated to Mr. Gremban that they did not show anything on nuclear where they started 15 or 20 years ago and then breaking it down in the last five years. I was just wondering if there was any particular reason there because it is a competitive force there working.

Mr. Gremban stated that the only reason he had not mentioned nuclear is that we don't have any possible opportunities of getting involved with nuclear generation. We are not constructing any nuclear plant currently and with a 12 to 14 year lead time it is very unlikely we will be going into it very soon. However, you are absolutely correct. The price of nuclear power is much lower than even coal and the cheapest source of power is hydro and we have no source of additional generation for hydro here in the northern part of the state so that is pretty much out of the picture except for some small hydro plants so I think that pretty well puts it into perspective. The next time we put together some slides, we are going to include hydro, nuclear and coal.

Mr. Gremban then returned to his explanation of the charts presented to the committee.

Senator Wilson questioned Mr. Gremban as to what is included in the portion of the charts that were labeled "other costs".

Mr. Gremban stated that that was depreciation, taxes, property taxes, labor, materials and supplies, services and all other costs

other than fuel.

Senator Wilson indicated that those had gone up substantially as well.

Mr. Gremban stated yes - that the first chart had indicated that those costs had also risen, but still not quite as rapidly as the consumer's price index. I have made the calculations directly from the other chart but that would have been the indication that it would have gone to 100 to 220 price index change, so that is still a little more than doubling.

Mr. DuBois asked Mr. Gramban where the cost of new plant capital costs come in.

Mr. Gremban stated that new construction would be represented in terms of depreciation, any operating costs that would be involved, interest costs would be other costs.

Senator Wilson stated that those were running substantially proportionately to your fuel costs.

Mr. Gremban stated that it went from 1.35 to 3.06 or about 1.06 cents vs .6 cents to \$3.70 or 3 cents.

Senator Wilson indicated that in 1979 they were up to 42.8% and in 1980 you are up to 45% fuel and purchase power costs. The fuel and purchased power costs have gone up dramatically from your prior chart, but so have the others.

Mr. Gremban stated that the fuel and purchased power costs as noted from here, the gas, and we do use gas for generation, oil and we do use oil for generation and you can see compared to that price index, the consumer's price index, how materially they have increased - 700% in natural gas costs. 385% in oil costs. That is where the tremendous increase - the tremendous impact has occurred.

Senator Blakemore indicated that Mr. Gremban did not indicate that he is restricted from using pure Nevada oil.

Mr. Gremban stated that they use as much of it as we can.

Senator Blakemore stated that they are forced to blend with either California or Utah oil because Nevada oil goes to 1.32. Therefore you have to buy it out of Utah or California at a much higher rate.

Mr. Gremban stated that they had to restrict the emissions to .8 of 1% sulphur content. We purchase the lower cost high sulphur oil and blend it with the higher cost low sulphur oil and as a result of that we can minimize the prices that we pay. Now in comparison, what we were buying averaged \$25.00 per barrel and California where they have .2 of a percent sulphur content restriction they were buying Indonesian oil at \$40 to \$42 a barrel which is considerably higher.

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Mr. Redelsperger asked Mr. Gremban how much their electrical power was per kilowatt hour in 1971.

Mr. Gremban stated that it was 1.95¢ per kilowatt hour to the residential customer.

Mr. Redelsperger asked what it was today.

Mr. Gremban stated it was about 6-1/2¢. Mr. Gremban stated that oil and natural gas were the cause of the whole thing.

Senator Wilson questioned Mr. Gremban as to the other costs indicated on the chart represent 45% your fuel costs representing 55%.

Mr. Gremban stated that was correct.

Senator Ashworth stated that he thought that the thing that was confusing about Mr. Gremban's chart is that you start out there with 67.5% to a 32.5 on the graph and you can't use this graph here. They don't correlate.

Mr. Gremban stated that if you looked at the 1.35 versus the 3.06, it is just over doubled as it is indicated on the first chart.

Mr. Dini questioned Mr. Gremban as to "other costs" on his chart. He asked Mr. Gremban if "other costs" are due to accelerated rate of building a new power plant? He wanted to know if that was built in there already or if that was to come.

Mr. Gremban indicated that that would come. They have been building facilities. For example, constructed at 345,000 volt line to Idaho which is partially reflected in there because we have not been permitted to recover or recapture all of our depreciation costs, very few of our actual operating costs just because of the way the statutes direct the Public Service Commission to allow those cost increases to us. Under the present statutes it will take us two years to begin recovering full depreciation on it, so that line is partially represented in other costs. There is none of our current power plant construction represented there because consumers are not paying any part of the actual construction costs.

Senator Wilson asked Mr. Gremban if he would supply the Joint Committee with copies of the charts that he was referring to. A copy of the charts is attached to the Minutes of this Meeting as EXHIBIT H.

Senator McCorkle stated that the charts were a fairly vivid illustration that the costs were uncontrollable. I wonder if you might make a point of addressing the same question I asked Mr. Laub. One of my reasons for support of the Consumer Advocate is that we have received evidence that it can do some good. I wonder if you might take some of the illustrations of where reductions have resulted from an advocate and perhaps among the various utilities give us an evaluation of that information. Because if it is not accurate I think we owe it to the public to disclose the fact that many of these costs are not controllable, and that perhaps we are simply going to an exercise that may

not yield results.

Mr. Gremban asked if he could address Senator McCorkle's question with his next chart.

Mr. Gremban stated that the comments have been made many, many times that the utilities have a guaranteed rate of return and they have excessive profits and I think the chart portrays pretty dramatically what has happened since 1973 when the oil embargo hit to the present date and tabulates the deficiencies that we incurred. We frequently see remarks that people make that we are guaranteed a profit. We are not guaranteed anything but the opportunity to try to earn what the Public Service Commission has found would be an appropriate rate of return. Mr. Gremban stated that the top line represented the rates of return on common equity that the Public Service Commission has allowed historically. 12-1/2% in 1974, increased to 13.75, up 14.00 and currently 15%. In this period of time we have actually earned the bottom line dropping as low as 8.3% in 1975, 9.4% as of December of 1980. The red line represents \$25,000,000 of deficiencies in earnings in this period of time. In answer in part to Senator McCorkle's question, in the same period of time the Public Service Commission denied us \$25,000,000 of revenues that we had requested. This represents a return on earnings, or after taxes. So had we taken that \$25,000,000 that was denied it would have improved our position here by roughly \$13,000,000, but we still would have been \$12,000,000 deficient in earnings. So, in other words, we are not asking for things or amounts that we would not be entitled to, we are asking only for what we feel we actually need in order to maintain a financially healthy company so that we can provide adequate, reliable service at as low a cost as possible.

The specifics as to what a consumer advocate could actually accomplish, very honestly I am not aware of anything that they could really reduce our returns on, particularly in view of the fact that we are already efficient. The Public Service Commission auditing staff has been responsible for reviewing our records, financial statements and to determine whether there is anything that has been misrepresented inaccurately recorded, or whatever. I cannot really envision that the consumer advocate could do any more than what the Public Service Commission or its staff has done so far.

Senator McCorkle indicated that he believed when that issue would have come up would be if we would have had a consumer advocate department separate during this period of time that you have asked for that \$25,000,000 and that increase had been denied by the commission, they would have taken credit that to the consumer they saved \$25,000,000 and so consequently they would say what this office in fact has saved the consumer \$25,000,000.

Mr. Gremban stated that Senator McCorkle was absolutely correct. He further stated that the statement has been made that in 1976 the county had intervened in a rate case and substantially reduced the amount that the commission had granted us.



Senator McCorkle stated that the \$25,000,00 is only for Sierra Pacific.

Mr. Gremban stated that it was only for Sierra Pacific.

Senator McCorkle stated that if you took Sierra Pacific and all the other power companies and add it up, the denials that have been granted by our present Commission, there is no telling what we are talking about.

Mr. Gremban stated that that was correct. He indicated that he thought that Nevada Power had indicated that they had not even earned their dividend this year. In 1980 Southwest Gas indicated the same thing. I think it is obvious how deficient they are. In 1980, and you can see what a drop this is, and working from the 14, not the 15, (Mr. Gremban was referring to the chart again), we were deficient by \$8,000,000.

Senator McCorkle stated that he was not sure that what Mr. Gremban said was accurate because all of the evidence in this report was that the final settlement was less than what the PSC staff requested in each example they give. And what we are saying here is that the PSC staff itself was the one who reduced your earnings below what you would have had otherwise and this is saying that the advocate would have gone even below what the staff recommended.

Mr. Gremban asked if he could clarify that somewhat. We say the Public Service Commission staff recommended a certain level. We have to remember that the Public Service Commission itself does not have to go on either the staff's or the company's recommendation. They will form an independent judgment and if in their opinion, the staff overlooked something or we had overlooked something, they can reduce it even further.

Senator McCorkle stated then the question is on the \$25,000,000 how many times did the commission not follow the staff recommendation.

Mr. Gremban stated that he honestly did not know. We would have to try to determine how much the staff had recommended versus what the commission finally granted.

Mr. Redelsperger stated that if they were going to split the staff off from the Public Service Commission and in the past they recommended a certain amount and the Public Service Commission themselves have come up and only granted half of that amount.

Mr. Gremban stated that he very honestly did not believe that it was anywhere near half of that amount.

Mr. Prengaman stated that he just wanted to add to what Senator McCorkle said. Those testifying in favor of the petition have indicated that the savings they are talking about have been over

and above what the PSC staff has recommended, so the offices in existence and savings that they are taking credit for, a lot of them, is not due to the PSC staff. It is due to their own efforts. That point has to be made and absolutely clear.

Mr. Gremban stated that they would review those figures and make them available.

Senator Ashworth stated that he thought the thing that you needed to look at on those companies would be the rate of return that those companies are making on the dollar invested and compare it with these before you can actually have a meaningful analysis for the simple reason that if they are only making 9.4% right there on that chart, if you took another million or two away from them you would end up with nothing.

Mr. Gremban stated that at this point they are put in the position we have no alternative but to come back in and ask for rate relief.

Senator Ashworth stated the problem he sees is if we go back to the public now and let's say that the bill passes and we get a consumer division that is entirely apart and separate. With the projections you are making and with the other projections we've gotten from people like Gene Mettucci and Mr. Laub from the vantage point of the escalating fuel costs that you are projecting over the next five years, which is a variable cost and not a fixed cost, the problem is going to be that the thing is going to continue on a vertical line straight up and the problem is that's just going to happen. That is the economy we are living in right now. I don't see any way to get around it, unless we get some alternate fuel, such as solar, something like that, then we are in a different ballgame, but as long as we use the conventional fuel that you are using right now, there is not going to be any reduction by a consumer office.

Mr. Gremban stated that the costs are going to continue to go up. There isn't any question about it. Talking about alternative fuels and looking into the possibility of finding a source of energy that would be less costly than oil or natural gas, and it has been suggested for one thing that we enter into purchase agreements with other utilities so that we can take advantage of whatever amount of energy they have available. All utilities are in the same bind that we are in. There isn't a utility that we have interconnections with that is willing to sell their lower cost energy to us. They want it for their own consumers. Therefore, the only thing that is available in purchased power from other utilities is their higher cost power. We have to have our own supply and we have to keep moving towards it. We have looked at solar; we have made a proposal to the Department of Energy to retrofit 70 megawatts of one of our four Churchill units to solar energy. The cost of so doing is about \$150,000,000 or \$2,500 to \$3,000 per kilowatt of installed capacity. This is without the plants since we already have the plant. They have a test facility they are constructing at Barstow, 10 megawatt; the

initial estimate was \$150,000,000. That is \$15,000.00 per kilowatt of installed capacity. Just the interest cost on that alone - you can buy a lot of coal. So solar still is not the answer as far as generation power is concerned. We think it has to be proven and we want to be part of this project with the Department of Energy. Now geothermal - we are looking at geothermal very seriously. We have tried to drill and get the source ourselves in 1963. We were unsuccessful. We had subsequently then almost ready to go ahead with the pilot plant in 1972 when the developers wanted to price the cost of steam coming from the unit at the same level, or 10% less than oil and natural gas. Thank goodness we didn't go because we all know what has happened to oil and gas since then. They still want to price the energy from geothermal at those levels and that means about 60 mills we can produce using coal at about 35 or 40. There is no incentive at the moment. Now we don't have the financial resources to acquire leases, to go into a drilling program ourselves. So we find that there is some difficulty in coming up with these alternative sources. Nuclear - we all know what the problems are as far as nuclear is concerned. We think that the State of Nevada would accept it, but when you start building nuclear power plants you don't get just opposition from the State of Nevada - you get opposition from all over the country and the lead time is anywhere from 12 to 14 years. A coal fired plant is our only alternative right now and that can take from the day you begin planning and asking for permit and environmental studies, it takes about 8 years to complete.

You might say why haven't we been on coal? Well, very simply, when we were constructing our power plants initially in 1960 and 1970, nobody envisioned an OPEC. We were using the lowest cost energy source that was available to us and that was gas and oil. They were cheaper than coal. Unfortunately we see what has happened since then. We cannot convert; we cannot get on to that energy source fast enough. We have heard people say don't build any more facilities. You saw the price of oil and natural gas. If we don't build and get on to coal, that's what we have to look forward to.

Not only do we have to provide for growth that is taking place in this area and in the 1970s the growth was 74% in Nevada compared to a much, much lower national average. The Bureau of Census says that it is going to continue in Nevada. We don't know what is going to happen with the MX. Mining is increasing very rapidly. Anaconda alone, near Tonapah, is going to take any where from 30 to 40 megawatts of capacity. Every mining load is three to seven megawatts of capacity. We can't get off of it, so we have to build for the increasing loads and we have to get off of oil and gas.

Senator Blakemore asked what the bond rating was now.

Mr. Gremban stated that their bond rating at the present time is an A and if they went into the rating agencies with a rate of return of 9.4% to get a bond rating, I am afraid there is no question they would de-rate us to the BBB. The difference in costs between the A and BBB are not less than 1% interest costs. On every million that is \$10,000 and under the terms of your indentures you must have earnings to cover

those interest charges and that is an additional \$40,000.00 so it is \$50,000.00 a million for every million that you issue. We issue between \$40,000,000 and \$50,000,000 a year - we are talking about additional cost to the consumer of \$2,000,000 to \$2,500,000 if we lose our rating. Now we are issuing every year and it is cumulative.

Mr. Polish asked if Mr. Gremban had ever looked into exo-thermal energy?

Mr. Gremban stated that Mr. Polish would have to explain that to him.

Mr. Polish stated that a gentleman had a process of fueling where you just burn plain dirt. You just take ordinary earth - sand burns the best - you don't need very much of it - and the end product is environmentally clean. It produces no smoke - the smoke dissipates into water.

Mr. Gremban stated if it was feasible at all I am sure for it.

Mr. Polish stated that he would show Mr. Gremban some of the information because they had a gentleman in White Pine County set up these bricks and they started the fire there. We were trying to use it in a mining process where you put different minerals there - it just burned 3,000 degrees. We could not get a way of getting into the four corners for an experiment there to see if we could build a little mine. This just went right on burning. A glass of water was thrown into it and it burned all the better.

Mr. Polish stated that here we have the powers that be with gas, oil - and here we are knocking down the safest, the cleanest the best which is nuclear power and here is a super one. I would recommend if there is anyone that has never heard of it I'll have to get some of these things and duplicate it for you. Mr. Polish stated how about looking at hydrogen - we have oodles of it in the atmosphere and we have it in water.

Mr. Gremban stated that the industry itself, has been doing a lot of research in various and alternative forms of energy including magnidohydrnemics, hydrogen and I understand Niagra Mohawk is supposed to test a pilot plant using hydrogen. We will be following that one very closely. As a matter of fact I would like to see this information you are talking about, because we are ready and willing to talk with anyone if we can come up with an alternative source. We want to be able to prove solar that it is or is not feasible. We want to develop geothermal but so far we have run into pricing constraints. We want to look at every conceivable approach to developing energy. Fusion they tell us is a long ways off - I agree with you, nuclear is going to have to come because we can't develop mines fast enough to take care of our problems. If we were just going to convert from oil to coal an oil generation is about 40% of the total generating source of fuel and coal is about the

same thing. We are burning about 400,000,000 tons of coal a year. How many mines do you need for 400,000,000 to just get off of oil? How many coal cars? Locomotives? Trained miners and everything else that goes with it. It's unbelievable - it is staggering. We need nuclear.

Mr. DuBois stated that a number of utilities are more or less discovering another source of energy and that is conservation. Some of the major utilities - such as P.G. & E. are going to very extensive programs regarding domestic solar water heating and weatherization of homes. I know that three utilities in Washington and two in Oregon are doing the same thing - no interest loans, and they had it pretty well figured out that the cost of financing these programs pretty well pays for itself - in other words, it is a substitute for building new plants and a substitute also for having to purchase new fuel. As I see it, Nevada is extremely lacking in that area. Do you think that a consumer advocate who would be focusing his attention on the needs of the residential customer might be more prone to developing programs and working out the financing with utilities to the benefit of the consumer?

Mr. DuBois stated that that apparently is where they feel rate savings lie.

Mr. Gremban stated that if there are savings he believed that that was a study that should be made to determine what the costs are either way. We have experienced a very definite trend towards conservation. We have been promoting conservation for years. We are promoting solar heating for water and our own staff is geared to work with any individual who want to come in and determine the best way to approach it - what the cost would be and so forth. Very definitely there has been a trend to wood burning in our general area as noted by our heavy smog at times in the morning. I think you have to look at it very carefully and take a look at it utility by utility. In Washoe County they have had an insulation law on the books since 1970. Probably half of our homes have been built since that time and do follow the insulation standards. Although, sometimes you can even add to that. You then are faced with the question of those 50% who are not going to insulate and the other 50% are. So all of them are going to bear the costs of giving no interest loans in order to promote it.

Mr. Gremban stated that you have to take a look at the total impact. The Public Service Commission is holding hearings on these things. They are mandated by the National Energy Act to hold these hearings so I don't think the consumer advocate would really be able to promote that. They would have to do an awful lot of studying to be able to justify that position. We are in full favor of it. If it can save the consumer something, we are all for it.

Mr. DuBois stated that P.G.& E. gives away free a wrapping for water heaters. They feel that in the long run that this is going to conserve their needs for new plants and they have it calculated that

even a non-participant who is not going into home insulation. They have it figured out - these are big companies. It surprises me that in Nevada - outside of a few little programs - has not really explored this area. It seems that a consumer advocate might be more motivated to get into these areas, as I see it, I think they are the only areas to lower rates.

Mr. Gremban stated that he believed that the Public Service Commission has mandated that they must look at those things and they will. They are holding hearings on time of day rates, on lifeline rates and various other alternatives. I agree with you. There very definitely can be savings in or through conservation, but we also have to keep in mind that Nevada has been growing so fast that in spite of conservation our demands still exceed the amount of energy savings.

Mr. Gremban stated that as a result of this dip in earnings at the present time under their indentures they are not able to sell preferred stock. Under the indentures they are limited to a maximum of 70,000,000 of bonds that they can issue and they have already 40,000,000 in term loans that have to be replaced with first mortgage bonds which would only leave them 30,000,000 dollars for financing for the balance of our construction. The balance of our construction program for 1981 is estimated at \$75,000,000 so we are in difficulty when it comes to raising that type of capital.

Mr. Gremban stated that he believed that we have to take a look at the long-term impacts on energy costs. We should be getting on to coal and getting off of oil and natural gas because if we don't, it is going to cost us for every year we delay, for example if we have to delay Valmy II because we don't have the capital available, \$10,000,000 just to inflation, \$10,000,000 in capital costs. We can almost offset the costs of capital and operating costs on new coal fired units with the savings in energy costs from going off of oil and gas to coal. The difference in prices of the two is about 50%. Coal is about 1/2 right now of oil and gas and we can see what is happening to oil and gas in the future.

Mr. Gremban stated that as far as the consumer advocate department position is concerned we do have some concerns over and above my initial comments that we think should be addressed. We think that the bill should provide for judicial review, prompt judicial review, and it should permit the advocate and the utilities to sue the commission on rate matters. We feel that section 3 and 5 of 700.104 should be repealed because those sections state that a utility could be precluded from getting any rate relief because we are not permitted to file an application with respect to the issues that are important. It was intended initially to reduce the number of rate cases that utilities were filing. There was also initially indicated that with respect to the issues that the utilities took to court they should not be able to file an application on, but this would open it up to everybody making a filing and could preclude us from getting any necessary rate relief.

Mr. Gremban stated they felt that very careful consideration should be given to the auditing process to provide for a thorough, impartial audit of the utility's operations. We think that we should very carefully evaluate where a policing and enforcement responsibility should be, whether they are to be with the consumer advocate or with the public service commission. We think there should be a statement in there saying that the commission also has the responsibility not only to maintain the rates as low as possible, but to also protect the financial ability of the utility to provide services and to acquire the necessary capital to continue operating. We think there should be some consideration given as to how this information is going to be disseminated to the public. We feel there ought to be some sort of a sunset provision in effect that in two years time they come back to the legislature to determine whether they have been effective or whether there is any need to continue on with the position.

Mr. Gremban stated that we ourselves are willing to work with committees and with anyone who is involved to provide all of the information that you may need as to what the impacts are on utilities or as we might see them on the consumer.

Mr. Nicholas questioned Mr. Gremban as to whether or not the recommendations just made were in writing so that we may study them?

Mr. Gremban stated that they can summarize them and put them in writing and I did not have a printed or written presentation at all. We can certainly put these suggestions in writing for your consideration, as well as a copy of all of the charts and graphs.

Mr. Nicholas stated that Mr. Gremban had been well prepared and that this was not a critique of not having your recommendations available.

Mr. Prengaman stated that Mr. Gremban had mentioned quite a disparity between the domestic supply of natural gas and the Canadian supply. I am wondering how long you are committed to these Canadian suppliers that we know are going to keep increasing at a very rapid rate.

Mr. Gremban stated that their contract with Southwest Gas runs through 1987, but I think very basically the problem lies in where is the source of natural gas. The domestic supplies have been fully committed and just were not available to us. We have then suggested that we could try to go to Mexico - the Mexican price of gas is about the same as the Canadian - they have suggested we go to Texas, but that is all committed and not available to us so we ourselves have formed an energy subsidiary so we can go out independently and try to come up with a domestic source of natural gas. So far, and it's just a start, we are participating in a joint venture that has an interest in one well that came in at 5,000,000 cubic feet a day - our interest is only 7%, so we need a lot more, but we are hopeful that we might be able to augment some of those supplies with our own domestic source.

Mr. Prengaman asked what the advantage of getting into a long-term contract with Canadian suppliers without some advantage in terms of price. I don't understand it when they raise at will. What was the benefit of the long-term contract in the first place?

Mr. Gremban stated because there was a source of natural gas available and at that time they had long-term contracts that guaranteed the price, but those contracts did not mean anything when you come right down to it. They were ignored by the various provinces in Canada and they have established their own pricing mechanism which they have said many times, they are going to price natural gas equivalent to the price of oil, so again we can just see that going on up and up. We are tied in - we are locked in because the sources are not available.

Mr. Redelsperger asked Mr. Gremban about the joint ventures which were formed and asked Mr. Gremban if they had look into joint ventures with some of the geothermal leaseholders in the State of Nevada. I understand there are some promising holdings in the State and maybe it would be wise to research this area.

Mr. Gremban stated that they were researching it very definitely and we are looking at it. At the moment we don't want to disclose any information that we don't have to with regard to it, but as far as the major developers, they are oil companies, and they are not interested in a joint venture with us, but we are still looking and hopefully we can come up with some independent developers who are willing to look at perhaps a higher rate of return for them with some real benefits to us. If we can develop geothermal at a cost lower than coal, it would sure encourage the development of that supply of energy.

Mr. Redelsperger asked if they had any geothermal leases now in the State of Nevada?

Mr. Gremban stated that they don't because they cannot finance it and we are not certain that the Public Service Commission would allow them to recover those as costs since it is not actually plant releases that are in service. There would be some questions. We also have some problems as far as the current laws and the current statutes are concerned if we invested let's say \$50,000,000 in a geothermal facility and the thing - the reservoir expired after about 1/3 of the life, who is going to pick up the undepreciated cost of that plant. We are not certain that we would be allowed to recover it from our consumers. I am certain of one thing, we wouldn't like to burden our consumers with that amount because it would be substantial for a consumer, so we are hopeful that there will become insurance programs available to cover something like that and we are aware that the Department of Energy previously did have a loan guarantee program that we might participate in but with the current administration cutting the costs at all levels, I am not sure that that is going to be available anymore either.



Mr. Craddock asked Mr. Gremban about the rather large financial loss in a geothermal venture quite a few years back.

Mr. Gremban stated that this was in 1963 - we had invested about \$350,000.00 as I recall and we finally terminated the project and we never did recover any of those costs.

Mr. Dini asked if there were any other utilities here that have not spoken. Mr. Dini indicated that the committee was almost out of time and that as a courtesy to Mrs. Westall, we will allow Mrs. Westall to make a statement if she wants to.

Mrs. Westall testified next. She stated that she would be brief. She stated that she was so relieved. Obviously there is no need for a Consumer Advocate's office. There isn't even a need for the PSC, because obviously from all the testimony that we have heard all the utilities, at least in the State of Nevada, are run by boy scouts and we all know how boy scouts act. There obviously is some mistake that the only time they get denied a substantial amount of the increase that they ask for is when somebody acts as an advocate and intervenes, such as the - not the City Attorney - the D.A.'s office, because for some reason we have a history that each time the D.A. or the County or someone else has hired a "consumer advocate", the boy scouts didn't get what they asked for.

Now we know boy scouts aren't fat because they told us they are not fat. And I am disturbed because after hours of rhetoric the boy scouts usually are able to convince us that we're here for something that we aren't here for. We've been shown graphically and told verbally all of the reasons why they have to have the rates they have, simply have to have them.

I think we forget, or maybe they do that that's what the PSC is for to make that sort of judgment whether they need the rates that they are asking for. The thing that we are here to judge, is does the consumer deserve an advocate of his own which he has never had by law? The PSC by law is not the consumer's advocate, they are the judge, charged with balancing between the consumer and the utilities. Each hearing sees the utilities with their experts, with their attorneys, all paid for by us, it's all put into the rate base; it sees the large entities such as Harrah's, the MGM and others, represented by their attorneys. For heaven's sake that's one we don't have to pay for. Mark one up for the consumer. But to date except when a county or a city or someone of sorts puts up the money to put an advocate there for the people we are not heard and this is what the bill's about and not whether a rate increase is justified.

I wanted to go to a few of the points that were made. Spike made one about his concerns about the staffing. I too am concerned with the proposed numbers of the staff. This is only a proposal thus far and hearings will be conducted by me

concerning the staffing because this is a critical, critical part of the advocacy office and the PSC. Nobody wants a worse mess than we have here and this, I totally agree, is one of the critical areas.

Senator Wilson questioned Mrs. Westall on AB 58. He stated that he would think that in the course of developing that bill that we would have to answer the question on the number of the staff we need.

Mrs. Westall stated that Senator Wilson was correct.

Senator Wilson indicated that he thought the Assembly Government Affairs and Senate Commerce and Labor Committees are going to have to somehow reach a judgment in the course of the hearings we have on just how to decide to proceed. We have to decide what kind of staffing levels we are talking about.

Mrs. Westall stated that she thought that it has to go hand in hand with the bill too. That's why I will be working very closely with the subcommittee on the Assembly side. I'm the head of the subcommittee for Ways and Means.

Mr. Dini stated that Assemblywoman Westall was chairman of the subcommittee in the Ways and Means Committee, for the PSC. Mrs. Westall really hasn't made the final arrangements how the Assembly subcommittee is going to work with the Senate Committee. They all have to coordinate.

Senator Wilson stated that he assumed what the money committees would do will depend upon what policy judgment is made in passing one bill or the other, or both.

Mrs. Westall stated that that was correct.

Senator Wilson indicated that once that was made then he supposed the budget questions will follow on their own. But he indicated that one of the things that we are going to have to answer, notwithstanding the hearings by the money committees, is that if we were to go down the policy road suggested by the Governor's bill, whether or not the nine technical staff people left with the PSC is adequate or whether as I indicated before we are going to wake up in two or three years and find that we are going to duplicate the staff of the consumer representative by having to double the staff to adequately serve the Public Service Commission. We don't want to do that, I don't think.

Mrs. Westall stated that to her way of thinking the type of positions that we have in each is far more important than the number and I'm not convinced that the type that had been advanced thus far is the answer. Mrs. Westall stated that Senator Wilson had complained about technical and not enough of the expertise. I think that you may be right in the Public Service Commission.

These are things that I will be looking at in the subcommittee hearing on Ways and Means.

Mrs. Westall stated that there was one other point brought up and she stated that she had Mr. Daykin drafting an amendment to help her clarify it and that is who the consumers are that the agency would represent, because obviously Harrah's or MGM do not require one. But we don't want to leave anyone out who does need it, such as Mr. DuBois mentioned, apartment owners, the small motel, etc. Mr. Daykin is working on this for me.

Mr. Dini asked Mrs. Westall what the purpose of that was.

Mrs. Westall stated that it would be to define what consumers the agency represents rather than leaving it wide open. In one of the hearings on the Assembly side this was brought up, the fact that it says all consumers. It does not define who the consumers are.

Mr. Craddock asked if aside from public relations, where can we expect the greatest return to come from with regard to consumer advocacy savings.

Mrs. Westall stated that this was not her field of expertise. What I can tell you is that obviously there are other areas because the staff has been recommending less. Other states who have the consumer offices have been granting less. I note that Mr. Gremban told you that the amount that they were short was \$25,000,000 and he did not mention the percentages of increases that they have received which is tremendously high I understand.

Mr. Dini asked the committee if they had any further questions to ask of Mrs. Westall.

The following exhibits were left for the committee and are attached to the minutes of this meeting as follows:

EXHIBIT I - Letter addressed to Nevada Power Company dated February 2, 1981 with a Progress Report dated January 1981 attached.

EXHIBIT J - Memorandum dated January 26, 1980 to Kathy Norwood, Economist, Nevada Power Company from Kent Anderson of National Economic Research Associates, Inc.

EXHIBIT K - Letter addressed to Senator Thomas Wilson dated February 16, 1981 from John L. Eck of Southern Pacific Transportation Company.

EXHIBIT L - Letter dated February 13, 1981 addressed to Senator Thomas C. Wilson from Sierra Pacific Power Company with a copy of Sierra Pacific Power Company's Policy Statement attached.

There being no further testimony to come before the meeting, the meeting

adjourned at 6:40 P.M.

Respectfully submitted,



Barbara Gomez  
Assembly Attache

ASSEMBLY

AGENDA FOR COMMITTEE ON..... GOVERNMENT AFFAIRS

Monday,

Date February 16, 1981 Time 4:00 P.M. Room 131

Bills or Resolutions  
to be considered

Subject

Counsel  
requested\*

JOINT COMMITTEE HEARING

EXHIBIT A

ASSEMBLY GOVERNMENT AFFAIRS  
and  
SENATE COMMERCE AND LABOR

Initiative Petition

AB 58

Creates utility customers representative agency.

AB 85

Creates office of representation to represent  
customers of public utilities in matters before  
the public service commission of Nevada

UTILITY RESPONSE TO JOINT PROPOSALS

SENATE COMMITTEE ON Commerce and Labor-----Joint Hearing with  
 ASSEMBLY COMMITTEE ON Government Affairs  
 DATE: February 16, 4:00 p.m.

EXHIBIT B

PLEASE PRINT	PLEASE PRINT	PLEASE PRINT	PLEASE PRINT
NAME	ORGANIZATION & ADDRESS		TELEPHONE
Russ Johanson	NEVADA BELL		789-6214
CHRIS KASWUSSEN	NEVADA BELL		789-8404
STAN WARREN	NEVADA BELL		789-6102
BILL BRANCH	SIERRA PACIFIC POWER		789 4537
KAY BRANCH	4550 LAKESIDE DR.		826-8861
CHARLES LENZI	NEVADA POWER CO. BOVD <sup>20</sup> LAS VEGAS		383-6222
M. GENE MATTOCC	- - - -		383-5011
V. LAVERGA	SIERRA PACIFIC POWER CO.		789-4326
John A. Warner	" " "		322 2996
Vernon Dalton	Wells Rural Electric Co		752-3328
Joe L. Gumban	Sierra Pacific Power Co.		825-8215
James Gumban	28165 Guilman		"
George Jakob	Nevada Bell		789-8496
Ken Smith	PSC		885-5516
CHUCK KING	CEN TEL.		393-5501
Betty J. Donley	Coalition for Affordable Energy		786-1455
Andrew B. Babin	Coalition		786-1455
Randolph Townsend	Coalition		786-1455
DePelle	"		827-2463
John Lopez	Governor's Office		885-5276
John E. E.	SOUTHERN PACIFIC CO		829-2492
Joel Cochran	City of North Las Vegas		885-2121
Mitchell Landsberg	AP		885-4690

SENATE COMMITTEE ON Commerce and Labor-----Joint Hearing with  
 ASSEMBLY COMMITTEE ON Government Affairs  
 DATE: February 16, 4:00 p.m.

PLEASE PRINT	PLEASE PRINT	PLEASE PRINT	PLEASE PRINT
NAME	ORGANIZATION & ADDRESS	TELEPHONE	
CHRIS BRODERICK	Las Vegas Review Journal	883-7589	
Martin Griffith	Nev. State Journal	786-8989	
W.M. Lamb	Southwest Gas Corp	876-7231	
C H McCrea	" " "	876-7237	
Clark Guild	Union Pacific	786-2366	
Tom Young	Nw. Environ. Action Trust	348-7717	
Marilyn Sharp	consumer	329-7919	
Suzanne Howell	Consumer	322-3556	
DON PAFF	UNIVERSITY VALLEY DIST 3700/charlotte NV	870-2011	
	← Belle Lee, Southfield	735-1751	
DARYL E. CASURRO	NEVADA MOTOR TRANSPORT ASSN. P.O. Box 7320 - Reno, Nev. 89510	331-6884	
Mrs. Kathi Ann Bell	P.O. Box 1386 CC 89701		
Jim [unclear]			
[unclear]	DMV CC	885-5350	
Don [unclear]	LCB	5837	
Steve Tackes	PSC N	4326	
Brent Adams	None		
Linda Hale	None	323 9431	
Nina Hale	None	" " "	
Reggie Westat	Assemblyman & sponsor		
John Barrage	Inter - Sen Reggie		
W.J. Kennedy	Public	882-3068	
Edward Ives	"	553 4172	

ATTENDANCE ROSTER FORM

COMMITTEE MEETINGS

SENATE COMMITTEE ON Commerce and Labor-----Joint Hearing with  
ASSEMBLY COMMITTEE ON Government Affairs

DATE: February 16, 4:00 p.m.

PLEASE PRINT

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PLEASE PRINT

PLEASE PRINT

NAME

ORGANIZATION & ADDRESS

TELEPHONE

A Hernandez

951 So. Sutr. Terr.

882-3058

F Vogan

ROMM - JMW

82-2309

Kon Creighton

LCB



ASSEMBLYMAN JOSEPH E. DINI, JR., CHAIRMAN, GOV'T AFFAIRS;  
SENATOR THOMAS R. C. WILSON, CHAIRMAN, COMMERCE AND LABOR;  
AND COMMITTEE MEMBERS:

-  
- EXHIBIT C  
-

I AM RUSSELL SCHARMAN, VICE PRESIDENT AND GENERAL MANAGER OF  
NEVADA BELL.

TODAY I AM HERE TO DISCUSS SEVERAL CONCERNS ABOUT THE PROPOSED  
LEGISLATION AFFECTING THE PUBLIC SERVICE COMMISSION THAT YOU ARE  
CONSIDERING. THE MISSION OF THIS LEGISLATION APPEARS TO BE DIRECTED  
TOWARD GIVING THE CONSUMER A STRONGER VOICE IN THE CONSIDERATION OF  
RATE INCREASES FOR THE STATE'S UTILITIES.

THE PROPOSALS ARE APPARENTLY DESIGNED TO COPE WITH PROBLEMS  
SPECIFICALLY RELATED TO UTILITIES PROVIDING ENERGY RELATED SERVICES.  
THESE UTILITIES HAVE BEEN FACED WITH SERIOUS PROBLEMS OF SKYROCKETING  
SUPPLY COSTS, RESULTING IN A FREQUENT NEED TO BE BEFORE THE PUBLIC  
SERVICE COMMISSION WITH GENERAL RATE CASES AND FUEL COST ADJUSTMENT  
CASES. FORTUNATELY WE ARE NOT IN THE SAME SITUATION, AND HAVE HAD TO  
ONLY MAKE TWO REQUESTS FOR GENERAL RATE INCREASES TO THE PUBLIC  
SERVICE COMMISSION IN THE PAST TWELVE YEARS.

WE HAVE NO OBJECTION TO GIVING THE CONSUMER A STRONG VOICE IN RATE  
INCREASE MATTERS. OUR CONCERN IS THAT THE PROPOSALS DO NOT  
RECOGNIZE THE UNIQUENESS OF TODAY'S TELEPHONE INDUSTRY. THE TELE-  
PHONE BUSINESS CAN NO LONGER BE CONSIDERED THE DOMINANT MONOPOLY IT  
WAS 12 YEARS AGO. VARIOUS COURT AND FEDERAL COMMUNICATIONS COM-  
MISSION DECISIONS HAVE PLACED US IN THE COMPETITIVE MARKET, BUT WE

ARE STILL REGULATED BY THE PUBLIC SERVICE COMMISSION AND THE FCC. TODAY, WE ARE COMPETING WITH NON-REGULATED VENDORS OF TELECOMMUNICATIONS EQUIPMENT AND WE ARE ALSO IN COMPETITION WITH COMMUNICATIONS CARRIERS WHO DO PROVIDE FOR LONG DISTANCE CALLING NEEDS.

WITH THIS FEDERALLY MANDATED COMPETITION, YOU CAN HARDLY CONSIDER US THE KIND OF "UTILITY" THAT AB58, OR AB85, OR THE INITIATIVE PETITION ATTEMPTS TO CONTROL. YOU MAY ASK WHAT EFFECT HAS COMPETITION HAD ON OUR BUSINESS? LET ME TELL YOU,

- IN THE LAST 5 YEARS, 44% OF NEW PBX BUSINESS HAS BEEN PROVIDED BY OUR COMPETITORS.
- LONG DISTANCE CALLING THAT HAS ALWAYS BEEN PROVIDED BY THE REGULATED TELEPHONE COMPANIES MUST NOW BE SHARED WITH COMPETITORS WHO ARE PICKING THE MOST PROFITABLE ROUTES AND SERVICES.
- CUSTOMERS CAN BUY THEIR OWN TELEPHONE SETS FROM NUMEROUS SUPPLIERS IN NEVADA BELL TERRITORY - INCLUDING, SUCH STORES AS PENNY'S, MACY'S, SEARS, RADIO SHACK.

IN FACT, THE COUNTRY'S TELEPHONE INDUSTRY JUST ISN'T THE MONOPOLY IT WAS A FEW YEARS AGO. IF THERE IS ANY MONOPOLISTIC CHARACTER TO TODAY'S TELEPHONE BUSINESS, IT IS THE DIAL TONE AND TELEPHONE NUMBERS THAT WE PROVIDE AND THAT ARE ASSOCIATED WITH THE ACCESS LINES WE CONNECT TO YOUR HOMES AND OFFICES. BUT, THIS IS WHERE MONOPOLY ENDS AND COMPETITION BEGINS.

CERTAINLY, AS YOU CAN SEE, THERE ARE MANY UNCERTAINTIES AND RISKS IN OUR BUSINESS THAT DIDN'T EXIST A FEW YEARS AGO. IN SPITE OF THIS, WE STILL HAVE THE MAJOR RESPONSIBILITY IN MEETING THE PUBLIC'S GROWING NEEDS FOR RELIABLE, EFFICIENT BASIC TELEPHONE SERVICE. WE HAVE PROVIDED AN EXTENSIVE COMMUNICATIONS NETWORK THAT TIES OUR VAST, BUT SPARSELY POPULATED STATE, TOGETHER AND MAKES THIS SERVICE AVAILABLE TO VIRTUALLY EVERY CITIZEN AT VERY REASONABLE COSTS.

SPEAKING DIRECTLY TO CONSUMER NEEDS, LET ME CITE JUST A FEW OF OUR RESPONSES THAT GO BEYOND THE BASICS:

LIFELINE TELEPHONE SERVICE - THIS WAS INTRODUCED IN 1971. SERVICE IS AVAILABLE IN OUR METROPOLITAN AREAS FOR CUSTOMERS WHO MAY HAVE LIMITED RESOURCES, ONLY MAKE A FEW CALLS, BUT NEED INEXPENSIVE TELEPHONE SERVICE FOR EMERGENCY PURPOSES.

EMERGENCY SERVICES - WE HAVE PROVIDED A SURVIVAL GUIDE IN THE FRONT OF THE TELEPHONE DIRECTORY, WHICH GIVES INFORMATION ON EMERGENCY SERVICES. IN ADDITION, THE 911 EMERGENCY NUMBER HAS BEEN INSTALLED IN SEVERAL OF OUR COMMUNITIES. AND OUR OPERATORS HAVE ALSO BEEN RESPONSIVE IN HANDLING EMERGENCY CALLS. IN 1980, NEVADA BELL OPERATORS RESPONDED TO 8,600 CUSTOMER CALLS INVOLVING FIRE, POLICE AND AMBULANCE EMERGENCIES.

HANDICAPPED SERVICES - WE PROVIDE TELETYPENRITERS, SPECIAL TELEPHONIC PRINTERS AND OTHER SPECIALIZED SERVICES FOR THE DEAF AND SPEECH IMPAIRED.

SERVICE TO REMOTE AND RURAL CUSTOMERS - NEVADA BELL PROVIDES BASIC EXCHANGE TELEPHONE SERVICE THROUGHOUT THE STATE, FROM VERDI ON THE WEST TO BAKER ON THE EAST, AND FROM McDERMITT IN THE NORTH TO SANDY VALLEY IN THE SOUTH. WE PROVIDE LONG DISTANCE CALLING FACILITIES TO VIRTUALLY EVERY COMMUNITY THROUGHOUT NEVADA'S 110,000 SQUARE MILES.

SOME REMOTELY LOCATED CITIZENS WOULD NOT HAVE THE ADVANTAGE OF TELEPHONE SERVICE WERE IT NOT FOR THE UNIQUE "TOLL STATION SERVICE" THAT WE PROVIDE. THESE 750 CUSTOMERS LOCATED IN THE MOST REMOTE PARTS OF THE STATE ARE SERVED OFF THE LONG DISTANCE TOLL LINES.

IN RECENT YEARS WE HAVE SEEN MORE AND MORE PEOPLE MOVING FROM HIGHLY POPULATED AREAS TO LESS SETTLED PARTS OF OUR STATE. TO BETTER SERVE MANY OF THESE PEOPLE, NEVADA BELL, WITH PUBLIC SERVICE COMMISSION APPROVAL, INCREASED THE FREE CONSTRUCTION ALLOWANCE TO 1,000 FEET SO THAT MANY COULD HAVE TELEPHONE SERVICE, WHO COULD NOT HAVE AFFORDED THE HIGH COST OF BUILDING THE EXTENSION OF FACILITIES. IN THE LAST 6 MONTHS, THIS NEW ARRANGEMENT HAS PROVIDED TELEPHONE SERVICE TO 150 NEW CUSTOMERS.

THERE ARE MORE EXAMPLES, BUT I'LL STOP WITH THESE. I THINK YOU WILL AGREE, GOOD TELEPHONE SERVICE IS UNIVERSALLY AVAILABLE THROUGHOUT THE STATE AND AT REASONABLE RATES. PROVIDING THIS SERVICE TO OUR CUSTOMERS HAS REQUIRED A SUBSTANTIAL INVESTMENT.

IN 1976, OUR CONSTRUCTION BUDGET WAS \$19M. THIS YEAR'S CONSTRUCTION BUDGET HAS MORE THAN QUADRUPLED TO \$85M. THESE INVESTMENTS HAVE BEEN REQUIRED TO KEEP PACE WITH A GROWING NEVADA. WE HOPE YOU WILL NOT PASS LEGISLATION THAT HAMPERS OUR EFFORTS TO CONTINUE TO MEET THE STATE'S FUTURE COMMUNICATIONS NEEDS. THE REGULATED TELEPHONE COMPANIES OF NEVADA HAVE PROVIDED THE CITIZENS OF THE STATE WITH GOOD TELEPHONE SERVICE - AT REASONABLE RATES. IF LEGISLATION IS PASSED WITHOUT RECOGNIZING OUR UNIQUE NEEDS, THE QUALITY AND PRICE OF OUR SERVICE WILL SERIOUSLY DETERIORATE.

IN ADDRESSING MYSELF TO OUR SPECIFIC CONCERNS ABOUT THE LEGISLATION YOU ARE CONSIDERING, LET ME AGAIN EMPHASIZE THAT WE ARE NOT OPPOSING LEGISLATION THAT WOULD ALLOW THE CONSUMER A STRONGER VOICE IN THE PUBLIC SERVICE COMMISSION'S CONSIDERATION OF ANY OF OUR REQUESTS FOR GENERAL RATE INCREASES. WE HAVE NOT REQUESTED GENERAL RATE RELIEF VERY OFTEN, AND WHEN WE DO, WE FEEL ALL CUSTOMERS SHOULD BE GIVEN A FAIR VOICE IN THESE IMPORTANT HEARINGS. ALTHOUGH WE HAVE SELDOM FOUND IT NECESSARY TO SEEK INCREASED RATES, WE DO REQUEST NEW PRODUCT AND SERVICE TARIFFS FROM THE PSC ON A CONTINUAL BASIS - ABOUT 50 TIMES A YEAR CONSISTING OF HUNDREDS OF RATE ITEMS. THIS ON-GOING REQUIREMENT IS UNIQUE TO THE TELEPHONE INDUSTRY. AND MOST OF THESE RATE ITEMS RELATE TO PRODUCTS THAT ARE ALSO OFFERED ON A COMPETITIVE BASIS BY UNREGULATED COMMUNICATIONS VENDORS.

TO BE REQUIRED TO ARGUE THE MERITS OF THESE COMPETITIVE PRODUCTS AND SERVICES WITH AN ADVERSARY AGENCY WHEN COMPETITION HAS NO SUCH REQUIREMENT WOULD BE GROSSLY UNFAIR TO TELEPHONE COMPANIES. THIS

PROCESS WOULD ONLY SLOW DOWN THE INTRODUCTION OF NEW SERVICES AND TECHNOLOGY TO THE NEVADA TELEPHONE USING PUBLIC, AND WOULD SEVERELY HANDICAP THE REGULATED TELEPHONE INDUSTRY FROM PROVIDING ADEQUATE AND TIMELY SERVICES.

MR. CHAIRMAN, WE HAVE REVIEWED THE LEGISLATION BEFORE YOU. BASICALLY WE HAVE NO CHANGES TO OFFER FOR THE INITIATIVE PETITION OR AB85. WE DO HAVE CONCERN ABOUT AB58. IF PASSED AS INTRODUCED, ALL COMPETITIVE PRODUCTS AND SERVICE TARIFFS WOULD HAVE TO BE APPROVED BY THE AGENCY WHOSE MISSION IS ADVERSARY. WE FEEL COMPETITIVE FILINGS SHOULD BE EXEMPT FROM AGENCY REVIEW. WE BELIEVE THE COMMISSION SHOULD CONTINUE TO CONSIDER THESE TARIFFS AS THEY HAVE IN THE PAST, AND THAT THE COMMISSION BE GIVEN ADEQUATE TECHNICAL STAFF TO PROPERLY REVIEW AND ANALYZE THESE IMPORTANT FILINGS. IN FACT, THE MOST APPROPRIATE ARRANGEMENT WOULD BE TO CONFINE THE AGENCY TO REPRESENTING CONSUMER INTERESTS IN RATE CASE PROCEEDINGS AND ALLOWING THE COMMISSION, WITH ADEQUATE STAFF, TO CONTINUE TO BE RESPONSIBLE FOR ON-GOING UTILITY MATTERS. TO OTHERWISE SPLIT THESE RESPONSIBILITIES COULD RESULT IN DUPLICATION OF COMMISSION AND AGENCY RESPONSIBILITIES AND IN DUPLICATION OF THEIR STAFFING NEEDS.

ANOTHER AREA OF CONCERN WITH AB58 IS THAT, AS WRITTEN, THE BILL WOULD APPEAR TO DENY THE STATES REGULATED UTILITIES THE RIGHT OF DUE PROCESS. THROUGHOUT THE BILL THE "AGENCY", IS REQUIRED TO SUBMIT REPORTS AND RECOMMENDATIONS TO THE COMMISSION CONCERNING THE PUBLIC UTILITIES. SINCE THE "AGENCY" IS ADVERSARY TO THE UTILITIES', AND AN ADVOCATE OF THE UTILITIES' CUSTOMERS, ITS CONTACT ON THESE MATTERS WITH THE COMMISSION SHOULD BE REQUIRED TO BE FORMAL, IN WRITING,

PUBLIC AND ALSO COMMUNICATED TO THE UTILITY INVOLVED. WE ASK YOUR FAVORABLE CONSIDERATION TO AMEND THIS LEGISLATION TO SATISFY OUR CONCERNS ABOUT DUE PROCESS.

I APPRECIATE THE OPPORTUNITY OF APPEARING BEFORE YOU TODAY. NOW, I'D BE PLEASED TO RESPOND TO ANY QUESTIONS YOU MAY HAVE. THANK YOU.

NEVADA BELL  
FEBRUARY 16, 1980

Competitive filing proposed amendment:

The agency shall have no responsibility nor shall it intervene in the filing of tariffs by telephone public utilities for products or services for which the utility certifies in such filing that such product or services is subject to competition.

Due process proposed amendment:

"All reports, recommendations and petitions made by the agency in accordance with any provisions of this Title shall be in writing and served on the public utility involved therewith at least 30 days before the commission may act thereon. Such utility shall have the opportunity to respond in writing within 10 days of service and appear before the commission in opposition thereto.

Nevada Bell  
February 16, 1981





central telephone company

2  
3/14 - 4:00  
joint meeting  
Per 13  
EFFECTIVE DATE  
12-29-80

1810 East Sahara Avenue/Mailing Address: P.O. Box 1190, Las Vegas, Nevada 89104

Advice No. 41

Central Telephone Company

October 24, 1980

Public Service Commission  
Third Floor, Kinkead Building  
505 East King Street  
Carson City, Nevada 89710

-  
- EXHIBIT D  
-

Central Telephone Company hereby transmits for filing the following changes in tariff sections applicable to its serving area and which are attached hereto:

SUBJECT INDEX

- 1st Revised P.S.C.N. Sheet No. 1, Cancelling Original P.S.C.N. Sheet No. 1
- 2nd Revised P.S.C.N. Sheet No. 2, Cancelling 1st Revised P.S.C.N. Sheet No. 2
- 3rd Revised P.S.C.N. Sheet No. 3, Cancelling 2nd Revised P.S.C.N. Sheet No. 3
- 1st Revised P.S.C.N. Sheet No. 4, Cancelling Original P.S.C.N. Sheet No. 4
- 1st Revised P.S.C.N. Sheet No. 5, Cancelling Original P.S.C.N. Sheet No. 5
- 1st Revised P.S.C.N. Sheet No. 6, Cancelling Original P.S.C.N. Sheet No. 6
- 2nd Revised P.S.C.N. Sheet No. 7, Cancelling 1st Revised P.S.C.N. Sheet No. 7
- 1st Revised P.S.C.N. Sheet No. 8, Cancelling Original P.S.C.N. Sheet No. 8
- 2nd Revised P.S.C.N. Sheet No. 9, Cancelling 1st Revised P.S.C.N. Sheet No. 9
- 1st Revised P.S.C.N. Sheet No. 10, Cancelling Original P.S.C.N. Sheet No. 10
- 1st Revised P.S.C.N. Sheet No. 11, Cancelling Original P.S.C.N. Sheet No. 11
- 1st Revised P.S.C.N. Sheet No. 12, Cancelling Original P.S.C.N. Sheet No. 12
- 1st Revised P.S.C.N. Sheet No. 13, Cancelling Original P.S.C.N. Sheet No. 13

SECTION 5

- 3rd Revised P.S.C.N. Sheet No. 1, Cancelling 2nd Revised P.S.C.N. Sheet No. 1 (withdrawn) and 1st Revised P.S.C.N. Sheet No. 1 (withdrawn) and Original P.S.C.N. Sheet No. 1

SECTION 13

- 3rd Revised P.S.C.N. Sheet No. 1, Cancelling 2nd Revised P.S.C.N. Sheet No. 1 Original P.S.C.N. Sheet No. 15.1

SECTION 14

- 2nd Revised P.S.C.N. Sheet No. 1, Cancelling 1st Revised P.S.C.N. Sheet No. 1
- 2nd Revised P.S.C.N. Sheet No. ii, Cancelling 1st Revised P.S.C.N. Sheet No. ii
- 3rd Revised P.S.C.N. Sheet No. iii, Cancelling 2nd Revised P.S.C.N. Sheet No. iii

Attached for your approval are six (6) copies of this filing which adds Call Waiting and Three Way Calling to the Custom Calling Services available from our Electronic Switching Offices.

The rate analysis sheets reflect percent usage factor of 65% for Call Waiting and 55% for Three Way Calling. We believe that the business rates should be somewhat above the residence rates due to the value of service consideration therefore we introduced an additive to continue that concept. These rate philosophies are consistent with those used in the development of the first two custom calling features previously filed (Call Forwarding and Speed Calling).

It has been estimated that this offering will generate annual revenues as follows:

	<u>REVENUE</u>
Call Waiting Residence	\$ 709.50
Call Waiting Business	439.60
3 Way Calling, Residence	283.50
3 Way Calling, Business	<u>1,234.80</u>
Annual Revenues	\$2,667.40

This filing also includes an update of index sheets to include changes for our last several approved filings.

This filing will not increase any rate or charge, cause withdrawal of service nor conflict with other sections or any rules or regulations. It is desired that this filing become effective on regular statutory (30 days) notice.

Also attached is a check in the amount of \$10.00.

CENTRAL TELEPHONE COMPANY

Issued By:

*W. R. McGrew*  
W. R. McGrew  
Vice President

WRM:sc

Attachments

bcc: J. Ogg  
File ✓

**GENERAL CUSTOMER SERVICES TARIFF**

**MISCELLANEOUS SERVICE ARRANGEMENTS**

**13.4 CUSTOM CALLING SERVICES - continued**

(N)

**13.4.4 Call Waiting**

- a. Call Waiting allows a person who is involved in a telephone conversation to be alerted when another caller is attempting to call. The called customer may hold the existing call and answer the new call by flashing the switch hook.
- b. The customer may interchange the held and talking connection as often as they wish by flashing the switch hook.

c. Rates:

	<u>Installation Charge</u>	<u>Rate Per Month</u>
(1) Business, per line (7000)	\$ 10.00	\$ 2.80
(2) Residence, per line (7018)	\$ 10.00	\$ 1.50

**13.4.5 Three Way Calling**

- a. Three Way Calling allows a customer to add a third party to an existing originating or terminating call. At any time during the call, the added party may be dropped without affecting the original connection.
- b. There is no restriction on the number of times a new party may be added or dropped from an existing call.

c. Rates:

	<u>Installation Charge</u>	<u>Rate Per Month</u>
(1) Business, per line (7002)	\$ 10.00	\$ 4.20
(2) Residence, per line (7020)	\$ 10.00	\$ 2.25

(N)

<p>Issued: 10-24-80</p> <p>Effective:</p> <p>Advice No. <u>41</u></p>	<p>Issued by:</p> <p style="text-align: center;">W. R. McGrew Vice President</p>	
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Custom Calling Service:

3 Way Calling Rate analysis sheets usage factor:

\$ 1.20 @ 55% usage factor = \$ 2.25 Res.

85% value of service = \$ 4.20 Bus.

Call Waiting Rate analysis sheets usage factor:

\$ .95 @ 65% usage factor = \$ 1.50 Res.

85% value of service = \$ 2.80 Bus.



RATE DETERMINATION WORK SHEET

Company \_\_\_\_\_ Date 8-26-80

Service or Equipment Item Call Waiting

Prepared By: Jody Harrison Checked By: \_\_\_\_\_

		A Reusable Material	B Non-Reusable Costs	C (A + B) Total	
1	Estimated Life (yrs.) Service (A) Location (B)	15	5		1
2					2
3	Estimated Non-Recurring Costs				3
4	Material (F C35C Line 10)	14.15	.57	14.72	4
5	Labor (F C35C Line 2)		20.55		5
6	Engineering (F C35C Line 3)				6
7	Total Expenditure (4B+5B+6B+7B), (7A+7B+7C)	14.15	21.12	35.27	7
8					8
9	Calculations @ <u>11.76%</u> Return				9
10	Restoration (F C35C Line 14)				10
11	Salvage (F C35C Line 11), (F C35C Line 12)				11
12	Cost of Removal (F C35C Line 4)		13.70		12
13	Net Salvage (11-12)		(13.70)		13
14	Non-Recoverable Costs (7B+12)		34.82		14
15	Annuity Fm Pres. Amt. <u>14503</u> x 7A, <u>27576</u> x (7B)	2.05	5.82	7.87	15
16	Annuity for Future Amt. <u>15816</u> x (13A), <u>15816</u> x (13B)		(2.17)	(2.17)	16
17	Depreciation Allowance (7A-13A)-1A, (7B-13B)-1B	.94	6.96	7.90	17
18	Return Required From Revenue (Lines 15-16-17)			2.14	18
19					19
20	Estimated Recurring Charges				20
21	Amortization (15C-16C)			10.04	21
22	Annual Restoration (Line 10 ÷ 18)				22
23	Maintenance (F C35C Line 5) or ( <u>5.78</u> ) x 7C'			2.04	23
24	Administration ( _____ ) x 7C)				24
25	Other Taxes Excluding Gross Tax ( <u>1.36</u> ) x 7C)			.48	25
26	Income Taxes (Factor <u>61.71</u> ) x Line 18)			1.32	26
27	Subtotal (Lines 21 through 26)			13.88	27
28	G. R. Taxes and License Contract ( _____ ) x Line 27)				28
29	Subtotal (Line 27 + Line 28)			13.88	29
30	*Installation Charge <u>35</u> % of Line 14 = <u>10.00</u>				30
31	(Annuity Fm Pres. Amt. for Location Life) <u>27576</u> x (Line 30)			2.76	31
32	Annual Revenue Requirements (Line 29 - Line 31)			11.12	32
33	Monthly Revenue Requirements (Line 32 ÷ 12)			.93	33
34	Monthly Revenue Requirements Rounded			.95	34

# Origin and Development of the Telephone Industry in Nevada

325

## Mesquite & Bunkerville Service

The Rio Virgin Telephone Company was also incorporated in the early 1900's by people who wanted service in Mesquite and Bunkerville.

In 1907 a telephone line was constructed between a wholesale feed company and the Old Ranch in Las Vegas. That was the beginning of what is now the Central Telephone Company. The railroad was also responsible for the initial growth of the telephone system. During the Second World War the Nellis Air Force Base was constructed and placed new demands for service on the company. The hotel and casino operations did not actually start until 1941.

Many changes have taken place in the telephone industry since the first telephone was placed in a Virginia City mine more than 89 years ago. Companies are offering their customers a wide variety of services. In fact, new services are just beginning. Fiber optics, computer and digital technology will allow unbelievable service offerings in the near future.

Nevada Consolidated Telephone and Telegraph Company was incorporated. It later amended its name to the Nevada Telephone and Telegraph Company. That company still serves the Tonopah and Goldfield areas today.

Telephone service was first started in Pioche in 1902. A line was constructed to serve several small communities. Service was also provided to the railroad and a number of mining companies. In 1926, J. W. Christian purchased the telephone system from Bell Company of Nevada. Lincoln County Telephone System, Inc., is still owned and managed by the Christian family.

The Moapa Valley Telephone Company was incorporated on April 6, 1909. The 30 original stockholders were early pioneers who wanted telephone service between the southern towns of St. Thomas, Overton, Logan and Moapa. In 1915 Warren E. Lyon became manager and later acquired the majority of stock from the early stockholders. The Lyon family still owns and manages the Moapa Valley Telephone Company.

Others were sold time and again before stability was reached. Many of the communities where telephone companies were started have prospered and grown. Some of the telephone companies formed during the late 1800's and early 1900's are still operating successfully. Some operating under the same name, others with different names and some as part of other companies.

## Continental Telephone Emerged

In 1897 a line was constructed from Carson City to Genoa, Minden and Gardnerville. Later, in 1911, ownership of this network was passed to the United Farmers Telephone and Telegraph Company. That company finally emerged as Continental Telephone Company of Nevada.

Churchill County Telephone was founded in 1889 when the County Commissioners bought a telegraph system from Western Union for \$975. Over the years Churchill County's growth rate has been a steady 5 percent. However, in 1977 their growth reached 9.6 percent.

In the late 1890's competition between two hardware stores was responsible for starting a telephone system in Elko. One business installed a telephone line between stores in Elko and Tuscarora. Not to be outdone, the other hardware business installed a line between stores in Elko and Skelton. Eventually the two businesses got together and formed the Elko County Telephone and Telegraph Company. Today that company is known as the C.P. National Utilities Company.

## Serving Tonopah & Goldfield

The mining boom in the early 1900's brought telephone service to the towns of Tonopah, Goldfield, and other small settlements in the area. In 1905 Southern

The telephone was first put into operation in the Con. Virginia mine in Virginia City November 15, 1877. This was only one year after Alexander Graham Bell invented the telephone in Boston. Also at that time, Renoites were experimenting with the telephone. Finally, in 1889, Frank Bell received a license to install telephones in Reno and other areas in Nevada. A switchboard was installed which served 15 customers.

In 1900 the Sunset Telephone and Telegraph Company, a predecessor of Pacific Telephone and Telegraph, built a long distance line across the Sierras to Reno. Six years later Virginia City, Carson City and Wadsworth were connected. This was the only long distance line connecting Nevada to the world until the transcontinental line was opened in 1915.

## Telephone System Established

In the meantime, competition developed for Frank Bell in Reno. Mrs. Jane Lake and her son also established a telephone system. Later Mrs. Lake purchased Mr. Bell's telephone system.

In 1906 the Sunset Telephone and Telegraph Company sold all of their stock to Pacific Telephone and Telegraph. Then in 1913 Pacific Telephone and Telegraph transferred all of its holdings to the Bell Telephone Company of Nevada.

During the early years of the telephone, companies were formed and exchanges were springing up throughout the state. They were sparsely scattered over an immense territory and most of the state was still isolated from the more settled western area.

Mining people started many of the early exchanges, as did stockmen and ranchers' associations. Many of the companies formed failed only a short time

# Nevada Telephone Companies

Telephone Statistics as of December 31, 1970

	All Companies
TOTAL TELEPHONES	764,265 Telephones
EMPLOYMENT	More than 5,679 in telephone operations
EXPENDITURES	About \$116,522,878 annually in new construction
INVESTMENT	\$717,617,618 invested in plant and equipment
TAXES	Approximately \$6,272,077 annually in state and local taxes

TESTIMONY PROVIDED BY CHUCK KING  
CENTRAL TELEPHONE COMPANY

EXHIBIT E

FEBRUARY 16, 1981

FOR  
CHAIRMAN JOE DINI  
&  
THOMAS SPIKE WILSON  
&  
Committee Members



TESTIMONY CONCERNING A.B. 58, A.B. 85 & INITIATIVE PETITION

Speaking to principles of the proposed legislation and the effect on the telephone industry.

Within the past few years, through a series of orders issued by the Federal Communications Commission, aimed at detariffing and deregulation, customers have been allowed to own and attach their own equipment to the utilities' lines. This permission has opened a highly competitive communications market. The result has been to place continued investment in telephone terminal equipment by companies in some jeopardy. Jeopardy from the standpoint of continued use and capital recovery.

Now customers may buy from other than the telephone company, "we are no longer the only game in town".

Sometimes in order to be competitive drastic changes must be made and tariffs filed quickly.

We filed 23 tariffs during 1980. The average time to become effective is 77 days. We filed a tariff on 10-24-80 concerning the Call Waiting, 3 Way Calling, Customer Owned Features, which was made effective on 12-29-80. Copy of tariffs left with Secretary.

RATE INCREASES

We received our last General Rate Increase in 1964. We filed in 1972 for two million and received nothing. We filed again in 1975 for increase of installation rate, in the amount of \$1,052,000 and received \$1,019,000.

General Rate filings are involved and complex.

### EXPERTISE

We feel the Consumer Advocate Division needs a great deal of expertise in the fields of:

1. Methods of Depreciation
2. Recognition of Allowable Expenses
3. Determination of Productivity Level
4. Financial Necessity for Growth and Recognition of Correct Amount of Growth for That Time Period
5. Reasonableness of Rate of Return, and;
6. Ability to analyze information and Render a Fair Decision

We have no problem with a Consumer Advocate reviewing this type of filing as long as they have the expertise.

### COMPETITION

Besides Sears, Wards and The Radio Shack, there are four companies in Las Vegas in competition with us who are not regulated. Those being:

1. Las Vegas Communications
2. Nevada Telco
3. Executone
4. Com-Systems

There are 12 PABX's over 200 lines not owned by us. Examples are: Airport Inn, Sams Town, California Hotel, Desert Springs Hospital, Dunes Hotel, Sahara Hotel, Silverbird Hotel, Shenadoah Hotel and the Las Vegas Club Hotel.

There are 64 PABX's under 200 lines and 443 Business Communications Key Systems and thousands and thousands of telephone instruments in residences that belong to the customer.

We also have competition in our Long Distance toll business. The companies are: Southern Pacific Communications, 53 trunks; U.S. Trans. System (I.T.T.), 14 trunks; and M.C.I., who is in the process of filing

for routes. These companies handle high toll routes and they skim off the cream of the crop.

Dr. Swartz testified that we are a declining cost utility and I agree in principal.

Here are examples of our costs.

C.O. Equipment - Switching, in 1965 was \$236 a line, in 1980 it was \$249 a line. 1200 Pair Cable in 1965 was \$2.50 a foot, in 1980 it was \$12.00 a foot.

Technology and Obsolescence are decreasing the intervals to change to latest technology switching equipment. Central Office Equipment, Step By Step, was functional for 20 to 30 years, Crossbar Electronic for 15 to 25 years, Electronic 10 to 15 years and Digital 5 to ? years, what's next?

Centel's budget for 1981 includes these major items:

Central Office Equipment	- \$18,931,000 or 18%
Cable & Other OSP	- \$15,155,000 or 15%
Station Equipment	- \$10,667,000 or 10%
PABX	- \$ 4,071,000 or 4%
Payroll	- \$40,000,000 or 40% of budget and has increased approximately 130% since 1965.

One way we are holding cost down is by aggressively selling verticle services in the market place. Examples are: Extensions, Touch Tone, Answering Devices, etc. This has aided us in keeping rates down along with technology.

Here are some questions I have and which I have not heard answered by prior testimony.

1. In States where Consumer Advocate Divisions operate, can the savings be broken down by utility type?

2. In States where the savings has been substantial, what effect has the reduced rates had on the utilities ability to construct plant that will be required for future growth?
3. In States where Consumer Advocacy are in effect has the interest rate at which the utility company pays to borrow capital for construction increased more than utilities who have not experienced rate request roll back? And if there are additional costs of borrowing money is this not a cost that will eventually be borne by the customer?

So what I'm attempting to point out is that the P.S.C. does do a good job in regulating our industry by reviewing our policies, monitoring our service level and auditing us on an ongoing basis.

AND

I also subscribe to you that both technology and competition are now assisting to regulate telephone company rates.

AND FINALLY

We do not want to see an agency created that would ignore our duty to provide service and deter our responsibility for capitol improvement.

PRESENTATION TO NEVADA LEGISLATURE  
BY WILLIAM M. LAUB, PRESIDENT  
SOUTHWEST GAS CORPORATION

February 16, 1981

EXHIBIT F

Southwest Gas Corporation supports the concept of a consumer advocate--not because it thinks one is necessary, but because one is perceived as being necessary by a substantial number of people and their elected representatives.

I personally do not believe that the consumer advocate will have any material effect upon utility revenues, because utility revenues in Nevada have not been excessive. But it is important that consumers believe that their interests are being represented, and the consumer advocate fulfill that need.

There are some pitfalls of which I believe the Legislature should be aware. Some of them it may avoid by careful drafting of the measure which is to become law. Following are some of the problems the Legislature should be aware of.

Which Consumers Does The Consumer Advocate Represent? All of the measures presented to the Legislature (the initiative petition, AB58, AB85) establish a consumer advocate to represent all consumers. Instructions to represent "all consumers" are adequate insofar as the consumer advocate's battle with the utilities is concerned, but such instructions are totally inadequate to guide the consumer advocate in the inevitable disputes among the various classes of customers. How revenues which a utility is authorized to collect are to be allocated for collection among the various classes of customers

is referred to as "rate design." The several classes of customers historically have not paid the same rates, for many valid reasons which I will not discuss here. However, a consumer advocate whose mandate is to represent "all consumers" logically cannot be an advocate for one class of consumers against others. It might therefore be useful if the legislation establishing the consumer advocate should specify which class of consumers he is to represent.

Know What To Expect Of The Consumer Advocate, And What Not To Expect. It is important to recognize that the consumer advocate is charged with attacking the result of high energy costs and not the cause of high energy costs, for utility rates simply reflect the high cost of energy which the utilities must pay. The utilities are just as much the victims of high energy costs as consumers are; they too must pay them.

What I am saying is that the potential for disappointment in the consumer advocate is very great. This is true because there is much misunderstanding of what the consumer advocate can do. Expectations of what the consumer advocate can do have been greatly inflated by misleading publicity. Expectations based upon such publicity are going to lead to disappointment and a cynicism on the part of consumers at least as severe as that which now prevails. Great expectations based upon false premises lead to great disappointments.

What Form Should Consumer Advocate Legislation Take? We have some conceptual problems with the proposed bills. Setting these forth in detail, we have prepared critiques of both AB58 and the Initiative Petition, and copies of our critiques are available. I will summarize our principal problems briefly.

Initiative Petition

The problems with the Initiative Petition are fundamentally related to poor draftsmanship, except for the concept of establishing that office as an adjunct of the Attorney General's office. Conceptually we believe that this would set a bad precedent in that it would fragment the executive power, creating what is essentially an executive agency and having it report administratively to a department of government other than the executive. This has much potential for creating conflict between various departments of government particularly when, as now, their elective heads are of different political parties. I do not believe that the state would benefit from such a situation.

AB58

Our conceptual objections to AB58 are focused upon putting the audit function and the enforcement function under the consumer advocate. The auditors must be impartial or, by definition, they are not auditors. For that reason, the auditors should not be responsible to or report to a consumer advocate or any other "advocate"; they should report to an impartial administrator, or a judge. In our case the "judge"

is the Commission. The same is to be said of the enforcement function; safety, engineering standards, compliance and enforcement are not subjects of adversary proceedings, and therefore should not be in the hands of an advocate.

Further, we find it strange that the reconstituted Public Service Commission not be required or allowed to represent itself in appeals of its orders. Under this bill it cannot defend nor explain its actions. We feel it unwise to create a situation where possibly less than the full story be made available to any court.

#### AB85

Except as to the potential conflict of a consumer advocate in having to represent classes of customers with divergent interests (i.e. residential, commercial, industrial, municipal, etc.), AB85 appears to represent the best thoughtout approach to the consumer advocate concept. The consumer advocate under AB85 would have all necessary powers but no irrelevant powers such as control of auditing and safety and standards enforcement. The work of the subcommittee of the legislative committee, embodied in AB85, reflects the time and thought that that body devoted to regulatory problems and the consumer advocate concept.

#### Method Of Funding Consumer Advocate.

Funding of the consumer advocate should be adequate to provide outside expert consultants to be hired on an ad hoc basis, but should not be indexed to utility revenues. As the



revenues of all the utilities increase, and they surely will, the work of consumer advocate will not increase apace (81 percent of our costs are cost of gas, which is fully regulated by the federal government). Further, the funding should come from the general fund provided by taxpayers, so as not to give rise to a potential conflict of interest. It is possible the consumer advocate could be accused of being lax in his advocacy since his office will benefit by increased rates. As both 85 and 58 (and the initiative petition) now stand, they are indexed to rising revenues. Every rate increase becomes a "windfall" for the consumer advocate.

## Plunging Power

### Big Financial Problems Hit Electric Utilities; Bankruptcies Feared

Surge in Costs Largely Cited; Despite Generous Raises in Rates, Profits Weaken

Major Help: Indispensability

By JOHN R. EMMHWILLER

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK Arkansas Power & Light Co. had plenty of cause to call off a planned \$70 million bond sale recently.

Record interest rates had thrown the bond market into chaos and had already forced several utilities to postpone offerings. And with low ratings from major credit-rating services, Arkansas Power was faced with paying a 16.1% interest rate, one of the highest ever borne by a public utility.

But the subsidiary of Middle South Utilities Inc. completed the bond sale anyway, for one overpowering reason: It was running out of cash. "We needed money so badly we didn't have any option," says Edwin Luperber, Middle South's vice president and chief financial officer.

Such predicaments have become all too frequent. Electric utilities, once considered pillars of financial strength, have turned into wobbling giants. And there is increasing concern that one or more may topple.

#### An Array of Problems

Many electric utilities no longer generate enough cash earnings to even pay for their common-stock dividends, and they finance the payouts from sources such as depreciation, borrowings or the sale of more stock. Utilities have piled up tens of billions of dollars of debt to finance power-plant projects so huge and so costly that they threaten to overwhelm the financial capacity of the companies building them. Utility credit ratings are deteriorating steadily, and traditional sources of funds—particularly the long-term bond market—are drying up.

Indeed, some observers believe that a once-unthinkable event has become quite possible: A major U.S. utility could fall into bankruptcy. The cash bind is so serious that "some of these companies are eating themselves up," says Irvin C. Bupp, a Harvard Business School professor who has worked on utility financial issues.

No operating utility has ever gone bankrupt, and powerful protections have been erected over the years to keep that record intact. Spurred by the recognition that electricity somehow must be kept flowing to homes and factories, state regulators, bankers and others involved with a sick utility probably would arrange major emergency loans to avoid an insolvency. The companies' strongest safeguard is their indispensability.

Yet people inside and outside the utility industry agree that safety margins have been narrowing, and some fear that a company might slip into an unresolvable cash crunch before remedial action could be taken. This danger, they add, rises significantly in times such as these, when credit is expensive. Many utilities "are walking a real financial tightrope," says John Attalenti, utility analyst for Argus Research Corp.

#### No Easy Answers

Solving utilities' financial problems will be extremely difficult. Utility executives plead for higher electricity rates, but other observers note that rates have risen sharply in recent years and have badly strained customers' tolerance for further increases. Conservationists contend that utilities must conserve cash by canceling some power-plant construction plans and promoting efforts to hold down energy use. Utility officials reply that heavy reliance on conservation would lead to future power shortages and jeopardize billions of dollars already invested in unfinished generating plants.

The industry's problems are so thorny partly because of fundamental, long-term changes in the economics of electricity. For years, continuing improvements in generating technology pushed down the cost of power and helped increase demand for it. In the process, utilities reaped healthy profits. "Those were our golden years," recalls W.C. Tallman, chairman of Public Service Co. of New Hampshire.

That era started fading in the late 1960s, and major signs of trouble first surfaced in 1974, when oil prices surged after the Arab embargo. U.S. utilities found themselves pinched for cash, and Consolidated Edison Co. of New York even omitted its dividend for one quarter—an action that shook the entire utility industry.

Then, the position of utilities improved for a while, partly because of hefty rate increases granted by worried regulatory commissions. But the industry's fundamental problems remained. And amid the current high inflation, sluggish economic activity and stagnant demand for electricity, utilities are falling into a new and deeper financial trough.

#### Cost of Construction

Probably the biggest burden weighing them down is the very thing that long brought them prosperity: building new power plants. Construction costs have grown astronomically in recent years. Bills for labor and materials climb relentlessly. Ever-changing federal regulations, especially for nuclear plants, have forced utilities to redesign, at great cost, parts of many facilities to meet new rules. The sheer size and complexity of many projects—partly due, ironically, to the utilities' desire to save money by building ever-larger, ever more-efficient plants—have sometimes overtaxed contractors' abilities. And building delays arising from blocking actions by environmentalists or from utilities' inability to raise money further increase project costs.

The upshot: so many cost overruns at

Please Turn to Page 12, Column 1

## Plunging Power: Some Utilities Are Hit by Big Financial Problems

Continued From First Page

many projects that financial planning has become almost impossible. And when the total costs are eventually pinned down, they tend to be sickening. For instance, the price tag of a nuclear plant being built in Michigan has soared from \$350 million to \$3.1 billion.

Capital-spending estimates for the electric-utility industry over the next decade range up to \$700 billion, about three times the current investment in all of its existing facilities. Many experts worry that financing huge construction programs while trying to meet other bills may be more than many utilities can handle. "I don't care how big a company is, some of these construction budgets hurt," says Argus Research's Mr. Attalenti.

Meanwhile, the average utility's ability to generate money internally has steadily weakened despite increased earnings.

Merrill Lynch, Pierce, Fenner & Smith Inc. calculates that electric utilities' per-share earnings increased 2.6% a year between 1969 and 1979. Yet, at the beginning of that period, the average utility could pay its common dividend out of net income and had some cash earnings left over. But by 1979, the average utility was having to dip into other sources, such as its depreciation fund or bank borrowings. "That isn't the textbook way to pay dividends," says John Kellenyi, utility analyst for Drexel Burnham Lambert Inc.

One reason utilities' net income hasn't kept up with dividends is that an increasing share of reported earnings isn't cash but rather comes from an accounting credit known as the allowance for funds used during construction. This AFUDC allows a company to take credit for its investment in a power plant that it is building even though the company can't earn any cash return on the investment until the plant is completed and operating. In 1979, AFUDC accounted for about 14% of net income available to utilities' common shareholders; in 1980, it was about 50%.

Though a firmly established accounting principle, AFUDC doesn't help a company pay bills. Indeed, it can often hurt, executives say, by pushing up reported earnings and making it harder to get public acceptance for rate increases that would improve cash flow.

Utility executives concede that cash earnings don't justify current dividend levels, but they contend that the companies really don't have much choice. They explain that a dividend rate acceptable to investors is needed to enable a utility to sell common stock and that occasional stock sales are needed to keep the constantly increasing debt from reaching a disquieting proportion of total capital.

"The industry is caught in a box because selling common stock is the key to all other financing. Cut the dividend, and you could be pushing over the first domino," says K.L. Harrison, senior vice president for finance at Portland General Electric Co., the big Oregon utility.

To keep the dominoes standing, utilities plan to sell hundreds of billions of dollars of long-term debt and common stock over the next decade. But the very problems forcing them into so much outside financing are making them less and less attractive as investments.

Despite some recent gains, prices of utility stocks remain depressed. Most of the stocks are selling below book value, the per-share equivalent of all the money invested by current shareholders, plus retained earnings. By selling stock below book value, a utility progressively dilutes a shareholder's ownership and makes its stock even more unpopular.

And bond issues also are becoming tougher to sell as inflation frightens many investors away from long-term debt of any kind and as utilities' credit ratings steadily decline. In 1970, only 4% of American electric utilities got a BBB rating from Standard & Poor's Corp. — the lowest investment-grade rating and a level of credit-worthiness that many institutional investors avoid. Today, about 30% are rated BBB.

Moreover, the senior debt of four utilities is rated BB or lower, which means that the issues have "speculative" characteristics. Three of them are subsidiaries of General Public Utilities Corp., which owns the now-closed nuclear plant at Three Mile Island.

The other is United Illuminating Co., a utility based in New Haven, Conn., that is

part owner of four nuclear reactors under construction. Its capital spending between 1981 and 1987 is projected at about \$540 million, roughly equal to its assets at the end of 1979. An estimated 90% of that spending will have to be financed from outside sources.

Even if a utility scrapes together all the cash needed to complete its construction projects over the next few years, it may face a final hurdle: Utility regulators might refuse to let it charge customers for the investment. That happened recently when the Missouri Public Service Commission wouldn't permit Kansas City Power & Light Co. to include in its rate base a \$165 million investment in a new coal-fired power plant. The commission decided that the plant wasn't needed yet because the company already had enough generating capacity. Although the utility has challenged the decision in court, Merrill Lynch immediately put all Missouri utilities on its sell list.

Kansas City Power has been able to weather the ensuing financial storm, but analysts fear that a similar decision on a bigger power project could have far worse consequences. Such "second-guessing" by regulators "is becoming a big problem," says Leonard Hyman, a Merrill Lynch analyst. Like other observers, he is especially worried that a commission might refuse to include a new nuclear plant in a utility's rate base. "Though I don't think any commission would push that far, if it did, the company would have a difficult time surviving," he says.

Some observers contend, in fact, that most commissions have been trying to ensure the utilities' survival with the most obvious form of help: by increasing company revenues. Wall Street analysts estimate that last year's increases in utilities' base rates totaled \$5 billion on an annual basis, topping the previous record of about \$3.1 billion in 1975. They add that projected revenues went up an additional \$3 billion a year in 1980 to cover higher generating-fuel costs. The total rise, about \$8 billion, equaled about 10% of the industry's 1979 revenues.

However, analysts also estimate that restoring the companies even close to financial health would require rate increases of \$5 billion to \$8 billion a year beyond any increases designed to keep pace with rising costs. Given the "political realities" of already-unhappy utility customers, granting such increases "wouldn't be an easy thing to do," says Ernest Liu, an analyst at Goldman, Sachs & Co.

Joint H.L. 10 2/16

Vernon Nelson

ASSEMBLY BILLS 58 AND 85  
(Consumer Agency Bills)

POSITION OF: Wells Rural Electric Company and other membership cooperatives.

EXHIBIT G

POSITION: The membership cooperatives do not oppose or support either bill, but with regard to both bills request technical amendments.

REQUESTED AMENDMENT:

To provide that the acts would not be applicable to cooperative associations or non-profit cooperatives serving members only, that are presently exempt from rate-making and other public service commission jurisdiction.

PROBLEM TO BE CORRECTED:

The bills in a number of instances are applicable to and refer to "public utilities". By virtue of NRS 704.673 and 704.675 the cooperative associations and non-profit cooperatives are declared to be "public utilities". While a cooperative association or non-profit cooperative that serves members only, is subject to the jurisdiction of the public service commission insofar as assessments, reports, certification, and discontinuance, modification or restriction of service, they are not subject to public service jurisdiction in matters relating to rates, rules or approval of securities. Therefore, it would be unnecessary and illogical to have them subject to the consumer agency proposals.

RATIONALE:

The cooperative associations and non-profit cooperatives serving members only have no reason to be either regulated by the public service commission or to have over-

sight by the consumer agencies as to ratemaking, because:

1. The members, who are the consumers, have almost direct control over the ratemaking process. Each member-consumer, whether a large corporation or a small household user, has a full vote, annually, to elect members to the board of directors. Then, the directors, who themselves are members-consumers-ratepayers fix the rates to be charged, and then only after hearings to obtain further member in-put.

2. The cooperative directors who set rates do not have a conflict of purpose, as do the directors of an investor owned utility. In the investor owned utility the consumers want low rates for service and the directors and stockholders who elect them, want high rates for profits. In the cooperative no interested party, be it a member or a director, wants rates any higher than necessary to keep the cooperative in a healthy financial condition.

3. Any excess rates charged by a cooperative are pro-rated directly back to the consumers in the form of capital credits. All annual earnings of the cooperative over and above actual costs of service are credited to the capital account of each consumer, to be repaid to the consumer as the financial conditions of the cooperative permit.

WELLS RURAL, ELECTRIC COMPANY

BY D. Vernon Dalton  
D. Vernon Dalton-President

SIERRA PACIFIC POWER COMPANY

EXHIBIT H

CONCERNS WE FEEL SHOULD BE ADDRESSED  
REGARDING CONSUMER ADVOCATE LEGISLATION

1. Provision should be considered for prompt judicial review permitting both the consumer advocate and the utilities to sue the commission on rate matters.
2. Repeal Sections 3 and 5 of NRS 704-100. This section was adopted at a time when utilities were filing frequently for general rate relief. By statute they are now limited to two a year, so these sections are no longer necessary. The sections as presently worded would enable any consumer to frivolously file suits in court which could have the effect of prohibiting utilities from ever filing a rate case.
3. Consider carefully the responsibility for auditing the operations of a utility to provide for a complete, thorough, impartial audit. The consumer advocate office may, perhaps, not necessarily be impartial. Consideration could be given to have such audits under the Public Service Commission, performed by an independent "Big 8" accounting firm, excluding in each utility's case its own independent auditing firm.
4. Evaluate very carefully whether the policing and enforcement responsibilities should remain with the commission or be delegated to the consumer advocate.
5. Provide that the commission has a two-fold responsibility: that of maintaining as low a level of rates as possible, while still protecting the

financial integrity of a utility so it can provide reliable service at the lowest cost possible.

6. Provide that the consumer advocate position does not create delays in the various environmental, construction, etc. permitting processes, such as has been experienced in many nuclear projects around the country.
7. The Attorney General, if given the responsibility for the office, should not represent both the commission and the consumer advocate.
8. Consider a sunset provision so that the legislature at the next session can review the performance of and the continuing need of such a position.

CALCULATION OF CONSUMER SAVINGS  
RESULTING FROM SIERRA MAINTAINING  
AN A BOND RATING VS. BAA

SUMMARY

Interest rate cost resulting from a BAA vs. A bond rating	1%
Interest expense after taxes per \$1 million of bonds	\$ 5,400
Revenues required to support a 2.5 times interest coverage requirement by the rating agencies to maintain an A rating	\$ <u>32,400</u>
Total annual cost to consumer per 1 million issue	\$ 37,800
Total annual cost of 50 million bond issue	\$ 1,888,900
Total cost over 30 year life of bonds	\$ 56,667,000
Sierra issues 50 M of bonds annually	
Total annual cost after 10 years of issue	\$ 18,889,000
Total lifetime cost of 500 M of bonds	\$566,670,000





**CALCULATION OF CONSUMER SAVINGS RESULTING FROM  
SIERRA MAINTAINING AN A BOND RATING VS. A Baa**

**Assumptions:**

1. Total financing	\$1,000,000	\$50,000,000
2. Interest rate savings resulting from an A bond rating	1%	1%
3. Corporate federal income tax rate	46%	46%
4. Corporate earnings support a 2.5 times interest coverage required to maintain an A rating		

**Calculations:**

Bonds Issued	\$1,000,000	\$50,000,000
Interest rate savings	.01	.01
Annual Interest Cost	\$ 10,000	\$ 500,000
Corporate income tax rate	.46	.46
Income tax interest deduction	\$ 4,600	\$ 230,000

**Annual Effect on Ratepayers**

Annual revenues required from customers	\$ 37,800	\$ 1,888,900
Less: Income tax (1)	12,800	638,900
Operating income (income before interest expense) (2)	\$ 25,000	\$ 1,250,000

**30 Year Effect on Ratepayers**

Consumer savings over 30 year bond life	\$1,134,000	\$56,667,000
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**Notes:**

(1) Income tax calculation:		
Annual revenues required from customers	\$37,800	\$1,888,900
Less: Annual interest expense	10,000	500,000
Taxable Income	\$27,800	\$1,388,900
Income tax rate	x .46	x .46
Income tax expense	<u>\$12,800</u>	<u>\$ 638,900</u>

(2) Operating income is 2.5 times annual interest expense.

## MOODY'S RATINGS AT DEC. 31, 1980

Baa-Rated Electric Utility Companies

	Alabama Power Company
	Appalachian Power Company
<u>ARK.</u>	<u>Arkansas Power &amp; Light Company</u>
	Blackstone Valley Electric Company
<u>MASS.</u>	<u>Boston Edison Company</u>
<u>MASS.</u>	<u>Brockton Edison Company</u>
	Central Hudson Gas & Electric Company
	Central Vermont Public Service Corporation
<u>MICH.</u>	<u>Consumers Power Company</u>
<u>MICH.</u>	<u>Detroit Edison Company</u>
<u>MASS.</u>	<u>Fall River Electric Light Company</u>
<u>MASS.</u>	<u>Fitchburg Gas &amp; Electric Company</u>
<u>GA.</u>	<u>Georgia Power Company</u>
	Indiana & Michigan Electric Company
	Kansas Gas & Electric Company
	Long Island Lighting Company
	Louisiana Power & Light Company
<u>OHIO</u>	<u>Monongahela Power &amp; Light Company</u>
	Nevada Power Company
	New York State Electric & Gas Corporation
	Northwestern Public Service Company
<u>OHIO</u>	<u>Ohio Power Company</u>
	Pacific Power & Light Company
	Pennsylvania Power Company
	Portland General Electric Company
	Potomac Edison Company
	Puget Sound Power & Light Company
	San Diego Gas & Electric Company
<u>GA.</u>	<u>Savannah Electric &amp; Power Company</u>
	Southern Electric Generating Company
<u>OHIO</u>	<u>Toledo Edison Company</u>
<u>MO.</u>	<u>Union Electric</u>
	United Illuminating Company
<u>MASS.</u>	<u>Western Massachusetts Electric Company</u>

# RATING AGENCY CHANGES 1980

*DATE	COMPANY	SENIOR RATING REDUCED		
		FROM	TO	BY
<u>1980</u>				
2/ 2#	Metropolitan Edison	BBB	BB	Standard & Poor's
2/ 2#	Jersey Central Power & Light	A	BBB	Standard & Poor's
2/26	Public Service Co. of Colorado	Aa	A	Moody's
2/26	Public Service Co. of Colorado	AA	A	Standard & Poor's
3/ 8#	Mississippi Power & Light	A	BBB	Standard & Poor's
3/19**	New Orleans Public Service Inc.	A	BBB	Standard & Poor's
3/26	Kansas Gas & Electric	A	Baa	Moody's
3/26	Kansas Gas & Electric	A	BBB	Standard & Poor's
3/31#	Jersey Central Power & Light	Baa	Ba	Moody's
3/31#	Metropolitan Edison	Baa	B	Moody's
3/31#	Pennsylvania Electric	Baa	Ba	Moody's
<i>OHIO</i> 4/ 5#	Ohio Edison	A	BBB	Standard & Poor's
4/12#	Philadelphia Electric	A	BBB	Standard & Poor's
<i>MICH</i> 4/19#	Consumers Power	A	BBB	Standard & Poor's
4/28#	United Illuminating	A	Baa	Moody's
6/21#	Commonwealth Edison	AA	A	Standard & Poor's
6/23#	Long Island Lighting	A	Baa	Moody's
7/ 7#	Kansas City Power & Light	Aa	A	Moody's
7/12#S	Long Island Lighting	A	BBB	Standard & Poor's
<i>MO.</i> 8/26#	Missouri Power & Light	A	BBB	Standard & Poor's
<i>OHIO</i> 8/30#	Dayton Power & Light	A	BBB	Standard & Poor's
9/13#	Hartford Electric Light	A	BBB	Standard & Poor's
9/13#	Oklahoma Gas & Electric	AA	A	Standard & Poor's
9/16	Connecticut Light & Power	A	BBB	Standard & Poor's
9/20	Pennsylvania Power	A	BBB	Standard & Poor's
9/23	Duquesne Light	AA	A	Standard & Poor's
<i>OHIO</i> 10/ 8	Toledo Edison	A	BBB	Standard & Poor's
11/25	Central Hudson Gas & Electric	A	Baa	Moody's
12/ 2	New York State Electric & Gas	A	Baa	Moody's
12/ 3	Houston Lighting & Power	Aa	A	Moody's
12/ 6#	New York State Electric & Gas	A	BBB	Standard & Poor's
<i>MICH.</i> 12/ 8#	Consumers Power	A	Baa	Moody's
<i>MICH.</i> 12/15#	Michigan Consolidated Gas	A	Baa	Moody's

## RATING AGENCY CHANGES 1977/1979

*DATE	COMPANY	SENIOR RATING REDUCED		
		FROM	TO	BY
<u>1977</u>				
1/24#	The Montana Power Company	Aa	A	Moody's
3/ 5#	The Montana Power Company	AA	A	Standard & Poor's
10/11	Southern California Gas	Aa	A	Moody's
11/16	Kansas City Power & Light	AA	A	Standard & Poor's
<u>1978</u>				
1/11	Pacific Tel. & Tel. Company	Aaa	Aa	Moody's
1/18	Louisiana Power & Light	A	BBB	Standard & Poor's
3/21	Kansas Gas & Electric	Aa	A	Moody's
4/ 3#	Idaho Power Company	Aa	A	Moody's
4/19	Pennsylvania Power Company	A	Baa	Moody's
6/27	Pacific Tel. & Tel.	AA	A	Standard & Poor's
7/29#	Kansas Gas & Electric	AA	A	Standard & Poor's
8/ 7#	Potomac Edison	A	Baa	Moody's
9/23#	Brockton Edison	A	BBB	Standard & Poor's
11/30#	Gulf States Utilities	AA	A	Standard & Poor's
12/ 2#	United Illuminating	A	BBB	Standard & Poor's
<u>1979</u>				
1/15#	Commonwealth Edison	Aaa	Aa	Moody's
2/ 5#	Monongahela Power	A	Baa	Moody's
2/ 7	Pacific Tel. & Tel. Company	Aa	A	Moody's
2/20	Duquesne Light	Aa	A	Moody's
4/ 4	Gulf States Utilities	Aa	A	Moody's
4/23#	Pennsylvania Electric	A	Baa	Moody's
4/23#	Metropolitan Edison	Withdrawn		Moody's
4/28#	Metropolitan Edison	A	BBB	Standard & Poor's
FLA. 4/24	Gulf Power Company	AA	A	Standard & Poor's
ARK. 6/21**	Arkansas Power & Light	A	BBB	Standard & Poor's
7/ 2#	Metropolitan Edison	Reinstated	Baa	Moody's
8/17S	Long Island Lighting	Aa	A	Moody's
11/ 7**	Commonwealth Edison	Aa	A	Moody's

SIERRA PACIFIC POWER COMPANY

NEVADA RATE INCREASES: 1974-80

FUEL VS. GENERAL

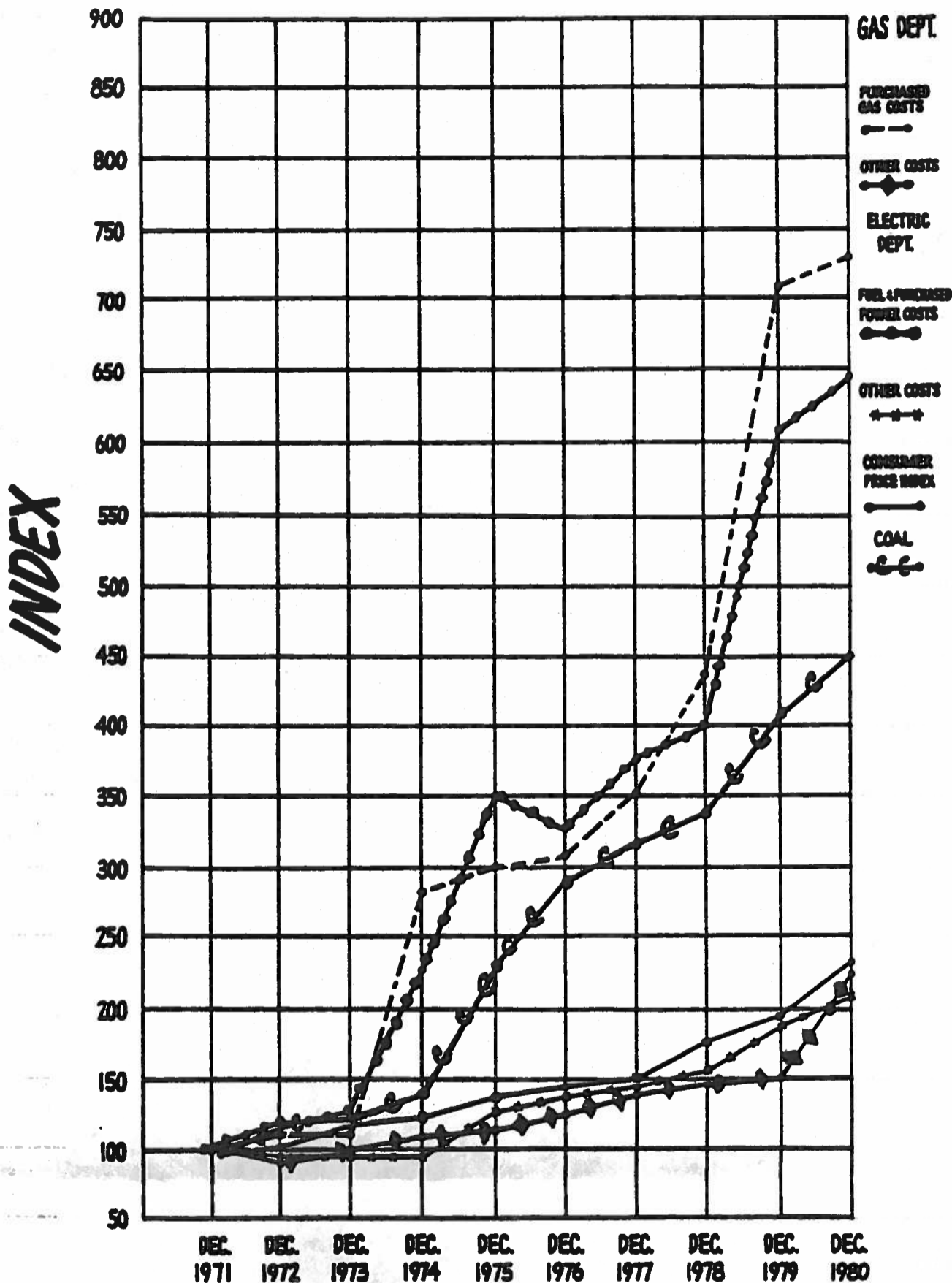
	<u>FUEL</u>	<u>%</u>	<u>GENERAL</u>	<u>%</u>
Electric	\$ 92.7 Million	- 75%	\$ 30.2 Million	- 25%
Gas	52.7 Million	- 95%	2.7 Million	- 5%
Water	-		5.2 Million	- -
Total	<u>\$145.4 Million</u>	<u>- 79%</u>	<u>\$38.1 Million</u>	<u>- 21%</u>

NEVADA GENERAL RATE INCREASES

	<u>Granted By PSCN</u>	<u>Disallowed</u>	<u>Company Request</u>
Electric	\$ 30.2 Million	\$ 21.1 Million	\$ 51.3 Million
Gas	2.7 Million	1.2 Million	3.9 Million
Water	5.2 Million	2.5 Million	7.7 Million
Total	<u>\$ 38.1 Million</u>	<u>\$ 24.8 Million</u>	<u>\$ 62.9 Million</u>
% of Amount Requested	60.5%	39.5%	xx

# SIERRA PACIFIC POWER CO.

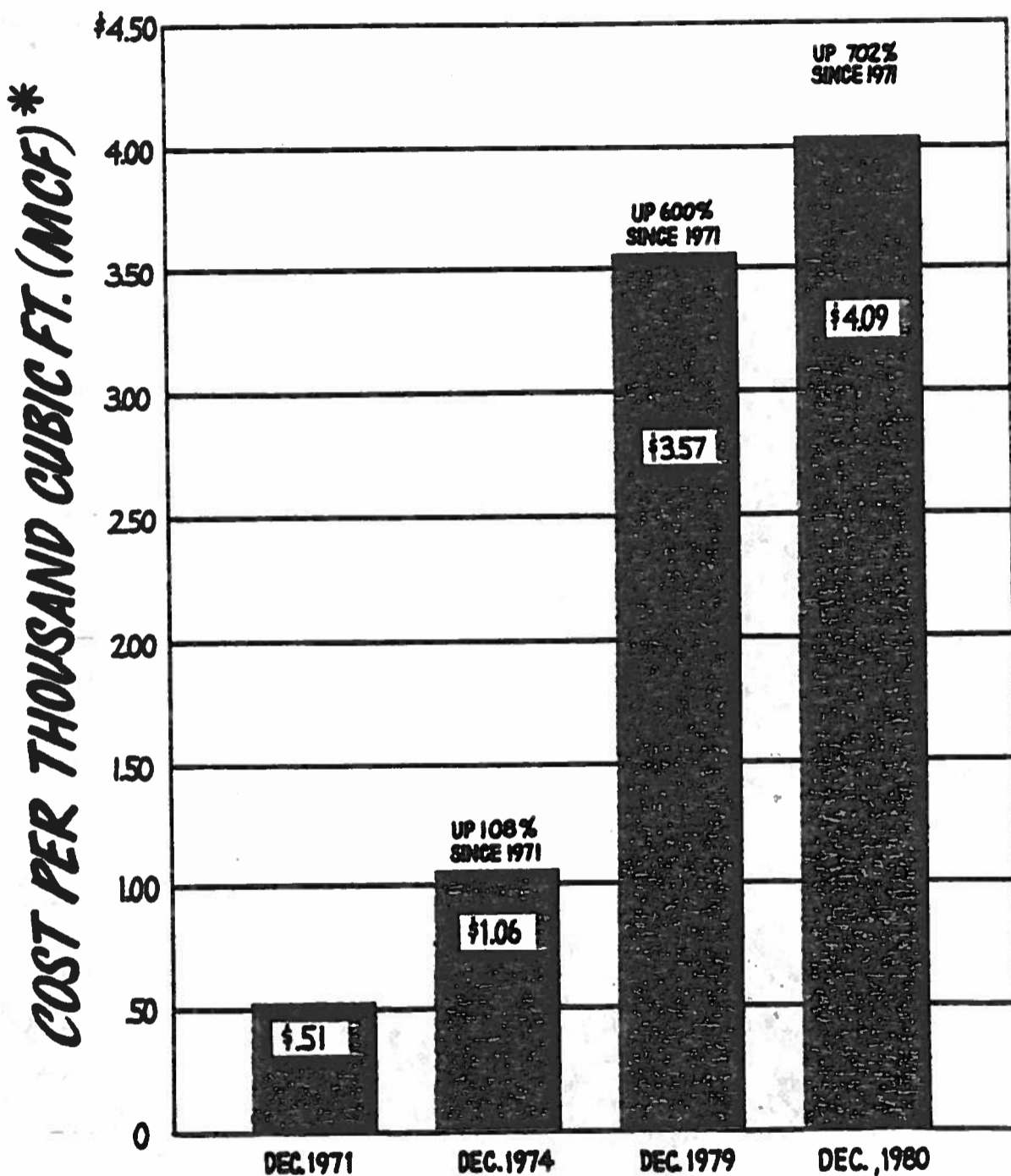
ELECTRICAL, NATURAL GAS & COAL COSTS  
VS. CONSUMER PRICE INDEX



Rising fuel costs are the main reason for increased rates. Since 1971 the cost of fuel to generate electricity, and purchased power from other utilities, has risen 650%. Natural gas costs have risen over 700%. During this same period the cost of coal has increased only 450%. Before 1973 coal was a more expensive fuel than either oil or natural gas.

All other non-fuel operating costs have been held to below the level of the Consumer Price Index.

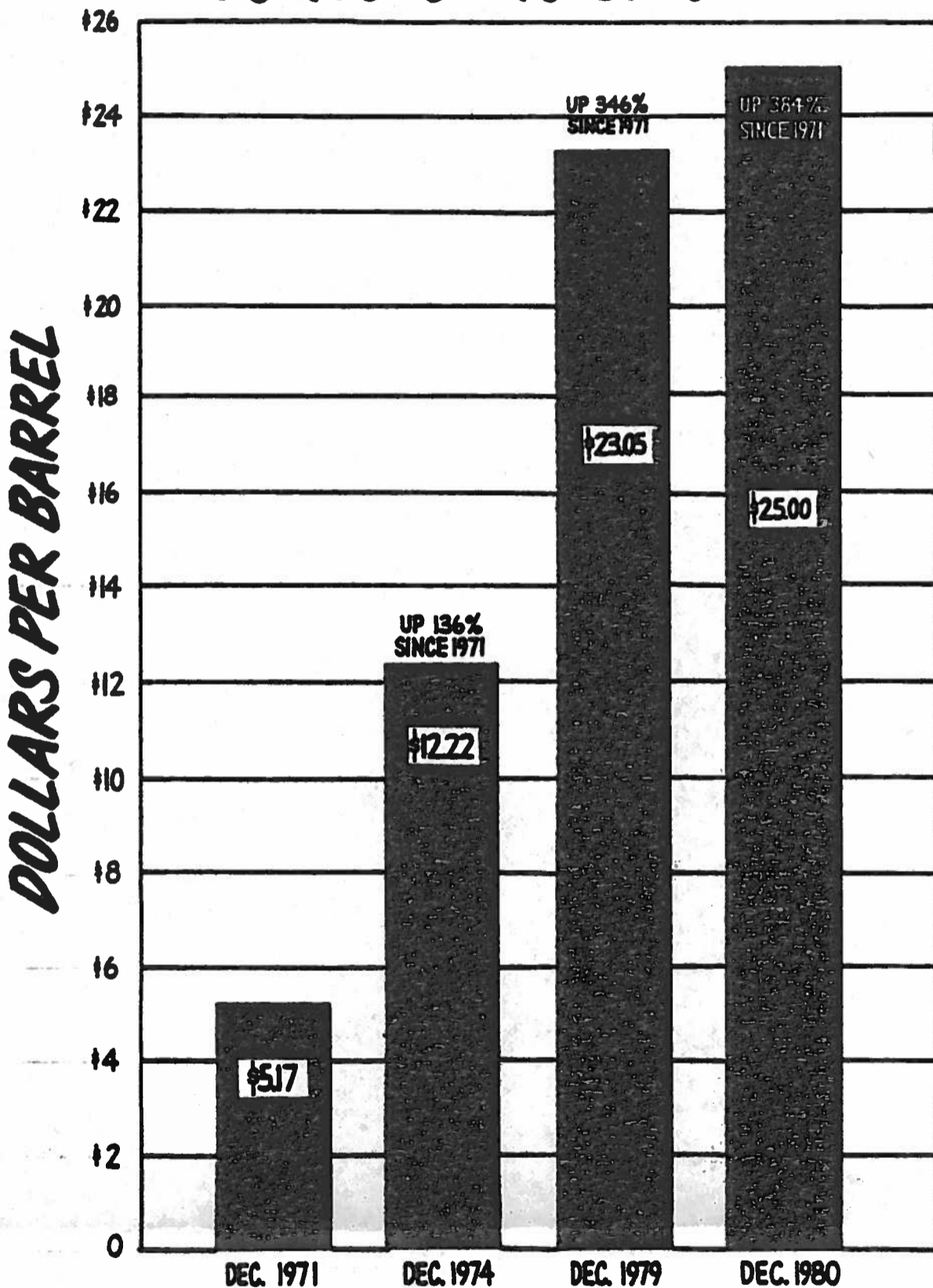
# AVERAGE COST FOR NATURAL GAS PURCHASED BY SPPCO



\* MCF = 10 THERMS

The average cost for purchasing natural gas has climbed steadily since 1971 -- an increase of 702%.

# AVERAGE COST FOR STEAM OIL DELIVERED TO SPPCO

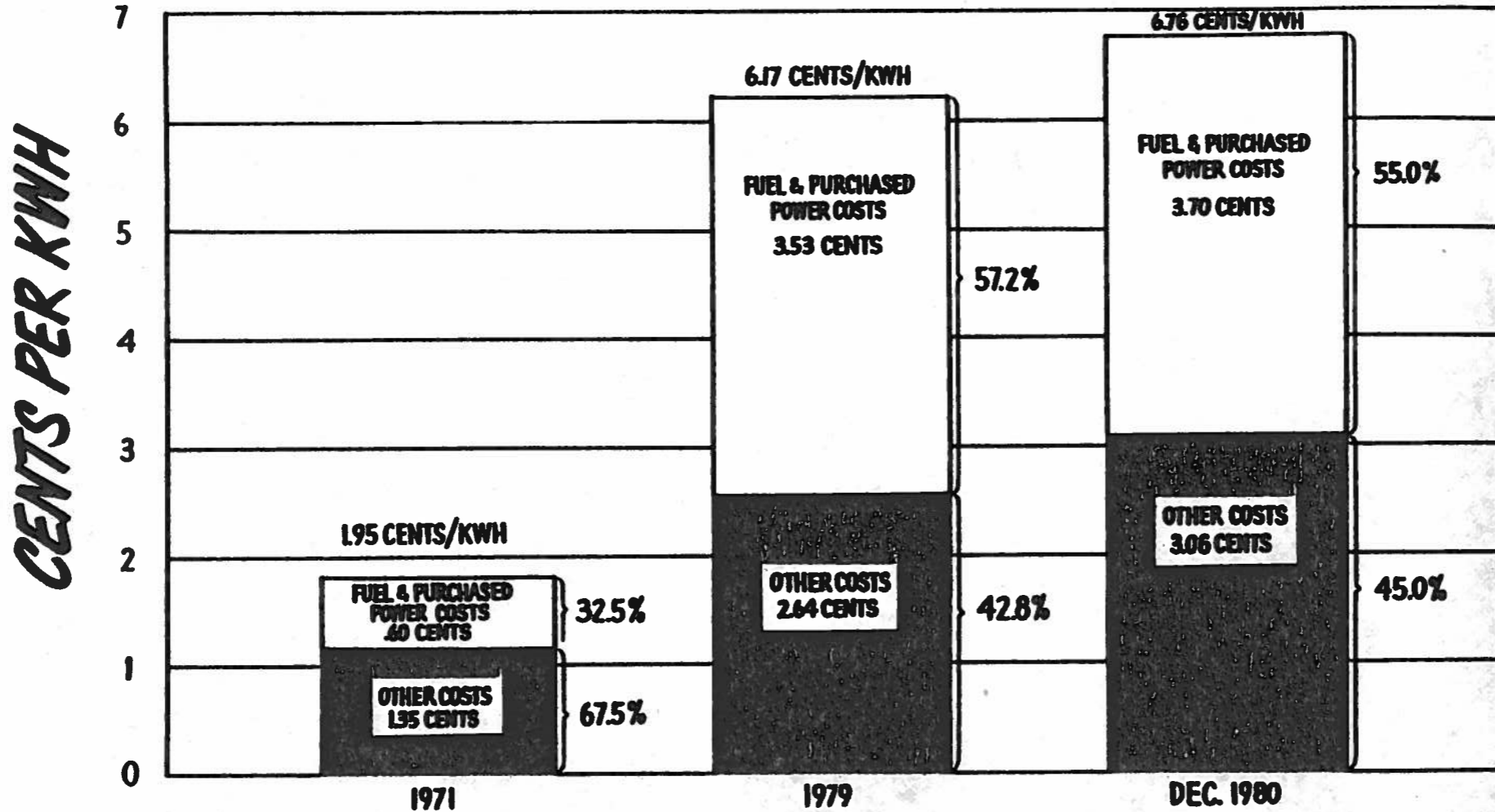


The average cost for fuel oil to generate electricity has climbed 384% since 1971.



# SIERRA PACIFIC POWER CO. FUEL PORTION OF ELECTRIC COSTS

FUEL VS. OTHER COSTS



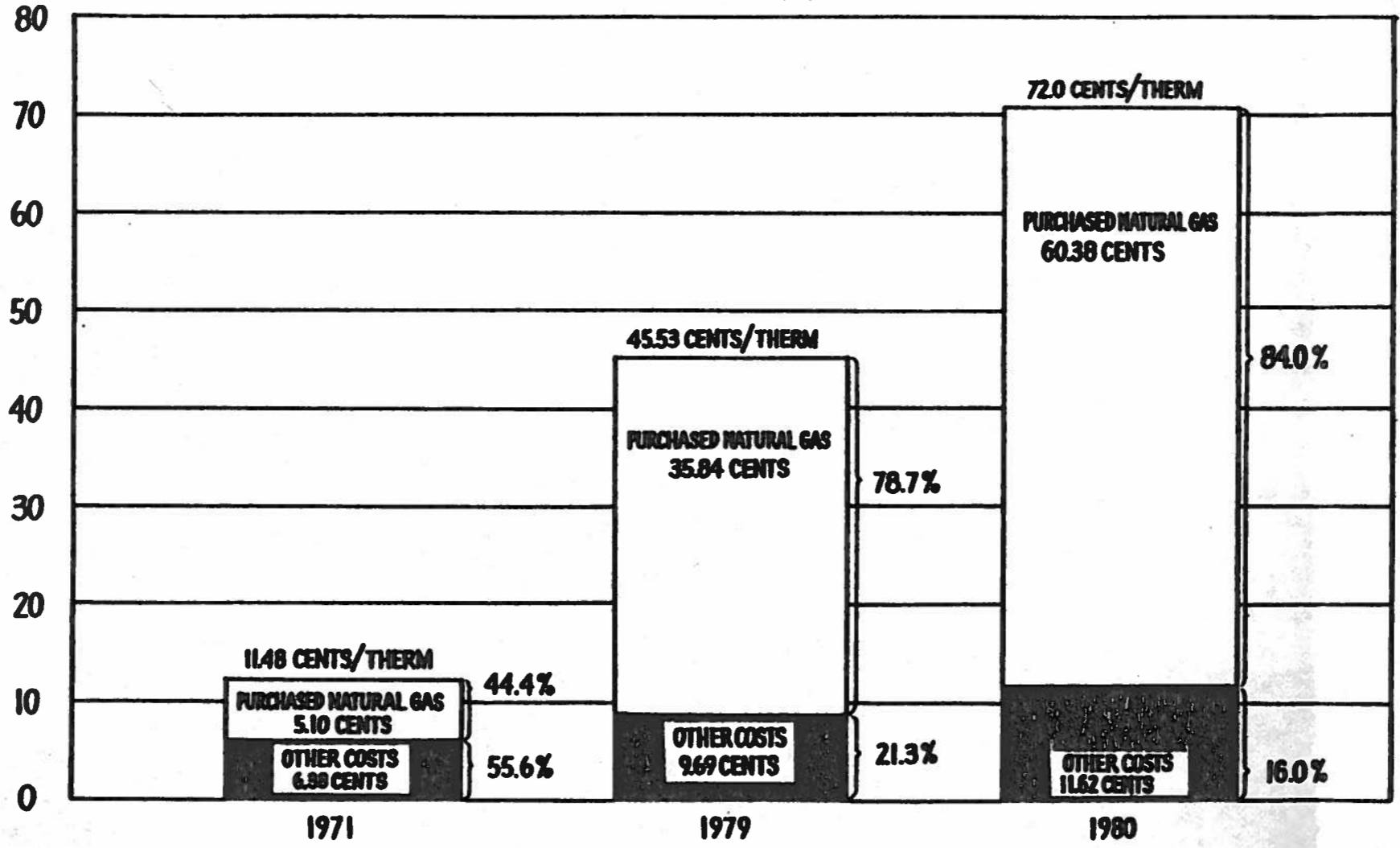
In 1971 fuel expenses amounted to 32% of the cost of electricity. This has steadily climbed until fuel expense now represents 55% of the cost of electricity.

# SIERRA PACIFIC POWER CO.

## FUEL PORTION OF NATURAL GAS COSTS

FUEL VS. OTHER COSTS

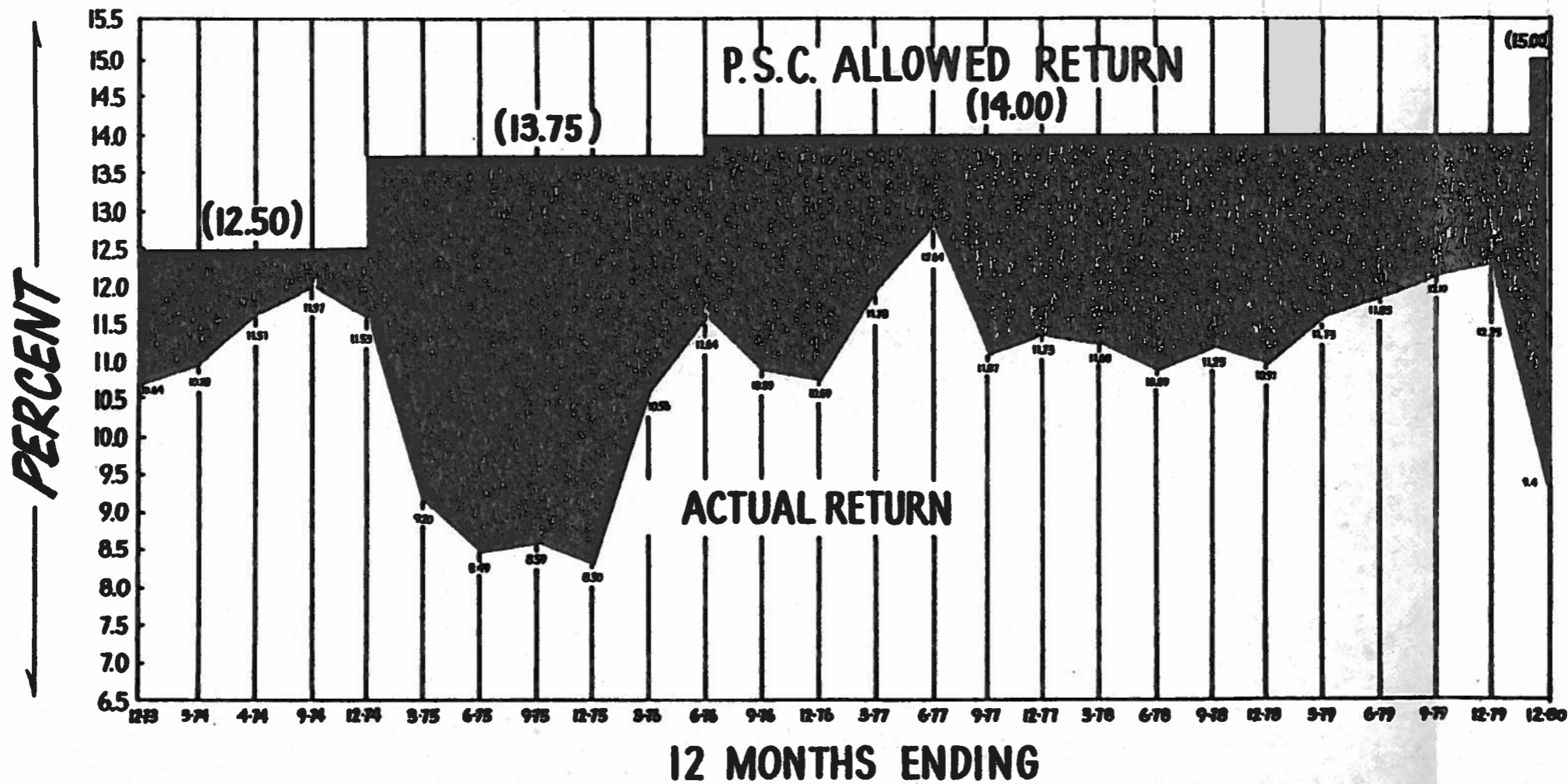
**CENTS PER THERM**



The price of purchasing natural gas represented only 44% of the total cost in 1971. Today it has climbed to represent 84% of the total cost.

# SIERRA PACIFIC POWER CO.

## RETURN ON COMMON EQUITY ACTUAL VS. ALLOWED

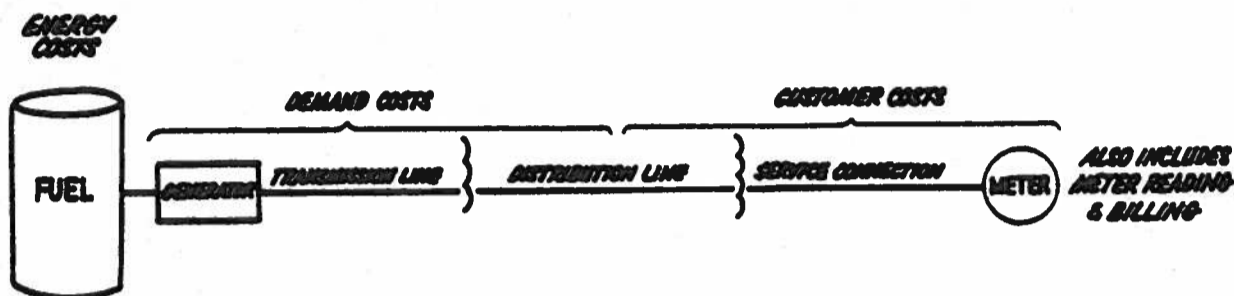


During the last seven years the difference between the percent of return Sierra Pacific was allowed to earn -- and the actual return achieved showed a continuing deficiency (of over \$18 million).

In 1980 the actual return on common equity fell to the lowest level since 1975.

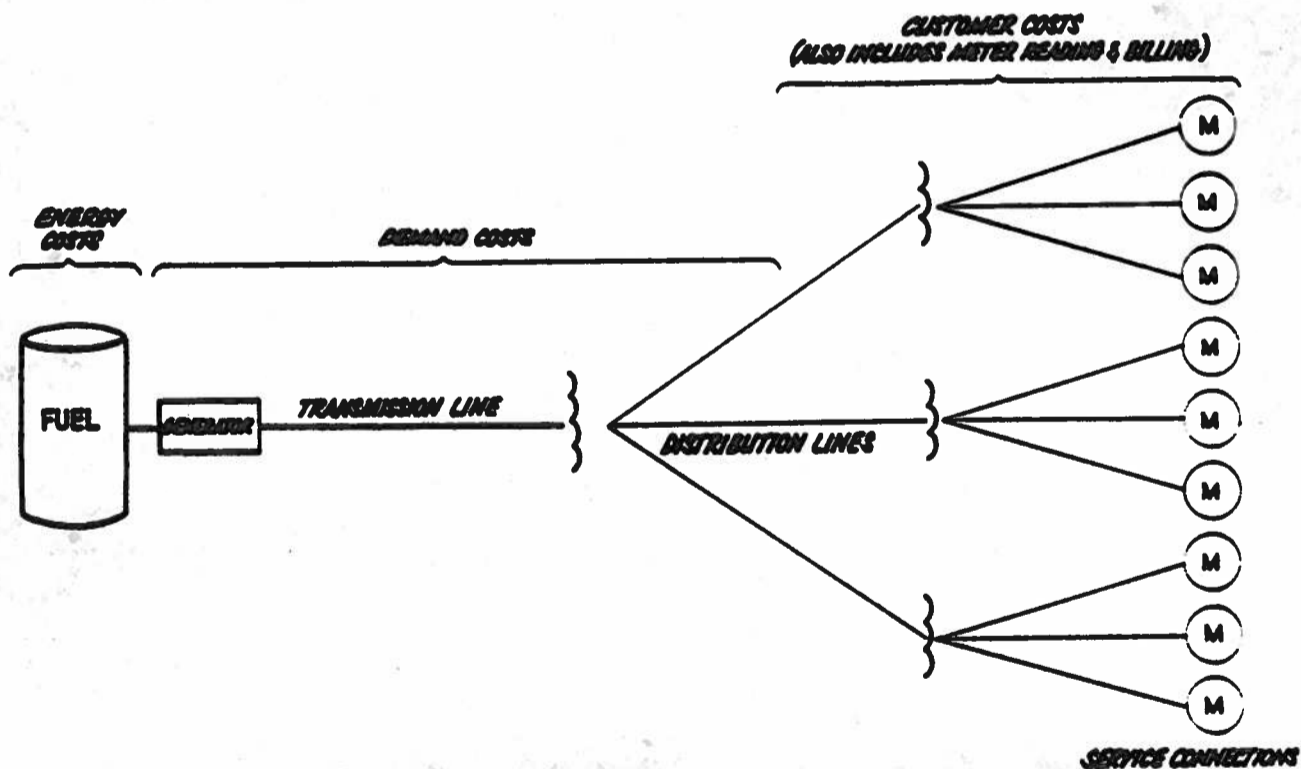
# COST TO SERVE

## LARGE COMMERCIAL CUSTOMER



## RESIDENTIAL CUSTOMERS

(EQUAL TO LOAD OF LARGE COMMERCIAL CUSTOMER)



Large commercial customers are served with a single series of transmission and distribution lines, and one service connection.

To deliver the same load to residential customers requires many more distribution lines, service connections and meters -- plus additional costs in meter reading and billing.

It is less expensive for a utility to deliver service to a large commercial customer than deliver the same service load to many smaller residential customers.

# **COSTS TO SERVE**

## **RESIDENTIAL vs COMMERCIAL**

### **CUSTOMERS**

---

### **10 KW LOAD**

<u>SERVICE</u>	<u>RESIDENTIAL</u>	<u>COMMERCIAL</u>
<b>AVG. COST PER KW</b>	<b>\$200</b>	<b>\$200</b>
<b>TOTAL COST TO SERVE</b>	<b>\$2,000</b>	<b>\$2,000</b>

### **USAGE**

<b>ANNUAL Potential Hrs./Use</b>	<b>8,760</b>	<b>8,760</b>
<b>TOTAL Annual Potential</b>	<b>87,600 KWH</b>	<b>87,600 KWH</b>
<b>CUSTOMER Load Usage Factor</b>	<b>35%</b>	<b>90%</b>
<b>ACTUAL ANNUAL USAGE</b>	<b>30,660 KWH</b>	<b>78,840 KWH</b>

### **UNIT COST TO SERVE**

<b>SERVICE ÷ USAGE =</b>	<b>6.5¢/KWH</b>	<b>2.5¢/KWH</b>
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Residential customers utilize approximately 35% of the capacity of the system built to serve them, while commercial customers use approximately 90% of their system's load capacity. This difference in utilization makes the cost to actually provide service considerably lower for a commercial customer than a residential customer.

# TOTAL OPERATING COSTS

**\$195.1 MILLION**

**NONCONTROLLABLE \$166.9 MILLION**

**FUEL AND  
PURCHASED POWER**

**\$110.7 MILLION**

**LABOR - \$15.3  
Million**

**NATURAL GAS  
RESALE  
\$28.8 MILLION**

**DEPRECIATION  
\$13.8 MILLION**

**OTHER TAXES \$5.2 MILLION**

**MATERIALS & SUPPLIES  
\$12.9 MILLION**

**PARTLY CONTROLLABLE \$28.2 MILLION**

**Federal Income Tax  
\$8.4 Million**

**LESS THAN 15% OF COSTS  
ARE CONTROLLABLE**

# EFFECT OF COST CONTROL MEASURES

**10% REDUCTION OF PARTLY  
CONTROLLED COSTS = \$3 MILLION/YR.**  
**DOLLARS SAVED PER  
RESIDENTIAL CUSTOMERS \$7.08/YEAR**

**20% REDUCTION OF PARTLY  
CONTROLLED COSTS = \$6 MILLION/YR.**  
**DOLLARS SAVED PER  
RESIDENTIAL CUSTOMERS \$14.16/YEAR**

**30% REDUCTION OF PARTLY  
CONTROLLED COSTS = \$9 MILLION/YR.**  
**DOLLARS SAVED PER  
RESIDENTIAL CUSTOMERS \$21.24/YR.**

EXHIBIT I

February 2, 1981

Mr. Connell Marsden  
Manager, Regulatory Affairs  
Nevada Power Company  
4th Street & Stewart Avenue  
Las Vegas, Nevada 89101

Dear Mr. Marsden :

Enclosed please find the third progress report on Nevada Power Company's project.

As of this date, the project is about 3 weeks behind schedule but within budget for all tasks.

Very truly yours,



Robert J. Meredith  
Project Manager

RJM:lst

cc: G Karady  
R Dewberry  
S Baron  
R McDermid  
D Pulito  
E Lesnick  
R Donnelly



PROGRESS REPORT 4  
JANUARY 1981

GENERAL

During January virtually all work except the final report has been completed.

We estimate that more than 90% of the report has already been sent to typing, although considerable editing remains.

Several figures and graphs, material for the appendices and an overall summary of conclusions and recommendations remain to be completed.

A section of the report covering "General Management" has been typed and is being edited. This part of the report deals with technical capabilities and effectiveness of management.

We are providing a copy of the long promised Theft of Service report with this progress report.

The remainder of the report should be available in draft form for NPC's review within two weeks.

PROJECT STATUS

The status of the project is as follows:

Services (man-days)	approx.	190
Budgeted man-days		235
Percentage completed		90-95%

DETAILED REPORT

Tasks 1 and 4: Reserve Capacity Calculation;  
Availability of Interconnection Power

These tasks have been combined in one section of the report dealing with "Interconnection Power Availability and Required Generation." Two small portions dealing with single-area loss of load probability for NPC and its surrounding pool have not yet been completed. The major portions dealing with two-area LOLP studies and production costs/fuel mix have been completed, except for graphs of results.

The report will recommend a long term average generation reserve for NPC in excess of 16%, with allowable year-to-year fluctuations of roughly + 3%.

The report also emphasizes that Warner Valley and Harry Allen should remain on schedule or be accelerated to provide a more economical fuel mix for NPC, regardless of their impact on reserves.

Approximately 73 man-days have been expended on the two tasks. These tasks are 90% complete.

Task 2: Plant Availability

All analyses covering unit availability and forced and maintenance outages have been revised to conform with latest information from NPC. Work is complete in this regard and a draft report covering the subject of plant performance is in typing.

The remaining portions of Task 2, covering the various aspects of accredited capacity are complete and the detailed report, is now in typing.

The summary covering overall evaluation of the above two items, together with conclusions and recommendations has been completed.

Work on Task 2 is estimated to be 90 to 95% complete with 39 workdays expended.

Task 3: Maintenance Program and Procedures

Tables, Graphs and summary text of a report covering O & M comparisons have been returned with comments from Mr. Nehez and are now completed as a report section.

Remaining sections of the Task 3 report covering visits to Plants and evaluations of maintenance procedures are in final stages of preparation and will be completed in typed form on or about February 3.

The summary concerning unit ratings for determination of reserve capacity is complete.

Work on Task 3 is estimated to be 95% complete with 40 work days expended.

Task 4b: Load Forecast

The draft report has been provided to NPC. Man-days total 11.

Task 5: Theft of Service

A draft of this report accompanies this progress report. Approximately 27 man-days have been expended. This task is 99% complete.

TO: Kathy Norwood, Economist, Nevada Power Company

FROM: Kent Anderson, NERA

RE: EBASCO's Management Audit Report on the NERA Sales and Load Forecasting Model Developed for Nevada Power Company.

DATE: January 26, 1980

The EBASCO management audit report on NERA's and NPC's forecasting techniques offers three major conclusions concerning the NERA model:

1. The econometric model developed by NERA is well founded in terms of economic theory and the forecasting procedures are appropriate for practical application to NPC's system.

2. The NERA annual growth rates for energy appear to be reasonable, but the peak load growth rate is too high, resulting in a significant decline in system load factor.

3. The data that NERA uses [sic] in its model comes [sic] from reliable sources. However, much of the data is [sic] not current and some of the information can be updated from census, state and local sources.

With respect to the NERA model, the report makes the following recommendations:

1. The . . . model . . . should be reestimated using more current data from the 1976 Census of Las Vegas and other applicable data . . . .

2. The NERA peak load growth projections resulting in an extensive decline in the load factor should be corrected.

The first of the three conclusions requires no comment. As to the second conclusion and its corresponding recommendation, I have no disagreement. As indicated in NERA's report to you, the peak-load regressions did not yield

satisfactory results. Concerning the third conclusion, and in particular the observation that some of the data can be updated, there are more complications than the writer of the EBASCO report may realize.

Leaving aside the question of what historical data to use to estimate the model's equations, there remains the problem of finding data sources for measuring the historic values for the explanatory variables used for the "backcast" period of the model (1971-1979) and for projecting future values for the "forecast" period of the model (1980-1990). As regards the backcast period, I used the latest data available at the time I did the study. At that time I had historical data running through 1978 or 1979 for customers and energy prices. For economic activity, I had figures from the Bureau of Economic Analysis running through 1977. Later data were not available from that source. To have tried to use estimates from another source for 1978 or 1979 would have meant running the risk of using inconsistent and very likely running afoul of incomplete data. Furthermore, the model's track record in "predicting" 1978 and 1979 is sufficiently good that I doubt whether refinements in the input data for those two years would make much practical difference.

As to the forecast period, none of the data sources suggested by EBASCO gives projections of future activity. In my view, the OBERS projections, interpreted in light of the 1972-1977 experience, constitute an excellent basis for judging future economic growth possibilities.

So much for my defense of the currency of the data used for the projections. Without apology, I hasten to add that it is now possible to update the data used for the backcast period and that new OBERS projections are due out soon. Further, there may be some economic activity projections of local banks or universities worth utilizing for the forecast period--if they go out far enough in time.

Finally, as to reestimation of the model's equations, let it be understood that, given the sectorally disaggregated approach utilizing cross-sectional data for states that I have relied upon, there were (and are) no more recent data. When the results of the 1977 Census of Manufacturing and the 1980 Census of Housing are available, it will be possible to update the study. But, at present, the only way that more recent data can be utilized is to use a different modelling approach, for example, by reducing the amount of end-use detail in the model. In that case it would be possible to do a cross-sectional study with data running through 1979. Alternatively, the data set could be restricted to time series pertaining only to the Company's service area. These alternatives may themselves be methodological compromises more serious than those required by the approach I took. This is not to say that they should not be tried. Rather, it is to say that altering the form of the model to incorporate more recent data not only offers no guarantee of improved forecasting capability, it in fact does not even support such a presumption.

KPA:ss

# Southern Pacific Transportation Company

One East First Street • Suite 905 • Reno, Nevada 89501 • (702) 329-2492

JOHN L. BECK  
ASST. TAX COMMISSIONER

1981 Legislature

EXHIBIT K

February 16, 1981

Senator Thomas Wilson, Chairman  
Senate Committee on Commerce and Labor  
Nevada State Senate  
Carson City, Nevada 89701

Subject: Office of Consumer Advocacy -  
Public Utilities

Dear Senator Wilson:

The specific intent of the initiative which prompted AB-58 and AB-85 is obviously directed at gas and electric type utility companies.

N.R.S. 704 defines railroads as utilities while it is generally recognized among regulators that in reality they are not, as railroads do not operate under a franchise as a monopoly as do true utilities. It should be noted that N.R.S. 704 was originally enacted about 1919 when Railroads quite possibly could have been in that category.

Testimony has been given before the Assembly Committee on Governmental Affairs to the effect that it was not the intent of the initiative proponents to include railroad operations under the Consumer Advocacy Agency, and in fact there is no need for them to be so placed. The testimony went on to advise that in those states having an office of consumer advocacy there was little if any interest in rail or transportation matters and that the efforts of those agencies were generally not in that direction.

The Interstate Commerce Commission and various Federal agencies have pre-empted the field in the vast majority of railroad regulatory matters.

In those minute areas not pre-empted by Federal law the power to regulate and enforce is rightfully within the police power of the states and usually placed under the jurisdiction of the Public Service Commission or Department of Transportation wherein the expertise lies to protect the public interest in those matters.

Senator Thomas Wilson  
Page 2

It is our belief that in practicality the railroad industry should not be included in any type of consumer advocacy legislation and respectfully request that any reference to railroads be stricken from present or any proposed legislation of this kind.

Yours truly,



JOHN L. ECK

JLE/hm

cc: Senators Richard Blakemore, Vice Chairman  
Don Ashworth  
Melvin Close  
William Hernstadt  
✓Cliff McCorkle  
William Raggio



# Sierra Pacific Power Company

JOE L. GREMBAN  
President

EXHIBIT L

February 13, 1981

Senator Thomas C. Wilson, Chairman  
Commerce and Labor Committee  
Nevada State Legislature  
Carson City, Nevada

Dear Senator Wilson:

When I appeared before your committee a couple of weeks ago to discuss the water situation in the Truckee Meadows, some of the members of the committee asked if there was anything that could be done with regard to new legislation that might alleviate some of our problems regarding water supply.

I have gone over this with our water rights engineer and our legal department and am enclosing for consideration some amendments to existing legislation which would help us quite significantly in acquiring water rights and improving our ability to provide adequate service. After you have had an opportunity to review these I would be very happy to get together with you and the committee and explain our position.

I also am enclosing, as a result of Senator Raggio's question, our policy statement with regard to expanding our service territory to areas adjacent to the territory. You will note on page 2, item c., we have stated that we would ask for all of the water rights appurtenant to the area to be annexed, unless otherwise agreed to by the company. There are instances where a developer may have developed the entire piece of property and has water rights in excess of that required to serve such property, which we would wish to acquire. We also recognize that there are instances where a developer may be developing only a portion of the property and would wish to retain water rights appurtenant to the balance of it and we would naturally accommodate such a request.

We are currently awaiting an order from the Nevada Public Service Commission which would authorize us to expand our service territory to accommodate the Community College and a proposed new high school in Reno. We also have had an application from a developer to annex a piece of property outside of our service territory, but adjacent to it, for development. This property owner would transfer to us the necessary water rights and shortly we will be

Senator Thomas C. Wilson  
Page 2  
February 13, 1981

filing for an expansion pursuant to that request. So, you can see we are not inflexible with respect to expanding our service area.

I believe we did have the opportunity to present to you our information regarding water supply in the Truckee Meadows as prepared by Joe Burns, our consultant, and Bob Firth, our water rights engineer. I believe the information is very significant and pertinent to questions of water supply and we would appreciate an opportunity to present this to your committee.

Please let me know if there is anything additional we can provide with regard to these items, or any other matter involving water supply.

I am enclosing sufficient copies of this material should you wish to present it to the other members of your committee.

Sincerely,



Joe L. Gremban

JLG/1b

SIERRA PACIFIC POWER COMPANY  
POLICY STATEMENT

On August 24, 1979, Sierra Pacific Power Company made a statement to the Washoe Council of Governments describing the water supply situation within our existing water service territory. We stated that our existing inventory water rights are not expected to meet the demand of our existing service territory in 1981, or at the latest, 1982, and called upon local government to coordinate their planning efforts very closely with the Sierra Pacific staff. Sierra Pacific is actively involved in obtaining the water and storage rights to serve our existing service territory.

We have determined that certain water rights which are located outside the service territory are not available for sale to Sierra Pacific due to the desire of the owners of such rights to develop those lands in the future. Therefore, Sierra Pacific will consider expansion of its water service territory to these lands with appurtenant water rights, only under conditions which will not prejudice its existing customers.

The conditions which must be met prior to Sierra Pacific making a commitment to expand its water service territory include, but are not limited to, the following:

1. The property to be annexed must be contiguous to Sierra Pacific's existing service territory and must have water rights which will provide a firm yield sufficient in quantity and adequate in quality for human consumption, after treatment by Sierra Pacific's existing treatment facilities. The yield must be proven to the satisfaction of Sierra Pacific and the State Water Engineer and any other state or local agency having jurisdiction. The development must be limited to that which can

be supported by the firm yield of the water rights under hydrologic conditions such as those experienced in the 1928-1935 drought period and the critical year of 1934. The use per customer shall be determined by Sierra Pacific Power Company.

a. Surface water rights must be transferable to the Truckee River for use by the Company in its treatment facilities. Additionally, surface water rights which were appurtenant to lands located inside Sierra Pacific's service territory prior to August 24, 1979 (the date the Company made its water supply statement to the Washoe Council of Governments) or water rights which were used on property to be annexed but not officially transferred through the State Water Engineer's Office prior to August 24, 1979, will not be considered as part of the firm yield.

b. Existence of groundwater rights and permits must be approved and confirmed by the State Water Engineer. Physical availability to adequate quality and quantity of groundwater to meet the proposed development must be proven to the Company's satisfaction. In addition, it must be proven to the Company's satisfaction that the proposed groundwater draft will not adversely affect any existing Company wells. Existing and proposed wells for the annexed area must be constructed to Company standards.

c. All water rights appurtenant to the territory to be annexed must be transferred to Sierra Pacific regardless of whether or not they are considered as part of the firm yield unless otherwise agreed to by the company.

2. The party(ies) desiring such water service shall take such steps as Sierra Pacific may require to insure that the development does

not exceed the firm yield of the water rights. This will include, but is not limited to, (1) the institution of all feasible water conservation measures, and (2) obtaining an agreement and ordinance from the local government to permanently limit the development to the firm yield of the water rights under hydrologic conditions such as those experienced in the 1928-1935 drought period and the critical year of 1934.

3. Water service will be provided in accordance with Sierra Pacific's approved rates, rules and regulations as filed with the Public Service Commission of the State of Nevada. The applicant would be required to pay for all facilities necessary to serve the development including, but not limited to, wells, treatment facilities, and storage facilities. All annexations are subject to the review and approval of the Public Service Commission of Nevada.

This statement of policy is intended to define those conditions which an applicant for water service must meet before Sierra Pacific management will consider an annexation of additional service territory. The statement is not intended to operate as a commitment or dedication to serve all applicants meeting the above conditions and Sierra Pacific reserves the right to refuse to annex any territory to its water service territory which it deems, in its discretion, to be an undesirable addition.

Exhibit A page 3 of 3

37.010 Public uses for which the right of eminent domain may be exercised. Subject to the provisions of this chapter, the right of eminent domain may be exercised in behalf of the following public uses:

. . . .

8. Public utilities. Telegraph, telephone, electric light, and electric power lines, and sites for electric light and power plants, water and water rights for municipal, industrial and domestic use, where such waters and water rights are appurtenant to lands located within such public utility's service area, and (1) to parcels located in a residential subdivision with individual lots which do not exceed 1/2 acre in size, or (2) to parcels located in a commercial or industrial subdivision.

EXPLANATION

This legislation would allow a public utility to condemn those water rights which were not reserved by the developer when the land was subdivided, causing those rights to be very difficult to acquire. The size limitation on residential subdivisions was intended to exclude the large residential lots in the Truckee Meadows which recharge the groundwater with their water rights.

277.050 Sales, exchanges, leases of real property by one public agency to another public agency: Conditions; procedure.

1. As used in this section, "public agency" includes the United States or a department or agency thereof, the State of Nevada or a department or agency thereof, a county, Carson City, a public corporation, and a public district.

2. Without a vote of the electors of a public agency first being had, the governing body thereof is authorized:

(a) To sell or exchange to another public agency or to a public utility as defined in NRS 704.020, et seq., any unused real property belonging to it, which, at the time of delivery of title or possession, is no longer required for public use by the selling or exchanging public agency.

(b) To lease to another public agency or to a public utility as defined in NRS 704.020, et seq., for a term not exceeding 99 years, any unused real property belonging to it, which, at the time of delivery of possession, is no longer required for public use by the lessor public agency.

3. A sale or exchange may be:

(a) Negotiated without advertising for public bids.

(b) Made for cash or property, or for part cash and property, or for part cash and terms of deferred payments secured by mortgage or deed of trust, but the purchasing public agency or exchanging public agencies shall pay or convey property worth an amount at least equal to the current appraised value of the real property being conveyed or exchanged. Funds derived from a sale shall be used for capital outlay.

4. A lease may be:

(a) Negotiated without advertising for public bids.

(b) Made for such consideration as may be authorized by action of the governing body of the lessor public agency.

5. Before ordering the sale, exchange or lease of any such property the governing body of a public agency shall, in a regular open meeting, by a majority vote of its members, adopt a resolution declaring its intention to sell or exchange the same, or a resolution declaring its intention to lease the same, as the case may be. The resolution shall:

(a) Describe the property proposed to be sold, exchanged or leased in such a manner as to identify it.

(b) Specify the minimum price, consideration or rent and the terms upon which it will be sold, exchanged or leased.

(c) Fix a time not less than 2 weeks thereafter for a public meeting of the governing body, at which meeting objections to the sale, exchange or lease may be made by the electors of the public agency.

6. Notice of the adoption of the resolution and of the time and place of the public meeting shall be published in a newspaper of general circulation published in the county in which the public agency or any part hereof is situated. The notice shall be published not less than twice, on successive days, the last publication to be not less than 7 days before the date of the public meeting.

7. Any resolution accepting a bid or any other form of acceptance of a bid by another public agency shall authorize and direct the chairman, president or other presiding officer of the governing body of the selling, exchanging or lessor public agency to execute a deed or lease and to deliver the same to the purchasing, exchanging or lessee public agency



upon the performance and compliance by it of all the terms and conditions of the contract to be performed concurrently therewith.

EXPLANATION

This amendment is intended to allow cities, counties and the state to transfer water rights or other land interests, such as a right of way, without first placing the interest up for public bid. The governmental bodies, of course, could place any land interest up for public bid if they determined that it was in their best interest.

278.020 Governing bodies empowered to regulate land improvement and location of structures for general welfare.

1. For the purpose of promoting health, safety, morals, or the general welfare of the community, the governing bodies of cities and counties are authorized and empowered to regulate and restrict the improvement of land and to control the location and soundness of structures.

2. Any such regulation, restriction and control shall take into account the potential impairment of natural resources and the total population which the available natural resources will support without unreasonable impairment.

3. The powers herein specifically include the power to condition land improvement on dedication of water rights.

#### EXPLANATION

Certain of the governmental bodies have expressed concern as to whether they had authority to condition land improvement on dedication of water rights. This provision should clarify the scope of their authority.

532.120 Rules and regulations; rules governing contests.

1. The state engineer is empowered to make such reasonable rules and regulations as may be necessary for the proper and orderly execution of the powers conferred by law.

2. The state engineer shall have power to make rules, not in conflict with law, governing the practice and procedure in all contests before his office, to insure the proper and orderly exercise of the powers granted by law, and the speedy accomplishment of the purposes of chapter 533 of NRS. Such rules of practice and procedure shall be furnished to any person upon application therefor.

3. Such rules and regulations may include simplified procedures for transferring the place of diversion, manner of use or place of use of water appurtenant to parceled land or dedicated streets and ways.

4. Such rules and regulations may include procedures for the review and approval required by Chapter 278 of NRS and for review of water quantity for commercial, industrial, apartment or other major developments which do not fall under that chapter.

EXPLANATION

This legislative change would accomplish two objectives. First, it would give the state engineer authority to provide for a simplified procedure for transfer of water rights by passing rules and regulations acceptable to the agency. Secondly, it would provide for review and approval by the state engineer of major developments for water quantity. It should be understood that in order to properly carry out this new duty, the state engineer would require additional manpower.

*may*

533. . "Place of Diversion" defined. As used in this chapter, "place of diversion" shall mean the point at which water is removed from a stream system. Upon application pursuant to 533.325, et seq., the state engineer may authorize more than one place of diversion.

EXPLANATION

This section is intended to provide authority to the state engineer to approve multiple points of diversion where the same would not affect other water right holders. This amendment would allow Sierra to make more efficient use of its water rights.

533.030 Appropriation for beneficial use.

1. Subject to existing rights, all such water may be appropriated for beneficial use as provided in this chapter and not otherwise.

2. The use of water, from any stream system as provided in this chapter and from underground water as provided in NRS 534.080, for any recreational purpose, is hereby declared to be a beneficial use.

3. The appropriation, acquisition or lease of water from any stream system as provided in this chapter and from any underground water as provided in NRS 534.080 by a public utility as defined in NRS 704.020, et seq., or a municipal corporation, for the purpose of serving the present or future municipal, industrial and domestic water needs of its customers or for the purpose of serving the ultimate electrical needs of its customers is hereby declared to be a beneficial use.

EXPLANATION

This amendment is intended to forestall potential claims that a municipality or a public utility, which holds water rights for the future requirements of its constituents or customers, has abandoned or forfeited its rights.