

MINUTES OF THE
MEETING OF THE SENATE COMMITTEE
ON COMMERCE AND LABOR

SIXTY-FIRST SESSION
NEVADA STATE LEGISLATURE
February 23, 1981

The Senate Committee on Commerce and Labor was called to order by Chairman Thomas R. C. Wilson at 1:45 p.m., Monday, February 23, 1981, in Room 213 of the Legislative Building, Carson City, Nevada. Exhibit A is the Meeting Agenda.

COMMITTEE MEMBERS PRESENT:

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

COMMITTEE MEMBER ABSENT:

Senator Clifford McCorkle

STAFF MEMBER PRESENT:

Betty Steele, Committee Secretary

Chairman Wilson presented Bill Draft Request No. 56-716*, which removes the prohibition against taking security interest in real property on installment loans. The committee has no objections to its introduction.

SENATE BILL NO. 134--Allows the public service commission to regulate certain pipelines for natural gas.

After committee discussion, it was decided to hold this bill for information pending from Mr. Phil Herrington.

SENATE BILL NO. 135--Changes the procedure followed by the public service commission in dealing with complaints against public utilities.

The committee decided to hold this bill.

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SENATE BILL NO. 136--Provides for special classification of contractors working on pipelines for hazardous liquids and natural gas.

The bill was presented and discussed, with the decision being made for it to be held.

SENATE BILL NO. 137--Provides penalties for violation of certain regulations relating to pipelines.

Senator Hernstadt presented an amendment to the bill. (See Exhibit B.) He explained that if the mobile home park operator does not satisfactorily repair violations to pipelines, the public service commission can order the operators to do those repairs and, if the work is not commenced in three days, the operators may be penalized.

Senator Close asked who would be responsible for paying the balance of the bill when the public service commission orders a private contractor to make the repairs and the lien on the property, is insufficient to cover the bill. It was stated there might be problems with contractors completing the work, even at the state's insistence, if they were not assured of payment from a designated source.

It was stated that the present law allows people to rent motel accommodations, and charge the mobile home park owner for those expenses. Senator Hernstadt suggested amending the bill so that work cannot be done unless the public service commission determines there is enough equity in the property to cover the cost of the work. This would require a title search.

There was further discussion regarding possible improper work orders by the public service commission and the jurisdiction therein, with concerns voiced regarding the effects of closure of mobile home parks on the residents of those parks, whether or not local jurisdiction would be the best solution, and the restatement of the fact that Clark County no longer allows master meters.

Senator Hernstadt felt that the legislature was obligated to make some provisions for the persons affected by faulty master meters. It was suggested that an amendment to the bill be provided for a reasonable rent, not exceeding the monthly rent for the lot in the given mobile home park, to be recovered if the tenants cannot find living quarters elsewhere because of a forced gas cutoff. After

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further debate, it was decided to defer action on Senate Bill No. 137 until a later date.

Reorganization of the public service commission was the next item for discussion. (See Exhibit C.) Senator Raggio questioned creating a situation which would make the attorney general and the governor adversaries. Chairman Wilson explained the committee had to make the choice between the allowing the governor to appoint the public service commission members as well as the consumer advocacy director, or allowing the attorney general to appoint the consumer advocacy director.

Chairman Wilson asked for discussion on structuring the consumer advocate's office within the attorney general's office. He said the following questions would have to be addressed:

1. Should the director of the consumer advocacy office be subject to confirmation, or should he simply be appointed by the attorney general?
2. Should the director serve at the will of the attorney general or should he serve for a term?
3. What should be the jurisdictional powers of the consumer advocacy office?
4. Should the jurisdictional powers be the same as the commission staff presently has?

Senator Raggio commented that making the director serve at the will of the attorney general would put pressure on the director to bow to political pressures. He felt the director should be appointed for a specific term, and be removable for due cause.

Senator Hernstadt suggested that the term for the director of the consumer advocate's agency coincide with the attorney general's term of office. The committee agreed that the first term would expire December 31, 1984, and that the following terms would be for four years each, after that date.

The committee agreed that the director would not be confirmed by the Senate. They also agreed to give the consumer advocacy office full powers--the same powers as the public service commission.

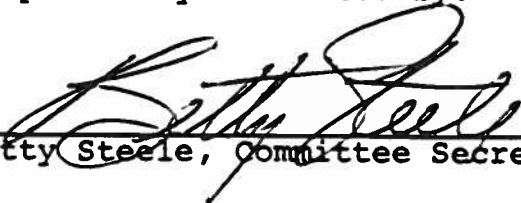
There was further agreement to include a provision that copies of whatever action is filed with the public service commission would be automatically furnished to the consumer advocate's office.

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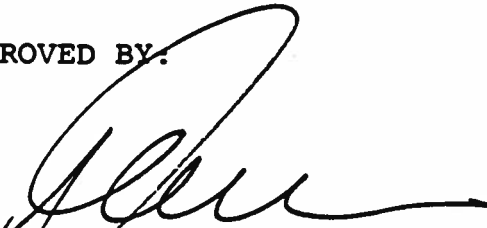
A basic set of amendments are to be drawn for the committee to study at a later date. Staffing and budget aspects are to be drawn by the Assembly Government Affairs Committee.

There being no further business, the meeting was adjourned at 2:55 p.m.

Respectfully submitted by:


Betty Steele, Committee Secretary

APPROVED BY:



Senator Thomas R. C. Wilson, Chairman

DATE _____

SENATE AGENDA

COMMITTEE MEETINGS

EXHIBIT A

Committee on Commerce and Labor, Room 213.

Day Monday, Date February 23, Time 1:30 p.m.

Amendment No. 45 to S.B. No. 137--Provides penalties for violation of certain regulations relating to pipelines.

Amendment No. 79 to S.B. No. 202--Increases fine for violation of certain laws by contractors.

BDR-56-716--Removes prohibition against taking security interest in real property on installment loans.

Amendment No. 88 to S.B. No. 213--Limits regulation to certain trust companies.

Draft reorganization of Public Service Commission.

EXHIBITS FOR MEETING, FEBRUARY 23, 1981

EXHIBIT A is the Meeting Agenda.

EXHIBIT B is the proposed Amendment, to Senate Bill No. 137.

EXHIBIT C is the Sierra Pacific Power Company statement in regard to reorganization of the public service commission.

1981 REGULAR SESSION (61st)

EXHIBIT B

ASSEMBLY ACTION	SENATE ACTION	SENATE	AMENDMENT BLANK
Adopted <input type="checkbox"/>	Adopted <input type="checkbox"/>	AMENDMENTS to SENATE	
Lost <input type="checkbox"/>	Lost <input type="checkbox"/>	Joint	
Date: <input type="checkbox"/>	Date: <input type="checkbox"/>	Bill No. 137	Resolution No. _____
Initial: <input type="checkbox"/>	Initial: <input type="checkbox"/>	BDR 58-277	
Concurred in <input type="checkbox"/>	Concurred in <input type="checkbox"/>	Proposed by Committee on Commerce and Labor	
Not concurred in <input type="checkbox"/>	Not concurred in <input type="checkbox"/>		
Date: <input type="checkbox"/>	Date: <input type="checkbox"/>		
Initial: <input type="checkbox"/>	Initial: <input type="checkbox"/>		

Amendment N^o 45



Amend sec. 2, page 1, line 3, by deleting "maliciously" and inserting "knowingly".

Amend sec. 3, page 1, line 11, by deleting "has reasonable belief that a" and inserting "reasonably believes that:

(a) A".

Amend sec. 3, page 1, by deleting line 14 and inserting:

to life or property; or

(b) The owner or operator of a master meter has failed within a reasonable time to make the repairs necessary to provide service to a residential customer,

each the commission shall schedule a hearing on the matter".

Amend sec. 3, page 1, line 18 after "exist" by inserting "or necessary repairs have not been made,".

Amend sec. 3, page 1, line 19, after "condition" by deleting the period and inserting "or make the repairs.".

Amend sec. 3, page 1, line 22, by inserting after the period "If the owner or operator of a master meter fails to make necessary repairs within 3 days after the commission's order to do so, the commission may order the repairs to be made by a qualified contractor who may enter the property to complete the repairs, and the cost of the repairs becomes a lien on the property of the owner or operator of the master meter.".

Amend sec. 4, page 2, line 32 by deleting "1674(b)" and inserting "1674b(b)".

File
Date:

Amend sec. 4, page 2, line 35 by deleting "maliciously" and inserting "knowingly".

Amend the title of the bill on line 2, by inserting after the semicolon "requiring the owners of master meters to make repairs in certain circumstances;".

Exhibit 5/25
C

EXHIBIT C

SIERRA PACIFIC POWER COMPANY

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 & 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 & 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 & 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 & 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

PAGE 2 OF 3

*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
OHIO 4/ 5#	Ohio Edison	A	BBB	Standard & Poor's
4/12#	Philadelphia Electric	A	BBB	Standard & Poor's
MICH 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
MO. 8/26#	Missouri Power & Light	A	BBB	Standard & Poor's
OHIO 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
OHIO 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
MICH. 12/ 8#	Consumers Power	A	Baa	Moody's
MICH. 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

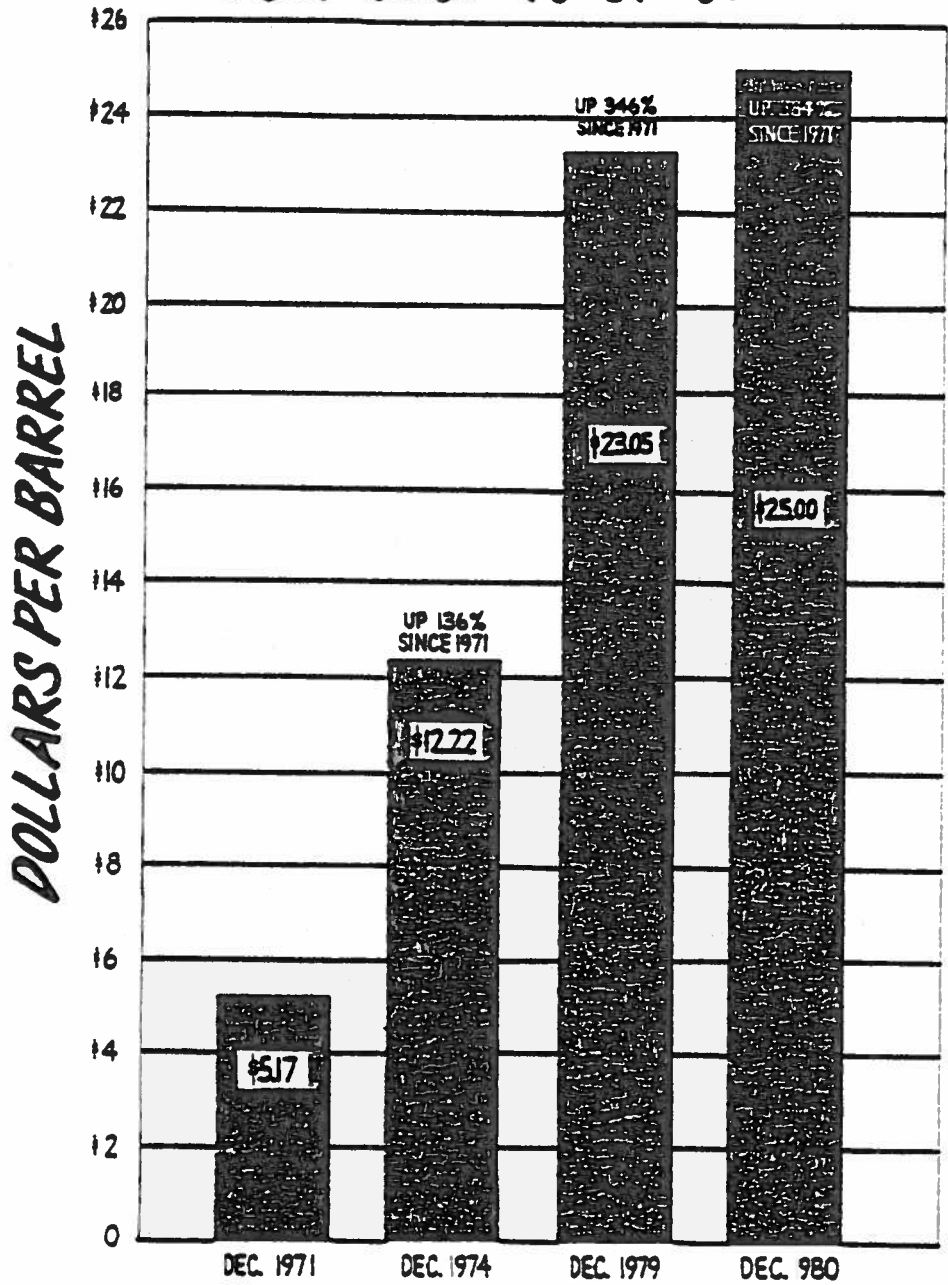
FUEL VS. GENERAL

	<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

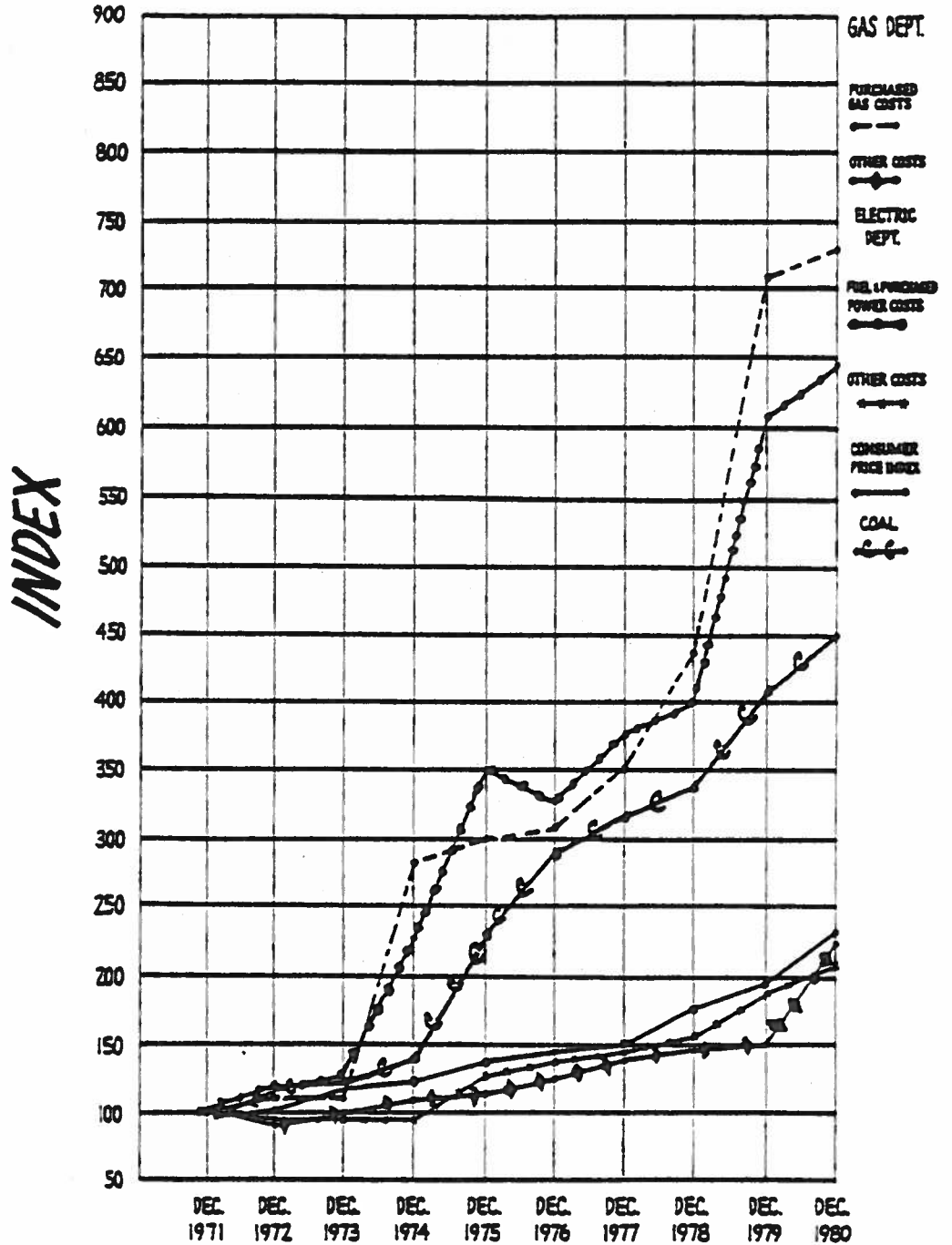
AVERAGE COST FOR STEAM OIL DELIVERED TO SPPCO



The average cost for fuel oil to generate electricity has climbed 386% since 1971.

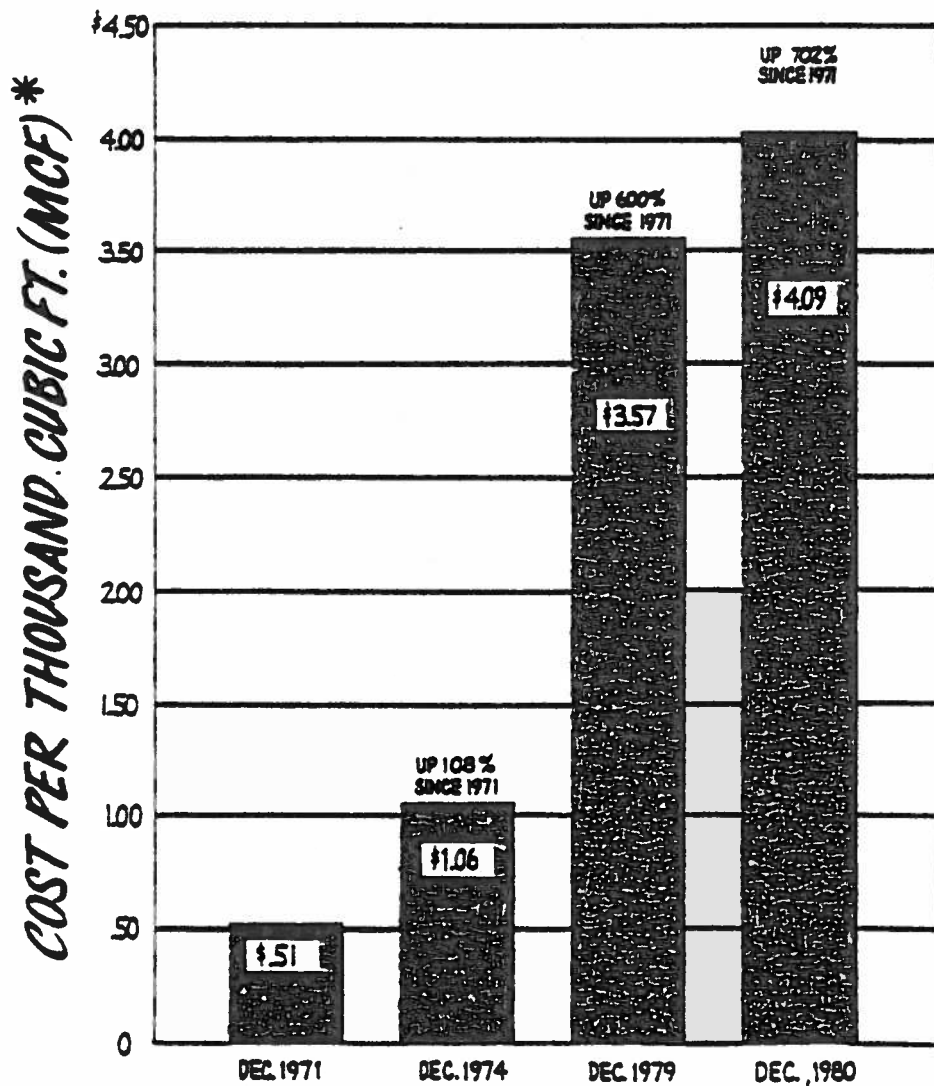
SIERRA PACIFIC POWER CO.

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 630%. Natural gas costs have risen over 100%. During this same period the cost of coal has increased only 450%. Before 1970 coal was a more expensive fuel than either oil or natural gas.

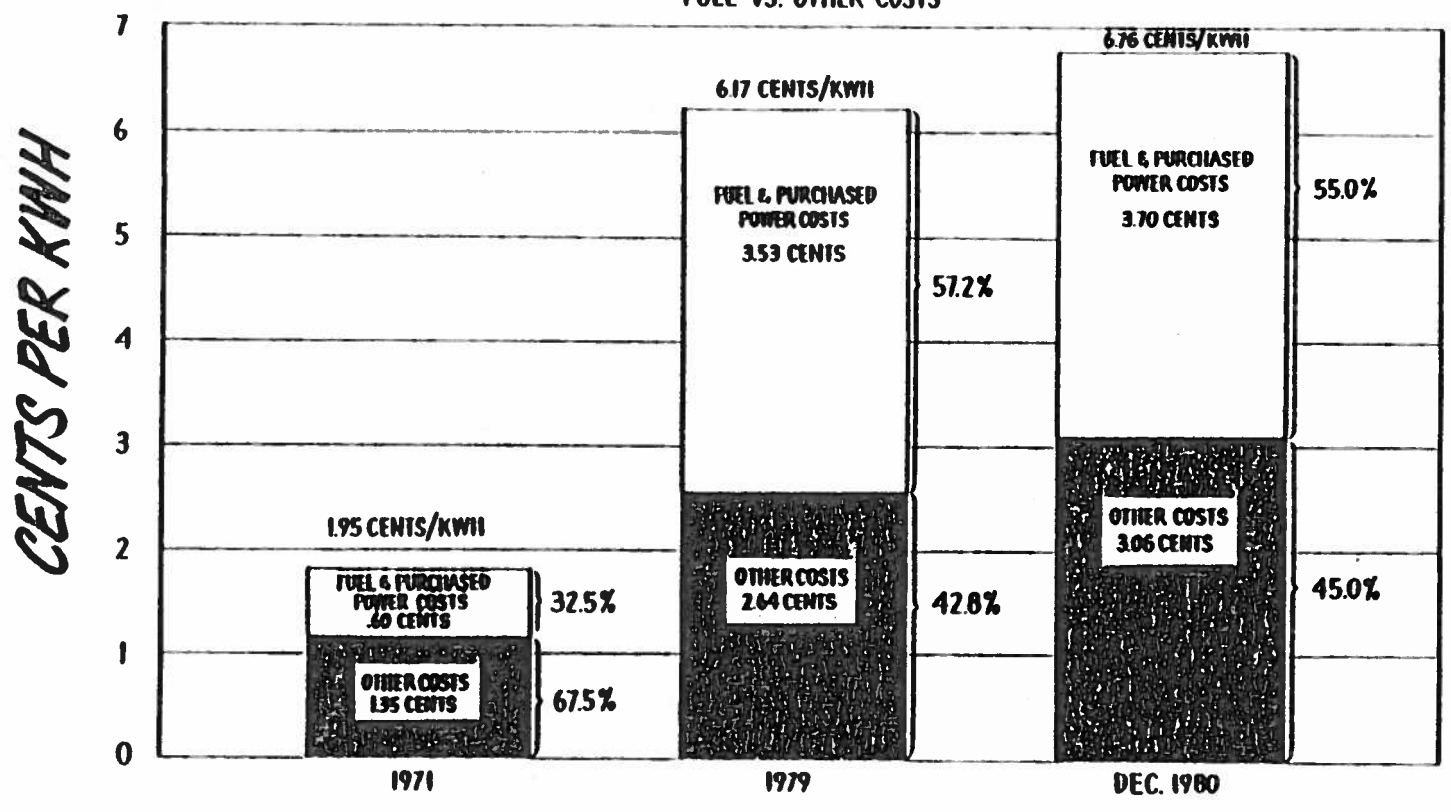
AVERAGE COST FOR NATURAL GAS PURCHASED BY SPPCO



* MCF = 10 THERMS

SIERRA PACIFIC POWER CO. FUEL PORTION OF ELECTRIC COSTS

FUEL VS. OTHER COSTS

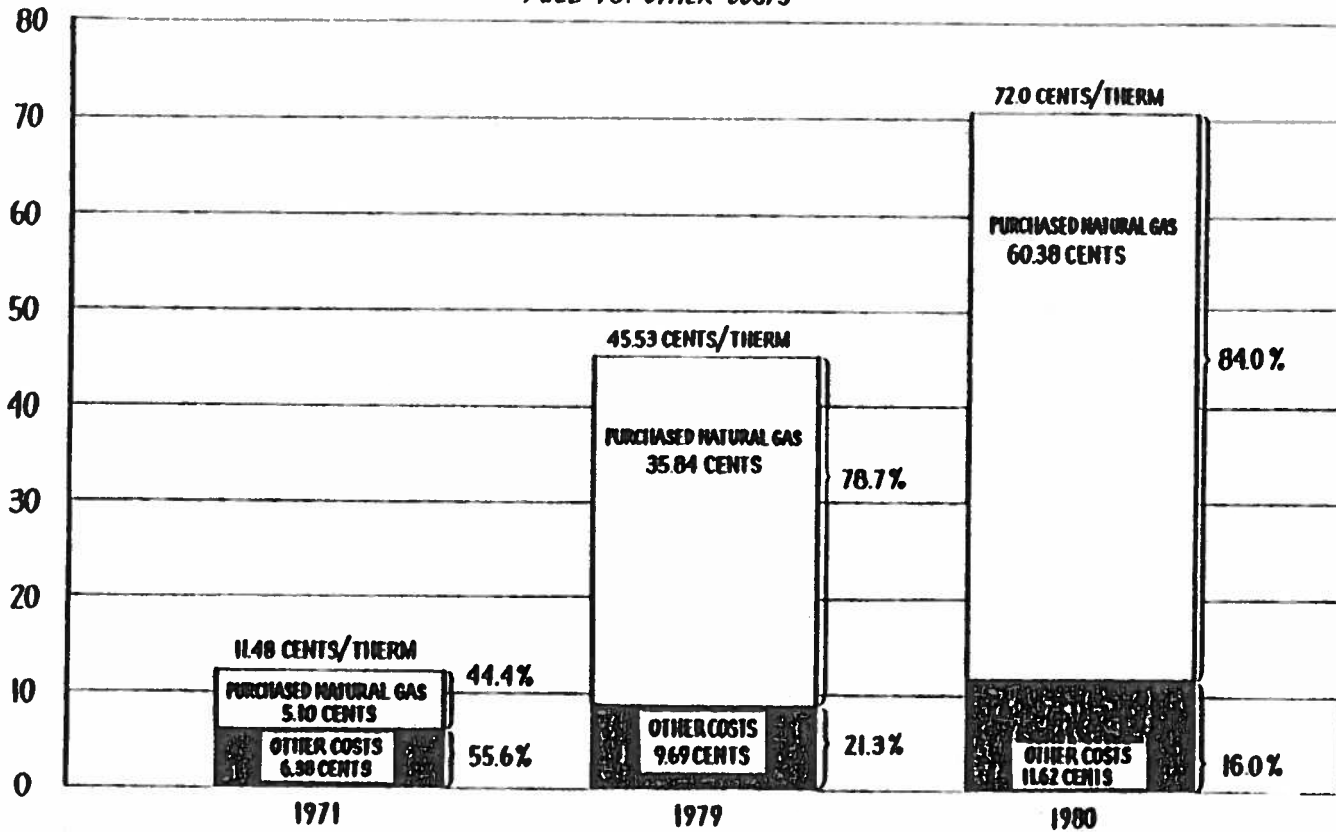


SIERRA PACIFIC POWER CO.

FUEL PORTION OF NATURAL GAS COSTS

FUEL VS. OTHER COSTS

CENTS PER THERM

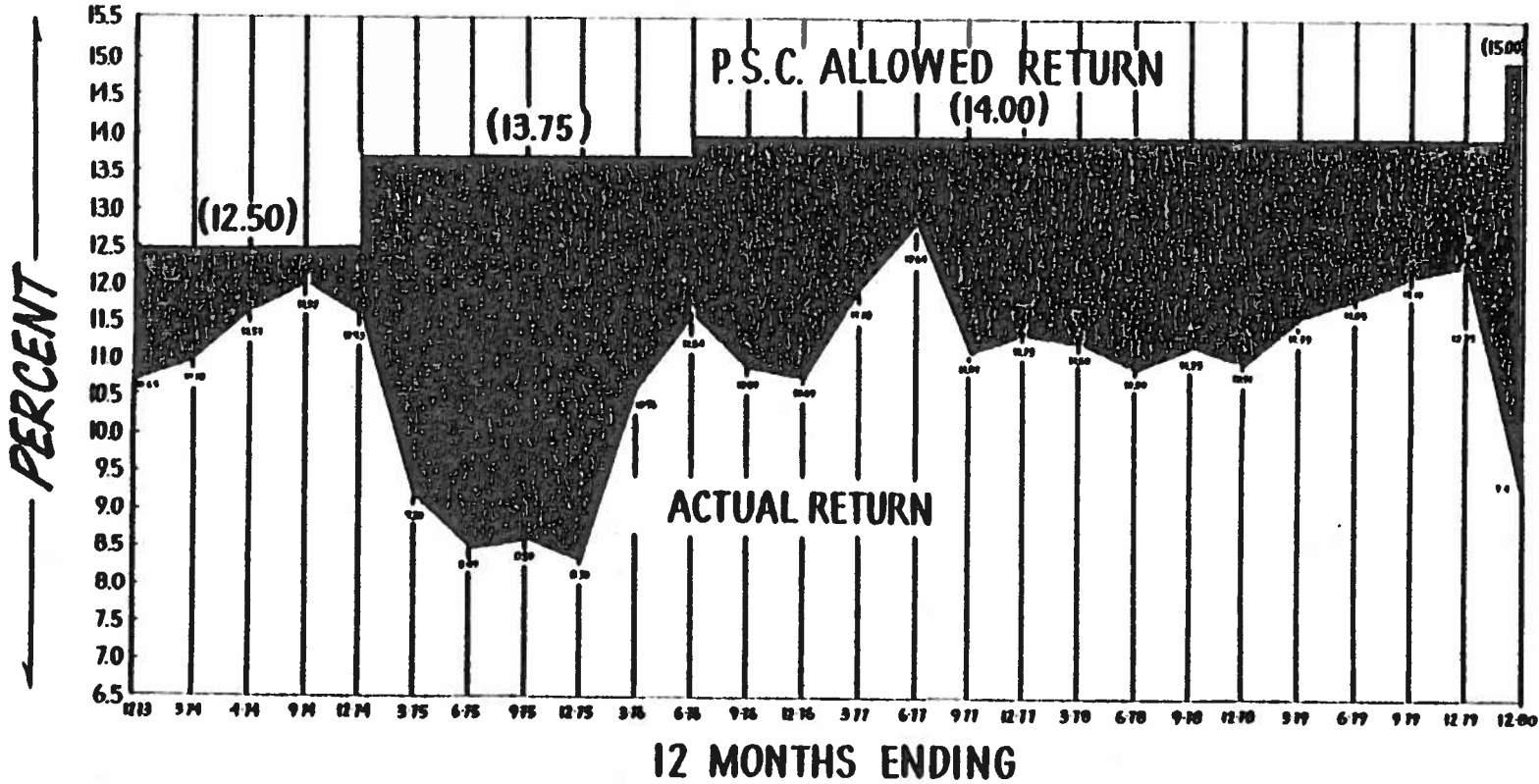


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SIERRA PACIFIC POWER CO.

RETURN ON COMMON EQUITY

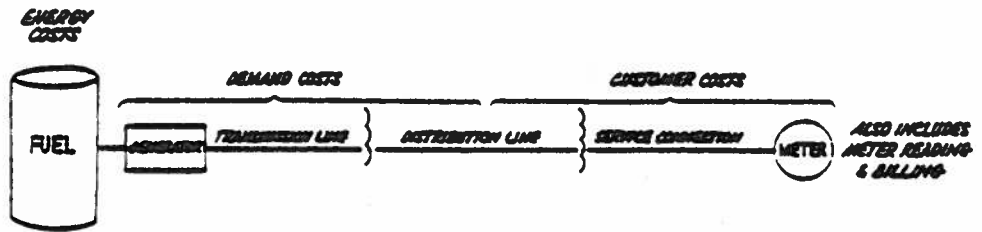
ACTUAL VS. ALLOWED



The data shown here is for informational purposes only. It is not intended to be used for any other purpose. The actual return on common equity for Sierra Pacific Power Co. for the period shown is 11.25%. The allowed return for the period shown is 14.00%. The difference between the actual and allowed return is 2.75%.

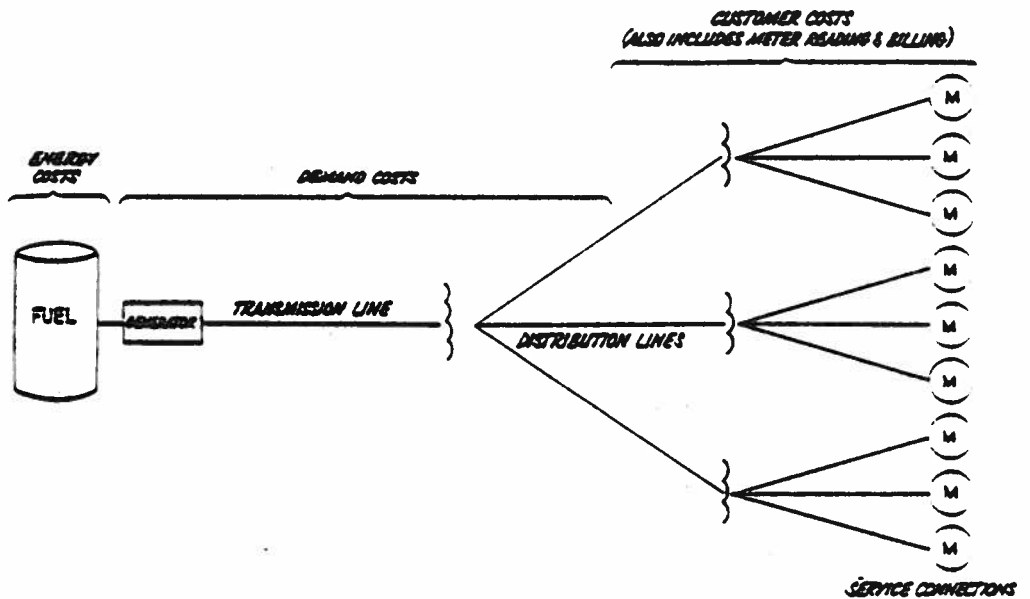
COST TO SERVE

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 residential customers.

COSTS TO SERVE

RESIDENTIAL vs COMMERCIAL

CUSTOMERS

10 KW LOAD

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

USAGE

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

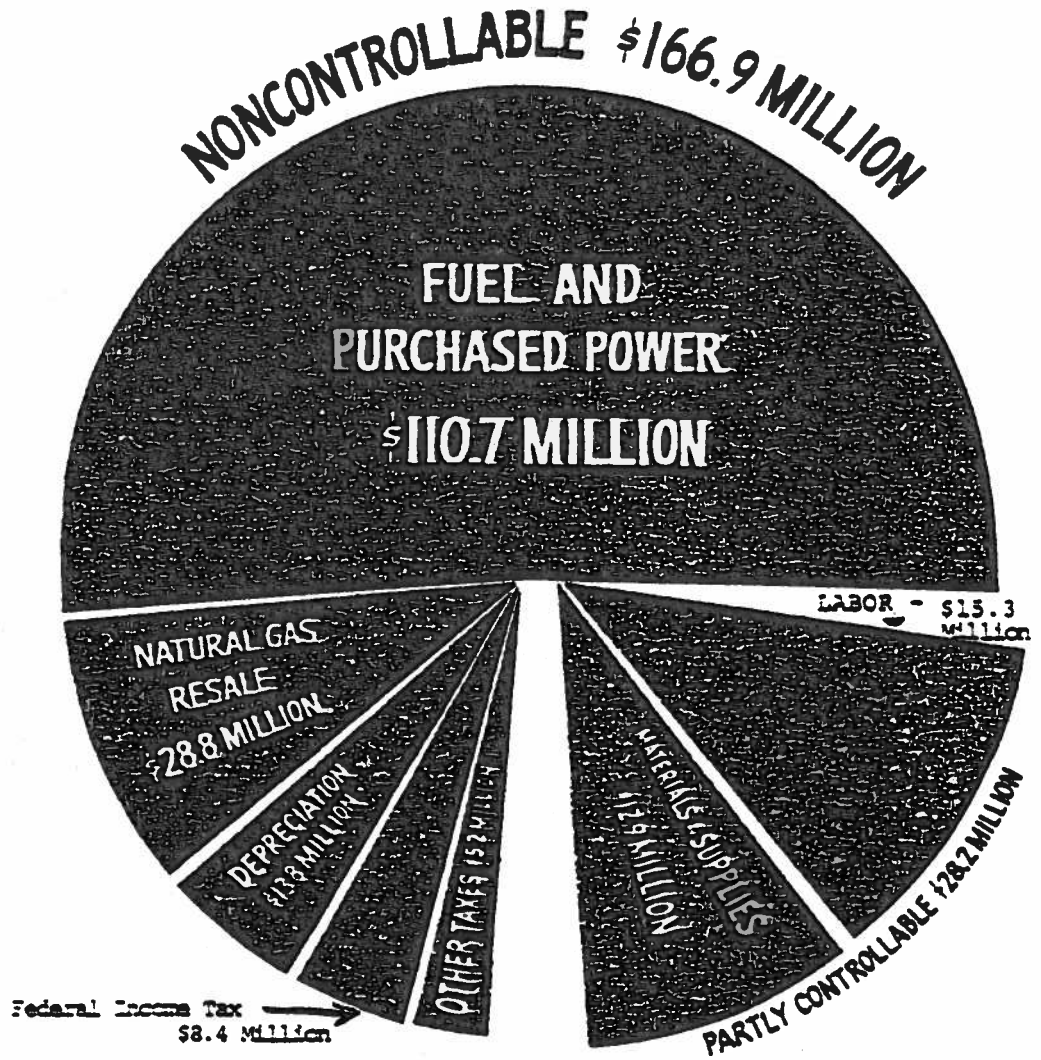
UNIT COST TO SERVE

<i>SERVICE ÷ USAGE =</i>	<i>6.5¢/KWH</i>	<i>2.5¢/KWH</i>
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Residential customers utilize approximately 10% 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



**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.