

SENATE BILL NO. 508—COMMITTEE ON COMMERCE AND LABOR

MARCH 26, 2001

Referred to Committee on Commerce and Labor

SUMMARY—Requires audit of certain electric utilities, their affiliates, parent company and subsidiaries. (BDR S-1453)

FISCAL NOTE: Effect on Local Government: No.
Effect on the State: Yes.

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EXPLANATION – Matter in *bolded italics* is new; matter between brackets ~~omitted material~~ is material to be omitted.

AN ACT relating to the regulation of public utilities; requiring an audit of certain electric utilities, their affiliates, parent company and subsidiaries; specifying the scope and conduct of the audit; and providing other matters properly relating thereto.

WHEREAS, The legislature hereby finds and declares that it is the purpose and policy of the legislature to ensure that:

1. The rates charged by public utilities in this state for the generation, sale, distribution and transmission of electrical energy and capacity are just and reasonable; and

2. Electrical energy and capacity are made available in this state in a manner that is reliable and at a price which does not place an undue economic burden on the residents, businesses and public entities of this state; and

WHEREAS, Ensuring the reliability and affordability of the provision of electric service within this state requires that the legislature familiarize itself with the details of the finances and operations of the electric utilities which serve a majority of the residents of this state, and with the details of the finances and operations of the affiliates, parent company and subsidiaries of those electric utilities; and

WHEREAS, The legislature hereby finds and declares that a general law cannot be made applicable for all provisions of this act because of the fact that only two utilities provide electric service to a majority of the residents of this state; now, therefore,

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

Section 1. 1. A financial and operational audit of the following entities must be conducted and completed not later than April 15, 2001:

(a) Nevada Power Company;



- 1 (b) Sierra Pacific Power Company; and
2 (c) To the extent required pursuant to this section:
3 (1) The parent or holding company of Nevada Power Company and
4 Sierra Pacific Power Company, also known as Sierra Pacific Resources;
5 and
6 (2) Any affiliate or subsidiary of Nevada Power Company, Sierra
7 Pacific Power Company or Sierra Pacific Resources.
8 2. The audit required pursuant to subsection 1 must:
9 (a) Be conducted by an independent, third-party auditor selected jointly
10 by the Majority Leader of the Senate and the Speaker of the Assembly. The
11 Majority Leader and the Speaker shall both execute the contract to hire the
12 auditor so selected. The auditor selected to conduct the audit:
13 (1) Shall work pursuant to the direction of the Legislative Auditor
14 and report to the Majority Leader of the Senate and the Speaker of the
15 Assembly; and
16 (2) May consult with the Bureau of Consumer Protection in the
17 Office of the Attorney General regarding the scope and conduct of the
18 audit.
19 (b) Provide a complete examination and reporting of all aspects of the
20 operation of Nevada Power Company and Sierra Pacific Power Company
21 to determine if each utility has adopted the best methods and combination
22 of sources of supply to meet future power demands or the best methods to
23 reduce such future power demands, as applicable. With respect to the
24 requirements set forth in this paragraph, particular attention must be
25 directed toward the appropriateness of each utility's use of forward
26 purchase power contracts to avoid purchases of power on the spot market.
27 (c) Provide a complete examination and reporting of all transactions,
28 including, without limitation, cash flows, that occur between Nevada
29 Power Company and Sierra Pacific Power Company and between each of
30 those utilities and its affiliates, parent or holding company, subsidiaries and
31 other associated business entities. The examination required pursuant to
32 this paragraph must include an assessment of the reasonableness of such
33 transactions and the effect of such transactions on the rates charged by
34 Nevada Power Company and Sierra Pacific Power Company.
35 (d) Provide a complete examination and reporting of:
36 (1) The plans of Nevada Power Company and Sierra Pacific Power
37 Company, their affiliates, parent or holding company, and subsidiaries with
38 respect to the compensation that is paid to the executives and officers of
39 those entities, including, without limitation, salary, incentive plans and
40 performance plans; and
41 (2) The effect of such plans on the rates charged by Nevada Power
42 Company and Sierra Pacific Power Company.
43 (e) Provide a complete examination and reporting of:
44 (1) The gains, losses and expenses associated with mergers,
45 acquisitions or changes in control of Nevada Power Company and Sierra
46 Pacific Power Company, their affiliates, parent or holding company, and
47 subsidiaries; and



- 1 (2) The effect of such mergers, acquisitions or changes in control on
2 the rates charged by Nevada Power Company and Sierra Pacific Power
3 Company.
4 The examination required pursuant to this paragraph must include all
5 mergers, acquisitions or changes in control which have taken place during
6 the 3 calendar years immediately preceding the effective date of this act or
7 are scheduled to take place during the 3 calendar years immediately
8 succeeding the effective date of this act.
- 9 (f) Provide a complete examination and reporting of the following gains
10 and losses:
11 (1) The gains and losses, not associated with mergers, acquisitions or
12 changes in control, of the affiliates, parent or holding company, and
13 subsidiaries of Nevada Power Company and Sierra Pacific Power
14 Company;
15 (2) The gains and losses attributable to joint ventures entered into by
16 Nevada Power Company or Sierra Pacific Power Company; and
17 (3) The effect of the gains and losses described in subparagraphs (1)
18 and (2) on the rates charged by Nevada Power Company and Sierra Pacific
19 Power Company.
- 20 (g) Provide a complete examination and reporting of the financial
21 stability and creditworthiness of Nevada Power Company and Sierra
22 Pacific Power Company, their affiliates, parent or holding company, and
23 subsidiaries. The examination required pursuant to this paragraph must
24 include an assessment of:
25 (1) Relationships of credit and default;
26 (2) The ability of Nevada Power Company and Sierra Pacific Power
27 Company to obtain debt financing and equity financing; and
28 (3) The extent to which the justness and reasonableness of the
29 operation of Nevada Power Company and Sierra Pacific Power Company
30 has contributed to or detracted from their financial stability,
31 creditworthiness and ability to obtain financing.
- 32 (h) Provide a complete examination and reporting of any activities,
33 efforts and means to conserve and increase cash flows that have been
34 undertaken by Nevada Power Company and Sierra Pacific Power
35 Company, their affiliates, parent or holding company, and subsidiaries.
- 36 (i) Provide a complete examination and reporting of the federal income
37 tax returns, for 1999 and 2000, of Nevada Power Company and Sierra
38 Pacific Power Company, their affiliates, parent or holding company, and
39 subsidiaries.
- 40 (j) Provide an inventory of the miscellaneous assets of Nevada Power
41 Company and Sierra Pacific Power Company, their affiliates, parent or
42 holding company, and subsidiaries, including, without limitation,
43 undeveloped land, water rights, and tangible and intangible property.
- 44 (k) Include a complete examination and reporting of any other aspect of
45 the operation of Nevada Power Company and Sierra Pacific Power
46 Company, their affiliates, parent or holding company, and subsidiaries that,
47 in the judgment of the Majority Leader of the Senate, the Speaker of the
48 Assembly or the Legislative Auditor, is likely to have a material effect on:



1 (1) The justness and reasonableness of the rates charged by Nevada
2 Power Company and Sierra Pacific Power Company; or

3 (2) The ability of Nevada Power Company and Sierra Pacific Power
4 Company to attract debt capital and equity capital.

5 **Sec. 2.** 1. To pay for the audit required pursuant to section 1 of this
6 act, the Public Utilities Commission of Nevada shall transfer the sum of
7 \$300,000 from the public utilities commission regulatory fund, created by
8 NRS 703.147, to the legislative fund, created by NRS 218.085.

9 2. Specific costs and expenses related to the audit must, after transfer
10 of the money to the legislative fund pursuant to subsection 1, be paid out
11 on claims approved by the Director of the Legislative Counsel Bureau or
12 his designee, as required pursuant to subsection 5 of NRS 218.085.

13 3. After the audit is completed, the Director of the Legislative Counsel
14 Bureau shall ensure that any unused portion of the money transferred
15 pursuant to this section is returned to the public utilities commission
16 regulatory fund.

17 **Sec. 3.** This act becomes effective upon passage and approval.

