

LBM

Decision No. 21494.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SIERRA PACIFIC POWER COMPANY)
(a corporation) for authority to)
mortgage its public utility properties) Application No. 15833
and to issue its first mortgage and)
refunding gold bonds of the par value)
of \$1,600,000.00.)

Orrick, Palmer & Dahlquist, by T. W. Dahlquist,
for applicant.

BY THE COMMISSION:

O P I N I O N

In the above entitled matter the Railroad Commission is asked to make its order authorizing Sierra Pacific Power Company to mortgage its properties and to issue and sell \$1,600,000.00 of its five percent first mortgage and refunding gold bonds, Series "A", due September 1, 1959, for the purpose of paying outstanding indebtedness.

Sierra Pacific Power Company is a corporation organized under the laws of the State of Maine, but authorized to transact an electrical and water utility business in this state, for the reason, among others, of having operated such business prior to and continuously since the effective date of the Public Utilities Act. The corporation's operations consist in furnishing electric, gas and water service in and about Reno, Sparks, Carson City, Virginia City and other localities in Nevada, and in furnishing electric service in California in and about Floriston and Portola and in the Lake Tahoe district, and in supplying electric energy at wholesale to the Truckee Electric Light and Power Company and the Truckee Public Utilities

District, at Truckee, and to the Southern Pacific Company, at Summit, and in furnishing water service in and about Georgetown.

By far the greater portion of the company's property and business is located in Nevada, the testimony herein indicating that there is located in California only from fifteen to twenty percent of the fixed capital of the corporation and that there is obtained in California only about ten percent of its gross revenue. In its annual reports to the Commission, the company has shown its revenue and expenses for the years ending December 31st, as follows:-

ITEM	1926	1927	1928
Operating revenues:			
California	\$ 69,714.82	\$ 70,660.48	\$ 119,688.13
Nevada	1,170,458.14	1,150,890.10	1,242,278.84
Total.....	1,240,172.96	1,221,550.58	1,361,966.97
Operating expenses:	568,365.86	469,207.28	535,012.32
Net operating revenues	671,807.10	752,343.30	826,954.65
Uncollectible bills	8,068.35	7,894.98	8,788.09
Taxes	154,442.70	169,001.45	170,261.98
Net operating income	509,296.05	575,446.87	647,904.58
Non-operating income	15,035.69	14,203.48	17,796.66
Gross income	524,331.74	589,650.35	665,701.24
DEDUCTIONS:			
Interest on long term debt.	23,850.00	21,343.67	19,684.33
Other interest	91,680.53	106,745.65	120,713.82
Other deductions	5,711.33	5,868.04	5,074.56
Total deductions	121,241.86	133,957.36	145,472.71
Net income	\$403,089.88	\$455,692.99	\$520,228.53

Applicant has outstanding \$3,675,000.00 of six percent cumulative preferred stock and 80,000 shares of no par common stock, all of which, excepting directors' shares, is held by Sierra Pacific Electric Company. It has no bonds of its own issue outstanding, but has assumed the payment of \$309,000.00 of bonds issued by Nevada Power, Light and Water Company and Reno Power, Light and Water Company. Its other indebtedness includes \$1,465,000.00 of notes payable, \$428,666.67 of advances from an affiliated company, \$84,374.16 of accounts payable and \$39,193.35 of accounts not due. Its total assets and liabilities,

as of June 30, 1929, are reported as follows;-

ASSETS:

Fixed capital	\$9,481,246.06
Current assets:	
Cash and deposits	115,649.49
Accounts receivable	167,583.52
Materials and supplies	112,432.73
Miscellaneous	9,024.00
Prepayments	7,920.35
Total current assets.....	\$413,610.09
Unadjusted debits	8,809.39
Total assets.....	<u>\$9,903,665.54</u>

LIABILITIES:

Preferred stock	\$3,675,000.00
Common stock	<u>1,600,000.00</u>
Bonds:	
Nevada Power, Light and Water Company	16,000.00
Reno Power, Light and Water Company	293,000.00
Total bonds	<u>309,000.00</u>
Due Sierra Pacific Electric Company:	
Notes	1,400,000.00
Advances	428,666.67
Total	<u>\$1,828,666.67</u>
Current liabilities:	
Notes payable	\$ 65,000.00
Accounts payable	84,374.16
Accounts not yet due	39,193.35
Dividends declared	95,125.00
Tax liability:	82,579.74
Total current liabilities.....	<u>\$366,272.25</u>
Reserves	1,124,200.62
Unadjusted credits	103,772.31
Contributions for extensions	38,233.14
Surplus	858,520.55
Total liabilities.....	<u>\$9,903,665.54</u>

The application shows that the payment of the \$309,000.00 of bonds was assumed by applicant in acquiring the properties of Nevada Power, Light and Water Company and of Reno Power, Light and Water Company and that the indebtedness due Sierra Pacific Electric Company was incurred for the expansion and construction of additional property. The bonds bear interest at the rate of six percent per annum and the indebtedness to the holding company at the rate of eight percent per annum. The \$16,000.00 of bonds are due in 1932 and are now callable at 102.25; the \$293,000.00 of bonds are due in 1944 and are now callable at 107.50; the \$1,400,000.00 of notes due Sierra Pacific Electric Com-

pany are past due.

Applicant proposes to use the proceeds to be derived from the sale of its bonds to pay and redeem the \$309,000.00 of bonds outstanding and to pay in part the \$1,828,666.67 due Sierra Pacific Electric Company. In making this application to issue bonds to carry its proposal into effect, applicant has filed, in addition to its financial statement, an inventory and appraisal of its properties showing the estimated reproduction cost new, as of May 31, 1929, at \$8,914,310.00, excluding any allowance for development cost or going value or for water rights, but including overhead allowances of approximately twenty per cent of the estimated reproduction cost of the physical properties. It submitted no oral testimony in support of the appraisal and we do not believe that we can accept it, without such testimony, as competent evidence in this proceeding, or give it any consideration. Our order in this matter, therefore, is not to be construed as an approval of the appraisal submitted or as a finding of value of applicant's properties. It clearly appears to us, however, that applicant's properties, business and earnings should support an issue of \$1,600,000.00 of five percent bonds and that the payment of indebtedness bearing interest at the rates of six and eight percent per annum, through the issue of five percent long term bonds, is in the public interest.

We do not believe, however, that we can authorize the sale of the bonds upon the basis indicated in the application, namely, at not less than 88 percent of their face value, plus accrued interest. These bonds will be a first lien on the properties covered by the proposed indenture, will bear interest at the rate of five percent, will mature thirty years after date, and will be callable as follows;-

- At 105 percent to and including August 31, 1939;
- At 104 percent on September 1, 1939 and thereafter to and including August 31, 1944;
- At 103 percent on September 1, 1944 and thereafter to and including August 31, 1949;
- At 102 percent on September 1, 1949 and thereafter to and including August 31, 1954;
- At 101.5 percent on September 1, 1954 and thereafter to and including August 31, 1955;

At 101 percent on September 1, 1955 and thereafter to and including August 31, 1956;
At 100.5 percent on September 1, 1956 and thereafter to and including August 31, 1957;
At 100 percent on September 1, 1957 and thereafter to maturity.

Upon the showing made herein, we believe the company should receive not less than 91 percent of their face value, plus accrued interest, for the \$1,600,000.00 of bonds. The order herein will so provide.

At the hearing had on August 12th there was filed (Exhibit "1") a copy of the proposed indenture of mortgage between applicant and The New England Trust Company and Orrin C. Hart, Trustees. On August 28th there were filed certain changes in the proposed instrument. It now provides that any properties situate in California shall, subject to the terms and conditions of said instrument, be transferred to the individual trustee. The proposed instrument is of the "open end" type and provides for an initial issue of \$1,600,000.00 of bonds, the issue herein proposed, and an additional issue of \$4,000,000.00 issuable when the net earnings, as defined in the proposed indenture, for a period of twelve consecutive calendar months within the fifteen calendar months immediately preceding the date of the application to the trustee for certification, are at least two times the annual interest charges on all bonds then outstanding, all outstanding refundable debt and outstanding prior lien debt, and bonds applied for. Additional bonds may thereafter be issued in an aggregate principal amount equal to seventy percent of the net cost of additional property not previously certified to the trustee subject to the earnings restriction above, applying in the case of the issue of the \$4,000,000.00 of bonds.

Although there seems to be no restriction on the issue of the \$4,000,000.00 of bonds, other than the net earnings restriction referred to, a public utility, under the provisions of Section 52(b) of the Public Utilities Act, may issue its bonds, if authorized by the Commission, for certain purposes, and no others, namely;-

"For the acquisition of property, or for the construction, completion, extension or improvement of its facilities, or for the improvement or maintenance of its service, or for the discharge or lawful refunding of its obligations, or for the reimbursement of moneys actually expended from income or from any other moneys in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes or other evidences of indebtedness of such public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant shall have kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of moneys so expended and the purposes for which such expenditure was made."

In the event, then, that at some future time applicant again comes to the Commission with a request for permission to issue additional bonds, it will be necessary for it to make a showing satisfactory to the Commission that the proposed issue is for one or more of the purposes set forth above and also, as further provided in said Section 52 (b) that the money, property or labor to be procured or paid for through such issue is reasonably required for such purposes. We might add that our approval of the mortgage at this time is not to be construed as binding the Commission at some future date to authorize applicant to issue bonds up to seventy percent of the net cost of additional property.

O R D E R

Sierra Pacific Power Company, having applied to the Railroad Commission for permission to mortgage its properties and to issue and sell \$1,600,000.00 of bonds, a public hearing having been held before Examiner Frankhauser, and the Railroad Commission being of the opinion that the application should be granted, as herein provided, and that the issue and sale of the \$1,600,000.00 of bonds is reasonably

required for the purposes specified herein, which purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that, Sierra Pacific Power Company be, and it hereby is, authorized to execute an indenture of mortgage, substantially in the same form as that filed in this proceeding as Exhibit "1", as modified by the letters of August 28th on file in this proceeding.

IT IS HEREBY FURTHER ORDERED that, Sierra Pacific Power Company be, and it hereby is, authorized to issue and sell, at not less than ninety-one percent of their face value, plus accrued interest, on or before December 31, 1929, \$1,600,000.00 of its five percent first mortgage and refunding gold bonds, due September 1, 1959, and to use the proceeds to pay \$309,000.00 of bonds now outstanding, and to pay, in part, its indebtedness to Sierra Pacific Electric Company.

The authority herein granted is subject to the following conditions:-

1. The authority herein granted to execute an indenture of mortgage is for the purpose of this proceeding only, and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said mortgage as to such other legal requirements to which it may be subject.
2. Applicant shall keep such record of the issue of the bonds herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.
3. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Thousand Three Hundred (\$1,300.00) Dollars.

4. Within thirty days after execution of the mortgage, applicant shall file with the Commission two certified copies thereof.

DATED at San Francisco, California, this 30th day of August, 1929.

W. J. [Signature]
W. J. [Signature]
[Signature]
Leon [Signature]
W. J. [Signature]

Commissioners.

