MM

Decision No. 77094

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SIERRA PACIFIC POWER COMPANY for an order authorizing it (a) to sell and issue pursuant to negotiated placement $15,000,000 principal amount of First Mortgage Bonds ________%, Series due May 1, 2000; (b) to execute a Thirteenth Supplemental Indenture as of May 1, 1970, supplementing the Indenture of Mortgage dated as December 1, 1940; and (c) to issue and sell not exceeding 450,000 shares of its Common Stock at a par value of $3.75 each share under contract with underwriters.	Application No. 51735 Filed February 26, 1970

Richard G. Campbell and Graham & James
by Boris H. Lakusta, for applicant.
Sidney J. Webb, for the Commission staff.

O P I N I O N

Sierra Pacific Power Company seeks an order of the Commission authorizing it to execute and deliver a supplemental indenture, and to issue and sell $15,000,000 aggregate principal amount of bonds pursuant to negotiated placement.

After due notice, a public hearing in the above-entitled matter was held before Examiner Donovan in San Francisco on April 8, 1970, at the conclusion of which the matter was taken under submission. At such hearing the company indicated that later in the year it would file a separate application relating to its proposed issue of common stock, and withdrew from this proceeding its request pertaining thereto. The Commission has received no protests in the proceeding.

Applicant is engaged in public utility electric operations in the State of California, and in public utility electric, gas and water operations in the State of Nevada. For the year 1969, the company's reported total operating revenues amount to $34,844,572, which total includes $4,457,608 derived from California operations.

The utility proposes to negotiate placement of $15,000,000 aggregate principal amount of its First Mortgage Bonds to be dated May 1, 1970, and to become due May 1, 1975 or May 1, 2000. The bonds will be secured by an Indenture of Mortgage dated as of December 1, 1940, as supplemented and modified by twelve existing supplemental indentures and a proposed Thirteenth Supplemental Indenture. If issued with a maturity date of May 1, 1975, the new bonds will not be subject to redemption before maturity. A five-year restricted redemption provision similar to that frequently employed in bond offerings at the present time would apply to bonds bearing a May 1, 2000 maturity date.

The net proceeds, other than accrued interest, to be derived from the proposed bond issue, will be applied toward the repayment of loans for construction evidenced by previously authorized promissory notes in favor of banks. Accrued interest will be used for general corporate purposes.

The record shows that as of February 28, 1970, applicant's bank loans and commercial paper amounted to $20,300,000 and $7,500,000, respectively, or a total of $27,800,000, which amount may increase to some extent before the consummation of the new financing in order to enable the company to carry on its construction program. For the year 1970, applicant's estimated construction program approximates $24,530,000, segregated as follows:

Electric Department -		
Generating equipment	$10,950,000	
Line extensions and connections for new customers	2,965,000	
Other distribution and transmission improvements and additions	6,394,000	
Miscellaneous plant and equipment	556,000	
Total - Electric Department		$20,865,000
Gas Department		1,273,000
Water Department		2,392,000
Grand Total		$24,530,000

The utility's capitalization ratios as of December 31, 1969, and as adjusted to give effect to the proposed bond issue, as computed from Exhibit No. 10 filed in this proceeding, are as follows:

	December 31, 1969	Pro Forma
Long-term debt	47.2%	57.3%
Notes payable	17.4	7.3
Preferred stock	6.1	6.1
Common stock equity	29.3	29.3
Total	100.0%	100.0%

As justification for seeking exemption from competitive bidding requirements with respect to the sale of said bonds, the utility's Vice President, Secretary and Assistant Treasurer testified as follows:

> "I have, for the past several months, been reviewing the financial trends developed in the sale of utility bonds, and based upon my observations of these past issues I have come to the conclusion that competitive bidding procedures are, during the unstable market conditions, rather risky to the issuers of long-term debt. There have been several instances during the unsettled market where the interest rates resulting from competitive bids have actually increased on the final day of sale. Underwriting groups hedged with higher bids to keep them from suffering heavy losses as interest rates change. It seems apparent that the more successful issues of utility bonds have actually been presold through negotiation by the underwriters, resulting in a rate that remains firm even in a fluctuating market and requires no hedge by the underwriting group. I believe we are still in a period of great uncertainty in the securities market and that, actually, the lowest cost of bonds would be achieved through a negotiated sale rather than through competitive bidding."

As to whether or not he thinks applicant would do better to sell the bonds at competitive bidding rather than through a negotiated public sale, the Manager of the Financial Department of Stone & Webster Management Consultants, Inc. testified, in part, as follows:

> "I believe not. The size of the issue is relatively small. There has been but one competitive utility issue of less than $25,000,000 out of 19 bond issues since the first of March. Underwriters believe that in the current buyer's market they are able to do a better selling job on a negotiated basis knowing that they will own the issue. A negotiated financing also provides the kind of flexibility required in the present market in that a faster adjustment to changing market conditions may be made, that is, it may be accelerated or delayed to meet certain conditions. It is evident that more and more utilities are switching to negotiated financings. About 50% of the utility issues since January 1 have been negotiated. A recent example is the $150,000,000 debenture offering by Pacific Telephone and Telegraph which went well and actually helped the entire market. It is my understanding that this was the first negotiated sale by the company in thirty years. As to comparative costs, in my opinion, the differences, if any, are not material."

After consideration of the application, testimony and exhibits, and noting the absence of any opposition, we find that:

1. The proposed bond issue is for proper purposes.

2. Applicant has need for funds from external sources for the purposes set forth in this proceeding.

3. Applicant will be required to pay interest at a lower effective rate than it would in the absence of the proposed restricted redemption provision.

4. The proposed Thirteenth Supplemental Indenture would not be adverse to the public interest.

5. The money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

6. The issue and sale of the proposed bonds should not be required to be at competitive bidding.

On the basis of the foregoing findings we conclude that the application, as modified at the hearing, should be granted. The authorization herein granted is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

Applicant is hereby placed on notice that, if the Commission should believe the negotiated interest rate pertaining to the proposed bond issue will result in an excessive effective interest cost, it will take into consideration in future rate proceedings only that which it deems reasonable.

O R D E R

IT IS ORDERED that:

1. The issue and sale by Sierra Pacific Power Company of not exceeding $15,000,000 aggregate principal amount of its First Mortgage Bonds, due May 1, 1975 or May 1, 2000, are hereby exempted from the Commission's competitive bidding rule set forth in Decision No. 38614, dated January 15, 1946, as amended in Case No. 4761.

2. Sierra Pacific Power Company may execute and deliver a Thirteenth Supplemental Indenture in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit No. 2 changed to eliminate alternate maturity dates for the bonds.

3. Sierra Pacific Power Company may issue and sell not exceeding $15,000,000 aggregate principal amount of its First Mortgage Bonds due May 1, 1975 or May 1, 2000, in accordance with the terms and conditions set forth in this proceeding.

4. Sierra Pacific Power Company shall use the net proceeds from the sale of said bonds for the purposes specified in this proceeding.

5. On the dates Sierra Pacific Power Company determines the term, price and interest rate pertaining to the bonds herein authorized, it shall notify the Commission thereof by telegram.

6. Within thirty days after issuing and selling the bonds herein authorized, Sierra Pacific Power Company shall file with the Commission three copies of its prospectus pertaining to said bonds.

7. Within sixty days after selling the bonds herein authorized, Sierra Pacific Power Company shall file with the Commission a statement, in lieu of a report under General Order No. 24-B, disclosing the purposes for which the bond issue proceeds were used.

8. The effective date of this order is the date hereof.

Dated at San Francisco, California, this 14th day of APRIL, 1970.

William Symons Jr.
President

Vernon L. Sturgeon
Commissioners

Commissioner J. P. Vukasin, Jr., being necessarily absent, did not participate in the disposition of this proceeding.