

Decision 84 11 083

NOV 21 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of SIERRA PACIFIC POWER COMPANY)
for authorization to borrow from)
Washoe County, Nevada, funds not)
to exceed \$50,000,000, and to enter)
into a Financing Agreement and)
related agreements, under which)
Washoe County will issue floating)
Rate Monthly Demand Revenue Bonds.)

Application 84-10-012
(Filed October 2, 1984)

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) requests authority, under Public Utilities (PU) Code Sections 816 through 830 and 851 through 853, for the following:

1. To enter into a financing agreement with Washoe County, Nevada (Washoe), having essentially the terms set forth in the Financing Agreement (Agreement) as described in the application and as more particularly set forth in the draft of such Agreement submitted by letter dated October 12, 1984 to the Commission's Evaluation and Compliance Division.
2. To execute the documents required in connection with that Agreement; and
3. To use the proceeds to reimburse Sierra Pacific's treasury for the construction and equipping by the utility of certain gas and water facilities in Washoe, pursuant to the County Economic Development Revenue Bond Law of Nevada.

Summary of Decision

This decision grants Sierra Pacific the authority requested in its application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 5, 1984. No protests have been received.

Sierra Pacific, a California corporation, provides electric utility service in California and electric, gas and water utility service in Nevada.

For the fiscal year ended July 31, 1984, Sierra Pacific reported total operating revenues of \$341,003,972 and net income of \$42,511,270, as shown in its Consolidated Income Statement, attached as Appendix B to the application. Sierra Pacific reports that the utility derived about \$35,524,000 or 10.42% of its revenues from California operations. For the calendar year 1983, Sierra Pacific derived about \$33,830,037 or 9.96% of its revenues from California operations.

Sierra Pacific's Consolidated Balance Sheet as of July 31, 1984, attached as Appendix A to the application, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$763,099,828
Nonutility Investments	35,450,654
Current Assets	66,820,926
Deferred Debits	<u>23,999,110</u>
 Total	 \$889,370,518
 <u>Liabilities and Equity</u>	
Common Stock Equity	253,250,146
Preferred Stock	69,025,000
Long-Term Debt	364,386,513
Current Liabilities	55,609,851
Deferred Credits	<u>147,099,008</u>
 Total	 \$889,370,518

Under the proposed Agreement, dated as of December 1, 1984 between Sierra Pacific and Washoe, Sierra Pacific will borrow funds from Washoe to finance Sierra Pacific's construction program now in force and proposed during calendar years 1984, 1985, 1986 and 1987, pertaining to the utility's gas and water facilities in Washoe County.

Washoe will furnish funds to Sierra Pacific from monies derived by Washoe from the issuance and sale of Washoe's bonds, up to a maximum of \$50,000,000 face value, described as "Floating Rate Monthly Demand Revenue Bonds (Sierra Pacific Power Company Project) Series 1984". Sierra Pacific will repay the funds borrowed from Washoe by depositing with a Trustee, from time to time, amounts

equal to those required by Washoe to pay Washoe's obligations according to the terms of the previously mentioned revenue bonds issued by Washoe. The payments to be made by Sierra Pacific will be backed by an irrevocable letter of credit issued by a qualified bank chosen by Sierra Pacific, namely Citibank, N.A. A draft of the Indenture of Trust securing the bonds to be issued by Washoe has been reviewed by the Commission's Evaluation and Compliance Division.

The Agreement contemplates that concurrently with the sale and delivery by Washoe of the Floating Rate Demand Notes (FRDN's), Sierra Pacific will execute and deliver to Chemical Bank as Trustee under the Indenture of Trust, its Note, dated the date of first authentication and delivery of the FRDN's. The terms of the Note are incorporated in the Agreement, and Sierra Pacific agrees to make payments on the Note to Chemical Bank as Trustee, for the account of Washoe. The Note will be issued by Sierra Pacific as evidence of indebtedness of the utility's obligation to repay the loan incurred by Washoe through the issuance and sale of the FRDN's.

The FRDN's to be issued by Washoe are nominally long-term (30-year) instruments but carry a short-term interest rate because they have a monthly bondholder "put" option. Under the "put" option, a bondholder may redeem by "putting" or placing the bond

for redemption with Washoe on any interest payment date, usually the first of the month by giving notice to the Trustee as provided. The bondholder receives 100% of the principal amount of the bond plus accrued interest. This payment to the bondholder would be made by Washoe which would then remarket the bond. Because the rate on the notes is reset monthly based on a short-term tax-exempt index, any notes "put" back can be remarketed at par. The floating rate demand note offers the potential of longer term financing at very short-term rates.

The term of the letter of credit securing the FRDN's is 10 years, at which time it is to be extended or replaced with a comparable letter of credit. The letter of credit provides liquidity when bonds are "put" on short notice, and it also provides high grade security which is a requirement of the tax-exempt money market funds, the principal buyers of short-term tax-exempt securities. Monthly payments of interest or principal are to be funded through a drawdown of the letter of credit. Sierra Pacific will receive monies to pay the letter of credit from the proceeds of bonds that have been "put" and then remarketed. Sierra Pacific will, under the reimbursement agreement with Citibank, N.A., simultaneously repay the bank and the full amount of the letter of credit will be reinstated.

The application indicates that Sierra Pacific has a one-time option on any monthly interest payment to change the interest rate from a short-term to a long-term fixed interest rate. This gives Sierra Pacific the opportunity to finance at low cost, short-term rates, and yet convert to a long-term fixed interest rate if a lowering in the rates occurs, of which Sierra Pacific believes it should take advantage. The fixed interest rate will be priced according to a second tax-exempt index composed of similarly rated securities, as Sierra Pacific will choose, depending on whether Sierra Pacific will secure the long-term fixed rate bonds with a letter of credit or Sierra Pacific's First Mortgage Bonds. Both the short- and long-term index are created and maintained by Kenny Information Systems, Inc., (Kenny), a subsidiary of J. J. Kenny Co. Inc., a municipal bond broker. Kenny will be appointed the Indexing Agent.

Further, the application indicates that the bonds will be remarketed by Kidder, Peabody & Co. which will be appointed as the Remarketing Agent. Both the Indexing Agent and the Remarketing Agent can be replaced at Sierra Pacific's discretion.

Sierra Pacific alleges that the proposed method of financing as described can be beneficial to the utility, its investors, and ratepayers because the interest rate savings can be substantial. Under current market conditions, the overall cost for financing with FRDN's is estimated by Sierra Pacific to be 7% while the cost for a conventional long-term issue would approximate 13% or more.

Sierra Pacific's capital ratios as of July 31, 1984 are shown below as recorded and adjusted, to give pro-forma effect to the proposed issuance of not to exceed \$50,000,000 long-term debt under the Agreement:

<u>Component</u>	<u>July 31, 1984</u>	<u>Pro Forma</u>
Long-Term Debt	52%	55%
Short-Term Debt	<u>2</u>	<u>2</u>
Total	54%	57%
Preferred Stock	10	9
Common Stock Equity	<u>36</u>	<u>34</u>
Total	100%	100%

By letter dated October 29, 1984, Sierra Pacific indicates that the estimated capital construction forecasts for total company operations are \$91,400,000, \$82,500,000, \$71,900,000 and \$59,600,000 for the calendar years 1984 through 1987,

respectively. Internally generated funds will provide approximately 28%, 58%, 70% and 66% of capital construction expenditures for the calendar years 1984 through 1987, respectively.

The Commission's Evaluation and Compliance Division has reviewed Sierra Pacific's construction budgets for the calendar years 1984 through 1987 and finds that the financing is necessary to fund the planned capital construction expenditures. The Division is not finding that the construction is necessary and reasonable nor that the expenditures are reasonable in amount. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. Sierra Pacific, a Nevada corporation, is an electric public utility subject to the jurisdiction of this Commission.
2. The proposed financing program as outlined in the application and as set forth in the Agreement is for proper purposes and is not adverse to the public interest.
3. Sierra Pacific has need for external funds for the purposes set forth in its application.
4. The proposed Agreement is for lawful purposes, and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the Agreement may not be charged to operating expenses or to income.

5. There is no known opposition and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The application should be granted to the extent set forth in the order which follows.

This order should be made effective on the date of signature and payment of the fee set by PU Code Sections 1904(b) and 1904.2, to enable Sierra Pacific to enter into the Agreement expeditiously.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific) may enter into and execute a Financing Agreement (Agreement) and all related agreements and documents essentially including the issuance of a note or notes to bank or banks, upon the same terms as set forth in the application and as more particularly set forth in the draft of the Agreement submitted to the Commission.

2. Sierra Pacific may use the funds received under the Agreement to reimburse its treasury for construction and equipping by the utility of gas and water facilities in Washoe County, Nevada, pursuant to the County Economic Development Revenue Bond Law of Nevada.

3. Within 30 days after execution of the Agreement, Sierra Pacific shall submit a copy of it to the Commission.

4. The authority granted by this order will become effective when Sierra Pacific pays \$5,980, the fee set by PU Code Section 1904(b) and 1904.2. In all other respects, this order is effective today.

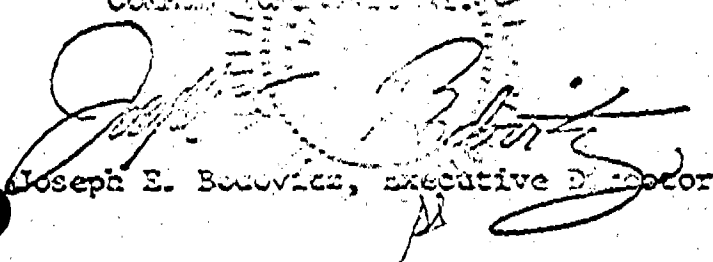
5. The application is granted as set forth above.

Dated NOV 21 1984, at San Francisco, California.

FRISCELLA C. CREW
DONALD VYAL
WILLIAM T. BACLEY
Commissioners

Commissioner Victor Calvo,
being necessarily absent, did
not participate

I CERTIFY THAT THIS DECISION
WAS APPROVED AS ABOVE
COMMISSIONER


Joseph E. Besovian, Executive Director

