

EC/KLH

Decision 87 11 041**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 to borrow from)
 Washoe County, Nevada, funds not to)
 exceed \$20,000,000, and to enter into)
 a Financing Agreement and related)
 agreements, under which Washoe County)
 will issue Variable Rate Demand Gas)
 Facilities Revenue Bonds, (Sierra)
 Pacific Power Company Project) Series)
 1987. (UO-903E))

Application 87-09-041
 (Filed September 29, 1987)

O P I N I O NSummary of Decision

This decision grants Sierra Pacific Power Company
 (Sierra Pacific) the authority requested in the application.

Sierra Pacific requests authority under Public Utilities
 (PU) Code Sections 816-818 and 851-854 for the following:

1. To enter into a Financing Agreement with Washoe County, Nevada (Washoe), under which Sierra Pacific will borrow funds from Washoe to finance Sierra Pacific's gas construction program proposed during 1988, 1989 and 1990;
2. To execute any and all related documents and to take all action required for completion of the proposed financing; and
3. To use the proceeds to reimburse Sierra Pacific's treasury for financing the construction and equipping of certain gas facilities in Washoe County, Nevada, under Washoe's Economic Development Revenue Bond Law.

Notice of the filing of the application appeared on the Commission's Daily Calendar of October 2, 1987. No protests have been received.

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

For calendar year 1986, Sierra Pacific reported it generated \$369,783,650 in total operating revenues and net income of \$43,566,232. Sierra Pacific reported that it derived \$42,092,065, or 11.4%, of its operating revenues from California operations in calendar year 1986. For the 12 months ended July 31, 1987, Sierra Pacific reports in Exhibit 1 attached to the application that it generated total operating revenues of \$369,132,296 and net income of \$45,197,602.

Exhibit 2, attached to the application, presents Sierra Pacific's Condensed Balance Sheet as of July 31, 1987 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$891,891,618
Current Assets	69,976,963
Deferred Debits	<u>23,318,833</u>
Total	\$985,187,414
<u>Liabilities and Equity</u>	
Common Equity	\$313,277,125
Preferred Stock	23,115,000
Long-Term Debt	372,161,336
Current Liabilities	77,566,035
Deferred Credits	<u>199,067,918</u>
Total	\$985,187,414

Proposed Construction

Sierra Pacific estimates in its application that the gas construction budgets for the years 1989 through 1990 are as follows:

<u>Year</u>	<u>Amount</u>
1988	\$ 7,500,000
1989	6,000,000
1990	<u>6,500,000</u>
Total	\$20,000,000

Capitalization Ratios

Sierra Pacific's capital ratios, as of July 31, 1987 are shown below as recorded and as adjusted to give pro forma effect to the transactions that follow:

	<u>July 31, 1987</u>
Long-Term Debt	50.6%
Short-Term Debt	<u>3.6</u>
Total Debt	54.2
Preferred Stock	3.2
Common Stock	<u>42.6</u>
Total	100.0%

The effect of the proposed \$20,000,000 issue on Sierra Pacific's capitalization will occur as construction expenditures are drawn against a trust into which initially the total proceeds

will be held and fully arbitrated 1/. Thus, the full impact of the \$20,000,000 will not occur until the end of the 3-year construction program.

Variable Demand Gas Facilities Revenue Bonds, Series 1987

The funds to be borrowed by Sierra Pacific from Washoe will be derived from the issuance and sale of Washoe's bonds described as Variable Rate Demand Gas Facilities Revenue Bonds (Bonds) (Sierra Pacific Power Company Project), Series 1987.

Method of Financing

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 Bonds as discussed above. The payments to be made by Sierra Pacific may be provided by an irrevocable letter of credit issued by a qualified bank chosen by Sierra Pacific.

Description of Bonds

The Bonds to be issued by Washoe County are variable interest rate Bonds which allow for pricing in daily, 7-day and various other short-term periods. They also allow for annual and other long terms at fixed rates and are long-term (30 year)

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- 1/ By the term, it is meant that the balance in the trust at any given time until exhausted will be invested at a yield equal to the effective rate on the bonds plus the letter of credit fee. Thus, all costs of the unexpended funds (balance in the trust) are paid for by earnings on the funds.

instruments but carry a short-term interest rate because they have a bondholder "put" option (e.g., daily or weekly). Under the "put" option, a bondholder may require purchases of his Bonds by "putting" or tendering the Bonds for purchase on any specified date by giving notice to the Trustee as provided. The bondholder receives 100% of the principal amount of the Bond plus accrued interest. Because the rate of the note is reset based on the short-term, tax-exempt market, any notes "put" back can be re-marketed at par. The Bonds offer the potential of longer-term financing at fairly short-term rates.

These Bonds may also be priced at longer terms, such as annually, 10, 20 or 30 years. In the case of 10, 20 or 30 years, the Bonds would act as long-term instruments and not be allowed to be "put" back to the Remarketing Agent, except at the end of such period. The Bonds described are intended to give Sierra Pacific the maximum financing flexibility to price in either the long or short-term market and obtain the lowest cost of debt for the ratepayer.

The application states that the intention of Sierra Pacific is to provide, as security for the Bonds, a letter of credit from a qualified bank. Sierra Pacific is currently negotiating to secure a letter of credit which will have a period of time less than the life of the underlying Bond. At the expiration of the letter of credit, if Sierra Pacific intends to continue securing the Bonds with a letter of credit, the letter of

credit will be extended to replaced with another letter of credit, thus making it possible to offer the Bonds at a comparable rating. If Bonds are "put" on short notice, the letter of credit provides liquidity. The letter of credit also provides high-grade security which is required by 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, under the reimbursement agreement with the bank, will simultaneously repay the bank, and the full amount of the letter of credit will be reinstated.

Remarketed Bonds

The Bonds will be remarketed by Kidder, Peabody & Company Incorporated which will be appointed as the Remarketing Agent. The Remarketing Agent will also act as the Indexing Agent and will price the Bonds to market. The Remarketing Agent and/or Indexing Agent can be replaced at Sierra Pacific's discretion.

Sierra Pacific believes and alleges that the aforementioned method of financing can be beneficial to its ratepayers and investors because the interest rate savings on the Bonds can be substantial. Under current market conditions, a comparable bond would carry an interest rate of 5.75% while a conventional long-term tax exempt bond would carry an interest rate of at least 9.00%, or more, by comparison.

Use of the Net Proceeds

The net proceeds from the sale of the Bonds will be used to reimburse Sierra Pacific's treasury for funds used to construct and equip certain gas facilities in Washoe County, Nevada.

The Commission Advisory and Compliance Division (CACD) formerly the Evaluation and Compliance Division has reviewed the application and finds that the proceeds from the Bonds are necessary for the construction of the gas facilities. However, Sierra Pacific is placed on notice, by this decision, that the Commission does not find that Sierra Pacific's construction program is necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

Findings of Fact

1. Sierra Pacific, a Nevada corporation, operates as an electric public utility subject to the jurisdiction of this Commission.
2. Sierra Pacific has need for external funds for the purposes set forth in the application.
3. The proposed financing program, as outlined in the application, is for proper purposes and is not adverse to the public interest.
4. The money, property or labor to be obtained, or paid for, by the proposed borrowing from Washoe, is reasonably required for the purposes specified in the application.

5. The Commission does not, by this decision, determine that Sierra Pacific's construction budgets are necessary or reasonable for ratemaking purposes. These are issues normally tested in general rate or rate base offset proceedings.

6. There is no known opposition and no reason to delay 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.

The proposed Financing Agreement and related agreements are for lawful purposes and the money, property or labor to be obtained by them is required for these purposes. Proceeds from this indebtedness may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) and 1904.2 to enable Sierra Pacific to proceed with its financings expeditiously.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific) may enter into a Financing Agreement and related agreements as described in the application, under which Sierra Pacific will borrow from Washoe County funds derived from the issuance and sale of Washoe

County's Variable Rate Demand Gas Facilities Revenue Bonds (Bonds) (Sierra Pacific Power Company Project), Series 1987, for the aggregate principal amount of up to \$20,000,000.

2. Sierra Pacific may do all things necessary to carry out the Financing Agreement and related agreements.

3. Sierra Pacific shall use the net proceeds from the Financing Agreement and related agreements for the purposes referred to in the application.

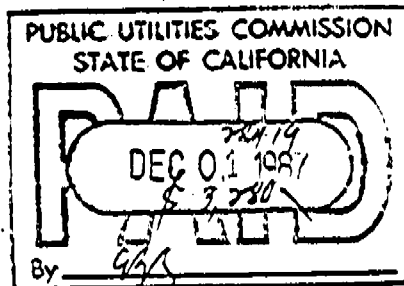
4. Within 30 days after execution of the Financing Agreement and related agreements, Sierra Pacific shall provide the Commission with three copies of each.

5. Sierra Pacific shall file the reports required by General Order Series 24.

6. The application is granted as set forth above.


The authority granted herein shall become effective when Sierra Pacific pays \$3,280, the fee set by Public Utilities Code Sections 1904(b) and 1904.2. In all other respects, this order is effective today.

Dated NOV 25 1987, at San Francisco, California.



STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.


Victor Weiss, Executive Director

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