

Decision 89 03 059 MAR 2 2 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SIERRA PACIFIC POWER)
COMPANY for an Order authorizing it)
(a) to borrow not to exceed \$6,000,000)
from the Rural Electrification)
Administration evidenced by a Note,)
and (b) to execute and deliver a)
Twenty-Seventh Supplemental Indenture.)
(UO-903E))

ORIGINAL

Application 89-01-028
(Filed January 20, 1989)

O P I N I O N

Summary of Decision

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

Sierra Pacific requests authority, under Public Utilities Code (Code) Sections 818 through 830 and 851, for the following:

1. To borrow from the Rural Electrification Administration (REA) an aggregate principal amount not to exceed \$6,000,000, and to issue a Note or Notes (Notes) to the REA evidencing this loan, with interest not to exceed 5% per annum; and
2. To issue as security for the loan, a 27th Supplemental Indenture to its Indenture of Mortgage (Indenture) dated December 1, 1940.

Notice of the filing of the application appeared on the Commission's Daily Calendar of January 27, 1989. No protests have been received.

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

Sierra Pacific's legal advisor informed the Commission Advisory and Compliance Division (CACD), by a letter dated February 16, 1989, that for the calendar year 1988 the company generated total operating revenues of \$402,045,398 and net income of \$47,661,708. The same letter reported that \$40,173,368 or 10% of Sierra Pacific's total operating revenues were derived from California operations.

In a second letter dated February 17, 1989, Sierra Pacific's legal advisor transmitted the utility's Balance Sheet summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$ 972,930,579
Current Assets	90,143,009
Deferred Debits	84,196,875
Total	<u>\$1,147,270,463</u>
 <u>Liabilities and Equity</u>	
Common Equity	\$ 339,338,635
Preferred Stock	57,115,000
Long-Term Debt	402,528,585
Current Liabilities	92,682,476
Deferred Credits	255,605,767
Total	<u>\$1,147,270,463</u>

Loan Proposal

In order to obtain funds at a favorable interest rate to finance certain construction facilities in its service area during 1989, Sierra Pacific requests authority to borrow from the REA the sum not to exceed \$6,000,000 aggregate principal amount, with interest at 5% per annum. Also, Sierra Pacific requests authority

to issue Notes to cover the loan. Furthermore, Sierra Pacific requests authority to secure the Notes by executing an Indenture.

The Commission places Sierra Pacific on notice that the reasonableness of the resulting interest rate and cost of money of the REA Notes to the company will be closely scrutinized in Sierra Pacific's next general rate proceeding.

Terms of Loan

Sierra Pacific anticipates that the terms of the Notes will be 30 years, but the terms are being negotiated, and they may be as short as five years or as long as 35 years. The loan is to be amortized by equal payments, under which interest payments gradually decrease and principal payments gradually increase.

Use of Proceeds

Sierra Pacific intends to use the loan funds to finance the construction of facilities to provide electrical service in its Kingston and Midas service areas in central Nevada.

The CACD Energy Branch has reviewed Sierra Pacific's construction budgets and it has concluded that the issuance of the Notes to the REA by the utility is justified, in order to obtain funds and commence the required construction work on certain of Sierra Pacific's electrical facilities. However, Sierra Pacific is placed on notice by this decision that the Commission does not find that its construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

In a fourth letter dated February 11, 1989 to the CACD from Sierra Pacific's legal advisor, a cash requirements forecasts for the years 1989, 1990, and 1991 indicated that internally generated funds will provide about 39.7% or \$47,442,000 of cash expenditures for 1989, about 32.5% or \$44,912,000 for 1990 and about \$41,559,000 or 25.0% for 1991. Sierra Pacific will require additional funds from outside sources amounting to about \$72,172,000, 93,285,000 and \$118,794,000 for 1989, 1990 and 1991 respectively. The CACD Accounting & Finance Branch concludes that Sierra Pacific's proposed issuance of Notes is necessary to help meet forecasted cash requirements.

Capital Ratios

Sierra Pacific's capital ratios as of December 31, 1988 are shown below as recorded and adjusted to give pro forma effect to the transaction that follows:

<u>Component</u>	<u>December 31, 1988</u>	<u>Pro Forma</u>
Long-Term Debt	48.3%	49.8%
Short-Term Debt	4.1	2.9
Total Debt	<u>52.4</u>	<u>52.7</u>
Preferred Stock	6.9	6.7
Common Equity	40.7	40.6
Total	<u>100.0%</u>	<u>100.0%</u>

1. The proposed issuance and sale of not to exceed \$6,000,000 aggregate principal amount of Notes.

The CACD Accounting & Finance Branch has reviewed and analyzed the financial data included in Sierra Pacific's application and the utility's other financial data covered by the four subsequent letters and supplemental data sheets forwarded to the CACD. The CACD has no objection to the proposed issue and sale of the Notes and recommends that Sierra Pacific be granted the authority to issue and deliver its proposed Indenture.

Findings of Fact

1. Sierra Pacific, a Nevada corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. The proposed issuance of the Notes would be for proper purposes and not adverse to the public interest.

3. The terms and conditions of the proposed Indenture are reasonable and not adverse to the public interest.

4. Sierra Pacific has need for external funds for the purposes set forth in the application.

5. The money, property or labor to be procured, or paid for by the Notes, is reasonably required for the purposes set forth in the application.

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

7. There is no known opposition to the application 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 that follows.

The proposed Notes are for lawful purposes and the money, property or labor to be obtained, or paid for, by them is required for these purposes. Proceeds from the Notes 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 Code Section 1904(b), to enable Sierra Pacific to expeditiously proceed with its financing.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific), on or after the effective date of this order and on or before December 31, 1989, may borrow from the Rural Electrification Administration an aggregate principal amount not to exceed \$6,000,000 and to issue Notes evidencing this loan, with interest not to exceed 5½ per annum.

2. Sierra Pacific may execute and deliver, as security for the Notes, the Indenture, in a form consistent with the previous supplemental indentures authorized by the Commission.

3. Sierra Pacific shall apply the net proceeds from the sale of the Notes for the purposes set forth in the application.

4. As soon as available, Sierra Pacific shall file with the Commission Advisory and Compliance Division, three copies of the final Notes authorized by this order, showing the interest rate and the terms and conditions for repayment.

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

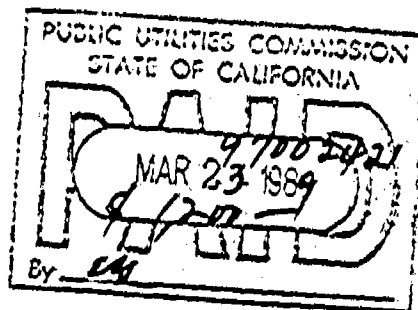
6. The application is granted as set forth above.

The authority granted by this order shall become effective when Sierra Pacific pays \$1,200, the fee set by Public Utilities Code Sections 1904(b) and 1904.2. In all other respects, this order is effective today.

Dated MAR 22 1989, at San Francisco, California.

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

Commissioner Patricia Eckert,
present but not participating



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

Victor Weizman
Victor Weizman, Executive Director

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to issue Notes to cover the loan. Furthermore, Sierra Pacific requests authority to secure the Notes by executing an Indenture.

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Sierra Pacific anticipates that the terms of the Notes will be 30 years, but the terms are being negotiated, and they may be as short as five years or as long as 35 years. The loan is to be amortized by equal payments, under which interest payments gradually decrease and principal payments gradually increase.

Use of Proceeds

Sierra Pacific intends to use the loan funds to finance the construction of facilities to provide electrical service in its Kingston and Midas service areas in central Nevada.

Construction Budgets

Sierra Pacific's estimated construction budgets for the years 1989, 1990 and 1991, filed with the CACD by the utility's legal advisor in a third letter dated February 7, 1989, are summarized as follows:

<u>Construction Budgets</u>			
<u>Component</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>
Electric	\$57,947,000	\$57,859,000	\$ 66,924,000
Gas	6,351,000	7,025,000	7,410,000
Water	16,815,000	25,842,000	33,896,000
Common	5,533,000	7,162,000	7,102,000
Total	<u>\$86,646,000</u>	<u>\$97,887,000</u>	<u>\$115,332,000</u>