

ORIGINAL

Decision 89 12 014 DEC 6 1989

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 issue )  
unsecured promissory notes allowing )  
for total short-term borrowing at any )  
one time not to exceed \$90,000,000. )

Application 89-07-050  
(Filed August 3, 1989)

OPINION

Summary of Decision

This decision grants in part and denies in part Sierra Pacific Power Company (Sierra Pacific) the authority requested in the application. Sierra Pacific requests authority for a four year period of time from the date of this decision under Public Utilities Code (Code) Sections 816 through 830, including 823(c); and 851, to issue unsecured promissory notes allowing for total short-term borrowing at any one time not to exceed \$90,000,000.

This decision grants Sierra Pacific the authority to issue unsecured promissory notes allowing for total short-term borrowing at any one time not to exceed \$90,000,000; however, the authority will be for only a two year period to expire on December 31, 1991. This decision denies Sierra Pacific' request for a four period in which to issue the unsecured promissory notes.

Notice of the filing of the application appeared on the Commission's Daily Calendar of August 3, 1989. No protests have been received.

Sierra Pacific is engaged in public utility electric operations in California and Nevada, and public utility gas and water operations in Nevada. Sierra Pacific is a public utility subject to the jurisdiction of this Commission.

For the 12 months ended December 31, 1988, Sierra Pacific reported total electric operating revenues of \$327,000,000 of which \$40,173,000 or 12.28% were derived from California operations.

Shown as part of Appendix A to the application was Sierra Pacific's latest condensed Balance Sheet as of May 31, 1989, summarized as follows:

	<u>5/31/89</u>	<u>5/31/88</u>
	(Thousands of dollars)	
<u>Assets</u>		
Property, Plant and Equipment, Net	\$ 983,905	\$ 929,582
Current Assets	78,121	91,554
Other Assets and Deferred Charges	<u>85,692</u>	<u>55,105</u>
Total	\$1,147,718	\$1,076,241
<u>Liabilities and Equity</u>		
Stockholders' Equity	\$ 483,061	\$ 383,093
Long-term Debt	405,907	383,974
Current and Accrued Liabilities	70,675	81,219
Other Liabilities and Deferred Credits	<u>258,075</u>	<u>227,955</u>
Total	\$1,147,718	\$1,076,241

#### Proposed Financing

Sierra Pacific seeks authority to issue short-term notes allowing for a total short-term borrowing not to exceed \$90,000,000 at any one time. In terms of this decision, short-term is defined as a period not to exceed 12 months.

Sierra Pacific has stated that the interest rates are to be negotiated by Sierra Pacific but are not expected to exceed one-fourth of one percent over the prime rate in effect at the time of borrowing, prime rate being calculated as the lowest rate which banks in New York City are then making on short-term commercial loans to their preferred customers.

Sierra Pacific has stated that proceeds from the borrowings will be used to repay existing short-term promissory notes as they become due, and for construction expenditures. Sierra Pacific has stated that need for the additional borrowings is imminent.

The CACD recommends, and we concur, that short-term financing authority should be limited to two years. This will ensure that the purpose, justification and economies of using short-term financing is reviewed more frequently.

#### Construction Program

Sierra Pacific has stated that it contemplates making the following gross construction expenditures for the years 1989, 1990, and 1991:

	<u>1989</u>	<u>1990</u>	<u>1991</u>
Electric Department	\$57,838,102	\$58,716,437	\$ 66,924,000
Gas Department	6,395,546	7,024,670	7,410,000
Water Department	16,742,489	25,841,581	33,896,000
Common Plant	<u>5,528,323</u>	<u>6,961,389</u>	<u>7,102,000</u>
	\$86,504,460	\$98,544,077	\$115,332,000

The CACD has made note of Sierra Pacific's construction budgets and finds that the financing would be necessary to fund the proposed construction program and to repay existing short-term promissory notes as they become due. The CACD has no objection to Sierra Pacific's proposed issuance of the short-term promissory notes in this application; 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 case or rate base offset proceedings.

Capital Ratios

Sierra Pacific's capital ratios as authorized by D.88-12-094 and as of May 31, 1989 are shown below as recorded with the May 31, 1989 ratio adjusted to give pro forma effect to the proposed financing:

	<u>May 31, 1989</u>	<u>Pro Forma</u>	<u>D.88-12-094</u>
Common Equity	43.00%	38.79%	41.93%
Preferred Stock	6.90	6.22	6.68
Long-Term Debt	49.13	44.31	51.39
Short-Term Debt	<u>0.97</u>	<u>10.68</u>	<u>0.00</u>
Total	100.00%	100.00%	100.00%

Public Utilities Code Section 823(c)

Sierra Pacific has stated that their request for the short-term financing was made pursuant to Section 823(c) of the Code. This section states that:

Notwithstanding the provisions of subdivision (b), no public utility as defined in Section 201 (e) of the Federal Power Act (49 Stat. 847, 16 U.S.C. 824) shall, without the consent of the commission, issue notes payable at periods of not more than 12 months after the date of issuance of the notes if such notes and all other notes payable at periods of not more than 12 months after the date of issuance of such notes on which such public utility is primarily or secondarily liable would exceed in aggregate amount 5 percent of the par value of the other securities then outstanding. In the case of securities having no par value, the par value for the purposes for this subsection shall be the fair market value as of the date of issue.

Sierra Pacific submitted the following as part of their application:

Common Equity:	
Common Stock (1,000 shares at \$3.75 par value)	\$ 3,750
Other Paid-in Capital	263,449,542
Retained Earnings	<u>92,493,019</u>
	355,946,311
Preferred Stock:	
(1,142,300 shares at \$50 par value)	57,115,000
First Mortgage Bonds	<u>297,075,759</u>
Total	\$710,137,070
5% of Total	\$ 35,506,854
Aggregate amount of short-term financing requested	\$ 90,000,000
5% allowed by Section 823(c)	\$ 35,506,854
Amount requiring authorization	\$ 54,493,146

The CACD has reviewed this proposal and concurs with Sierra Pacific's calculation. Therefore, short-term financing in the amount of \$54,493,146 is subject under Section 823(c) of the Code.

Cash Requirements Forecasts

Sierra Pacific's cash requirements, for the years 1989, 1990, and 1991 are provided as part of supplemental data furnished to the CACD, are shown as follows:

(Dollars in Thousands)	1989	1990	1991
Total Operating Rev.	\$449,121	\$484,645	\$511,360
Total Deductions	<u>401,679</u>	<u>439,733</u>	<u>469,801</u>
Internal Cash Generation	\$ 47,442	\$ 44,912	\$ 41,559
Less:			
Electric & Comm. Const.	62,465	64,349	71,247
Gas & Water Constr.	22,315	31,703	39,029
Gas & Water Net Advn.	-272	-1,437	-1,682
Other Net Advances	<u>3,768</u>	<u>775</u>	<u>483</u>
Cash Requirements	\$ 40,834	\$ 50,478	\$ 67,518
Net proceeds--Financing	<u>31,034</u>	<u>50,478</u>	<u>67,518</u>
Balance	\$ ( 9,800)	\$ 0	\$ 0
Cash--Beginning of Period	<u>11,800</u>	<u>2,000</u>	<u>2,000</u>
Cash--End of Period	\$ 2,000	\$ 2,000	\$ 2,000

NET PROCEEDS-FINANCING

Net Change--Short-Term Debt	\$ (3,072)	\$ 11,038	\$ 1,697
First Mortgage Bonds:			
Regular	5,300	0	0
Tax Exempt	15,867	26,446	32,538
Tax Exempt Interest	4,250	4,106	5,947
Preferred Stock	0	0	0
Proceeds from Parent	9,729	9,729	19,729
Less:			
Long-term Sinking Funds	<u>1,040</u>	<u>841</u>	<u>7,393</u>
Net Proceeds--Financing	\$ 31,034	\$ 50,478	\$ 67,518

Findings of Fact

1. Sierra Pacific, a Nevada corporation, operates as a public utility under the jurisdiction of this Commission.
2. Sierra Pacific has need for external funds for the purpose set forth in the application.
3. The proposed financing would be for a proper purpose and would not be adverse to the public interest.

4. The money, property, or labor to be procured, or paid for, by the proposed financing is reasonably required for the purposes specified in the application, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

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

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

7. There is no known opposition to this proceeding and no reason to delay granting the authority requested.

#### Conclusions of Law

1. A public hearing is not necessary.

2. The authority requested in the application should be granted to the extent set forth in the order which follows.

3. The proposed financing is for lawful purposes and the money, property, or labor to be obtained by them is required for these purposes. Proceeds from the issuance of securities may not be charged to operating expenses or to income.

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

The following order should be effective on the date of signature and payment of the fee set by Code Sections 1904(b) and 1904.1 to enable Sierra Pacific to proceed with the financing expeditiously.

ORDER

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific), on or after the effective date of this order, may issue, before December 31, 1991, unsecured short-term promissory notes not to exceed 12 months allowing for total borrowing at any one time not to exceed \$90,000,000.

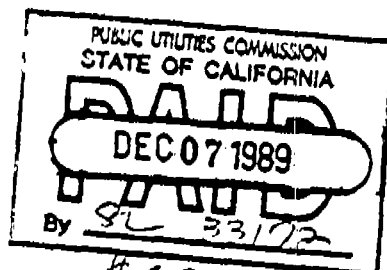
2. This authority to issue short-term unsecured promissory notes expires on December 31, 1991.

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

4. The application is granted as set forth above.

The authority granted by this order to issue the financing will become effective when Sierra Pacific pays \$6,395, the fee set Public Utilities Code Sections 1904(b) and 1904.1. In all other respects, this order is effective today.

Dated DEC 6 1989, at San Francisco, California.



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

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

*Wesley Franklin*  
WESLEY FRANKLIN, Acting Executive Director