CACD/BVC

Decision 90-09-036 September 12, 1990

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 1990. (UO-903) | Application 90-06-033 (Filed June 14, 1990) |

**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 Sections 816-818 and 851-854 of the California Public Utilities Code (PU Code), for the following:

1. To enter into a Financing Agreement with Washoe County, Nevada (Washoe), and into related agreements, under which Sierra Pacific will borrow funds from Washoe to finance Sierra Pacific's gas construction program proposed during 1991, 1992 and 1993;

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 the construction and equipping of certain gas facilities in Washoe County, Nevada, pursuant to the provisions of Nevada's Economic Development Revenue Bond Law (NRS244.669-244A.763).

Notice of the filing of the application appeared on the commission's Daily Calendar of June 21, 1990. 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 the calendar year 1989, Sierra Pacific's Annual Report shows total operating revenue of $439,422,029, of which $35,936,050 was derived from California operations.

Exhibit 2, attached to the application, presents Sierra Pacific's Condensed Balance Sheet as of December 31, 1989 summarized as follows:

| Assets | Amount |
|---|---|
| Net Utility Plant | $1,009,147,632 |
| Current Assets | 86,421,996 |
| Deferred Debits | 108,903,070 |
| Total | $1,204,472,698 |

| Liabilities and Equity | Amount |
|---|---|
| Common Equity | $ 360,833,846 |
| Preferred Stock | 23,115,000 |
| Preferred Stock Subject to Mandatory Redemption | 34,000,000 |
| Long-Term Debt | 414,701,285 |
| Current Liabilities | 103,645,530 |
| Deferred Credits | 268,177,037 |
| Total | $1,204,472,698 |

## Debt Securities

The funds to be borrowed by Sierra Pacific from Washoe will be derived from the issuance and sale of bonds issued by Washoe described as Variable Rate Demand Gas Facilities Revenue Bonds (Sierra Pacific Power Company Project) Series 1990 (Bonds)

The Bonds will be variable interest rate bonds which allow for pricing in daily, 7-day, various short-term periods, annual and various fixed rate terms. They are long-term (30-year) 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 specific dates 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 on the Bonds is re-set based on the short-term, tax-exempt market, any Bonds "put" back can be remarketed 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. This gives 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.

<u>Method of Financing</u>

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 described above.

Initially, it is the intention of Sierra Pacific, as stated in the application, to provide as security for the Bonds, a direct-pay letter of credit from a qualified bank. Sierra Pacific is currently negotiating to secure a letter of credit with a term less than the life of the underlying Bonds. 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 or replaced with another letter of credit, and the Bonds will be remarketed on that basis, thus making it possible to offer the Bonds at a comparable rate. 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 the tax-exempt money market funds (the principal buyers of short-term, tax-exempt securities). The arrangement also achieves the lowest possible interest cost.

Monthly payments of interest, and principal if any, 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.

Remarketing of Bonds

The Bonds will be remarketed by a Remarketing Agent to be selected by Sierra Pacific. 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.

Benefit to Ratepayers and to Stockholders of Sierra Pacific

Sierra Pacific believes and alleges that the aforementioned method of financing can be beneficial to its ratepayers and its 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 6.5% while a conventional long-term tax exempt bond would carry an interest rate of at least 10% or more, by comparison.

Construction Budget

Sierra Pacific estimates in its application that its gas construction program for the years 1991 through 1993 is as follows:

| Year | Amount (thousands) |
|---|---|
| 1991 | $ 6,639 |
| 1992 | 5,933 |
| 1993 | 4,304 |
| Total | $16,876 |

The Commission Advisory and Compliance Division (CACD) has reviewed the application and Sierra Pacific's construction program. The CACD concludes that the proposed financing is necessary for the construction program; however, Sierra Pacific is placed on notice, by this decision, that the Commission does not find that its construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Capitalization Ratios

Sierra Pacific's capitalization ratios at April 30, 1990, recorded, and at April 30, 1990, *pro forma* after giving effect to the proposed issuance of its Bonds in the aggregate principal amount of $80,000,000 are as set forth below:

| | Recorded | | Pro Forma | |
|---|---|---|---|---|
| | Amount (thousands) | Percentage | Amount (thousands) | Percentage |
| Long-Term Debt | $422,944 | 48.6% | $442,944 | 49.7% |
| Short-Term Debt | 32,000 | 3.7 | 32,000 | 3.6 |
| Total Debt | $454,944 | 52.3 | $474,944 | 53.3 |
| Preferred Stock | 57,115 | 6.5 | 57,115 | 6.4 |
| Common Stock | 358,872 | 41.2 | 358,872 | 40.3 |
| Total | $870,931 | 100.0% | $890,931 | 100.0% |

The effect of the proposed $20,000,000 in new Bonds 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 "arbitraged." By this 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. Therefore, the table above shows what the effect on capitalization would be on April 30, 1990 if the entire $20,000,000 indebtedness were outstanding on that date.

Sierra Pacific is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Cash Requirements Forecast

Sierra Pacific's cash requirements forecast for 1990, 1991, and 1992 is summarized as follows:

| Components | 1990 | 1991 (thousands) | 1992 |
|---|---|---|---|
| Funds Needed for Construction Expenditures | $ 95,973 | $117,372 | $109,083 |
| Long-Term Debt Maturities | 2,588 | 7,215 | 17,769 |
| Short-Term Debt as of Beginning of Year | 27,545 | 54,996 | 51,214 |
| | $126,106 | $179,583 | $178,066 |
| Less: Estimated Internal Cash Generation | 35,547 | 38,549 | 47,546 |
| Additional Funds Required from External Sources | $ 90,559 | $141,034 | $130,520 |

The CACD has analyzed Sierra Pacific's cash requirements forecasts for 1990, 1991, and 1992. The CACD has concluded that internally generated funds will provide $35,547,000 or 28.2% of Sierra Pacific's cash requirements for 1990, $38,549,000 or 21.5% in 1991, and $47,546,000 or 26.7% in 1992. The CACD concludes that the proposed borrowing of the funds by Sierra Pacific is necessary to help meet forecasted cash requirements which includes capital expenditures. The CACD has reviewed the application and has concluded that the proposed financing is reasonable and that the authority should be granted.

Use of 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, pursuant to the provisions of NRS244.669-244A.763 (County Economic Development Revenue Bond Law).

Findings of Fact

1. Sierra Pacific, a Nevada corporation, operates as an electric 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. There is no known opposition and there is 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 forth in the order which follows.

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

The following order shall be effective on the date signature and payment of a fee of $2,636 set by §1904(b) and §1904.2 of the PU Code to enable Sierra Pacific to proceed w its financing expeditiously.

**O R D E R**

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific) or before December 31, 1991, may enter into a Financing Agr and related agreements as described in the application, und which Sierra Pacific will borrow from Washoe County funds d from the issuance and sale of Washoe County's Variable Rate Demand Gas Facilities Revenue Bonds (Sierra Pacific Power C Project) Series 1990, for the aggregate principal amount of to exceed $20,000,000.

2. Sierra Pacific may execute any and all relate documents and take any and all action required for completi the proposed financing.

3. Sierra Pacific shall use the net proceeds fro Financing Agreement and related agreements for the purposes specified in the application.

4. Sierra Pacific shall file, with the CACD, copies of the Financing Agreement and related agreements, within 15 days after the documents have been executed.

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

6. The application is granted as set forth above.

7. The authority granted by this order shall become effective when Sierra Pacific pays $2,636, the fee set by Public Utilities Code §1904(b) and §1904.2. In all other respects this order is effective today.

Dated September 12, 1990, at San Francisco, California.

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

Commissioner John B. Ohanian, being necessarily absent, did not participate.

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PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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By E

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

NEAL J. SHULMAN, Executive Director