

Decision 32 06 055 JUN 17 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SIERRA PACIFIC POWER COMPANY for an)
Order (a) authorizing it to enter)
into a Financing Agreement and)
Related Agreements under which the)
Company will borrow from Washoe)
County, Nevada, funds not to exceed)
\$25,000,000, and the County will)
issue Gas Facilities Revenue Bonds)
(Sierra Pacific Power Company)
Project) Series 1992, and (b))
authorizing it to enter into)
Financing Agreements and related)
Agreements under which the Company)
will borrow from Humboldt County,)
Nevada, funds not to exceed)
\$12,600,000, and the County will)
issue Pollution Control Facilities)
Refunding Revenue Bonds (Sierra)
Pacific Power Company Project))
Series 1992A and Series 1992B.)
(UO-903E))

ORIGINAL

Application 92-02-049
(Filed February 28, 1992)

O P I N I O N

Summary of Decision

This decision grants Sierra Pacific Power Company (Sierra Pacific) the authority requested in Application (A.) 92-02-049 (Application).

Sierra Pacific requests authority under Public Utilities (PU) Code §§ 816-830 and 851-854 for the following financings:

A. Washoe County Financing

1. To enter into a Financing Agreement with Washoe County, Nevada (Washoe), and into related agreements, under which Sierra Pacific will borrow funds, not to exceed \$25,000,000, from Washoe. The funds furnished by Washoe will be derived from the issuance and sale of

Washoe's bonds;

2. To execute any and all related documents and to take all action required for completion of the proposed financing, including the issuance of letters of credit and, under certain circumstances, its own First Mortgage Bonds and its supplement or supplements to its existing Indenture of Mortgage; and
3. To use the proceeds to reimburse its treasury for the construction and equipping of certain gas facilities in Washoe, pursuant to Sierra Pacific's proposed gas construction program for 1992, 1993, 1994 and 1995, in accordance with Nevada's Economic Development Revenue Bond Law (NRS 244.669-244A.763).

B. Humboldt County Financing

1. To enter into two Financing Agreements with Humboldt County, Nevada (Humboldt), and into related agreements, under which Sierra Pacific will borrow funds, not to exceed \$12,600,000, from Humboldt. The funds furnished by Humboldt will be derived from the issuance and sale of Humboldt's bonds;
2. To execute any and all related documents and to take all action required for completion of the proposed financing, including the issuance of letters of credit and, under certain circumstances, its own First Mortgage Bonds and a supplement or supplements to its existing Indenture of Mortgage; and
3. To use the proceeds to redeem the following existing issues:
 - (a) Humboldt County, Nevada \$11,600,000 12-1/2% Collateralized Pollution Control and Water Facilities Revenue Bonds (Sierra Pacific Power Company Project) Series 1982A; and
 - (b) Humboldt County, Nevada \$1,000,000 12-1/4% Collateralized Pollution Control and Water Facilities Revenue Bonds (Sierra Pacific Power Company Project) Series 1982B.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 9, 1992. No protests have been received.

Background

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

For the twelve months ended December 31, 1991, Sierra Pacific reports that it generated total operating revenues of \$462,152,943, which were derived 9.07% from operations in California; and net income of \$50,223,927.

Sierra Pacific's Balance Sheet as of December 31, 1991, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$1,094,213,032
Other Property	1,510,327
Current Assets	93,388,730
Deferred Charge	89,008,309
Total	\$1,278,120,398
<u>Liabilities and Equity</u>	
Common Equity	411,916,416
Preferred/Preference Stock	57,115,000
Long-Term Debt	449,802,813
Current Liabilities	95,113,991
Deferred Credits	264,172,178
Total	\$1,278,120,398

As of December 31, 1991, Sierra Pacific's construction expenditures unreimbursed from the sale of securities amounted to approximately \$23,330,000 as shown in Schedule D of the Supplemental Data provided to the Commission.

Proposed Financing

A. Description of Bonds

The proposed method of financing for both the Washoe facilities financing and the Humboldt refunding is essentially the same. Funds will be borrowed by Sierra Pacific from Washoe or Humboldt County as the case may be. The County will obtain the funds by the issuance and sale of its bonds which will have the following or a similar designation: for Washoe, "Gas Facilities Revenue Bonds (Sierra Pacific Power Company Project) Series 1992"; for Humboldt, "Pollution Control Facilities Revenue Bonds (Sierra Pacific Power Company Project) Series 1992A and Series 1992B."

The bonds to be issued by Washoe will allow for pricing in daily, weekly, and various short-term periods, with annual and various fixed rate terms. They are long-term (thirty 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 or her bonds by "putting" or tendering bonds for purchase on the 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 reset based on the short-term, tax-exempt market, any bond "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 one, ten, twenty or thirty years. In the case of ten, twenty, or thirty 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.

The bonds to be issued by Humboldt County may be long-term from the date of issuance, or may be variable rate bonds as described in the preceding paragraphs, respecting Washoe.

B. Method of Payment

Sierra Pacific will repay funds borrowed from Washoe and Humboldt by depositing with a trustee from time to time amounts equal to those required by Washoe or Humboldt, as the case may be, to pay their respective obligations according to the terms of the bonds described above. The payments to be made by the Company may be provided by drawing on an irrevocable Letter of Credit issued by a qualified bank chosen by Sierra Pacific or may be made by the issuance of Sierra Pacific's First Mortgage Bonds, pursuant to an appropriate supplement or supplements to its existing Indenture of Mortgage.

1. Letter of Credit as Security:

Initially it is the intention of Sierra Pacific, as stated in the Application, to provide as security for the Gas Facilities Revenue 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 a new Letter of Credit, and the Bonds will be remarketed on the basis of the new Letter of Credit. The Letter of Credit provides liquidity if bonds are "put" and are not remarketed, and it also provides high-grade security which is required by tax-exempt money market funds (the principal buyers of short-term, tax-exempt securities), while achieving the lowest possible interest cost.

Monthly payments of interest, and principal if any, are to be funded through a draw on a 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.

2. First Mortgage Bonds as Security:

Because all or some of the bonds may be priced at long-term periods such as twenty or thirty years, Applicant proposes to secure such long-term obligations by the issuance of its own First Mortgage Bonds pursuant to an appropriate supplement or supplements to its existing Indenture of Mortgage.

C. Remarketing of Bonds

The Gas Facilities Revenue 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.

D. Benefits to Ratepayers and Stockholders

Sierra Pacific states in the Application 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. Sierra Pacific notes that under current market conditions, short-term, tax-exempt securities carry an interest rate substantially lower than a conventional long-term fixed rate taxable bond. Long-term tax-exempt securities also have the advantage of lower interest rates and thus produce the benefit of lower costs of financing to ratepayers and investors of Sierra Pacific.

Capital Ratios

Sierra Pacific's capital ratios reported as of December 31, 1991, are shown below as reported and adjusted to give pro forma effect to the transactions that follow:

	<u>December 31, 1991</u>	<u>Pro Forma</u>
Long-Term Debt	47.6% *	49.3% **
Short-Term Debt	<u>2.9</u>	<u>2.8</u>
Total Debt	50.5%	52.1%
Preferred/ Preference Stock	6.0	5.8
Common Equity	<u>43.5</u>	<u>42.1</u>
Total	100.0%	100.0%

* Excludes current portion of long-term debt.

** The Pro Forma capital ratios assume full issuance of \$37,600,000 principal amount for which authority is sought in this Application. \$12,600,000 of this principal amount will be used to refund the Company's existing Humboldt County, Nevada Pollution Control and Water Facilities Revenue Bonds, Series 1982A and 1982B. The maximum increase in total capitalization is \$25,000,000. The Pro Forma capital ratios also assume the proposed issuance and sale of up to \$7,000,000 in long-term debt (A.92-02-027 filed February 18, 1992.)

The effect of the proposed \$25,000,000 in new Gas Facilities Revenue Bonds in Sierra Pacific's capital structure will occur as construction expenditures are drawn against a trust into which initially the total proceeds will be held and fully "arbitrated." 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 of 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 capital structure would be on December 31, 1991, if the entire \$25,000,000 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 or the inclusion of short-term debt in its capital structure are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate cases or cost of capital proceedings.

Construction Budgets

Sierra Pacific's estimated construction budgets for calendar years 1992 and 1993 are approximately \$224,802,000. Major classifications of the total budgeted construction, as shown in the Supplemental Data, are summarized as follows:

<u>Components</u>	<u>1992</u> (Thousands of Dollars)	<u>1993</u>
Electric Production	\$ 62,980	\$ 62,492
Gas Production	7,522	8,527
Water Production	32,763	45,692
Common	<u>6,210</u>	<u>124,052</u>
Total	\$109,475	\$124,052
Less: Allowance for Funds Used During Construction	<u>3,816</u>	<u>4,909</u>
Funds Used/Required for Construction Expenditures	\$105,659	\$119,143

The Commission Advisory and Compliance Division (CACD) has reviewed Sierra Pacific's construction program for 1992 and 1993 and has concluded that Sierra Pacific's proposed issuance of bonds as requested in the Application is necessary and reasonable. However, Sierra Pacific is placed on notice by this decision that the Commission does not find that Sierra Pacific's construction budgets are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate cases or rate base offset proceedings.

Cash Requirements Forecast

Sierra Pacific's cash requirements forecast for the years 1992 and 1993, provided in the Supplemental Data, are shown as follows:

<u>Components</u>	<u>1992</u> (Thousands of Dollars)	<u>1993</u>
Funds Needed for Construction Expenditures	\$105,659	\$119,143
Maturities of Long-Term Debt	5,512	530
Maturities of Preferred/Preference Stock	-0-	-0-
Short-Term Debt Outstanding at Beginning of Year	<u>22,324</u>	<u>25,264</u>
Subtotals	\$133,495	\$144,937
Less: Estimated Internal Cash Generation	<u>35,120</u>	<u>44,896</u>
Additional Funds Required from External Sources	\$ 98,375	\$100,041

CACD has analyzed Sierra Pacific's cash requirements forecast for 1992 and 1993. CACD has concluded that internally generated funds would provide \$35,120,000 or 26.3% of Sierra Pacific's cash requirements in 1992 and \$44,896,000 or 31.0% in 1993. CACD concludes that the proposed issuance of Sierra Pacific's bonds is necessary to help meet forecasted cash requirements which included capital expenditures.

CACD has reviewed the Application and has concluded that the proposed issuance of bonds is reasonable and should be granted. The Commission has considered CACD's recommendations and, finding them reasonable, will adopt them as stated above.

Use of Proceeds

Sierra Pacific proposes to apply the proceeds of the \$25,000,000 Washoe financing to reimburse its treasury for the construction and equipping by Sierra Pacific of certain gas facilities located in Washoe County, Nevada, pursuant to the provisions of NRS 244.699-244A.763, inclusive (Nevada's Economic Development Revenue Bond Law).

Sierra Pacific estimates in its Application that its gas construction program in Washoe County for the years 1992-1995 will be as follows:

<u>Year</u>	<u>Amount</u> (Thousands)
1992	\$ 7,344
1993	8,259
1994	7,969
1995	<u>7,592</u>
Total	\$31,164

Sierra Pacific proposes to use the net proceeds from the \$12,600,000 Humboldt financing to redeem the following existing issues. Exhibit 4 of the Application illustrates the present value of benefits over the remaining life of each issue. With respect to each issue the Applicant set forth the following savings:

1. Humboldt County, Nevada \$11,600,000
12-1/2% Collateralized Pollution Control
and Water Facilities Revenue Bonds (Sierra
Pacific Power Company Project) Series 1982A.
NET PRESENT VALUE OF REFUNDING SAVINGS:
\$5,382,876
2. Humboldt County, Nevada \$1,000,000
12-1/4% Collateralized Pollution Control
and Water Facilities Revenue Bonds (Sierra
Pacific Power Company Project) Series 1982B.
NET PRESENT VALUE OF REFUNDING SAVINGS:
\$442,092

Sierra Pacific states in the Application that the refunding of the Humboldt bonds as proposed will result in a significant benefit to the ratepayers over the remaining life of the new issues.

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 financings as described in the Application, having an aggregate principal amount not to exceed \$37,600,000, are for proper purposes and would not be adverse to the public interest.

4. The money, property or labor to be procured, or paid for, by the proposed financings is required for the purposes specified in the Application.

5. The sale of bonds, if any, pursuant to the alternatives described in the Application, shall be by competitive bidding.

6. The proposed supplemental indentures would not be adverse to the public interest.

7. 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 set forth in the order which follows.

3. The proposed financings are for lawful purposes and the money, property or labor to be obtained by these financings is required for these purposes. Proceeds from the proposed Bonds may not be charged to operating expenses or income.

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

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 Application 92-02-049 (Application), under which Sierra Pacific will borrow from Washoe County funds derived from the issuance and sale by Washoe County of its Bonds in a total principal amount not to exceed \$25,000,000, having the following or similar designation: Gas Facilities Revenue Bonds (Sierra Pacific Power Company Project) Series 1992.
2. Sierra Pacific may enter into two Financing Agreements and related agreements as described in the Application, under which Sierra Pacific will borrow from Humboldt County funds derived from the issuance and sale by Humboldt County of its Bonds in a total principal amount not to exceed \$12,600,000, having the following or a similar designation: Pollution Control Facilities Refunding Revenue Bonds (Sierra Pacific Power Company Project) Series 1992A and Series 1992B.
3. Sierra Pacific may execute any and all documents and take all action required for the completion of such financings, including the issuance and sale of First Mortgage Bonds and the execution of supplements to its existing Indenture of Mortgage, required for the completion of the proposed financings.

4. Sierra Pacific shall apply the net proceeds from the financings and related agreements for the purposes set forth in the Application.

5. Within thirty days after awarding the contracts for the sale of First Mortgage Bonds by competitive bidding, Sierra Pacific shall submit a written report to the Commission Advisory and Compliance Division (CACD) showing for each bid received, the name of the bidder, the price, the interest rate and the cost of money to Sierra Pacific based on the price and interest rate.

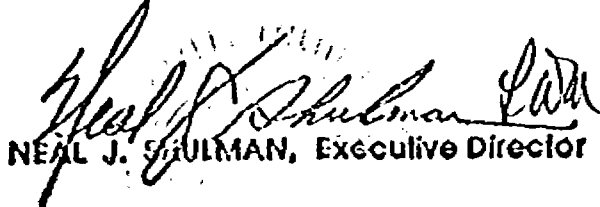
6. Sierra Pacific shall file the reports required by General Order 24(b).

7. The Application is granted as set forth above.

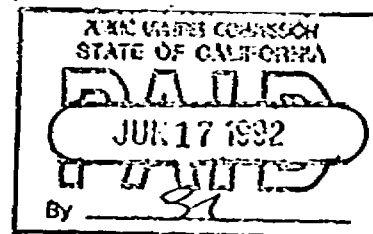
The authority granted by this order to issue First Mortgage Bonds will become effective when Sierra Pacific pays \$3,275, the fee set by Public Utilities (PU) Code §§ 1904(b) and 1904.2 after taking into consideration the fee exemption allowed by PU Code Section 1904(b), as a result of credits from prior outstanding indebtedness refundings. In all other respects, this order is effective today.

Dated JUN 17 1992, at San Francisco, California.

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


NEAL J. SHULMAN, Executive Director

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners



Rec. #35503
\$3,275⁰⁰