RR/KLH/TCG/WPSC

ORIGINAL

Decision 82 09 071 SEP 22 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of Application of SIERRA PACIFIC POWER COMPANY for an Order authorizing it (a) to issue and sell in the alternative either by negotiation or by competitive bidding up to $50,000,000 principal amount of First Mortgage Bonds ________% Series due ________; and (b) to execute a Twenty-fifth Supplemental Indenture as of ________, 1982, supplementing the Indenture of Mortgage dated December 1, 1940.

Application 82-08-31
(Filed August 16, 1982)

O P I N I O N

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

1. To issue and sell up to $50,000,000 aggregate principal amount of a new series of Sierra Pacific's First Mortgage Bonds (New Bonds) by means of competitive bidding, negotiated public offering, or negotiated private placement and having an anticipated term of 30 years;

2. To exempt from the Commission's competitive bidding requirements those New Bonds effected through negotiated public offering or negotiated private placement;

3. To determine at Sierra Pacific's discretion, in the light of prevailing market conditions, the size of the offering, the method of sale, and the timing of the offering; and

4. To execute and deliver a Twenty-fifth Supplemental Indenture to Sierra Pacific's Indenture of Mortgage dated December 1, 1940, to the Bank of New England National Association and James S. Fisher, successor trustees.

Notice of the filing of the application appeared on the Commission's Daily Calendar of August 18, 1982. No protests have been received.

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

In calendar year 1981, Sierra Pacific reported in its 1981 Annual Report that it generated total operating revenues of $269,784,000 of which $29,547,000, or 10.95% were derived from California electric operations. The company reported 1981 net income of $25,685,000. For the 12 months ended June 30, 1982, Sierra Pacific reports in its Comparative Income Statement, attached to the application as Appendix B, that it generated total operating revenues of $288,461,000 and net income of $35,240,000.

Sierra Pacific's Comparative Balance Sheet as of June 30, 1982, attached to the application as Appendix A, is summarized as follows:

Assets	Amount
Net Utility Plant	$661,495,000
Nonutility Investments	9,837,000
Current Assets	61,574,000
Deferred Debits	26,792,000
Total	$759,698,000
Liabilities and Equity	
Common Equity	$208,528,000
Preferred Stock	69,025,000
Long-Term Debt	268,436,000
Current Liabilities	102,626,000
Deferred Credits	111,083,000
Total	$759,698,000

Sierra Pacific proposes to use the net proceeds from the sale of its New Bonds to reimburse its treasury for construction expenditures already spent and to finance, in part, the construction program in progress and proposed during 1982 and 1983.

Sierra Pacific estimates the cost of its construction program, as of June 30, 1982, for calendar years 1982 and 1983 will be about $138,300,000 summarized as follows:

	1982	1983
Electric Department	$64,400,000	$60,600,000
Gas Department	3,000,000	2,900,000
Water Department	3,000,000	3,600,000
Common Plant	500,000	300,000
Total	$70,900,000	$67,400,000

The Commission's Revenue Requirements Division has reviewed Sierra Pacific's 1982 and 1983 construction programs and has concluded the estimated construction expenditures are necessary, but the Division reserves the right to reconsider the reasonableness of any specific construction expenditure in future rate proceedings.

Sierra Pacific's capital ratios as of June 30, 1982 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

	June 30, 1982	Pro Forma
Long-Term Debt	43.7%	52.2%
Short-Term Debt	11.2	1.6
Total Debt	54.9	53.8
Preferred Stock	11.2	10.9
Common Equity	33.9	35.3
Total	100.0%	100.0%

1. The proposed issuance of up to $50,000,000 aggregate principal amount of Sierra Pacific's New Bonds in October 1982;

2. The sale of up to $12,600,000 aggregate principal amount of Bonds to repay the short-term bank loans and commercial paper used to finance the purchase of pollution control equipment for North Valmy Unit #1 in September, 1982 (Decision (D.) 92191 dated September 3, 1980, as supplemented by D.82-08-079 dated August 18, 1982, in Application (A.) 59820);

3. Additional short-term borrowing up to $19,810,000 aggregate principal amount (D.82-03-061 dated March 16, 1982 in A.82-01-38);

4. The proposed sale and issuance of up to 1,500,000 shares of Common Stock, $3.75 par value, in October, 1982, estimated to produce net proceeds of $15,750,000 at the estimated price of $10.50 per share (A.82-08-32 filed August 16, 1982); and

5. The retirement of up to $78,350,000 of short-term bank loans and commercial paper.

As of June 30, 1982, Sierra Pacific had short-term debt outstanding, consisting of bank loans and commercial paper, in the aggregate principal amount of $68,540,000. This short-term borrowing was used to finance Sierra Pacific's ongoing construction program. Additional short-term borrowing estimated in the amount of $19,810,000 may be necessary before the company can benefit from its proposed sale of long-term debt securities and common stock. The combined short-term debt would be increased to $88,350,000 and is covered by the $90,000,000 short-term debt authorized under D.82-03-001 dated March 16, 1982 in A.82-01-38.

In this application, Sierra Pacific proposes to issue and sell, either by negotiated public offering, negotiated private placement, or by competitive bidding, up to $50,000,000 aggregate principal amount of a series of New Bonds, having an anticipated 30-year term, and secured under an existing indenture, as amended and supplemented in past indentures on file with the Commission and to be further amended and supplemented by the proposed Twenty-fifth Supplemental Indenture to be provided at the time of sale and similar in form and contents to the Twenty-fourth Indenture on file with this Commission.

For purposes of this offering, Sierra Pacific requests an exemption from the Commission's competitive bidding requirements for those New Bonds to be issued and sold through negotiated public offerings or negotiated private placement.

Sierra Pacific is aware of the volatility in the current bond markets. Ongoing conversations with underwriters strongly indicate that bond terms such as maturity dates, protective covenants, and call provisions need to be closely tailored to today's marketplace in order to achieve the desired objective of meeting the company's needs at as low a cost of money as possible.

In D.91984 dated July 2, 1980 in A.59633 for San Diego Gas & Electric Company, we discussed the granting of exemptions from the Commission's competitive bidding rule established by D.38614 dated January 15, 1946, as amended from time to time in Case 4761. We clarified the nature of the compelling showing that must be made to warrant an exemption from the Commission's competitive bidding requirements. We served notice that assertions regarding the volatility of the market, the flexibility provided by a negotiated sale, and the importance of maximizing the effectiveness of the underwriting group will not serve as compelling reasons, individually or collectively, for granting an exemption from competitive bidding.

Sierra Pacific requests an exemption for the proposed sale of its New Bonds from the Commission's competitive bidding rule established by D.38614 dated January 15, 1946, as amended from time to time in Case 4761. Sierra Pacific's reasons for requesting an exemption are set forth in a letter dated September 1, 1982 as follows:

1. The volatility of the current bond market.

2. The extreme difficulty of selling a 30-year bond because of the desire of purchasers for much shorter maturities in the range of 10 years.

3. The flexibility which a negotiated sale will allow the utility in determining the timing and conditions of the sale.

4. The fact that Sierra Pacific's bond issues are infrequent, are smaller in size than most in today's public bond market, and are not actively traded in the secondary market. The majority of the institutional bond purchasers prefer a market where more liquidity exists. A negotiated offering provides for a more concentrated selling effort required to place the bonds at the lowest possible cost successfully.

5. A negotiated offering enables the managing underwriter to organize a pre-sale effort. This effort consists of educating its institutional salesmen on the credit considerations of the regulatory outlook for the company. The underwriter's salesmen then disseminate the information to the institutional investors. Sierra Pacific believes that by fully informing the investment community, this will result in

> the lowest cost of money. The competitive bid does not necessarily allow for the institutional investor to indicate an interest in the availability of the bonds because there is no strong pre-sale educational effort.

An exemption from the Commission's competitive bidding rule is not uncommon and was previously granted to Sierra Pacific in D.92877 dated April 7, 1981 in A.60269.

The Commission's Revenue Requirements Division has reviewed the foregoing reasons and has concluded that an exemption from the Commission's competitive bidding rule should be granted. However, in order to provide Sierra Pacific with greater financial flexibility, the Division recommends that Sierra Pacific also be granted the authority to issue the proposed debt securities by means of a competitive offering. The Commission accepts the Division's recommendations.

Sierra Pacific is put on notice that in the next general rate proceeding before the Commission, the reasonableness of the resulting interest rate and cost of money to the company will be closely scrutinized and may result in a disallowance of the interest expense if it is determined that the cost of money incurred was not the most prudent.

The Commission's Revenue Requirements Division has analyzed Sierra Pacific's cash requirements forecast and has concluded that the utility has need for external financing. The Division has concluded that the proceeds from the proposed sale of New Bonds will be necessary to help Sierra Pacific meet its forecasted cash requirements.

Findings of Fact

1. Sierra Pacific, a Nevada corporation, provides electric utility service in California and electric, gas, and water utility service in Nevada. The company derived 10.95% of its 1981 operating revenues from business conducted in California.

2. The proposed issue and sale of up to $50,000,000 of Sierra Pacific's New Bonds is for proper purposes.

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

4. Sierra Pacific believes it will be able to issue and sell its New Bonds at the lowest cost of money by being given discretion to sell its bonds either through competitive bidding, negotiated public offering, or negotiated private placement at a cost to the company as low as, or lower, than it could obtain from an offering restricted to competitive bidding.

5. Sierra Pacific should be authorized to issue and sell up to $50,000,000 principal amount of its New Bonds either through negotiated offerings or by competitive bidding upon terms and at a time which it determines to be the most advantageous to it and its ratepayers.

6. The money, property, or labor to be provided or paid for by the sale of Sierra Pacific's debt securities is reasonably required for these purposes.

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 application should be granted to the extent set forth in the order which follows.

The proposed debt security issue is for lawful purposes and the money, property, or labor to be obtained by it is required for these purposes. Proceeds from the debt security issue 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) to enable Sierra Pacific to proceed with its financing expeditiously.

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 prior to June 30, 1983, may issue and sell, through negotiated private placement, negotiated public offering, or competitive bidding, up to $50,000,000 aggregate principal amount of its First Mortgate Bonds (New Bonds) upon the terms and conditions set forth in the application or to be negotiated at the time of sale. Sierra Pacific may determine the timing of the offering, the size, and the method of sale under terms and conditions as set forth in, or contemplated by, the application or to be determined at the time of sale.

2. Sierra Pacific's proposed New Bonds are exempted from the Commission's competitive rule as set forth in D.38614 dated January 15, 1946 in Case 4761, as amended.

3. Sierra Pacific may execute and deliver a Twenty-fifth Supplemental Indenture in connection with the series of New Bonds issued under this order.

4. Sierra Pacific shall apply the proceeds from the sale of its New Bonds to the purposes set forth in the application.

5. Within 30 days after the issuance and sale of Sierra Pacific's New Bonds, the company shall file with the Commission a report showing why the resulting interest rate and cost of money were the most advantageous to the company and its ratepayers.

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

7. The authority granted by this order to issue New Bonds will be effective when Sierra Pacific pays $6,475, the fee set by PU Code Section 1901(b).

Dated SEP 22 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. CREW
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
PAID
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By

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

Joseph E. Bodovitz, Executive Director