

RR/TC/SR/WPSC\*

**ORIGINAL**Decision 83 05 066 MAY 18 1983

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 ) Application 83-03-48  
enter into a Revolving Credit and ) (Filed March 16, 1983)  
Term Loan Agreement for the )  
financing of Valmy Unit No. 2. )

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) requests authority under Public Utilities (PU) Code Sections 816 through 825 and 851 through 853 for the following:

1. To enter into a Revolving Credit and Term Loan Agreement (Agreement) upon the terms set forth and outlined in the application;
2. To guarantee the obligations of its wholly owned subsidiary, Valmy 2 Construction Company (Construction Company), in accordance with the terms of the Agreement;
3. To deposit \$5,200,000 with the trustee of Sierra Pacific's outstanding 5% debentures for defeasance of the bond indenture.<sup>1/</sup>

1/ The indenture for the 5% debentures is by its own terms "defeased", that is, rendered null and void if Sierra Pacific makes a deposit with the debenture trustee of an amount equal to outstanding principal plus interest to maturity. Once defeasance occurs, Sierra Pacific is no longer subject to any borrowing limitation or other condition set forth in the indenture.

4. To employ the accounting proposed in the application, for Unit 2 of the North Valmy power project; and
5. To borrow up to \$50,000,000 under the terms of the Agreement.

Summary of Decision

This decision grants Sierra Pacific the authority requested in its application.

Notice of the filing of the application appeared on the Commission's Daily Calendar of March 18, 1983. 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. For the twelve months ended December 31, 1982 Sierra Pacific reported total operating revenues of \$325,530,000 of which \$40,530,000 or approximately 12.45% were derived from California operations. During the twelve-month period ended December 31, 1982 the utility reported net income of \$38,505,000 shown as part of Appendix B attached to the application.

Sierra Pacific's comparative Balance Sheet as of December 31, 1982, attached as Appendix A to the application is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$620,876,000
Construction Work in Progress	56,294,000
Nonutility Investments	10,532,000
Current Assets	73,965,000
Deferred Debits	<u>19,514,000</u>
Total	\$781,181,000
 <u>Liabilities and Equity</u>	
Common Equity	\$234,829,000
Preferred Stock	69,025,000
Long-Term Debt	284,236,000
Current Liabilities	78,643,000
Deferred Credits	<u>114,448,000</u>
Total	\$781,181,000

The application states that Sierra Pacific was granted by Commission Decision 91124, dated December 18, 1979 in Application 58977, an exemption from the requirements of PU Code Section 1001 respecting the construction of a 250 megawatt coal-fired steam-electric generating unit north of Valmy, Humboldt County, Nevada, known as North Valmy Unit No. 2 (Valmy No. 2). The Commission found that the project would not unreasonably burden California service or rates.

Sierra Pacific proposes in the application, a method of financing its half of the project, the other half being the obligation of Idaho Power Company. The details are set forth in the Agreement. Under the terms of the Agreement, a wholly owned subsidiary of Sierra Pacific is to be organized, Construction Company, will own 50% of Valmy 2 during construction. Upon completion, ownership of that 50% interest will be transferred to Sierra Pacific. Under the terms of the Agreement, Sierra Pacific will guarantee unconditionally the full and prompt payment of all obligations of the Construction Company applicable to Valmy No. 2. A consortium of commercial banks (The First National Bank of Boston will serve as agent) will advance to the Construction Company up to \$150,000,000 in the aggregate, needed for construction costs, both direct and indirect, including interest and financing costs. Out of such funds received from time to time in block segments of not less than \$5,000,000 the Construction Company may lend amounts in excess of its immediate needs to Sierra Pacific. The total borrowings, by Sierra Pacific from the Construction Company, on a short-term basis are not to exceed \$50,000,000 in the aggregate.

Sierra Pacific has informed the Revenue Requirements Division by letter dated March 23, 1982, that the total cost of Valmy No. 2 will be about \$312,900,000. Sierra Pacific's share of this cost will be about \$156,300,000 without allowance for funds used during construction (AFUDC). With AFUDC Sierra Pacific's cost will be about \$172,000,000.

The application indicates that the proposed financing arrangement has been reviewed and investigated by Sierra Pacific's management and financing consultants. It has been approved by its Board of Directors as a viable and economical method of locking in a source of funds for completion of Valmy No. 2 and for giving Sierra Pacific an opportunity to provide permanent financing at a later time. Sierra Pacific alleges that the financing arrangement will provide the following benefits:

1. The lowest cost short-term financing available;
2. Flexibility in placing permanent financing at a time when favorable market conditions prevail;
3. Assurances of a source of funds needed to complete the project; and
4. A completed project with costs which accurately reflect actual costs and benefits experienced.

Since the guarantee of Sierra Pacific for the full borrowing proposed by the Construction Company is construed to be an additional unsecured debt of the utility, and since such debt would exceed the limitation contained in a covenant covering Sierra Pacific's outstanding 5% debentures, Sierra Pacific proposes to meet this problem by depositing with the Debenture Trustee an amount sufficient to cover in full the obligation of the debentures plus interest to maturity. The total amount of the deposit will be approximately \$5,200,000. Sierra Pacific seeks approval for such deposit. ✓

Sierra Pacific seeks approval to employ the accounting proposed in the application for recording the costs to be entered in the utility's accounts and records for the construction of Valmy No. 2. While we take no specific exception to the procedures referred to in the application, the records will be maintained according to the Uniform System of Accounts for Electric Utilities.

Sierra Pacific has informed the Revenue Requirements Division that the company's short-term borrowings are about \$32,500,000. Its current short-term borrowing authority under PU Code Section 823(c) is \$90,000,000 (D.82-03-061, dated March 16, 1982 in A.82-01-38). The financing arrangement proposed

in the application will not, even if the full \$50,000,000 short-term debt were outstanding at a given moment, put a strain upon Sierra Pacific's short-term borrowing authority.

Sierra Pacific estimates that gross expenditure required for its construction program during calendar years 1983 through 1987 will approximate \$325,223,000. A summary of the utility's planned construction is as follows:

<u>Type of Facility</u>	<u>1983</u>	<u>1984-1987</u>
	(Thousands of Dollars)	
Electric Facilities:		
Generation - Valmy No. 2	\$44,629	\$ 76,136
Other	<u>21,976</u>	<u>132,261</u>
Total Electric	66,605	208,397
Gas Facilities	2,935	14,018
Water Facilities	6,095	26,955
Common Plant	<u>596</u>	<u>12,659</u>
Gross Construction Expenditures	\$76,231	\$262,029
Less:		
AFUDC	1,862	2,656
Customer Advances	<u>1,514</u>	<u>7,005</u>
Total Cash Requirements	\$72,855	\$252,368

The Revenue Requirements Division has reviewed the financing program set forth in the application and has concluded that it is reasonable. The Division reserves the right, however, to reconsider the reasonableness of any specific program and construction expenditure in future rate proceedings.

Findings of Fact

1. Sierra Pacific is a corporation organized under the laws of the State of Nevada, but by providing electric public utility service in the State of California is under the jurisdiction of this Commission.

2. Sierra Pacific, for the year 1982, derived 12.45% of its total operating revenues in the State of California.

3. The proposed financing program as outlined in the application and as set forth in the Agreement is for proper purposes and not adverse to the public interest.

4. Sierra Pacific should, in connection with the Agreement, be authorized to deposit with the Debenture Trustee of its outstanding 5% debentures an amount equal to the outstanding principal amount plus interest to maturity, for defeasance of the bond indenture. ✓



5. The proposed accounting procedures set forth in the application are reasonable, and the accounting for the costs associated with Valmy No. 2 will be recorded in Sierra Pacific's accounting records in accordance with the Uniform System of Accounts prescribed for Electric Utilities.

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

7. The proposed 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 security issue may not be charged to operating expenses or to income.

8. There is no known opposition and no reason to delay 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.

Sierra Pacific requests this order be made effective on the date of signature to enable Sierra Pacific to enter into the Agreement expeditiously.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific) may execute and enter into a Revolving Credit and Term Loan Agreement (Agreement) for the financing of a proposed coal-fired electric generating station known as North Valmy Unit No. 2 (Valmy No. 2) upon essentially the same terms as set forth in the draft of the Agreement submitted with the application.

2. Sierra Pacific may guarantee absolutely and unconditionally the full payment of all financial obligations of its wholly owned subsidiary, Construction Company to the bank or banks forming the consortium set forth in the Agreement, up to an aggregate amount of \$150,000,000.

3. Sierra Pacific may borrow on a short-term basis, up to an amount not exceeding \$50,000,000, under the terms of the Agreement, so long as Sierra Pacific does not exceed its present short-term borrowing limit authorized by PU Code Section 823(c) and D.82-03-061.

4. Sierra Pacific may deposit with the Debenture Trustee for its 5% debentures an amount sufficient to cover the outstanding principal of such debentures plus the sum necessary to cover interest to maturity.

5. Sierra Pacific shall use the accounting treatment provided in the Uniform System of Accounts for electric utilities.

6. Within 30 days after the execution of the Agreement Sierra Pacific shall submit a final copy of the Agreement.

This order is effective today.

Dated MAY 18 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.  
President

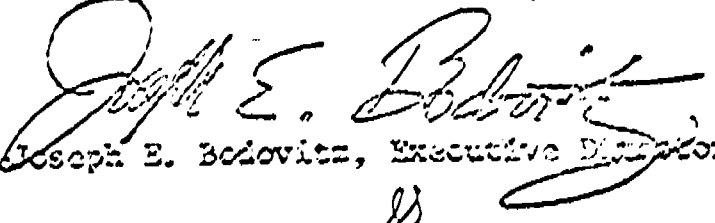
VECTOR CALVO

PRISCILLA C. GREW

DONALD VIAL

Commissioners

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

  
Joseph E. Bolovitz, Executive Director