

PAJ

Decision No. 87717

San Francisco

AUG 16 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SIERRA PACIFIC POWER)
COMPANY for an order authorizing it)
to issue and sell, by competitive)
bidding, not exceeding 1,000,000)
shares of its Common Stock with a)
par value of \$3.75 each share; and)
for an order authorizing it to)
issue and sell, by competitive bid-)
ding, \$35,000,000 principal amount)
of First Mortgage Bonds ___% Series)
due 2007 and to execute and deliver)
an Eighteenth Supplemental Indenture.)

Application No. 57441
(Filed July 12, 1977)

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) requests an order from the Commission authorizing Sierra Pacific (1) to issue and sell, by competitive bidding, not exceeding 1,000,000 shares of its Common Stock and \$35,000,000 principal amount of its First Mortgage Bonds Series due 2007, and (2) to execute and deliver an Eighteenth Supplemental Indenture.

Sierra Pacific is a public utility providing electric service in California and Nevada and gas and water services in Nevada. Total operating revenues for the twelve months ended December 31, 1976 were \$117,536,000 of which \$15,214,000 or 13% were derived from California electric utility operations.

In order to finance a portion of its construction program, Sierra Pacific has resorted to temporary borrowings in the form of bank loans and commercial paper, the outstanding balance of which will be approximately \$34,800,000 prior to completion of the

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long-term financing proposed herein. Sierra Pacific's estimated construction program for the years 1977 and 1978 is as follows:

<u>Department</u>	<u>1977</u>	<u>1978</u>
Electric	\$48,252,000	\$63,046,000
Gas	1,587,000	1,876,000
Water	3,968,000	2,941,000
Common	542,000	316,000
Total	<u>\$54,349,000</u>	<u>\$68,179,000</u>

As part of its plan to repay bank loans and to carry out its construction program, Sierra Pacific proposes to sell by competitive bidding 1,000,000 shares of its \$3.75 par value Common Stock. In addition Sierra Pacific proposes to invite bids for the sale of \$35,000,000 principal amount of its First Mortgage Bonds Series due 2007 (New Bonds) and to use \$15,000,000 of the proceeds to redeem its 9-3/4% Series of First Mortgage Bonds due 2000. The balance of funds realized from sale of the New Bonds would be applied to repaying a portion of outstanding bank loans and financing construction.

Sierra Pacific's capitalization as of April 30, 1977 and as adjusted to give effect to the proposed security issues is summarized as follows:

<u>Capitalization</u>	<u>April 30, 1977</u>		<u>Adjusted ^{a/}</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Long-Term Debt	\$142,244,000	50.6%	\$162,244,000	51.6%
Preferred Stock	39,025,000	13.9	39,025,000	12.4
Common Stock Equity	100,046,000	35.5	113,446,000	36.0
Total	<u>\$281,315,000</u>	<u>100.0%</u>	<u>\$314,715,000</u>	<u>100.0%</u>

^{a/} Assumes net proceeds of \$13.50 per share from sale of common stock, less an estimated cost of \$100,000 for issuance expenses.

The New Bonds, dated August 1, 1977, would be secured by an Indenture as previously supplemented and a proposed Eighteenth Supplemental Indenture which is required so as to include a description of all real property acquired since the recordation of the Seventeenth Supplemental Indenture. The New Bonds would be fully registered and interest would be payable semi-annually, the successful bid determining the interest rate per annum. Sierra Pacific reserves the right to reject all bids. Except for the operation of the sinking funds, the New Bonds could not be redeemed prior to August 1, 1982 with proceeds from borrowed funds having an effective interest rate less than the effective cost of the New Bonds. Such restriction would broaden the market for the New Bonds and would tend to lower the annual rate of interest.

The supplemental indenture contains sinking and improvement fund provisions which require Sierra Pacific to make annual cash deposits with the Trustee equivalent to 1-3/4% of the greatest aggregate principal amount of bonds of the respective series outstanding, with certain deductions allowable. Sierra Pacific has satisfied these requirements in the past by relinquishing the right to use a net amount of additional property for bond issue, and is continuing such practice in 1977.

In connection with redemption of its 9-3/4% Series of First Mortgage Bonds, the initial call premium for the twelve months beginning May 1, 1970 was 9.75% and premiums thereafter decrease by about 1/3 of one percent annually. For the twelve months beginning May 1, 1977, the call premium is 7.40%. Sierra Pacific plans to amortize the call premium plus any unamortized premium, discount or debt expense applicable to the redeemed bonds over the 30-year life of the New Bonds. Under this method, the increase

or reduction in current income taxes resulting from the redemption would also be apportioned over the life of the New Bonds. The Finance Division of the Commission has reviewed the proposal and has concluded that such accounting treatment is appropriate and consistent with prescribed accounting procedures. To require an immediate write-off of these unrecovered costs might eliminate any economies which otherwise could be shared with Sierra Pacific's consumers. Based on staff estimates, the amortization of such costs would amount to approximately \$25,000 annually.

The Operations Division of the Commission staff has reviewed Sierra Pacific's construction program and has concluded that the expenditures forecasted for 1977 and 1978 are necessary and reasonable. On the basis of an annualized cash flow estimate developed for 1977 by the Finance Division of the Commission staff, approximately 41% of required funds would be internally generated and the balance would be provided by the financing contemplated in this proceeding. The Finance Division has concluded that the proposed security issues will therefore be necessary to accommodate Sierra Pacific's cash requirements.

After consideration the Commission finds that:

1. The proposed stock and bond issues would be for proper purposes.
2. Sierra Pacific has need for external funds for the purposes set forth in the application.
3. The proposed Eighteenth Supplemental Indenture would not be adverse to the public interest.
4. The money property or labor to be procured or paid for by the stock and bond issues herein authorized is reasonably required for the purposes specified herein, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition to Sierra Pacific's application and no reason not to grant the authority requested effective when Sierra Pacific has paid the prescribed fee. The Commission therefore concludes that the application should be granted. A public hearing is not necessary. The action taken herein is for the purposes of this proceeding only, and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company may issue and sell, through competitive bidding, not exceeding 1,000,000 shares of its Common Stock of \$3.75 par value upon the terms and conditions and for the purposes set forth in the application.
2. Sierra Pacific Power Company may issue and sell, through competitive bidding, its First Mortgage Bonds Series due August 1, 2007 in an aggregate principal amount of \$35,000,000 to the bidder or bidders offering the lowest annual cost of money to the Applicant.
3. Sierra Pacific Power Company shall apply the proceeds from the sale of said securities to the purposes referred to in the application. The accrued interest related to the bonds may be used for such purposes or for general corporate purposes.
4. Sierra Pacific Power Company may execute and deliver an Eighteenth Supplemental Indenture of an existing Indenture of Mortgage dated December 1, 1940, to New England Merchants National Bank and James S. Fisher, successor trustees.
5. Sierra Pacific Power Company shall file with the Commission, as soon as available, a final and complete copy of the Eighteenth Supplemental Indenture.

6. Promptly after awarding the contracts for the sale, Sierra Pacific Power Company shall file a written report to the Commission, showing as to each bid received for the Common Stock the name of the bidder and the price. With respect to the First Mortgage Bonds, Sierra Pacific Power Company shall file a written report with the Commission, showing as to each bid received, the name of the bidder, the price, the interest rate, and the cost of money to the Applicant based on such price and interest rate.

7. Sierra Pacific Power Company shall file with the Commission three copies of its final prospectus pertaining to said Common Stock and three copies of its final prospectus pertaining to said First Mortgage Bonds.

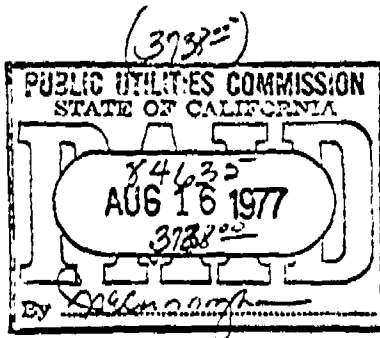
8. Within one month after issuance and sale of the securities authorized herein, Sierra Pacific Power Company shall file with the Commission a statement, in lieu of a report under General Order No. 24-B, disclosing the purposes for which the proceeds were used.

9. Sierra Pacific Power Company may amortize the call premium, the unamortized premiums or discounts, the debt expense, and the income tax effect related to redemption of the 9-3/4% Series First Mortgage Bonds over the life of the New Bonds in a manner consistent with the prescribed accounting treatment set forth in the application.

10. This order shall become effective when Sierra Pacific Power Company has paid the fees required by Section 1904.2 of the Public Utilities Code, which fees are \$1,658 for the Common Stock and \$2,080 for the New Bonds, or a total of \$3,738.

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Dated at San Francisco, California, this 16th day
of August, 1977.



Robert Bateman
President
William S. [Signature]
[Signature]
[Signature]

Commissioners

Commissioner CLAIRE T. DEDRICK
present but not voting.