

PAJ

Decision No. 87932 OCT 4 1977

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SIERRA PACIFIC POWER)
COMPANY for an order authorizing it)
to implement, and to issue and sell)
shares of Common Stock pursuant to,)
Sierra Pacific Power Company's)
Employees' Stock Ownership Plan.)

Application No. 57514
(Filed August 15, 1977)

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) requests an order from the Commission authorizing it to implement the scheme known as Sierra Pacific Power Company's Employees' Stock Ownership Plan (ESOP) and to issue and sell 500,000 shares of its common stock in accordance with the ESOP.

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.

Sierra Pacific proposes to establish the ESOP effective as of January 1, 1976, if a favorable ruling is received from the Internal Revenue Service. Sierra Pacific, in accordance with the terms and conditions of the ESOP, has entered into a Trust Fund Agreement (Trust) with Irving Trust Company (Trustee).

The basic purpose of the ESOP is to provide eligible employees of Sierra Pacific with the opportunity of becoming stockholders of Sierra Pacific. To achieve this purpose, Sierra Pacific intends to take advantage of the additional one percent investment tax credit provided by the Tax Reduction Act of 1975, as amended

by the Tax Reform Act of 1976. Sierra Pacific intends to continue the ESOP so long as the additional tax credit remains available. Sierra Pacific reserves the right to discontinue or change the ESOP in order to protect employees and itself against unforeseen conditions. If the amount of the investment tax credit claimed by Sierra Pacific during any year of ESOP operation is subsequently reduced, Sierra Pacific may withdraw from the Trust that portion of its previous contribution that was attributable to such recapture or redetermination. If the ESOP is not initially approved as a qualified plan by the Internal Revenue Service, the contributions paid into the Trust by Sierra Pacific will be returned to the company. Should the ESOP be terminated, each employee's individual account balance will remain fully vested and will be nonforfeitable. All benefits will be paid to employees in the form of whole shares of Sierra Pacific stock and cash in an amount equivalent to the value of a fractional share.

Sierra Pacific will make contributions to the Trust Fund of its common stock, or cash which the Trustee will use to purchase Sierra Pacific's common stock. The prescribed price is a price equal to the average of closing prices of the common stock as reported by the New York Stock Exchange, for the 20 consecutive trading days immediately preceding the date of transfer or allocation of such stock. The basic contribution will equal one percent of certain tangible property that is acquired and placed in service by Sierra Pacific during each such ESOP year. The contributions will be allocated to each eligible employee in the ratio that the employee's compensation for each year bears to all eligible employees' compensation for that year. According to Sierra Pacific's estimates about 10,000 shares of common stock will be contributed to the Trust Fund for the year 1976. Commencing in 1977, employees will be given an opportunity to make additional individual contributions to the ESOP that Sierra Pacific will match, but not exceeding one-half of the basic contribution of Sierra Pacific.

Sierra Pacific estimates that the proposed ESOP will cause a reduction in federal income taxes payable of approximately \$4,400,000 over the next five years. With the reduction in federal income taxes payable Sierra Pacific will conserve a like amount of cash. The anticipated employee contributions in accordance to the ESOP will allow Sierra Pacific to generate approximately \$1,400,000 through and inclusive of 1980. Sierra Pacific states that the additional cash flow provided by the ESOP will be mutually beneficial to employees and ratepayers.

As of July 31, 1977 Sierra Pacific had outstanding bank loans and commercial paper aggregating \$33,300,000. The bank loans and commercial paper were obtained to finance, in part, Sierra Pacific's construction program. Sierra Pacific's estimated construction program for the years 1977 and 1978 is as follows:

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

Sierra Pacific's capitalization as of July 31, 1977 and as adjusted to give effect to the proposed security issue is summarized as follows:

<u>Capitalization</u>	<u>July 31, 1977 ^{a/}</u>		<u>Adjusted ^{b/}</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Long-Term Debt	\$162,244,000	51.3%	\$162,244,000	50.2%
Preferred Stock	39,025,000	12.3	39,025,000	12.1
Common Stock Equity	<u>115,084,000</u>	<u>36.4</u>	<u>121,784,000</u>	<u>37.7</u>
Total	<u>\$316,353,000</u>	<u>100.0%</u>	<u>\$323,053,000</u>	<u>100.0%</u>

^{a/} Reflects the issuance of common stock and mortgage bonds authorized by Decision No. 87717 of August 16, 1977 (Application No. 57441).

^{b/} Assumes net proceeds of \$13.50 per share from sale of common stock, less an estimated cost of \$50,000 for issuance expense.

The Finance Division of the Commission staff has reviewed the ESOP and the proposal and has concluded that the proceeds from the proposed sale of common stock under the ESOP are needed for the purpose of construction financing and are necessary to accommodate Sierra Pacific's cash requirements.

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 not unreasonable.

After consideration the Commission finds that:

1. The proposed stock issue would be for a proper purpose.
2. Sierra Pacific has need for external funds for the purpose set forth in this proceeding.
3. The Employees' Stock Ownership Plan would not be adverse to the public interest.
4. The money, property or labor to be procured or paid for by the stock herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. There is no known opposition. A public hearing is not necessary. Because of time commitments related to issuance of the common stock, Sierra Pacific has informally requested an order effective upon payment of the prescribed fee.

In issuing our order herein, we place Sierra Pacific and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return it should be allowed to earn on its investment in plant, and that the authorization herein granted is not to be construed as a finding of the value of the company's stock or properties nor 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, on or after the effective date hereof, may issue and sell up to a maximum of 500,000 shares of its common stock of \$3.75 par value per share, to be offered to the Trustee of the Employees' Stock Ownership Plan, at prices to be determined in the manner described in Appendix D, attached to the application.
2. Sierra Pacific Power Company shall use the net proceeds derived through the issuance and sale of said common stock for the purpose of financing construction.
3. On or before the twenty-fifth day of the month following each quarter, Sierra Pacific Power Company shall file with the Commission a statement for the preceding quarter showing the number of shares of common stock purchased under the Employees' Stock Ownership Plan, the gross proceeds received, and the expenses incurred by it in connection with the issue and sale of common stock.

A.57514 PAJ

These filings shall be in lieu of reports required under General Order No. 24-B.

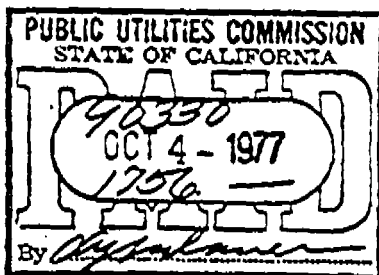
4. This order shall become effective when Sierra Pacific Power Company has paid the fee prescribed by Section 1904.2 of the Public Utilities Code, which fee is \$1,756.

Dated at San Francisco, California, this 15th day of OCTOBER, 1977.

Robert Belmont

PRESIDENT

Vernon L. Stogerson
Richard D. Gervais



Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.