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Decision No. 91718 APR 29 1980

ORIGINAL

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 issue and sell pursuant to negotiated private placement 600,000 shares of Preferred Stock, \$50 par value per share; and, for an order authorizing it to issue additional short-term notes.

Application No. 59498
(Filed March 5, 1980)

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) requests authority, pursuant to Sections 816 through 818 and 823(c) of the Public Utilities Code, (1) to issue and sell, pursuant to negotiated private placement, 600,000 shares of Preferred Stock; \$50 par value and (2) to issue and sell additional short-term notes in an aggregate principal amount of not exceeding \$75,000,000 at any one time outstanding including that authorized by Section 823(c) of the Public Utilities Code and prior Commission authorizations. Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 7, 1980.

Sierra Pacific is a Nevada corporation engaged in providing public utility electric service in California and electric, gas and water services in Nevada. For the twelve months ended December 31, 1979, Sierra Pacific reported total operating revenues of \$178,326,000 of which \$22,556,000 or approximately 12.65% were derived from California electric operations. During this period, the utility reported net income of \$21,681,000 as shown in Appendix B attached to the Application.

Sierra Pacific seeks authority, pursuant to Section 823(c) of the Public Utilities Code, to increase its short-term borrowing limit from \$45,000,000 to an aggregate amount not exceeding \$75,000,000. Under Decision No. 77716, dated September 15, 1970,

in Application No. 52126, extended by Decision No. 85361, dated January 20, 1976, in Application No. 56150 and increased by Decision No. 89261, dated August 22, 1978, in Application No. 58189, the utility has prior authorization to exceed the limit of Section 823(c) by an amount not exceeding the aggregate amount of \$45,000,000. This authorization remains in effect through August 8, 1983. By letter dated April 3, 1980, Applicant's attorney requested the new authorization to be effective through August 8, 1983. The \$75,000,000 aggregate principal amount of the proposed short-term borrowing exceeds the limitation of Section 823(c) by \$61,150,000, a portion of which excess, namely \$45,000,000, has been previously authorized by the decisions cited herein. Additional authority would amount to \$16,150,000 as shown in the summary which follows and would be effective until August 8, 1983.

<u>Description</u>	<u>Amount</u>
Common Stock (9,558,804 Shares at \$3.75 Par Value)	\$ 35,846,000
Preferred Stock (780,500 Shares at \$50 Par Value)	39,025,000
First Mortgage Bonds	<u>202,122,000</u>
Total	<u>\$276,993,000</u>
5% of Total	<u>\$ 13,850,000</u>
Aggregate Amount of Short-Term Financing Requested	<u>\$ 75,000,000</u>
5% Allowed by FUC Code Section 823(c)	\$ 13,850,000
Amount Authorized by Decision No. 89261, dated August 22, 1978	<u>45,000,000</u>
Subtotal	\$ 58,850,000
Additional Authority Needed	<u>16,150,000</u>
Total Short-Term Financing Requested	<u>\$ 75,000,000</u>

As of December 31, 1979, Sierra Pacific had outstanding bank loans and commercial paper aggregating \$25,500,000. On February 29, 1980, the outstanding amount aggregated \$36,500,000. Since the proceeds from the issue and sale of Preferred Stock through authority requested in this Application will not be available to the utility until the latter part of August 1980, the utility anticipates its need for short-term financing will amount to \$75,000,000 in the aggregate at the time the Preferred Stock sale is consummated.

Sierra Pacific proposes to issue and sell 600,000 shares of its Preferred Stock having a \$50 par or stated value through negotiated private placement to provide proceeds of \$30,000,000. The utility has engaged the services of Salomon Brothers as agent for such placement. Based on market conditions at the time of filing the Application, the utility estimates that the negotiated dividend rate will fall in the range of 12 to 12.75%.

The utility contemplates that the Preferred Stock will be issued in two blocks. One block, consisting of 400,000 shares, will be a 25-year issue. The Preferred Stock will not be callable at the option of the company before 10 years have elapsed but will be redeemable at the rate of 20,000 shares annually on a pro rata basis between 1986 and 2005, producing an average life of 15-1/2 years. It is possible that there will be a provision giving the company the option to increase the redemption rate to 40,000 shares annually on a pro rata basis beginning in 1986, producing an average life of 10-1/2 years.

The other block, consisting of 200,000 shares, will be a 10-year issue. This block of Preferred Stock will not be callable at the option of the company before 3 years have elapsed, but will be redeemable at the rate of 40,000 shares annually on a pro rata basis between 1986 and 1990, producing an average life of 8 years.

It is possible that there will be a provision giving the company the option to increase the redemption rate to 80,000 shares annually on a pro rata basis beginning in 1986, producing an average life of 6 years and 10 months.

The application states that the company has consulted numerous investment bankers and is convinced that a private placement of Preferred Stock at this time is in the best interests of the company and its ratepayers and would be preferable to a public offering. The company gives four reasons for this conclusion:

1. The investment bankers consulted by Sierra Pacific have expressed their belief that a private placement will produce a lower interest rate, with a saving of at least 25 basis points and possibly as many as 50 basis points.
2. A private placement will cost substantially less to accomplish, consisting of little more than the agent's fee and avoiding all costs associated with an SEC filing for a public offering.
3. There is a danger that a public offering would not find a market, based upon the difficulty that other companies are experiencing even with issues carrying an interest rate of 13% or more.
4. The issuance of Preferred Stock meets the utility's long-range goal of a capital structure consisting of 50% debt, 10% Preferred, and 40% Common Stock.

Sierra Pacific proposes to use the proceeds from the sale of the Preferred Stock to reimburse its treasury for unreimbursed capital expenditures to finance, in part, its construction program in progress for 1980 and to repay a portion of its short-term financing.

The utility estimates that the gross expenditures required for its construction program during Calendar Years 1980 and 1981 will approximate \$184,600,000. A summary of the utility's planned construction is as follows:

	<u>1980</u>	<u>1981</u>	<u>Total</u>
Electric Department	\$86,200,000	\$67,900,000	\$154,100,000
Gas Department	2,200,000	2,100,000	4,300,000
Water Department	6,100,000	6,400,000	12,500,000
Common Plant	2,700,000	11,000,000	13,700,000
Total	<u>\$97,200,000</u>	<u>\$87,400,000</u>	<u>\$184,600,000</u>

The staff of the Commission's Revenue Requirements Division has reviewed Sierra Pacific's 1980 and 1981 construction program and believes that the estimated construction expenditures are reasonable and has no objection to the proposed short-term financing and security issue specified in the Application. The Division reserves the right, however, to reconsider the reasonableness of any construction expenditures in future rate proceedings.

Sierra Pacific's capital ratios as of December 31, 1979, and as adjusted for the effect of (a) the proposed issue of an additional \$16,150,000 in short-term financing and the proposed issue of 600,000 shares of Preferred Stock, \$50 par value per share or \$30,000,000 and (b) the proposed issue of 1,500,000 shares of its Common Stock, \$3.75 par value at an assumed price of \$12.50 per share estimated to provide net proceeds of \$18,750,000^{1/} as follows:

	<u>December 31, 1979</u>	<u>Pro Forma</u>
Long-Term Debt	48.4%	42.4%
Short-Term Debt	<u>6.1</u>	<u>7.6</u>
Total Debt	54.5	50.0
Preferred Stock	9.4	14.5
Common Equity	<u>36.1</u>	<u>35.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>

^{1/} Decision No. _____, dated _____
in Application No. 59566.

The Revenue Requirements Division of the Commission's staff has analyzed the utility's cash requirement forecast attached to the attorney's letter of March 26, 1980, and has determined the utility has need for external financing. The Division has concluded that the proposed short-term financing and issuance of the Preferred Stock will be necessary to help Sierra Pacific meet its forecasted cash requirements.

Findings of Fact

1. Sierra Pacific is a corporation organized under the laws of the State of Nevada.
2. Sierra Pacific for the year 1979 derived 12.65% of its total operating revenue in the State of California.
3. The proposed increase in principal amount of authorized short-term borrowings would be for proper purposes.
4. The proposed issuance of the proposed Preferred Stock would be for proper purposes.
5. Sierra Pacific has need for external funds for the purposes set forth in its Application.
6. The proposed financing by means of a negotiated private placement as set forth herein would not be adverse to the public interest.
7. The money, property or labor to be procured or paid for by the issuance of short-term notes and Preferred Stock herein authorized is reasonably required for the purposes specified herein, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.
8. There is no known opposition 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 action taken herein is for the purpose 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 short-term obligations on or after the effective date hereof and on or before August 8, 1983, in an aggregate principal amount not exceeding \$61,150,000 beyond that authorized by Section 823(c) of the Public Utilities Code, bearing interest rates to be negotiated by the company, and for the purposes specified in the Application.

2. Sierra Pacific Power Company, on or after the effective hereof, may issue, sell and deliver not exceeding 600,000 shares of its Preferred Stock, \$50 par value, through negotiated private placement, with a dividend rate not to exceed 12.75%, upon the terms and conditions set forth in the Application.

3. Sierra Pacific Power Company shall apply the net proceeds from the issuance of short-term obligations and the sale of its Preferred Stock herein authorized to the purposes specified in the Application.

4. On or before the 15th day of each month, Sierra Pacific Power Company shall file with the Commission a summary for the preceding month showing the aggregate amount of short-term notes and the total number of shares of Preferred Stock issued hereunder, the price or prices at which the Preferred shares were issued and the purposes for which the proceeds were used. These filings shall be in lieu of reports under General Order No. 24-B.

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5. This order shall become effective when Sierra Pacific Power Company has paid the fee prescribed by Sections 1904(b), 1904.1 and 1904.2 of the Public Utilities Code, which fee is \$6,838.

Dated APR 29 1980, at San Francisco, California.

John E. Supa
President

Richard D. Smith

Clair T. Pettit

Thomas W. Smith
Commissioners

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

