

RR/mcm

Decision No. 92877 APR 7 1981**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 (a) to sell and)
 issue, pursuant to private placement,) Application No. 60269
 up to \$60,000,000 principal amount of) (Filed February 19, 1981)
 First Mortgage Bonds, _____% Series)
 due _____; and (b) to)
 execute a Twenty-third Supplemental)
 Indenture as of _____, 1981,)
 supplementing the Indenture of Mortgage)
 Dated December 1, 1940.)

O P I N I O N

Sierra Pacific Power Company (Sierra Pacific) requests authority, pursuant to Sections 816 through 818 and 851 of the Public Utilities Code, to issue and sell, pursuant to negotiated private placement, up to \$60,000,000 principal amount of a new series of First Mortgage Bonds, and to execute a Twenty-third Supplemental Indenture to its Indenture of Mortgage dated December 1, 1940. Notice of the filing of the application was published on the Commission's Daily Calendar of February 23, 1981. No protests have been received.

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 year 1980, Sierra Pacific reported total operating revenues of \$233,943,000 of which \$24,842,000 or approximately 10.62% were derived from California electric operations. During this period, the utility reported net income of \$22,089,000 as shown in Appendix B attached to the application.

Sierra Pacific proposes to issue \$60,000,000 aggregate principal amount of its First Mortgage Bonds under an existing indenture as heretofore amended and supplemented and to be further supplemented and amended by a proposed Twenty-third Supplemental Indenture. The proposed supplemental indenture is to be substantially in the same form as the form of the Twenty-second Supplemental attached as Appendix D to the application.

As of December 31, 1980, Sierra Pacific had outstanding bank loans and commercial paper aggregating \$19,500,000. Such bank loans and commercial paper were obtained to finance, in part, the utility's construction program. In order to carry on the utility's new construction program, it is expected that bank loans and commercial paper will be increased to approximately \$39,000,000 before the consummation of the proposed new issuance and sale of First Mortgage Bonds.

Proceeds from the proposed issue and sale of First Mortgage Bonds will be used by Sierra Pacific to repay a portion of its bank loans and commercial paper, to reimburse its treasury for construction expenditures heretofore made, and to finance, in part, its construction program now in progress and proposed during 1981.

Sierra Pacific's estimated construction program for the years 1981 and 1982 is as follows:

	<u>1981</u>	<u>1982</u>
Electric Department	\$ 89,105,000	\$85,847,000
Gas Department	4,172,000	4,301,000
Water Department	6,016,000	6,110,000
Common Plant	<u>1,411,000</u>	<u>1,300,000</u>
Total Estimated Program	<u>\$100,704,000</u>	<u>\$97,558,000</u>

The staff of the Commission's Revenue Requirements Division has reviewed Sierra Pacific's 1981 and 1982 construction programs and concludes that the estimated construction expenditures are reasonable. 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, 1980, and as adjusted to give effect (a) to additional short-term borrowings and retirements, (b) to the proposed sale of \$60,000,000 First Mortgage Bonds in April 1981, and (c) to the proposed sale of 1,500,000 shares of common stock^{1/} are as follows:

<u>Item</u>	<u>Recorded</u>	<u>Pro Forma</u>
Long-Term Debt	47.57%	49.63%
Short-Term Debt	3.89	.20
Preferred Stock	13.76	13.25
Common Stock Equity	<u>34.78</u>	<u>36.92</u>
Total	<u>100.00%</u>	<u>100.00%</u>

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

^{1/} Decision No. 92806, dated March 17, 1981 in Application No. 60268.

Sierra Pacific requests an exemption for the proposed sale of the First Mortgage Bonds from the Commission's competitive bidding rule established by Decision No. 38614, dated January 15, 1946, as amended from time to time in Case No. 4761. Sierra Pacific's reasons for requesting an exemption are set forth in its application as follows:

- a. The volatility of the current bond market;
- b. The extreme difficulty of selling a 30-year bond because of the desire of purchasers for much shorter maturities, in the range of ten years;
- c. The observation of underwriters that 30-year bonds would probably have to be priced to yield between 15.75% and 15.875%;
- d. The assurance by Salomon Brothers that a private placement with a maturity in the ten-year range can be placed at the same rate or less than if the bonds were sold publicly;
- e. The cost of a public sale which would be in the neighborhood of \$650,000 as contrasted with a much lower figure for a private placement;
- f. The flexibility which a private placement will allow the utility in determining the timing and conditions of the sale.

The staff of the Commission's Revenue Requirements Division has reviewed the foregoing reasons and concurs with the utility that debt securities of Sierra Pacific offered by a public sale, such as a negotiated or competitive offering would be more costly than a sale by private placement. The staff believes and concludes that a private placement of the First Mortgage Bonds is less costly because of reduced filing fees, printing costs, accountant's fees, attorney's fees and underwriting fees.

In Decision No. 91984, dated July 2, 1980 for the San Diego Gas & Electric Company, Application No. 59633, we discussed the granting of exemptions from the competitive bidding rule, and we clarified the nature of the compelling showing that must be made to warrant an exemption from the rule. 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 the competitive bidding rule.

Because the proposed First Mortgage Bonds will be sold by private placement on terms which will be negotiated after the issuance of this decision and because of the staff's foregoing conclusion that the bonds will be sold at a cost as low, if not lower than would prevail if the First Mortgage Bonds were to be sold at competitive bidding, we are of the opinion that applying the Commission's competitive bidding requirements and conditions set forth in D.91984 in this proceeding would not be in the best interests of Sierra Pacific or its ratepayers. These requirements and conditions would not operate to ensure that Sierra Pacific's sale of the First Mortgage Bonds would be at the most favorable cost of money. However, in order not to preclude such an offering we will also grant Sierra Pacific the authority to issue the proposed bonds by means of a competitive offering.

Sierra Pacific is put on notice that in its 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 interest expense if it is determined that the cost of money incurred was not the most prudent.

Findings of Fact

1. Sierra Pacific is a Nevada corporation furnishing electric service in California and electric, gas and water service in Nevada.

2. In 1980, Sierra Pacific derived 10.62% of its operating revenues from business conducted in California.

3. The proposed issue and sale of \$60,000,000 principal amount of First Mortgage Bonds is for proper purposes.

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

5. Sierra Pacific believes it will be able to issue and sell its First Mortgage Bonds through a negotiated private placement at a cost to the company as low as or lower than it could obtain from an offering by competitive bidding.

6. Sierra Pacific should be authorized to issue and sell up to \$60,000,000 principal amount of First Mortgage Bonds either through private placement or by competitive bidding upon terms and at a time which Sierra Pacific determines to be most advantageous to it and its ratepayers.

7. The money, property or labor to be procured or paid for by the issuance and sale of the First Mortgage Bonds 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. The proposed Supplemental Indenture would not be adverse to the public interest.

9. 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 authorization granted 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.

The following order should be effective on the date of signature to enable Sierra Pacific to expeditiously issue its bonds.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company, on or after the effective date hereof and on or before December 31, 1981, may issue and sell, through private placement, not to exceed \$60,000,000 principal amount of First Mortgage Bonds upon the terms and conditions and for the purposes set forth in the application, or may issue and sell and deliver these bonds by means of a competitive offering.
2. Sierra Pacific Power Company shall apply the proceeds from the sale of the First Mortgage Bonds to one or more of the purposes set forth in the application.
3. Promptly after consummating the contract for the sale of the First Mortgage Bonds, Sierra Pacific Power Company shall file a copy of the contract and a written report to the Commission, showing the interest rate and the cost of money to Sierra Pacific based on such price and interest rate.
4. Sierra Pacific Power Company is authorized to execute and deliver a Twenty-third Supplemental Indenture in substantially the same form as Appendix D, attached to the application.

5. Sierra Pacific Power Company shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

6. This order shall become effective when Sierra Pacific Power Company has paid the fee prescribed in Section 1904(b) of the Public Utilities Code, which fee is \$7,372.

Dated APR 7 1981, at San Francisco, California.

John E. Boyce
President
Richard D. ...
Leonard W. ...
Walter ...
Theresa C. ...
Commissioners

