

CACD/RHG

Decision 95-08-045 August 11, 1995

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SIERRA PACIFIC POWER COMPANY U-903-E, )  
to issue, sell, and deliver one or more )  
series of Debt Securities and to guaran- )  
tee the obligations of others in respect )  
of the issuance of Debt Securities, the )  
total aggregate principal amount of in- )  
debtedness and guarantees not to exceed )  
\$115,000,000; to sell, lease, assign, )  
mortgage, or otherwise dispose of or en- )  
cumber utility property; to enter into )  
Swap Agreements for no more than 20% of )  
its long-term debt; to extend the time )  
period, and the terms and conditions in )  
Decision No. 94-04-031 authorizing the )  
issuance and sale of up to \$50,000,000 )  
in Preferred Stock; and for an exemption )  
from the Competitive Bidding Rule. )

Application 95-05-008  
(Filed May 2, 1995)

**ORIGINAL**

OPINION

Summary of Decision

This decision grants Sierra Pacific Power Company (Sierra Pacific) the authority requested in Application (A.) 95-05-008 (Application).

Sierra Pacific requests authority, under Public Utilities (PU) Code § 816 et seq. and the Commission's Rules of Practice and Procedure for the following:

1. To issue, sell, enter into and/or deliver one or more series of first mortgage bonds, debentures, notes, floating rate debt (Debt Securities) and/or other forms or types of Debt Securities, to enter into loans (additionally referred as Debt Securities), and/or to guarantee unconditionally or otherwise secure the obligations of one or more third parties in respect of their issuance of debt for the benefit of Sierra Pacific, said Debt Securities

- to include, at Sierra Pacific's discretion, one or more of the debt enhancement features described in the Application, all such issues, sales and deliveries of such Debt Securities to take place at any time or times from the date of the authorization until the authorized amount has been fully issued and being upon terms and conditions substantially consistent with those set forth in or contemplated by the Application;
2. To arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities as set forth in the Application, and to modify such credit facilities in the manner set forth in the Application without further authorization from the Commission;
  3. To execute and deliver an indenture or supplemental indenture in connection with any issue of Debt Securities and to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities;
  4. To provide that the total aggregate principal amount of issuances of Debt Securities and guarantees which may be made pursuant to the Application shall not exceed \$115,000,000, and that the proceeds shall be applied for the purposes referred to in the Application;
  5. To utilize and enter into caps and collars at its discretion as described in the Application;
  6. To enter into swap agreements for no more than 20% of the utility's long-term debt;
  7. To be exempt from the Commission's Competitive Bidding Rule with respect to its Debt Securities and Monthly Income Preferred Securities (MIPS);
  8. To extend the time period for the issuance and sale of up to \$50,000,000 of Preferred Stock until the amount authorized is fully issued, and to expand the permitted terms and conditions as described within the Application, as authorized in Decision (D.) 94-04-031;
  9. To provide that the authority granted in this decision shall be effective when Sierra Pacific has paid the fee prescribed by PU Code § 1904.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of May 4, 1995. No protests have been received.

Background

Sierra Pacific was incorporated under the laws of the State of Nevada on January 15, 1965. Through a merger on or about that date, it became the successor in interest to Sierra Pacific Power Company, a Maine corporation, which was incorporated on March 13, 1912. Sierra is engaged in public utility electric operations in California and Nevada, and is also engaged in public utility gas and water operations in Nevada.

On June 27, 1994, Sierra Pacific entered into an Agreement and Plan of Reorganization and Merger by and among Sierra Pacific, Sierra Pacific Resources, the Washington Water Power Company and Resources West Energy, as amended by an amendment thereto, dated as of October 4, 1994. A.94-08-043 dated August 10, 1994, for said merger is currently before the Commission.

Sierra Pacific has an existing authority to issue and sell shares of a new series of Class A Preferred Stock, without par value, on or before December 31, 1995, in an aggregate principal amount not to exceed \$50,000,000, pursuant to D.94-04-031.

For the twelve months ended December 31, 1994, Sierra Pacific reported that it generated total operating revenues of \$603,193,339 and net income of \$60,862,632 as shown in Exhibit B(6) to the Application. Sierra Pacific's operating revenues for its California operations for the same period, were \$46,979,744 or 7.8% of total operating revenues.

Shown as part of Exhibit B(6) is Sierra Pacific's Balance Sheet as of December 31, 1994 which is summarized below:

(Thousands of Dollars)	
<u>Assets</u>	<u>Amount</u>
Utility plant	\$1,331,477,996
Non-utility investments	2,145,437
Current assets	114,968,921
Deferred debits	<u>157,117,646</u>
<b>Total Assets</b>	<b>\$1,605,710,000</b>
<u>Liabilities and Equity</u>	<u>Amount</u>
Common equity	\$ 531,276,763
Preferred stock	73,115,000
Preferred stock subject to mandatory redemption	20,400,000
Long-term debt	<u>510,833,275</u>
Total Capitalization	<b>\$1,135,625,038</b>
Current liabilities	150,191,594
Deferred credits	<u>319,893,368</u>
<b>Total Capitalization &amp; Liabilities</b>	<b>\$1,605,710,000</b>

Debt Securities

Sierra Pacific proposes to issue any of the following Debt Securities which are described in detail on pages 2 to 4 of the Application:

1. Secured Debt Securities (bonds)
2. Secured Medium-term Notes
3. Medium-term Notes
4. Unsecured Debt Securities (debentures)
5. Unsecured Medium-term Notes (notes)
6. Direct Loans (loans)
7. Floating Rate Debt
8. Guarantees
9. Other types of Debt Securities

Terms and Conditions

Each issue may contain a provision allowing it to be redeemed or repaid prior to maturity. An early redemption provision may allow the Debt Securities to be redeemed or repaid at

any time, or it may allow the Debt Securities to be redeemed or repaid only after a certain restrictive period. In either case Sierra Pacific contemplates that the Debt Securities would be redeemable at a premium over par or at a stated price.

The Debt Securities may bear a fixed or floating rate of interest and may be issued at par or with an original issue discount or premium.

With the exception of notes and floating rate debt, each series of Debt Securities is expected to have a maturity of between one (1) year and forty (40) years. Notes are expected to have a maturity of between nine (9) months and forty (40) years. The maturities of floating rate debt will be determined at the time of issue.

With the exception of loans and floating rate debt, each issue of Debt Securities may be issued under an indenture or a supplement to an existing indenture to be delivered to the trustee for such issue. The indenture or supplemental indenture will set forth the terms and conditions of each issue of Debt Securities.

#### Features to Enhance Debt Securities

The following features, which are described in detail on pages 5 and 6 of the Application, will be used as appropriate to improve the terms and conditions of Sierra Pacific's Debt Securities:

1. Put Option
2. Sinking Fund
3. Warrants
4. Tax-Exempt Feature

Sierra Pacific anticipates using the tax-exempt option whenever its facilities qualify for tax-exempt financing under federal or state law. In order to obtain the benefits of tax-exempt financing, Sierra Pacific proposes to engage in one or more financings with an Authority. It is currently contemplated that

such proposed financings would be structured as follows:

- (a) An Authority would issue and sell one or more series of its bonds, notes, debentures or other securities (Authority Bonds) to one or more underwriters who would ultimately market such Authority Bonds to investors.
- (b) Concurrently with the sale and delivery of such Authority Bonds and in consideration for the proceeds of the Authority Bonds, Sierra Pacific would enter into a loan agreement or other security agreement with the Authority.
- (c) Concurrently with the sale and delivery of such Authority Bonds, Sierra Pacific would unconditionally guarantee or otherwise secure such Authority Bonds. All rights and title of such Authority in Sierra Pacific's securities would be assigned to a trustee under an indenture pursuant to which the Authority Bonds would have been issued, as security for the purchasers of the Authority Bonds.

#### Interest Rate Caps and Collars

In normal market conditions, variable interest rate debt initially carries a lower interest rate than comparable fixed-rate debt. However, there is the possibility that the variable rate could increase so that the average variable rate is higher than the fixed rate.

In order to reduce customers' exposure to interest rate risk, Sierra Pacific proposes to negotiate a maximum rate, usually called a cap or ceiling rate. In that case, even if variable rates increase above the cap, Sierra Pacific would only pay the ceiling rate. In addition, sometimes the counterparty to the contract desires to have a floor rate. In the event that the variable rate falls below the floor rate, Sierra Pacific would pay the floor rate. Such floor and ceiling rates are described in detail on page 6 of the Application.

Swap Contracts

Sierra Pacific states that from time to time, it may be able to reduce its borrowing costs by issuing fixed- or floating-rate debt and entering into one or a series of interest rate swap contracts to convert fixed interest payments into favorable floating-rate payments or vice versa, or to convert floating-rate payments tied to one index (e.g. the London Interbank Offering Rate or LIBOR) into floating-rate payment tied to another index (e.g. the Federal Reserve Composite Rate for Commercial Paper).

Sierra Pacific proposes to enter into these swap contracts only when such arrangements provide an overall cost of money lower than that available through the issuance of alternative types of Debt Securities. The terms and conditions of swap transactions will be determined by Sierra Pacific according to market conditions at the time a swap is negotiated.

Sierra Pacific intends to limit swap transactions to no more than 20% of its long-term debt and only with counterparties having credit ratings equal to or better than Sierra Pacific's.

The Commission Advisory and Compliance Division (CACD) recommends that Sierra Pacific separately report all interest income and expense arising from all swap transactions in its report to the Commission. If Sierra Pacific elects to terminate a swap transaction before the original maturity or the swap partner terminates the agreement, all costs associated with the termination should be subject to review in Sierra Pacific's cost of capital proceeding.

CACD also recommends that Sierra Pacific be required to maintain and make available, within thirty days of request, the following:

1. A report analyzing the swap transactions including all costs associated with the swap in comparison to a projection of all-in cost without a swap.
2. A complete copy of the executed swap agreement and all associated documentation.

We will grant Sierra Pacific the authority to issue Debt Securities and to use any of the debt enhancement features, interest rate caps and collars, and the terms and conditions contemplated in the Application.

The Commission has also considered CACD's recommendations and, finding them reasonable, will adopt them as stated above.

Sierra Pacific is placed on notice by this decision that we do not determine the reasonableness of the effective interest rates for swap transactions entered into by Sierra Pacific. We will consider that issue the next time Sierra Pacific's cost of capital is before us.

Exemption from Competitive Bidding

Exhibit A to Resolution F-616 states, "Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets. Certain tax-exempt pollution control bonds have terms which are specifically negotiated. Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule."

Sierra Pacific requests an exemption from the Competitive Bidding Rule with respect to the above debt instruments, notes, commercial papers, and for certain deferrable interest subordinated debentures issued in conjunction with a MIPS financing arrangement.

CACD advises us that Sierra Pacific's request and reasons for exemption from the Competitive Bidding Rule raise no questions that should dissuade us from giving favorable consideration to the matter. Sierra Pacific's revenue for its California operations is 7.8% of total operating revenues.

We place Sierra Pacific on notice that the reasonableness of the resulting interest rate and cost of money negotiated and placed by Sierra Pacific will be subject to scrutiny in its cost of capital proceeding, as will its swap contracts and MIPS transactions.



Extension and Modification of D.94-04-031

In D.94-04-031, Sierra Pacific was authorized to issue and sell shares of a new series of Class A Preferred Stock, without par value, on or before December 31, 1995, in an aggregate principal amount not to exceed \$50,000,000.

Sierra Pacific by this Application requests an extension of the time period until the amount authorized is fully issued and to expand the permitted terms and conditions in the decision by allowing Sierra Pacific to alternatively enter into a MIPS financing arrangement.

Sierra Pacific states that MIPS are a relatively new, tax-advantaged financial product that have certain characteristics of preferred stock and therefore receive equity credit from the major rating agencies comparable to that of preferred stock. In addition, MIPS have a significant tax advantage in that the utility's capital costs are comprised of interest, not dividends, and would therefore be tax deductible.

Under a MIPS financing arrangement, a form of preferred security (Preferred Securities) is issued and sold privately or publicly through either a limited liability company, a limited partnership or a trust (to be referred to hereafter as a special purpose entity). Investors in the Preferred Securities would not be subject to withholding tax nor benefit from the Dividends Received Deduction.

The sole purpose of the special purpose entity is to issue the Preferred Securities and lend the proceeds to the utility. Such loans would be evidenced by deferrable interest subordinated debentures issued by the utility.

A number of companies have formed special purpose entities and issued MIPS in this fashion since these securities were introduced in the market in late 1993. In D.95-04-024, the Commission authorized Southern California Edison Company to guarantee securities issued by a special purpose entity.

PU Code § 701.5 prohibits utilities from issuing bonds, notes, guaranteeing financial transactions, or pledging utility

assets for or on behalf of their subsidiaries or affiliates, but allows exceptions in some instances.

PU Code § 701.5 states:

With respect to financing arrangements which are established after January 1, 1988, no electrical, gas, or telephone corporation, whose rates are set by the commission on a cost-of-service basis, shall issue any bond, note, lien, guarantee, or indebtedness of any kind pledging the utility assets or credit for or on behalf of any subsidiary or affiliate of, or corporation holding a controlling interest in, the electrical, gas, or telephone corporation. The commission may, however, authorize an electrical, gas, or telephone corporation to issue any bond, note, lien, guarantee, or indebtedness pledging the utility assets or credits as follows:

... (c) For or on behalf of a subsidiary or affiliate if it engages in activities which support the electric, gas, or telephone corporation in its operations or service, these activities are, or will be, regulated either by the commission or a comparable federal agency, and the issuance of the bond, note, lien, guarantee, or indebtedness is specifically approved in advance by the commission.

The commission shall not approve the bond, note, lien, guarantee, or indebtedness unless the commission finds and determines that the proposed financing will benefit the interests of the utility and its ratepayers.

We have reviewed Sierra Pacific's request to maintain its unused authority to issue shares of its new series of Class A Preferred Stock or alternatively use such unused authority to engage in a MIPS financing arrangement to meet its financing requirements, and have determined that it is for proper purposes and is not adverse to the public interest.

We will modify D.94-04-031 to provide that Sierra Pacific may issue a combination of a new series of Class A Preferred Stock or debt securities and guarantees in conjunction with a MIPS transaction, as described in the Application.

We caution Sierra Pacific, however, that our finding that this arrangement will benefit both Sierra Pacific and its ratepayers does not constitute a blank check for including the resulting cost of capital in its capital structure in a later proceeding. As we do with all financial authorizations, we remind Sierra Pacific that it will be expected to demonstrate and support in a future proceeding that the specific capital costs incurred were appropriate and beneficial under the circumstances. Furthermore, we will limit ratepayers' responsibility for expenses that may arise from interest on taxes that may be assessed by the Internal Revenue Service if expected tax advantages do not materialize (back taxes), as well as any penalties or interest on penalties. Ratepayers shall not be responsible for penalties or interest on penalties. Ratepayers will be responsible for (1) back taxes, to the extent that benefits of reduced taxes were flowed through to them, and (2) interest on ratepayer recovered back taxes, calculated at no more than the rate earned on prime, three-month commercial paper, as reported in the Federal Reserve Statistical Release, G-13. The Commission reserves the right to make a full assessment and measurement of MIPS transactions at a future date.

We will also extend the authorization granted in D.94-04-031 until such time as the amount authorized is fully issued upon, and on terms and conditions as described in the Application.

As was stated earlier under the section on Exemption from Competitive Bidding, we will approve Sierra Pacific's request for exemption from the Competitive Bidding Rule in conjunction with securities issued under a MIPS offering. Preferred Securities and deferrable interest subordinated debentures are a relatively new financing instrument.

The Commission however, will reserve the right to make a full assessment and measurement of this form of debt and the availability of competitive bidders at a future date.

Construction Budget

Sierra Pacific's estimated construction budgets for calendar years 1995 to 1997, shown as Exhibit E of the supplemental data to the Application, are as follows:

<u>(Dollars in Thousands)</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Electric Department	\$118,101	\$134,292	\$ 88,184
Gas Department	12,759	9,736	10,016
Water Department	28,042	18,131	8,804
Common Plant	<u>673</u>	<u>805</u>	<u>1,859</u>
 Total	 \$159,575	 \$162,964	 \$108,863

CACD advises us that Sierra Pacific's construction budgets for 1995 to 1997 raise no questions that should dissuade us from giving favorable consideration to the financing requested in the Application. We will not, however, make a finding in this decision on the reasonableness of the proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.

Capital Ratios

Sierra Pacific's capital ratios as of December 31, 1994, shown as part of Exhibit E of the supplemental data to the Application, are presented below as recorded and as adjusted to give pro forma effect to the transactions that follow:

	(thousands of dollars)			
	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Capital Structure				
Long-Term Debt	\$ 521,216	45.21%	\$ 663,208	46.33%
Preferred Stock	100,315	8.70%	123,115	8.60%
Common Stock	<u>531,277</u>	<u>46.09%</u>	<u>645,277</u>	<u>45.07%</u>
Total	\$1,152,808	100.00%	\$1,431,600	100.00%

1. Long-term Debt

Issue of \$22,000,000 medium-term notes; D.93-07042 and D.93-09-051.

Issue of \$58,000,000 new long-term debt.

Issue of \$55,000,000 new long-term debt.

\$33,219,000 Tax-exempt trust fund draw downs.

\$26,227,000 Mandatory & optional sinking fund requirements (retirement of bonds).

2. Preferred/Preference Stock

Sale of \$50,000,000 new preferred stock; D.94-04-031.

\$27,200,000 sinking fund (retirement of Series G Preferred Stock).

3. Common Stock

\$114,000,000 equity infusion from Sierra Pacific Resources.

Capital structures are normally subject to review in general rate case or cost of capital proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Cash Requirements Forecast

Sierra Pacific's forecasted cash requirements as shown in Exhibit E of the supplemental data to the Application, indicate that internally generated funds will provide 49% of the utility's

cash requirements for 1995, 33% for 1996, and 71% for 1997. Sierra Pacific projects issuing the remaining balance of existing authorizations and the financing requested in the Application for the purposes indicated below.

Use of Proceeds

Sierra Pacific proposes to use the proceeds from the issue and sale of its Debt Securities for all lawful purposes including, but not limited to, the acquisition of property, the construction, completion, extension or improvement of facilities, or for the refinancing or discharge or refunding of obligations, including short-term borrowings, and for other general corporate purposes.

Sierra Pacific states in Exhibit B of its supplemental data to the Application that approximately \$69,600,000 of the proposed \$115,000,000 would constitute new debt.

Sierra Pacific states in the Application that in accordance with § 1904(b) of the PU Code, it claims fee exemption under the proposed debt. The amount of \$45,400,000 will be used for the retirement of mortgage bonds and its Series G Preferred Stock for which a fee has been previously paid to the Commission.

We remind Sierra Pacific to comply with the provisions of PU Code §§ 817 and 818 for use of proceeds for general corporate purposes.

Findings of Fact

1. Sierra Pacific, a Nevada corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. Sierra Pacific has need for external funds for the purposes set forth in the Application.
3. The proposed financing would be for proper purposes and would not be adverse to the public interest.
4. The money, property, or labor to be procured, or paid for, by the proposed financing is reasonably required for the purposes specified in the Application.

5. Authorizing Sierra Pacific to determine the precise amount and timing of each financing, the market in and method by which each financing is effected, and the price, interest rate, and other material provisions of the Debt Securities issued in each financing, within the constraints set forth in this decision, is not adverse to the public interest.

6. Debt Securities features are tools which may improve the terms and conditions of debt issues and may lower overall cost of money for the benefit of ratepayers.

7. The use of interest caps and collars as contemplated in the Application is reasonable and for proper purposes.

8. Sierra Pacific's proposal to use a special purpose entity for the purpose of issuing Preferred Securities and unconditionally guarantee or otherwise secure the entity's payment obligations would be for proper purposes and could offer financial advantages to Sierra Pacific and its ratepayers.

9. Savings resulting from the difference in costs between raising capital through a MIPS transaction and a traditional Preferred Stock issuance will be passed to ratepayers in the annual revisions of Sierra Pacific's authorized cost of capital.

10. For MIPS transactions, ratepayers should not be responsible for penalties or interest on penalties, if any. Ratepayers will be responsible for any back taxes to the extent that benefits of reduced taxes were previously flowed through to them. Ratepayers will also be responsible for interest on ratepayer recovered back taxes, calculated at the prime, three-month commercial paper rate, as reported in the Federal Reserve Statistical Release, G-13.

11. The special purpose entity described in the Application would be under Sierra Pacific's ownership and control and would engage only in activities in support of Sierra Pacific's regulated operations.

12. The extension of the authority granted in D.94-04-031 and the addition of deferrable interest subordinated debentures and guarantees that may be issued in conjunction with a MIPS offering, would be for proper purposes, and would benefit the interests of the utility and its ratepayers.

13. Res. No. F-616 specifically provides that debt issues for which competitive bidding is not viable or available are exempt.

14. Sierra Pacific's 1994 operating revenues for its California operations was 7.8% of total operating revenues.

15. The Commission reserves the right to make a full assessment of MIPS transactions and the availability of competitive bidders at a future date.

16. Authorizing Sierra Pacific to encumber its properties as security for its Debt Securities or other evidences of indebtedness is not adverse to the public interest.

17. The Commission does not by this decision determine that Sierra Pacific's construction budget, capital ratios, and cash requirements forecast are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case, rate base offset or cost of capital proceedings.

18. There is no known opposition to the Application and there is 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.

3. The proposed issuance and sale of Debt Securities, including features to enhance the terms and conditions of the offerings, are for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the Debt Securities issues may not be charged to operating expenses or income.

4. Pursuant to PU Code § 701.5(c), a utility may be authorized by the Commission to issue bonds, notes, guarantees, or pledge assets on behalf of a wholly owned subsidiary, provided the subsidiary supports the utility's operations or service.



5. PU Code § 817 allows a utility to reimburse its treasury through the issue of Debt Securities, only to the extent that funds have been expended from income or from any other money in the treasury of the utility not secured by or obtained from the issue of stock, bonds or other evidences of indebtedness, and for the purposes and in accordance with the provisions of that section of the code.

6. Sierra Pacific should pay the fee determined in accordance with PU Code § 1904(b). The fee computation should take into account the fee exemption for the refunding of outstanding indebtedness on which a fee has already been paid.

ORDER

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra Pacific), on or after the effective date of this order, is authorized:

- a. To issue, sell, enter into and/or deliver one or more series of first mortgage bonds, debentures, notes, floating rate debt (Debt Securities) and/or other forms or types of Debt Securities, and/or to guarantee unconditionally or otherwise secure the obligations of one or more third parties in respect of their issuance of debt for the benefit of Sierra Pacific, to enter into loans (additionally referred as Debt Securities), said Debt Securities to include, at Sierra Pacific's discretion, one or more of the debt enhancement features described in Application 95-05-008 (Application), all such issues, sales and deliveries of such Debt Securities to take place at any time or times from the date of the authorization thereof until the authorized amount has been fully issued and being upon terms and conditions substantially consistent with those set forth in or contemplated by the Application;

- b. To arrange credit agreements or other credit facilities as may be necessary for the purpose of issuing the Debt Securities as set forth in the Application, and to modify such credit facilities in the manner set forth in the Application without further authorization from the Commission;
- c. To execute and deliver an indenture or supplemental indenture in connection with any issue of Debt Securities and to sell, lease, assign, mortgage, or otherwise dispose of or encumber utility property in connection with the issuance and sale of Debt Securities;
- d. The total aggregate principal amount of issuances of Debt securities and guarantees which may be made pursuant to the Application shall not exceed \$115,000,000 (of which not more than \$69,600,000 shall be used for other than retiring or refunding securities previously issued and upon which Sierra Pacific has paid the fees prescribed by Public Utilities (PU) Code § 1904(b));
- e. To use the proceeds for the purposes referred to in the Application.

2. Sierra Pacific may utilize and enter into caps and collars at its discretion as described in the Application.

3. Sierra Pacific is limited to entering into swap agreements for no more than 20% of the utility's long-term debt and under conditions consistent with our findings. Swap transaction amounts are independent of the amount of Debt Securities authorized in this decision.

4. Sierra Pacific shall limit its use of swap transactions and other derivative financial instruments issued in connection with long-term debt to those involving counterparties having credit ratings equal to or better than Sierra Pacific's.

5. Sierra Pacific shall separately report all interest income and expenses arising from swap transactions in all monthly and annual financial reports to the Commission.

6. Sierra Pacific's proposed debt instruments as described in the Application are exempted from the requirements of the Commission's Competitive Bidding Rule.

7. The authority granted to Sierra Pacific by Decision (D.) 94-04-031, Ordering Paragraph 1, is modified as follows:

1. Sierra Pacific Power Company (Sierra Pacific) may issue and sell shares of a new series of Class A Preferred Stock, without par value and/or issue deferrable interest subordinated debentures and guarantees in conjunction with a Monthly Income Preferred Security (MIPS) transaction; provided, however, that the number of shares issued as multiplied by the price per share, to be determined by agreement between Sierra Pacific and one or more underwriters and/or the amount of any underlying securities and guarantees issued in conjunction with a MIPS transaction, shall not exceed an aggregate amount of \$50,000,000.

8. MIPS transactions shall be subject to conditions consistent with our findings.

9. In all other respects, D. 94-04-031 remains in full force and effect.

10. On or before the 25th day of each month, Sierra Pacific shall file the reports required by General Order 24.

11. Sierra Pacific shall maintain, and within thirty days from request, provide the Commission any or all of the following:

- a. The price, interest rate and other terms pertaining to its issuance of Debt Securities, the price, dividend rate and other terms pertaining to the Preferred Stock.
- b. If Debt Securities are sold by means of a public offering, copies of its final prospectus pertaining to the Debt Securities.
- c. For any Debt Securities sold by competitive bidding, the name of the bidder, the price, interest rate and cost of money to Sierra Pacific based on the price and interest rate.

- d. In relation to the issuance and sale of any series of Debt Securities by negotiated public offerings or private placements, including commercial bank borrowings, in either the domestic or foreign markets, a report showing why the resulting interest rate and cost of money were the most advantageous to Sierra Pacific and its ratepayers.
- e. A report analyzing the swap transaction including all costs associated with such a contract in comparison to a projection of all-in cost without such a contract.
- f. A copy of the executed swap agreement and all associated documentation.

12. The authority granted by this order shall become effective when Sierra Pacific pays \$6,429, the fee set forth by PU Code § 1904(b).

13. The Application is granted as set forth above.  
This order is effective today.

Dated August 11, 1995, at San Francisco, California.

DANIEL Wm. FESSLER  
President

P. GREGORY CONLON

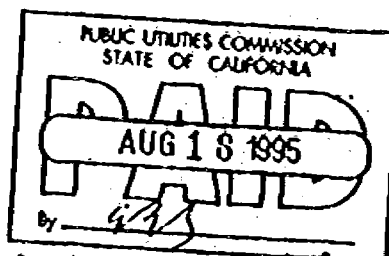
JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

Commissioners

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

*Wesley Franklin*  
Acting Executive Director



Rct # 38454 = \$6,429. -