

Decision 97-12-111 December 16, 1997

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SIERRA PACIFIC POWER COMPANY U-903-E,)
for an order authorizing it to issue)
unsecured promissory notes in an)
aggregate amount not to exceed)
\$200,000,000 payable to banks and)
purchasers of commercial paper during)
1998-2000.)

Application 97-09-028
(Filed September 18, 1997)

ORIGINAL

O P I N I O N

Summary of Decision

This decision grants Sierra Pacific Power Company (Sierra) the authority requested in Application (A.) 97-09-028 (Application).

Sierra requests authority pursuant to §§ 816, 817, 818, and 823 of the Public Utilities (PU) Code for the following:

1. To issue short-term unsecured promissory notes in an aggregate amount not to exceed \$200,000,000 payable to banks and purchasers of commercial paper;
2. To refund or roll over any short-term indebtedness so that the combined term of such indebtedness may exceed twelve months without the need for further authorization from the Commission;
3. To arrange a credit agreement to provide liquidity support for its commercial paper indebtedness as set forth in the Application, and to modify and/or replace such credit facilities in the manner set forth in the Application without further authorization from the Commission;
4. To execute any and all related documents and to take all action required for the completion of the proposed financing.

Notice of the filing appeared on the Commission's Daily Calendar of September 23, 1997. No protests have been received.

Background

Sierra 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.

Sierra's Consolidated Statements of Income for the year ended December 31, 1996, shown as supplemental data to the Application, shows total operating revenues of \$627,711,000 and net income of \$66,879,000. Sierra's operating revenues for its California operations for the same period, were \$42,428,000 or 6.76% of total operating revenues.

Also shown as part of the supplemental data to the Application is Sierra's Consolidated Balance Sheet as of December 31, 1996, summarized as follows:

<u>Assets</u>	(\$ in thousands)	<u>Amount</u>
Net Utility Plant		\$1,378,375
Construction Work-in-Progress		164,835
Investment in Subsidiaries & Other Property, net		44,583
Current Assets		131,743
Deferred Charges		<u>149,818</u>
Total Assets and Other Debits		\$1,869,354
<u>Capitalization and Liabilities</u>		
Common Shareholders' Equity		\$ 594,859
Preferred Stock		73,115
Preferred Stock Subject to Mandatory Redemption		48,500
Long-Term Debt		637,846
Current Liabilities		167,617
Deferred Credits		<u>347,417</u>
Total Capitalization and Liabilities		\$1,869,354

Description of Financing

Sierra anticipates issuing short-term unsecured promissory notes payable to banks and purchasers of commercial paper. Interest on notes payable to banks will be based on the bank's prime, base or reference rate, The London InterBank Offering (LIBOR) rate, certificates of deposit (CD) rate, Federal funds rate, or a rate agreed to between the bank and Sierra at the time of each advance. Sierra states in the Application that commercial paper may be sold through placement agents who market commercial paper on a reasonable efforts basis, or may be sold directly to investors, with maturities of nine months or less. The commercial paper interest rate includes the effective yield plus any expenses associated with issuing commercial paper; these expenses include, but are not limited to, dealer commissions, issuer and paying agent fees, and credit agreement fees. Notes payable to banks and purchasers of commercial paper previously issued will be refunded or rolled over, and the aggregate maturities thereof will extend beyond 12 months, to and including December 31, 2000.

To provide liquidity support for its commercial paper indebtedness, Sierra will arrange a long-term credit agreement with banks or other financial institutions. Sierra requests in the Application to make modifications to a credit agreement or replace a credit agreement with another credit agreement to improve the terms and conditions depending on Sierra's assessment of market conditions as they will exist from time to time. In addition Sierra anticipates that one or more new financial institutions will be added to, substituted for, or removed from the institutions initially participating in a credit agreement.

PU Code § 823(b) states that a public utility may issue notes for proper purposes, payable at period of not more than twelve months after the date of the issuance of the notes without the consent of the Commission. PU Code § 823(c) provides that notwithstanding the provisions of subdivision (b), the electric utilities should obtain the consent of the Commission should their short-term borrowings exceed 5% of the par value of the other securities then outstanding.

Sierra requests authority from the Commission to maintain a total of \$200,000,000 outstanding in short-term debt at any one time (14.80% of total capitalization of \$1,351,231,733 as of December 31, 1996, as shown in the Application), or \$132,400,000 of outstanding short-term debt in excess of the amount provided in PU Code § 823(c).

In Decision (D.) 94-01-022, the Commission allowed The Washington Water Power Company (WWP) to issue up to a total of \$160,000,000 of short-term debt or 12.7% of its capitalization, and for a period of two years, to refund previously issued short-term debt securities without the need to periodically request authorization from the Commission. In a recent decision, D.97-10-054, the Commission authorized WWP to maintain a total of \$120,000,000 outstanding short-term debt at any one time, and for a period of three years to refund previously issued short-term debt securities such that the combined terms of the refunded issues and the new debt may exceed twelve months. We note herein that WWP's California revenues for the year ended December 31, 1996 amount to 1.4% of its total operating revenues. D.82-12-011, D.87-11-040, D.92-11-059 and D.97-11-0129 granted San Diego Gas & Electric Company authorization to go beyond the 5% limit prescribed in PU Code § 823(c) and to refund previously issued short-term debt securities.

Sierra's current short-term debt authority granted under D.94-10-047 is for an aggregate amount of \$100,000,000. This authority will expire on December 31, 1997. Sierra states in the Application that the requested \$200,000,000 aggregate amount of short-term debt will provide continued financing of its operations.

Sierra's request for short-term borrowing authorization through December 31, 2000, raises no questions that should dissuade us from giving favorable consideration to the authority requested. This debt facility will provide Sierra the opportunity to secure short-term debt when market conditions for long-term financing are unattractive.

For purposes of this Application and pursuant to PU Code § 823(c), we will allow Sierra to issue an additional \$132,400,000 of short-term debt securities, in excess of the estimated

\$67,561,600 amount or 5% of its capitalization of \$1,351,231,700 as of December 31, 1996.

PU Code § 823(d) provides that the continuous refunding of previously issued short-term debt securities, which brings the combined terms of the original and the refunding debt securities to exceed twelve months, requires Commission authorization.

For purposes of this Application and pursuant to PU Code § 823(d), we will permit Sierra to pay, repay, prepay, renew, refund, extend, borrow or reborrow any short-term indebtedness for the period January 1, 1998 through December 31, 2000 so that the combined term of such indebtedness may exceed twelve months without the need for further authorization from the Commission, provided that the aggregate amount of such indebtedness which has been so paid, repaid, prepaid, renewed, refunded, extended, borrowed or reborrowed does not exceed \$200,000,000 at any one time outstanding. In addition, Sierra must maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities¹ then outstanding at least once every twelve months.

Competitive Bidding Rule

In Resolution F-616, dated October 1, 1986, we set forth our current policy regarding exemption from the Competitive Bidding Rule. Exhibit A to Res. F-616 states, "Securities privately placed with specific lenders and bank term loans obviously must be negotiated... Variable interest rate debt securities are normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule." Moreover, notes and variable rate debt securities are sold through a placement agent on a reasonable efforts basis in a manner analogous to that used for issuing commercial paper.

Sierra's short-term borrowings will be evidenced by its commercial paper, including short-term promissory notes, and other credit agreements with various banks or other financial

¹ Long-term debt, preferred stock and common stock.

institutions or companies. These borrowings are anticipated to be negotiated, unsecured and at competitive rates. Sierra is exempted from the Competitive Bidding Rule in connection with this authorization.

Construction Budget

Sierra's estimated construction expenditures for calendar years 1997, 1998, 1999, and 2000, as shown in the Application, are as follows:

	(\$ in thousands)			
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Electric Department	97,618	123,037	98,508	95,058
Gas Department	10,415	8,141	8,599	8,564
Water Department	16,532	5,497	11,559	11,047
Common Plant	<u>3,810</u>	<u>330</u>	<u>1,936</u>	<u>1,709</u>
Total Funds Used/Required for Construction Expenditures	128,375	137,005	120,602	116,378

Capital Ratios

Sierra's capital ratios as of June 30, 1997, as shown in the Application, are presented below as recorded and adjusted to give pro forma effect to the requested short-term borrowing:

	(\$ in thousands)			
		<u>Recorded</u>	<u>Pro-Forma</u>	
Common Equity	618,853,620	43.6%	618,853,620	40.0%
Preferred Stock	121,615,000	8.6%	121,615,000	7.9%
Long-Term Debt	607,525,933	42.8%	607,525,933	39.2%
Short-Term Debt	<u>71,000,000</u>	<u>5.0%</u>	<u>200,000,000</u>	<u>12.9%</u>
Total	1,418,994,553	100.0%	1,547,994,553	100.0%

Sierra's ratesetting matters are normally reviewed during its Performance-Based Ratemaking proceedings. We make no finding

in this decision of the reasonableness of Sierra's projected capital expenditures and capital ratios.

Cash Requirements Forecast

Sierra's estimated cash requirements forecasts for 1998 through 2000 are submitted under confidentiality provided in General Order No. 66-C.² The information has been reviewed and is kept on file.

Use of Proceeds

Sierra states in the Application that the proceeds from the short-term borrowings will be used 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 or reimbursement of treasury for expenditures made for the foregoing purposes.

Upon order of the Commission and for proper cause, PU Code § 818 allows the use of proceeds from the issue of debt security for purposes reasonably required in the operation of a utility.

We will approve the use of the proceeds as requested in the Application.

Findings of Fact

1. Sierra's request to use \$132,400,000 short-term borrowings in excess of the amount otherwise authorized under PU Code § 823(c) for the period January 1, 1998 through December 31, 2000 would be for proper purposes and would not be adverse to the public interest.

2. Sierra's 1996 California revenue is 6.76% of total revenue.

² Public records not open to public inspection include information of confidential nature furnished to, or obtained by the Commission.

3. Sierra's current short-term debt authority for an aggregate amount not to exceed \$100,000,000 will expire on December 31, 1997.

4. Requiring Sierra to maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities then outstanding at least once every twelve months is reasonable. It would still allow Sierra flexibility to use short-term borrowings when market conditions for long-term debt are not favorable.

5. Sierra's proposed issue of commercial paper and short-term promissory notes is exempt from the requirements of the Competitive Bidding Rule.

6. The Commission does not by this decision determine that the capital budget and capital ratios presented herein are necessary or reasonable for ratemaking purposes.

7. Notice of the filing of the Application appeared on the Commission's Daily Calendar of September 23, 1997, and no protests have been received. There is no known opposition to the Application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The proposed short-term borrowings are for lawful purposes and the money, property or labor to be obtained by the short-term borrowing authorization is required for these purposes.

3. The Application should be granted to the extent set forth in the order that follows.

4. Sierra will pay the fee determined in accordance with PU Code § 1904(b).

5. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. Sierra Pacific Power Company (Sierra), on or after January 1, 1998 and up to and including December 31, 2000, may issue short-term obligations in the form of promissory notes and commercial paper in the aggregate principal amount up to \$200,000,000 outstanding at any one time or \$132,400,000 of outstanding short-term debt in excess of the amount provided in Public Utilities (PU) Code § 823(c), upon terms and conditions substantially consistent with those set forth or contemplated in Application 97-09-028 (Application).

2. Sierra may pay, repay, prepay, renew, refund, extend, borrow or reborrow any short-term indebtedness so that the combined term of such indebtedness may exceed twelve months, without the need for further authorization from the Commission for the period January 1, 1998 through December 31, 2000. The aggregate amount of such indebtedness which has been paid, repaid, prepaid, renewed, refunded, extended, borrowed or reborrowed shall not exceed \$200,000,000 at any one time outstanding.

3. Sierra shall maintain or bring down the aggregate amount of its short-term borrowings to 5% of the par value of the other securities then outstanding at least once every twelve (12) months.

4. Sierra shall apply the net proceeds from the sale of its short-term obligations to the purposes set forth in the Application.

5. Sierra may arrange a credit agreement to provide liquidity support for its commercial paper indebtedness as set forth in the Application, and to modify or replace such credit facilities in the manner set forth in the Application without further authorization from the Commission.

6. Sierra may execute any and all related documents and to take all action required for the completion of its short-term borrowings.

A.97-09-028 ENERGY/RHG

7. Sierra's short-term borrowings are exempted from the Competitive Bidding Rule.

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

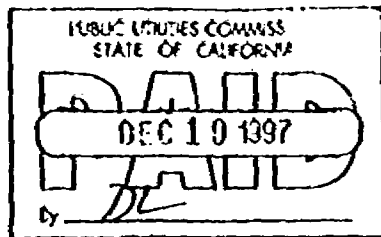
9. The authority granted by this order shall become effective when Sierra pays \$7,760, the fee required by PU Code § 1904 (b).

10. The Application is granted as set forth above.

11. This proceeding is closed.

This order is effective today.

Dated December 16, 1997, at San Francisco, California.



P. GREGORY CONLON
President

JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners

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