

ENERGY/RHG

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Decision 98-03-058 March 26, 1998

ORIGINAL

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)	Application 97-09-028
order authorizing it to issue unsecured promissory)	(Petition for Modification
notes in an aggregate amount not to exceed)	filed February 9, 1998)
\$200,000,000 payable to banks and purchasers of)	
commercial paper during 1998-2000.)	
_____)	

SUPPLEMENTAL OPINION

Summary of Decision

This decision grants Sierra Pacific Power Company (Sierra) the authority requested in its Petition for Modification of Decision (D.) 97-12-111 in Application (A.) 97-09-028 (Petition).

Pursuant to Rule 47 of the Commission's Rules of Practice and Procedure, Sierra requests that Ordering Paragraph No. 3 of D.97-12-111 be modified and replaced with the following:

"On or before July 1, 1999, Sierra shall file a petition for modification in this proceeding in which it will propose changes in its short-term debt authorization for the year 2000 and beyond, based on the status at that time of the construction and financing of its Alturas electric transmission line, the restructuring of the electric industry in Nevada, and other pertinent factors. The authorization for issuance of short-term indebtedness granted by this decision shall remain in effect until the Commission acts on that petition for modification."

Based on Sierra's circumstances as described in the Petition and consistent with the intent of the requested modification, Sierra proposes that Finding of Fact No. 4 of D.97-12-111 be replaced with the following:

"Sierra has a unique need for financing flexibility in order both to accommodate its construction of a new transmission line, expected to be completed by the end of 1998, and to adjust its operations in response to electric restructure as directed by the Nevada Legislature and the Nevada Public Service Commission, which is expected to become effective on January 1, 2000. It is reasonable, therefore that Sierra may have outstanding through December 31, 2000 the full amount of the short-term indebtedness authorized by this decision, without a requirement to reduce short-term indebtedness to 5% of the par value of other securities at least once every twelve months, but subject to the condition that on or before July 1, 1999 Sierra shall file the petition for modification specified in the order set forth below."

Notice of the filing of the Petition appeared on the Commission's Daily Calendar of February 18, 1998. No protests have been received.

Background

On September 18, 1997, Sierra filed A.97-09-028 requesting authority 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. Pursuant to the Application, 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.

D.97-12-111 dated December 16, 1997, granted Sierra authority up to December 31, 2000, to issue short-term obligations in the form of promissory notes and commercial paper in the aggregate principal amount of \$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 A.97-09-028. D.97-12-111 granted Sierra authority to 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.

Concerned about the possible use of excessive levels of short-term debt for extended periods and absent information regarding Sierra's exceptional financial needs arising from the restructuring of the electric industry in Nevada, construction projects, the statutory requirement to transfer generation assets, and the deferment of any issue of first mortgage indebtedness while the restructuring is being implemented, the Commission by Ordering Paragraph No. 3 of D.97-12-111 required Sierra to 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.

Modification Sought

Sierra states in its Petition that there are two primary reasons for its short-term borrowing. First, Sierra is involved in a major construction program to serve the growth within its service territory. Specifically, during 1998 Sierra will be constructing the Alturas electric transmission line at a total completed cost of \$145,000,000. The company is putting in place a revolving credit facility to fund the construction of that line (a) to minimize allowance for funds used during construction (AFUDC) and (b) to assure an uninterrupted source of financing through completion of construction, currently estimated to occur by December 31, 1998.

The Petition indicates that the initial advance under the construction facility will be approximately \$85,000,000, with the final balance estimated at \$145,000,000. Ultimately, Sierra intends to refinance the short-term bank facility with long-term financing in 1999. In order to be in a position to do this, Sierra plans to file an application with the Commission for long-term financing authority by approximately mid-1998. Thus, in 1999, Sierra will have available both short-term debt authority and additional long-term financing authority. Sierra believes that this is necessary to give its management the flexibility to finance with either short-term indebtedness or long-term securities, depending on its assessment of market conditions, without being under "non-market" pressure to finance long-term under possibly adverse market conditions.

Second, Nevada is approximately two years behind California in its process for restructuring the electric utility industry. The date for commencing competition in the Nevada electric markets has been set for January 1, 2000. The Nevada statute, passed by the 1997 Legislature, essentially requires that Sierra's generation assets be owned by an affiliate of the distribution/transmission company. Other requirements for electric restructuring will be determined by the Nevada Public Service Commission in proceedings that commenced in 1997 and will continue throughout 1998 and perhaps into early 1999.

The requirement to transfer the generation assets out of the regulated utility will require some financial restructuring for Sierra. This restructuring/refinancing would be more difficult and more expensive if Sierra were required to finance long-term (i.e., to reduce short-term debt, as currently provided in Ordering Paragraph No. 3 of D.97-12-111) at the very time that this restructuring is being implemented.

Because of the uncertainties posed by pending Nevada electric restructuring and the statutory requirement to transfer generation assets, Sierra plans not to issue additional first mortgage indebtedness. These same uncertainties make it prudent for Sierra to minimize the use of other long-term securities until the rules for separation of generation assets are finalized in Nevada and a final determination on restructuring requirements has been made. Sierra believes that it is clear that Sierra needs full flexibility with respect to the total amount of short-term indebtedness at least through December 31, 1999.

Sierra proposes that the requested modification of D.97-12-111 be conditioned on Sierra's filing, on or before July 1, 1999, a petition for modification in this proceeding in which it will propose changes in its short-term indebtedness authorization for the year 2000 and beyond. Such a petition would provide the Commission current information about the Alturas electric transmission line, Nevada electric restructuring and the impact of both on Sierra's financing plans, as well as other factors affecting the company. Until the Commission acts on that petition, Sierra requests to be able to continue to operate under the authorization granted by D.97-12-111 and the modification requested in this Petition.

Sierra states in the Petition that the requested modification would be consistent with the short-term indebtedness authorization that it received from the Nevada Commission. In an Order dated December 12, 1997, in Docket No. 97-10012, the Nevada Commission authorized up to

\$200,000,000 of short-term indebtedness for the two-year period ending December 31, 1999, with the only limitation that commercial paper be limited to \$150,000,000. Since approximately 93% of Sierra's electric operations and all of its other utility operations are located in Nevada, Sierra believes that the decision of the Nevada Commission on short-term indebtedness should be accorded weight in determining the reasonableness of Sierra's Petition concerning short-term financing policy.

We have reviewed Sierra's Petition and have determined it reasonable. We note that Sierra's California revenue, when compared to the revenues generated from Nevada, is modest. The annual revenue generated by Sierra in California in 1996 is only \$42,428,000 or 6.76% of total operating revenues of \$627,711,000. We conclude that the condition that Sierra shall file on or before July 1, 1999, a petition for modification in this proceeding in which it will propose changes in its short-term indebtedness authorization for the year 2000 and beyond, will ensure appropriate Commission oversight of Sierra's financing requirements, while at the same time providing Sierra greater financing flexibility and timing. This condition will allow Sierra to pursue the benefits of short-term debt during the restructuring period. At the same time, to the extent that the Nevada statute requires electric restructuring compliance by a utility under our jurisdiction, it is our responsibility to provide the regulated utility the means to comply with such an order.

Our granting the Petition is permitted under PU Code § 829 which states in part:

The commission may from time to time by order or rule, and subject to such terms and conditions as may be prescribed therein, exempt any public utility or class of public utility from the provisions of this article if it finds that the application thereof to such public utility or class of public utility is not necessary in the public interest.

The authority granted herein is simply permissive. Pursuant to Sierra's proposed filing of a petition for modification on or before July 1, 1999, together with current financial and restructuring information, we will at that time make a determination whether the 5% requirement or any other obligatory condition pertaining to short-term debt would be required from Sierra by this Commission.

We make no finding in this decision of the reasonableness of Sierra's capital expenditures.

Findings of Fact

1. Sierra's request for modification of D.97-12-111 is legitimate, for proper purposes, and is not adverse to the public interest.
2. Sierra has a unique need for financing flexibility in order both to accommodate its construction of a new transmission line, expected to be completed by the end of 1998, and to adjust its operations in response to electric restructuring as directed by the Nevada Legislature and the Nevada Public Service Commission, which is expected to become effective on January 1, 2000.
3. It is reasonable that Sierra have outstanding through December 31, 2000 the full amount of the short-term indebtedness authorized by this decision, without a requirement to reduce short-term indebtedness to 5% of the par value of other securities at least once every twelve months (as directed in D.97-12-111), but subject to the condition that on or before July 1, 1999 Sierra shall file the petition for modification specified in the supplemental order set forth below.
4. Requiring Sierra to file on or before July 1, 1999, a petition for modification in this proceeding in which it will propose changes in its short-term indebtedness authorization for the year 2000 and beyond, will ensure appropriate Commission oversight of Sierra's financing requirements, while at the same time providing Sierra financing flexibility and timing.
5. It is our responsibility to provide Sierra the means to comply with the Nevada statute on electric restructuring.
6. Sierra's 1996 California revenue is 6.76% of its total revenue.
7. Sierra's current short-term debt authority for an aggregate amount not to exceed \$200,000,000 will expire on December 31, 2000.
8. Nevada's electric restructuring will be determined by the Nevada Public Service Commission in proceedings that commenced in 1997 and will continue throughout 1998 to 1999.

Conclusions of Law

1. A public hearing is not necessary.
2. The petition for modification should be granted to the extent set forth in the supplemental order that follows.
3. The following supplemental order should be effective on the date of signature.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. The authority granted to Sierra Pacific Power Company (Sierra) by Decision (D.) 97-12-111, Ordering Paragraph 3, is modified to read in full as follows:

On or before July 1, 1999, Sierra shall file a petition for modification in this proceeding in which it will propose changes in its short-term debt authorization for the year 2000 and beyond, based on the status at that time of the construction and financing of its Alturas electric transmission line, the restructuring of the electric industry in Nevada, and other pertinent factors. The authorization for issuance of short-term indebtedness granted by this decision shall remain in effect until the Commission acts on that petition for modification.

2. Finding of Fact No. 4 of D.97-12-111 is deleted as a result of the modification granted by this decision.
3. The Petition is granted as set forth above.
4. In all other respects, D.97-12-111 remains in full force and effect.

5. Application 97-09-028 is closed.

This supplemental order is effective today.

Dated March 26, 1998, at San Francisco, California.

RICHARD A. BILAS

President

P. GREGORY CONLON

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners