

ENERGY/RHG

Decision 99-09-061 September 16, 1999

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 June 30, 1999)
\$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, as modified by D.98-03-058 (Petition).

Pursuant to Ordering Paragraph No. 3 of D.97-12-111, as modified, Sierra requests authorization for its short-term debt requirements for the year 2000 and beyond as described in the Petition.

Notice of the filing appeared on the Commission's Daily Calendar of July 7, 1999. No protests have been received.

Background

By D.97-12-111 dated December 16, 1997, in Application (A.) 97-09-028, the Commission granted Sierra authority until 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 Section 823(c). The proceeds from the short-term borrowings are intended for all lawful purposes, including, but not limited to, the acquisition of property, the construction, completion, extension or

improvement of facilities, or the refinancing or discharge or refunding of obligations or reimbursement of treasury. D.97-12-111 also granted Sierra authority to pay, repay, prepay, renew, refund, extend, borrow or re-borrow 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.

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 months (5% requirement).

On February 9, 1998 Sierra filed a petition to modify D.97-12-111 wherein it requested that the 5% requirement be temporarily eliminated to achieve financing flexibility and timing. At that time Sierra was constructing the Alturas electric transmission line and the company established a revolving credit facility to fund the construction. Ultimately, Sierra intends to refinance the short-term bank facility with long-term financing. At the same time, the Nevada electric restructuring required Sierra to transfer its generation assets out of the regulated utility and Sierra claimed that it would be more difficult and expensive for it to finance long-term (by reducing short-term debt) at a time that the restructuring is being implemented.

D.98-03-058 dated March 26, 1998, eliminated the 5% requirement on the condition that on or before July 1, 1999, Sierra shall file a petition for modification on changes in its short-term debt requirements for the year 2000 and beyond.

Modification Sought

The process of restructuring the electric industry in Nevada is continuing. In connection with that process, Sierra has filed a Divestiture Plan with the Nevada Public Service Commission, pursuant to which Sierra proposes to divest itself of its generation facilities located in Nevada by an auction process similar to that used by utilities in California. A.99-03-012 is pending before this Commission with respect to that divestiture process.

We note herein that approximately 94% of Sierra's electric operations and all of its other utility operations are located in Nevada¹.

Sierra states in the Petition that the transfer of generation assets will require some financial restructuring and this process would be more difficult and expensive if Sierra were required to finance long-term debt at the very time that this restructuring is being implemented.

Based on its 1999 Business Plan, Sierra requests that the current short-term debt facility as authorized by D.97-12-111, as modified, be extended through December 31, 2002 and within such period be exempt from the 5% requirement. Sierra anticipates that it will require the additional time requested to avail of short-term debt financing commensurate with its overall capital requirements and as market conditions dictate.

Sierra claims that the 5% requirement effectively reduces the short-term debt authorization to only the 5% limit even though the full authorization is stated to be in effect for two or three years and curtails Sierra's flexibility in arranging short-term bank financing with its lending banks. Sierra claims in the Petition that the banks have expressed concerns that the only permanent authority (i.e. for two or three years) is the 5% limit which requires that the larger amount be reduced at least once every twelve months, effectively curtailing the extension beyond 12 months. Sierra states further that the 5% requirement appears to be inconsistent with the typical provision included in Commission short-term debt decisions that the utility may extend, renew and refund the entire authorized amount for periods beyond 12 months for the full term of the authority (i.e. two or three years).

Sierra has completed the construction of the Alturas electric transmission line.

¹ The annual revenue generated by Sierra in California in 1998 is only \$38,988,000 or 5.3% of total operating revenues of \$734,332,000.

As of March 31, 1999, Sierra had \$111,300,000 in short-term debt outstanding as shown in the Petition. Sierra anticipates making the following construction expenditures between 1999 and 2002:

Cash Construction Expenditures

(Dollars in Thousands)	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Electric Department	\$ 82,573	\$ 91,145	\$151,662	\$ 66,958
Gas Department	10,558	9,603	9,703	9,773
Water Department	14,256	20,706	28,887	28,734
Common Plant	<u>5,322</u>	<u>4,122</u>	<u>3,367</u>	<u>3,367</u>
Total	<u>\$112,709</u>	<u>\$125,576</u>	<u>\$193,619</u>	<u>\$108,832</u>

Sierra's capital ratios as of June 30, 1999, are presented below as recorded and adjusted to give pro forma effect to the \$200,000,000 short-term debt facility, payment of \$30,000,000 medium-term notes, and the issuance of \$100,000,000 debt securities under D.98-12-019:

	(Dollars in Thousands)			
	<u>Recorded</u>		<u>Pro-Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Common Equity	\$ 668,000	42.5%	\$ 668,000	38.8%
Preferred Stock	121,615	7.7%	121,615	7.1%
Long-Term Debt	659,844	42.0%	729,844	42.5%
Short-Term Debt	<u>123,000</u>	<u>7.8%</u>	<u>200,000</u>	<u>11.6%</u>
Total	\$1,572,459	100.0%	\$1,719,459	100.0%

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. To the extent that the Nevada statute requires electric restructuring compliance by a utility under our jurisdiction, we will do whatever is necessary, consistent with our authority, to comply with such order.

The PU Code governs the regulation of short-term debt, and the latitude on the amount and use of short-term debt under the code may be modified with the consent of the Commission.

PU Code Section 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 issuance of the notes without the consent of the Commission. PU Code Section 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. PU Code Section 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.

We will extend the authorization in D.97-12-111, as modified, until December 31, 2002. During this period, Sierra may pay, repay, prepay, renew, refund, extend, borrow or re-borrow 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 purposes of this Petition, the 5% requirement shall not be required.

Our granting the Petition is permitted under PU Code Section 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.

Sierra's ratesetting matters are normally reviewed during its Performance Based Ratemaking filings. We make no finding in this decision of the reasonableness of Sierra's projected capital expenditures and capital ratios.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to PU Code Section 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. The proposed extension of time to December 31, 2002, during which Sierra may issue short-term debt in an aggregate amount not to exceed \$200,000,000 under the authority granted in D. 97-12-111, as modified would be for proper purposes and would not be adverse to the public interest.

2. Sierra has a unique need for financing flexibility in order to adjust its operations in response to the on-going electric restructuring as directed by the Nevada Legislature and the Nevada Public Service Commission.

3. Approximately 94% of Sierra's electric operations and all of its other utility operations are located in Nevada.

4. It is reasonable that Sierra have outstanding through December 31, 2002, the full amount of the short-term debt 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).

5. Short-term debt transactions are governed by PU Code Section 823.

6. Authorizing Sierra in this order for a period of two years to issue unsecured promissory notes would not alter or impede the Commission's objective of monitoring the issuance of short-term debt in accordance with PU Code Section 823.

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

8. Notice of the filing of the Petition appeared on the Commission's Daily Calendar of July 7, 1999. There is no known opposition to the Petition and there is no reason to delay granting the modification described therein.

Conclusions of Law

1. A public hearing is not necessary.
2. The Petition should be granted to the extent set forth in the order that follows.
3. The following 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 in Application (A.) 97-09-028, as modified by D.98-03-058, is amended to extend the period of authorization until December 31, 2002, upon conditions consistent with our findings.
2. Sierra may pay, repay, prepay, renew, refund, extend, borrow or re-borrow 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, 2001 through December 31, 2002.
3. Sierra need not reduce its short-term indebtedness to 5% of the par value of other securities at least once every twelve months, as originally directed in D.97-12-111 prior to modification.
4. Sierra's Petition to Modify D.97-12-111, as modified, is granted as set forth above.
5. In all other respects, D.97-12-111, as modified, remains in full force and effect.
5. A.97-09-028 is closed.

This supplemental order is effective today.

Dated September 16, 1999, at San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners