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LEGAL DEPARTMENT
SIERRA PACIFIC POWER COMPANY

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WILLIAM E. PETERSON
GENERAL COUNSEL

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

In re petition of SIERRA PACIFIC POWER COMPANY for approval to discontinue certificated water service and to voluntarily cancel Certificate of Public Convenience and Necessity 689.

Docket No. 01-1044

At a special session of the Public Utilities Commission of Nevada, held at its offices On April 27, 2001.

Present: Chairman Donald L. Soderberg
Commissioner Richard M. McIntire
Commissioner Adriana Escobar Chanos
Commission Secretary Crystal Jackson

ORDER

The Public Utilities Commission of Nevada ("Commission") makes the following findings of fact and conclusions of law:

1. On January 29, 2001, Sierra Pacific Power Company ("Sierra") filed a petition, designated as Docket No. 01-1044, with the Commission. Sierra seeks Commission approval to discontinue its certificated water service and to voluntarily cancel Certificate of Public Convenience and Necessity ("CPC" or "Certificate") 689 and accompanying subs. Sierra represents that it is selling, and the Truckee Meadows Water Authority ("TMWA")¹ is purchasing, all assets and obligations necessary for the TMWA to successfully operate and for Sierra to completely exit the water business.
2. Sierra states that on January 15, 2001, it entered into an Asset Purchase Agreement ("APA") with the TMWA which obligates Sierra to sell, and TMWA to purchase, Sierra's water business assets. This was the culmination of a two-step process wherein the TMWA was selected as the final bidder to negotiate the final details of the APA. According to Sierra, TMWA will purchase the water business assets, with an approximate net book value of \$265 million, for \$350 million.

¹ The TMWA was established pursuant to a Cooperative Agreement among the City of Reno, the City of Sparks, and Washoe County to establish a Joint Powers Authority ("Authority") pursuant to the Nevada Interlocal Cooperation Act (NRS Chapter 277.080 through 277.180) for the purpose of acquiring Sierra's water business assets. The Cooperative Agreement has been approved by the Nevada Attorney General. As formed, the Authority is a municipality and is exempt from Commission jurisdiction pursuant to NRS 704.330(1). Op. Nev. Att'y Gen. No. 2000-34 (Dec. 2000).

3. Sierra's petition is filed pursuant to the Nevada Revised Statutes ("NRS") and the Nevada Administrative Code ("NAC") Chapters 703 and 704, and in particular, NRS 704.390.

4. The Commission issued a public notice of this petition in accordance with State law and the Commission's Rules of Practice and Procedure.

5. The Commission has granted leave to intervene in this docket to the TMWA, the Utility Shareholders Association of Nevada, Inc., ("Utility Shareholders"), the Panther Valley Water Users Association ("Panther Valley")², and the Sun Valley General Improvement District ("Sun Valley")³. The Regulatory Operations Staff ("Staff") of the Commission and the Attorney General's Bureau of Consumer Protection ("BCP") participated as a matter of right.

6. The Commission commenced a duly-noticed hearing in this docket on March 14, 2001. During these proceedings, the Presiding Officer bifurcated the matter for hearing purposes. Phase One of the hearing would address only the issues that related to the cancellation of Sierra's CPC and the transfer of service for its water operations pursuant to NRS 704.390. Phase Two of the hearing, which would address the issue of the treatment of the gain on the sale of the water business assets, was continued to April 18, 2001. The Presiding Officer permitted the parties to submit prehearing briefs on this issue by April 12, 2001.

7. On April 11, 2001, the Commission issued an Interim Compliance Order in this docket approving the cancellation of Sierra's Certificate of Public Convenience and Necessity 689, effective on the date of closing of the sale of the water business assets to the TMWA. The Order also directed Sierra to file: (1) a list of assets and liabilities transferred to the TMWA within 90 days of the closing of the sale; and (2) transitional service agreements with terms in excess of six months with the Commission for approval.

8. Legal briefs concerning how the Commission should treat the gain on the sale of the water business assets were filed by Sierra Pacific, the TMWA, Sun Valley, the BCP, and Staff.

² Pursuant to the Presiding Officer's Order issued on March 13, 2001, Panther Valley's intervention was limited to its expressed concerns regarding the alleged existing water rights allocation of 350 acre feet under its existing Wholesale Water Service Agreement, and whether or not that will be honored under the proposed sale of Sierra's water business assets to the TMWA.

³ Pursuant to the Presiding Officer's Order issued on March 13, 2000, Sun Valley's intervention was limited on the basis of its representation that the Cooperative Agreement establishing the TMWA "does not deal with the numerous other rights and obligations currently existing between Petitioner and Sierra Pacific Power Company in the other contracts between them." During the hearing in Phase One of this docket, Sun Valley was permitted to intervene in the proceedings as they related to the calculation and allocation of the gain or the proceeds resulting from the sale of assets.

9. At the commencement of the hearing in Phase Two of this docket on April 18, 2001, the Presiding Officer granted a request by the parties to continue the proceedings to the following morning to enable them to pursue discussion of a stipulation to resolve all outstanding issues pertaining to the treatment of the gain on the sale.

10. On April 19, 2001, Sierra, the TMWA, the Utility Shareholders, Sun Valley, the BCP, and Staff filed a Stipulation to resolve the outstanding issues relative to the gain on the sale in this docket. The Stipulation is attached hereto as Attachment 1 and incorporated herein by reference. A summary of the terms of the Stipulation was presented at the hearing by Staff.

11. The Stipulation includes provisions concerning amortization of water customer credit. Paragraph 2, subparagraph (b) of the Stipulation specifies that Sierra's former non-LVS customers will receive a monthly credit on their utility bills over a period of time to be determined by the Commission but not to exceed fifteen months. The BCP recommended a three-month amortization period, thereby minimizing the probability that a customer may leave the area prior to receiving the full refund. The BCP estimated that the total refund due a residential customer is \$244 and that a three-month amortization period would produce a utility bill credit of \$81 per month (Transcript of April 19, 2001 at 168, 169). However, the BCP did not provide an estimate of the potential number of customers leaving the area.

12. The Commission finds that an extended amortization period is preferable to a shorter period, such as that proposed by the BCP, in that it eliminates the significant increase that Sierra's then former water service customers will experience upon termination of the refund in their utility bill, either for electric service or electric and natural gas service. Further, an extended amortization period would ease the burden associated with the recent, and potential future, significant increase in rates caused by the increase in wholesale power prices. In consideration of the aforementioned, the Commission finds that an amortization period consisting of the next two summer seasons is appropriate. The amortization shall correspond to the usage associated with the summer months, which due to cycle billing may not be refunded until a subsequent month. The 2001 summer amortization period shall commence within thirty (30) days of the closing of the sale and be suspended with September 2001 usage billing. The 2002 summer amortization period shall commence with customer billings for June 2002 usage and shall terminate with the billing for September 2002 usage.

13. The Commission finds that as modified, as discussed in Paragraph 12 above, the Stipulation is in the public interest.

14. The Commission concludes that the Stipulation should be approved as modified. THEREFORE, it is ORDERED that:

1. The Stipulation attached hereto as Attachment 1 and entered into by Sierra Pacific Power Company, the Truckee Meadows Water Authority, the Utility Shareholders Association of Nevada, Inc., the Sun Valley General Improvement District, the Attorney General's Bureau of Consumer Protection and the Regulatory Operations Staff of the Commission in Docket No. 01-1044, is APPROVED AS MODIFIED in accordance with Paragraph 12, above.


2. The 2001 summer amortization period shall commence within thirty (30) days of the closing of the sale and be suspended with September 2001 usage billing. The 2002 summer amortization period shall commence with customer billings for June 2002 usage and shall terminate with the billing for September 2002 usage.

3. The Commission retains jurisdiction for the purpose of correcting any errors that may have occurred in the drafting or issuance of this Order.

By the Commission,


DONALD L. SODERBERG, Chairman and Presiding Officer

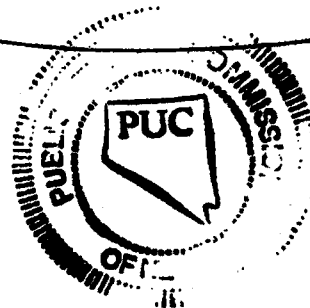

RICHARD M. MCINTIRE, Commissioner


ADRIANA ESCOBAR CHANOS, Commissioner

Attest: Crystal Jackson
CRYSTAL JACKSON, Commission Secretary

Dated: Carson City, Nevada

5-4-01
(SEAL)



ATTACHMENT 1

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

In re Request by SIERRA PACIFIC
POWER COMPANY for approval to
discontinue certified water service and
to voluntarily cancel Certificate of
Public Convenience and Necessity 689

Docket No. 01-1044

Stipulation Regarding Treatment of Proceeds

This Agreement is made and entered into by and between Sierra Pacific Power Company ("Sierra"), the Regulatory Operations Staff of the Public Service Commission of Nevada ("Staff"), the Attorney General's Bureau of Consumer Protection ("BCP"), the Truckee Meadows Water Authority ("TMWA"), the Sun Valley General Improvement District ("Sun Valley"), and the Utility Shareholders Association of Nevada ("USAN"), hereinafter referred to collectively as the "Parties."

WHEREAS, on January 29, 2001, Sierra filed a petition with the Public Utilities Commission of Nevada pursuant to NRS §704.390 seeking approval to discontinue its certificated water service and to voluntarily cancel Certificate of Public Convenience and Necessity ("CPCN") 689; and

WHEREAS, the basis for Sierra's request to discontinue its certificated water service and to voluntarily cancel its CPCN is the pending sale of its water utility business ("Water Business") to TMWA pursuant to an Asset Purchase Agreement ("APA") executed by Sierra and TMWA on or about January 15, 2001; and

WHEREAS, at hearing on March 14, 2001, the Commission convened a hearing for purposes of receiving evidence on Sierra's request to terminate its certificate, bifurcated the proceeding, heard testimony and took evidence on the issue of whether Sierra should be allowed to discontinue service under its CPCN, and set for later review the treatment of the proceeds from the sale of the water business assets; and

WHEREAS, on April 5, 2001, the full Commission approved Sierra's request to surrender its CPCN, issuing an Interim Order finding that is in the public interest to grant Sierra's petition and cancel its CPCN; and

WHEREAS, the only issue remaining to be determined in this proceeding relates to the proceeds from the sale of the water utility business to TMWA; and

WHEREAS, the Parties have reviewed the many pleadings and testimony filed with the Commission to date, and have determined that it is in the best interests of each Party, and in the public interest, to resolve this issue by stipulation and settlement as set forth below.

NOW THEREFORE, for and in consideration of the mutual covenants and obligations herein contained the Parties agree as follows:

PROCEEDS FROM SALE

1. This Stipulation ("Stipulation") is intended as a formal settlement and compromise among the Parties of any and all claims related to the proceeds from the sale of the Water Business, including water supply, treatment and distribution assets (both physical assets and water rights) and hydroelectric generation assets (both physical assets and water rights).

2. Within fifteen days of receipt of proceeds from the sale of the Water Business, Sierra will establish and fund an interest bearing escrow account in the amount of \$21.5 million which will be used to fund credits to Sierra's water customers as set forth below:

a. Sierra will identify all water customers of record as determined on June 1, 2001.

b. Ninety-five and two-tenths percent (95.2%) of the amount described in paragraph 2 above will be credited to Sierra's non-LVS customers. Of this amount, eighty percent (80%) will be allocated to residential water customers on a per-customer basis and twenty percent (20%) will be allocated to non-residential water customers on a per customer basis. Sierra's customers will receive monthly credits in the amounts of their allocated share of the total customer credit as described above beginning no later than thirty-days after close of the Sierra/TMWA transaction calculated and paid over such period of time as determined by the Commission, but not to exceed fifteen months.

c. Four and eight-tenths percent (4.8%) of the customer credit described in paragraph 2 above will be allocated to Sierra's existing LVS customer and paid in a single lump sum within fifteen days of the close of the Sierra/TMWA transaction.

3. Sierra will adjust actual balances as of the date of close for the following water-related plant and expense items in order to ensure that these balances are not hereafter reflected in electric and gas rates.

- Common Plant Allocated to Water
- ERP and Banner Systems

- '92 Early Retirement
- '95 Severance Costs
- '95 Early Retirement
- Variable Rate Mechanism Deferral for Water
- Plant Held for Future Use

4. Deferred taxes on current plant in service attributable to the Water Business in the amount of \$3.4 million will be applied as a credit to the gain. It is expressly understood, however, that this stipulated treatment of deferred taxes as a customer credit will not be relied upon or cited by the Parties hereto as precedent in any future proceeding.

5. One-hundred percent of the proceeds from the sale of the Water Business which are not refunded to customers or used to refurbish the Farad Hydro Unit will be used to reduce existing debt.

6. TMWA acknowledges that Sun Valley has contributed the up-front cost of certain facilities as reflected at MU-2 of the prefiled testimony of Martin Ugalde in this docket and that Sun Valley should not be directly allocated these costs again in future cost of service studies other than as part of the allocation of general plant in service paid by all customers.

GENERAL PROVISIONS

7. This Stipulation is subject to the Commission's approval and is made upon the express understanding that it constitutes a negotiated settlement of all issues set forth herein.

8. The provisions of this Stipulation are not severable and, in the event this Stipulation is not approved by the Commission as set forth herein, it shall be deemed

withdrawn without prejudice to any claims or contentions which may have been made in this proceeding by any party, and it shall not be admissible as evidence, or described or discussed in any future proceeding.

9. The Parties agree to take all possible action to support this Stipulation, and to take no action, direct or indirect, in opposition to the request for approval of this Stipulation.

Dated this 19th day of April, 2001 at Carson City, Nevada.

PUBLIC UTILITIES COMMISSION
OF NEVADA STAFF

By *Rick L. Humbley*

BUREAU OF CONSUMER
PROTECTION

By *B. E. Y.*

SIERRA PACIFIC POWER COMPANY

By *[Signature]*

TRUCKEE MEADOWS
WATER AUTHORITY

By *[Signature]*

SUN VALLEY GENERAL
IMPROVEMENT DISTRICT

By *Fred Schmitt*

UTILITY SHAREHOLDERS
ASSOCIATION OF NEVADA

By _____

FINAL

withdrawn without prejudice to any claims or contentions which may have been made in this proceeding by any party, and it shall not be admissible as evidence, or described or discussed in any future proceeding.

9. The Parties agree to take all possible action to support this Stipulation, and to take no action, direct or indirect, in opposition to the request for approval of this Stipulation.

Dated this 19th day of April, 2001 at Carson City, Nevada.

**PUBLIC UTILITIES COMMISSION
OF NEVADA STAFF**

**BUREAU OF CONSUMER
PROTECTION**

By _____

By _____

SIERRA PACIFIC POWER COMPANY

**TRUCKEE MEADOWS
WATER AUTHORITY**

By _____

By _____

**SUN VALLEY GENERAL
IMPROVEMENT DISTRICT**

**UTILITY SHAREHOLDERS
ASSOCIATION OF NEVADA**

By _____

By *Alan Lovel*

File: Sale Documents

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BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

In re petition of SIERRA PACIFIC POWER COMPANY for approval to discontinue certificated water service and to voluntarily cancel Certificate of Public Convenience and Necessity 689.

WILLIAM E. PETERSON GENERAL COUNSEL Docket No. 01-1044

At a general session of the Public Utilities Commission of Nevada, held at its offices On April 5, 2001.

Present: Chairman Donald L. Soderberg Commissioner Richard M. McIntire Commissioner Adriana Escobar Chanos Commission Secretary Crystal Jackson

INTERIM COMPLIANCE ORDER

The Public Utilities Commission of Nevada ("Commission") makes the following findings of fact and conclusions of law:

I. PROCEDURAL HISTORY

1. On January 29, 2001, Sierra Pacific Power Company ("Sierra") filed a petition, designated as Docket No. 01-1044, with the Commission. Sierra seeks Commission approval to discontinue its certificated water service and to voluntarily cancel Certificate of Public Convenience and Necessity ("CPC" or "Certificate") 689 and accompanying subs. Sierra represents that it is selling, and the Truckee Meadows Water Authority ("TMWA")¹ is purchasing, all assets and obligations necessary for the TMWA to successfully operate and for Sierra to completely exit the water business.

2. Sierra states that on January 15, 2001, it entered into an Asset Purchase Agreement ("APA") with the TMWA which obligates Sierra to sell, and TMWA to purchase, Sierra's water business assets. This was the culmination of a two-step process wherein the TMWA was selected as the final bidder to negotiate the final details of the APA. According to Sierra, TMWA will purchase the water business assets, with an approximate net book value of \$265 million, for \$350 million.

¹ The TMWA was established pursuant to a Cooperative Agreement among the City of Reno, the City of Sparks, and Washoe County to establish a Joint Powers Authority ("Authority") pursuant to the Nevada Interlocal Cooperation Act (NRS Chapter 277.080 through 277.180) for the purpose of acquiring Sierra's water business assets. The Cooperative Agreement has been approved by the Nevada Attorney General. As formed, the Authority is a municipality and is exempt from Commission jurisdiction pursuant to NRS 704.330(1). Op. Nev. Att'y Gen. No. 2000-34 (Dec. 2000).

3. Pursuant to the APA, Sierra reiterates that it will transfer all of its interest in the Chalk Bluff and Glendale Treatment Plants, including labs and pilot plant; all groundwater production wells; all hydro-generation units and associated weirs, flumes, forebays and penstocks; all water distribution and storage assets, including dams, reservoirs, booster pumps and mains, controls and SCADA software; Sierra's rights, title and interest in approximately 168,187 acre feet in surface, ground and storage rights, as well as all of its hydro-electric water rights and interests under the 1915 Truckee River General Electric Decree, Claims 4 through 9 under the Orr Ditch Decree, the Truckee River Agreement, and storage rights associated with Tahoe, Donner and Independence Lakes; substantial fee-owned properties within the Truckee Meadows, including all real property at the Chalk Bluff Treatment Plan and Glendale Treatment Plant, and real property necessary for the separation of the Farad, Fleish and Verdi hydro units; and trucks and equipment and other contracts and leases used by the water business.

4. Sierra additionally states that the TMWA will be assuming, subject to certain limitations, preexisting, current and post-closing liabilities related to the ownership and operation of the water business assets, assigned contracts, employment contracts and environmental matters. The TMWA has also agreed to assume Sierra's obligations in the negotiation of the Truckee River Operating Agreement described in the APA. Sierra represents that all three of the TMWA's principals (Washoe County and the Cities of Reno and Sparks) have experience in operating utility facilities and providing utility services, and is therefore fit, willing and able to provide water service to customers within Sierra's existing service territory, at the same cost and under the same terms and conditions as currently provided by Sierra, without interruption or diminution in either service quality or customer service.

5. Finally, Sierra claims that with the protections described in its petition, the sale of the water business assets to the TMWA will have no adverse impact on Sierra's gas and electric customers. Sierra asserts that it is committed to hold electric and gas customers harmless from any adverse impact caused by the sale of the water business assets by the reduction of its common and general rate base in an amount equal to the water business' allocated share of rate base, as well as investment to date in new CIS and ERP systems. Accordingly, Sierra requests the Commission to issue an order that allows Sierra to: (1) discontinue its water service pursuant to its CPC, effective on the date of closing of the sale of the water business assets to TMWA and (2) require Sierra to use the proceeds from the sale of the water business assets to reduce common and general plant in the amount of \$7,916,260, which amount represents the sum of the

water business' allocated share of common and general plant rate base (\$4,617,000), and expenditures to date on the CIS (\$1,547,000) and ERP system (\$1,752,260).

6. Sierra's petition is filed pursuant to the Nevada Revised Statutes ("NRS") and the Nevada Administrative Code ("NAC") Chapters 703 and 704, and in particular, NRS 704.390.

7. The Commission issued a public notice of this petition in accordance with State law and the Commission's Rules of Practice and Procedure.

8. The Commission has granted leave to intervene in this docket to the TMWA, the Utility Shareholders Association of Nevada, Inc., the Panther Valley Water Users Association ("Panther Valley")², and the Sun Valley General Improvement District ("Sun Valley")³. The Regulatory Operations Staff ("Staff") of the Commission and the Attorney General's Bureau of Consumer Protection ("BCP") participate as a matter of right.

9. On February 14, 2001, the BCP filed a Motion to Strike certain provisions of the APA which it asserted contains language that unlawfully specifies that the entire sale is contingent on the Commission granting unconditional approval of Sierra's petition. The Commission issued an Order denying the BCP's Motion to Strike on March 14, 2001.

10. On February 27, 2001, Sun Valley filed a Motion for Additional Time. Sun Valley requested that the dates set for the filing of testimony, as well as the date scheduled for hearing in this docket, be extended.

11. On March 2, 2001, the Commission issued an Order Granting in Part and Denying in Part Motion for Additional Time. The Presiding Officer concluded that while the deadlines for the filing of testimony in this docket would be extended, the hearing date would not be modified.

12. On March 13, 2001, the TMWA filed a Motion to Strike ("Motion") certain portions of the testimony filed by Dr. Dennis E. Peseau on behalf of Sun Valley and Panther Valley.

13. The Commission commenced a duly-noticed hearing in this docket on March 14, 2001. Public comments were provided by Alan Mandell, Chairman of the Pyramid Lake Paiute Indian Tribe; Steve Bradhurst, who spoke on behalf of the Truckee River Partnership; and

² Pursuant to the Presiding Officer's Order issued on March 13, 2001, Panther Valley's intervention was limited to its expressed concerns regarding the alleged existing water rights allocation of 350 acre feet under its existing Wholesale Water Service Agreement, and whether or not that will be honored under the proposed sale of Sierra's water business assets to the TMWA.

³ Pursuant to the Presiding Officer's Order issued on March 13, 2000, Sun Valley's intervention was limited on the basis of its representation that the Cooperative Agreement establishing the TMWA "does not deal with the

Robert Jones, Executive Director for the Builders Association of Northern Nevada ("Builders Association"). Mr. Mandell and Mr. Bradhurst both expressed support for Sierra's petition due to the understanding of the local governments that comprise the TMWA of the Truckee River water issues and their demonstrated ability to achieve mutually acceptable resolution of Truckee River water issues. Mr. Jones stated that the Builders Association is unable to render an opinion regarding the proposed transaction due to the lack of information. While acknowledging that its recommendation may be beyond the scope of this proceeding, the Builders Association recommends that the Commission smooth the transition by retaining regulatory oversight over the TMWA for two years. (Transcript of Mar. 14, 2001 at pgs. 4-15.)

14. During the hearing on March 14, 2001, the Presiding Officer reflected that this docket concerns substantial issues regarding whether or not Sierra should be allowed to discontinue service under its Certificate as well as how the proceeds or the gain from the sale of Sierra's water business assets are to be handled. Clearly, the honoring of ongoing obligations that are related to the provision of water services come within the ambit of this determination. (Tr. at 35.) Therefore, the Presiding Officer bifurcated these proceedings for hearing purposes. Phase One of the hearing would address only the issues that related to the cancellation of Sierra's CPC and the transfer of service for its water operations pursuant to NRS 704.390. Once the record was sufficient in this regard, the Commission would issue an Interim Order concerning these matters. The issue as to the use of the proceeds from the assets sale would be addressed in a future hearing. Accordingly, a continued hearing in Phase Two of this docket was tentatively scheduled to commence on April 18, 2001. Thereafter, a final decision by the Commission would be issued.

II. THE TMWA'S MOTION TO STRIKE

POSITIONS OF THE PARTIES

The TMWA's Position

15. In his direct testimony on behalf of both Sun Valley and Panther Valley, Dr. Peseau recommends that the Commission impose several rate conditions on the TMWA upon cancellation of Sierra's CPC and TMWA's purchase of Sierra's water business assets. The TMWA asserts, however, that because these stated conditions are beyond the scope of the Commission's jurisdiction, they should be stricken from the record in this proceeding. Consequently, the TMWA reasons that it is not required to obtain a CPC from the Commission

numerous other rights and obligations currently existing between Petitioner and Sierra Pacific Power Company in the other contracts between them."

and thus the Commission does not have the regulatory authority to impose upon it the conditions advocated by Dr. Peseau.

Sierra's Position

16. Sierra expressed that it joined in the TMWA's Motion, as well as seeking to strike the remainder of the reasoning in Sun Valley's testimony that relates to issues concerning the gain on the sale of water business assets. Sierra asserted that the basis upon which the Commission had granted intervention to both Sun Valley and Panther Valley was limited to the impact of the proposed transaction upon Sierra's contractual obligations and the extent to which TMWA would assume these obligations.

Sun Valley's Position

17. Sun Valley stated that it disagreed with the basis of the TMWA's Motion, which Sun Valley asserted did not address and does not attempt to strike portions of the testimony related to contributions or gain on sale that involve Sun Valley. The portion of the testimony which that motion seeks to strike is only with regard to whether the Commission would have any continuing jurisdiction to impose conditions on the cancellation of Sierra's CPC.

Other Parties' Positions

18. None of the other parties in this docket expressed a position on this issue.

Commission Decision

19. The TMWA's Motion addresses whether or not there is jurisdiction by this agency to impose conditions upon the approval of cancellation of Sierra's CPC that would somehow bind the TMWA, over which the Commission has no jurisdiction. It does not appear that a conclusion concerning this issue can be made by the striking of testimony. Consequently, the Commission denies the TMWA's Motion to Strike. (Tr. at 19-21.)

III. REDEFINITION OF SUN VALLEY'S AND PANTHER VALLEY'S PETITIONS FOR LEAVE TO INTERVENE

20. Because this case has been expedited, prepared testimony of those who have sought to intervene in these proceedings was filed with the Commission prior to issuance of the Commission's rulings on the petitions for leave to intervene. In the case of Sun Valley and Panther Valley, they were granted only partial intervention status based upon their broadly stated interests in the contractual obligations between Sun Valley, Panther Valley and Sierra as they relate to the TMWA's responsibilities to provide continuous water service to Sun Valley's and Panther Valley's customers. However, it appeared that the *prefiled testimony* on behalf of Sun Valley went beyond this issue to discuss contributions or gain on sale that involve Sun Valley.

21. During the hearing, Sun Valley stated that its petition for leave to intervene does discuss the matter of the amount of money that has been contributed or invested in the Sierra system. Sun Valley therefore contended that the rate issue was an appropriate matter in which the Commission should permit Sun Valley to produce evidence. Sun Valley expressed that it has a financial right and entitlement to some of the money that is moving and "changing hands" in this docket and believes that the Commission has the authority to rule on this matter. Accordingly, Sun Valley requested the Commission to consider an amendment to its petition for leave to intervene in order to grant Sun Valley the scope of intervention that would justify the type of testimony that it has filed in this docket. (Tr. at 22-26.)

22. The Presiding Officer thereupon permitted Sun Valley and Panther Valley the opportunity to redefine their petitions for leave to intervene and thereafter allowed them to introduce into evidence certain letters of commitment ("Letter Agreements") from Sierra which they alleged that the TMWA had agreed to honor. The Memorandum of Understanding dated June 7, 1999, reflects the agreement between Sun Valley and Sierra regarding the existing limit of 1,785 acre feet. (See Exhibit 3.) The Summary of Water Commitment from Sierra to Panther Valley dated May 18, 1998, confirms Sierra's commitment to provide water to Panther Valley in the amount of 349.61 AF. (See Exhibit 4.) Finally, Sierra's Letter of Understanding regarding Water Service to Panther Valley dated November 22, 2000, specifies the peak day demand, gpm fire flow, and residual pressure upstream of the meters under these conditions. (See Exhibit 5.)

23. Joint counsel for Sun Valley and Panther Valley represented that in view of the Commission's consideration of these letter agreements, Panther Valley would withdraw its witness, Mr. John Enloe. Moreover, Dr. Peseau's testimony with regard to Panther Valley would be modified accordingly, and his testimony seeking specific continuing rate commitments to be a condition of the cancellation of Sierra's Certificate, would be withdrawn. (Tr. at 30-32.) Certain exhibits to Dr. Peseau's testimony would be amended or corrected and re-filed with the Commission. (Tr. at 32.) Finally, in addition to the issues relating to Sierra's cancellation of its certificate, Sun Valley would be permitted to intervene in the proceedings as they related to the calculation and allocation of the gain or the proceeds resulting from the sale of assets.

III. THE CANCELLATION OF SIERRA'S CERTIFICATE

24. Sierra's petition for approval to discontinue its certificated water service and to voluntarily cancel CPC 689, along with the APA and all attachments to the petition (identified at the hearing as Exhibit 1) implicates the following matters: The TMWA's ability to provide service, including its financial ability to do so; the transitional service agreements described in

the APA; and Sierra's existing wholesale agreements. Each of these issues will be discussed below.

1. THE TMWA'S GENERAL ABILITY TO PROVIDE SERVICE

Positions of the Parties

Sierra's Position

25. Sierra asserts that the TMWA is "... fit, willing and able to provide water service to customers within Sierra's existing service territory, at the same cost and under the same terms and conditions as currently provided by Sierra, without interruption or diminution of either service quality or customer service." (Exhibit 1, page 10.) Sierra notes that the three entities comprising the TMWA have experience operating utilities and utility facilities. Both the Cities of Reno and the City of Sparks jointly operate a sewer plant that serves the Truckee Meadows. Washoe County operates a water utility that serves customers throughout the county and in the Truckee Meadows. (Exhibit 1 at 9.) Sierra states that the TMWA has also formally committed to retaining the existing work force. This is to be accomplished by providing employment offers to its existing Water Department personnel at comparable wages and benefits. (Exhibit 1 at 9; APA, Section 6.6.)

26. In recognition that the TMWA will not initially be in a position to perform all of the activities required for the provision of water service, Sierra states that it will be hired by the TMWA to provide various transitional services. The TMWA anticipated that at a minimum, these services would include metering, billing, and customer service. (Exhibit 1 at 9.) A list of potential services is contained in Schedule 6.7 of the APA.

27. Sierra contends that because the TMWA has expressed its intent to adopt Sierra's existing rates and terms and conditions for water service in conjunction with employee retention and transitional services, Sierra's transfers of the water operations to the TMWA should appear seamless to the customer. (Exhibit 1 at 9,10.)

The TMWA's Position

28. Mr. Isaef, Special Assistant to the Sparks City Manager, and also the leader of the TMWA transition management team, agreed with Sierra that the members of the TMWA have extensive experience providing utility service. (Exhibit 7 at 8, 9.) He confirmed that the TMWA intends to make a smooth transition by retaining existing Water Department employees and contracting with Sierra for various services for a transitional period. The TMWA will make employment offers to Sierra's existing Water Department employees, including the management team. (Exhibit 7 at 6, 7.)

29. While the Cooperative Agreement creating the TMWA requires it to initially adopt Sierra's existing Water Department wholesale and retail rates, the TMWA has qualified its retention of these rates if certain events occur (e.g., regulatory or statutory changes in arsenic levels). (See Cooperative Agreement in Exhibit 1 at 11; Ex.1, Affidavit; and Exhibit 7 at 9.)

30. In order to obtain a seamless transition for the water service customers, the TMWA will assume, were practicable and allowed by law, Sierra's policies and procedures. (See affidavit of TMWA Chairman, Mr. Tony Armstrong in Exhibit 1.)

31. Mr. Isaefff reaffirmed the TMWA's intent to initially adopt Sierra's existing terms and conditions for service. (Exhibit 7 at 17; Tr. at 97, 98.)

The BCP's Position

32. Ms. Shirley J. Norman, the BCP's Technical Staff Manager, testified on behalf of the BCP. Her direct testimony was identified at the hearing as Exhibit 8. Ms. Norman contended that until certain concerns are addressed, the BCP is unable to determine if Sierra's discontinuation of service is in the public interest. The BCP's concerns include the adequacy of existing rates and the nature of the ratemaking process for a municipal utility. (Exhibit 8 at 7-9; Tr. at 113.)

33. While the BCP believes that Sierra's provision of customer services under a contract for a transitional period is a viable solution to the TMWA's initial inability to provide customer service, Ms. Norman expressed concern as to the adequacy of current rates to recover the costs associated with the provision of transitional services and the adequacy of the accounting system to track the costs associated with the provision of these services. (Exhibit 8 at 8, 9.)

Staff's Position

34. Mr. Jeffrey W. Galloway, Financial Analyst for Staff, testified regarding the TMWA's qualifications to operate the utility. (See Exhibit 9.) He stated that while the TMWA is not an entity over which the Commission has jurisdiction, the "fit, willing and able to provide the water services" standard that would generally apply to the transfer of assets and a CPC, contains the appropriate criteria that defines the test for determining if this transfer of utility assets and cancellation of Sierra's CPC is in the public interest and are relevant to the sale of these operations. (Exhibit 9 at 4.)

35. Mr. Galloway expressed Staff's belief that the TMWA has the ability to operate the proposed water service because TMWA members currently operate utilities located in the Reno/Sparks area. Assuming Sierra's personnel accept employment with the TMWA, the daily

operations will be performed by existing employees. Because Sierra will be providing customer service under contract for a transitional period of 12 to 18 months, customer service should not be impacted. (Exhibit 9 at 4-6.)

36. Mr. Galloway stated that while Staff does not object to the concept of TMWA contracting with Sierra for services to be provided during a transitional period, Staff recommends that the transitional service agreements be filed with the Commission for its approval and their duration be restricted to 12 months. (Exhibit 9 at 11, 12.) He further voiced Staff's recommendation that Sierra file a list of assets and liabilities transferred to the TMWA with the Commission. (Exhibit 9 at 2.)

Other Parties' Positions

37. None of the other parties in this docket expressed a position on this issue.

Commission Findings and Conclusion

38. The Commission finds that the TMWA has extensive utility operation experience. Both the Cities of Reno and Sparks jointly operate a sewer plant that serves the Truckee Meadows and Washoe County operates a water utility that serves customers throughout the county and in the Truckee Meadows. The TMWA intends to adopt, to the extent allowed by law, Sierra's existing terms and conditions for water service.

39. Due to its employee-retention commitment and the contracting with Sierra for services necessary for the provision of water service that it is not initially able to perform, the Commission believes that the TMWA should be able to provide water service in the requested service territory.

40. The Commission finds that because the TMWA is adopting Sierra's existing water service rates and to the extent allowed by law, Sierra's terms and conditions for service, the transfer should appear seamless to the customer.

41. Sierra shall file a list of assets and liabilities transferred to the TMWA.

2. THE TMWA'S FINANCIAL VIABILITY (ADEQUACY OF POST-TRANSACTION RATES AND POST-TRANSACTION CHANGE PROCESS)

Positions of the Parties

Sierra's Position

42. According to Sierra, upon closing of the proposed transactions, the TMWA will adopt Sierra's rates then in effect. (Exhibit 1 at 10.)

///

///

The TMWA'S Position

43. The TMWA's intention to adopt Sierra's wholesale and retail rates is contained in Mr. Armstrong's affidavit, which states in part:

"Subject to certain qualifications, such as the enactment of regulations or statutes regarding arsenic levels in water, upon close of the sale by Sierra and purchase by TMWA of Sierra's water business assets, TMWA intends to adopt Sierra's wholesale and retail rates." (See Exhibit 1.)

44. Mr. Isaeff also elaborated upon the TMWA's rate proposal by noting that favorable tax-exempt financing should allow the TMWA to maintain Sierra's current rates for at least two years. (Exhibit 7 at 17.)

45. Mr. Lawrence J. Pierce, a senior financial consultant obtained by the TMWA as its rebuttal witness, testified in response to the BCP's concern that current water rates were insufficient for the TMWA to recover all its cost of operations. (See Exhibit 11.) Mr. Pierce indicated that the tax-exempt status of TMWA would allow it to forgo the payment of federal income tax expense. In the year 2000, he stated that Sierra paid \$7.1 million in federal income taxes and that the elimination of this expense would be sufficient to offset the BCP's estimated \$5 million revenue deficiency. (Exhibit 11 at 4, 5.) Further, customer growth experienced in the years 2000 and 2001 ensures the ability to service the debt. (Exhibit 11 at 5, 6.)

46. According to Mr. Pierce, annual debt service payment for the interest rate range of 5.5 percent to 7.2 percent is \$27.5 million to \$32.9 million. Sierra's Water Department revenues available for debt service and capital investment were \$32 million in 2000. At the time his rebuttal testimony was prepared, Mr. Pierce stated that the interest rate for the proposed financing was in the range of 5.8 percent to 5.9 percent. (Exhibit 11 at 5.)

47. Mr. Pierce also testified that elimination of the allocated administrative costs and general plant will offset the costs associated with transitional services. (Exhibit 11 at 5, 6.)

48. With regard to the post-transaction rate change process, Mr. Isaeff testified that in order to implement a change in rates, the TMWA must comply with NRS Chapter 237, which requires the development of a Business Impact Statement ("BIS") and affirmative action to obtain input from the entities that will be affected by the proposed rule change. The BIS report would include alternatives as to how to mitigate the impact and a public hearing would be held. (Exhibit 7 at 12; Tr. at 94-96.)

49. Mr. Isaeff represented that in addition to NRS Chapter 237, the TMWA will comply with NRS Chapter 318, which sets forth the rate change requirements for a general improvement district. (Tr. at 96, 97.)

The BCP's Position

50. The BCP expresses its concern that the current rates would be insufficient for the TMWA to finance the \$400 million debt associated with the acquisition and to operate the water system (Exhibit 8 at 7, 8.) Using the information derived from the Commission's decision in the Water Department's last general rate change application in Docket No. 97-9020, and using an estimated 5.5 percent bond interest rate, the BCP estimates that the revenues would be deficient by approximately \$5 million. However, the BCP recognizes that the customer growth since the last general rate proceeding and federal income tax savings would mitigate the potential revenue deficiency. (Exhibit 8 at 7 and Attachment SN-6.) Further, the depreciation expense incorporated into current rates would provide additional cash flow to the TMWA. (Exhibit 8 at 7, 8.)

51. Generally, the BCP has found that the costs of providing services in house are less than those associated with contracting for the services. Based upon this experience, the BCP is concerned that existing rates may be insufficient to cover the costs associated with the transitional services. (Exhibit 8 at 8.)

52. Ms. Norman testified with regard to the post-transaction rate change process, it was the BCP's position that the rate change process for municipal utilities is inferior to that performed by the Commission. (Tr. at 112, 113.) She emphasized, however, that the BCP was not requesting the Commission to pass judgment on a process that is not within its purview. (Tr. at 113.)

Staff's Position

53. Mr. Galloway testified that the TMWA will finance the acquisition by issuing \$400 million of tax-exempt revenue bonds, of which \$50 million will be capital for operations and the acquisition of equipment. He stated that the financial statements of Sierra's Water Department indicate the existence of sufficient cash flow for both servicing the \$400 million debt and providing water service. Staff therefore holds the opinion that the TMWA has the financial ability to provide water service. (Exhibit 9 at 4, 5.)

54. Mr. Galloway further notes that the APA between Sierra and the TMWA specifies that the TMWA must close the transaction if the bond interest rate is 7.2 percent or lower. (Exhibit 1, APA at 26; Exhibit 9 at 5.) Mr. Galloway reflected that while the TMWA

does not intend to increase rates, more stringent water quality standards may place upward pressure on rates. (Exhibit 9 at 5.)

Other Parties' Positions

55. None of the other parties in this docket expressed a position on this issue.

Commission Findings and Conclusion

56. With regard to the adequacy of post-transaction rates, the TMWA intends to adopt Sierra's wholesale and retail rates and to retain these rates for at least two years. Elimination of federal income taxes will be sufficient to offset BCP's estimated \$5 million revenue deficiency, which is based upon a 5.5 percent interest rate.

57. The TMWA and BCP concur that customer growth enhances the TMWA's ability to service its debt, using Sierra's existing rates.

58. No party in this docket refuted the TMWA's position that the current interest rates are less than 7.2 percent for the proposed financing and, at the time rebuttal testimony was prepared, were in the range of 5.8 percent to 5.9 percent. While at a financing rate of 7.2 percent, the TMWA appears to have a \$0.9 million debt service deficit, customer growth should mitigate any deficit.

59. The Commission finds and concludes that the TMWA has the financial wherewithal to finance the operations and service proposed debt. However, until the transitional service agreements have been completed, it is not possible to know if the costs exceed those currently being recovered in rates.

60. The Commission also finds and concludes that although the TMWA represents that the rate change process will be performed in accordance with NRS Chapters 237 and 318, the post-transaction rate process is a matter over which the Commission lacks jurisdiction to rule.

3. TRANSITIONAL SERVICE AGREEMENTS

Sierra's Position

61. Section 6.7 of the APA requires Sierra to enter into transitional and/or shared service agreements with the TMWA to provide support and administrative services. (Exhibit 1, APA at 24.) The list of potential services are provided in Schedule 6.7.

62. Mr. Jeff Ceccarelli, Sierra's President, testified on behalf of Sierra with regard to the transitional service agreements. His prefiled direct testimony was marked as Exhibit 2. Mr. Ceccarelli anticipated that these transitional service agreements, which would be filed with the Commission, would be "small in magnitude and short in duration." (Tr. at 67-70.) He stated

that it was Sierra's desire that the filing(s) with the Commission would not impede the parties from promptly closing the transaction. (Tr. at 70.)

63. Mr. Ceccarelli testified that the parties were currently in active discussion concerning metering, billing, and customer service matters. Further, he expressed that while the terms of the transitional service agreements are subject to negotiation, Sierra expected that each agreement would be of a 12-month duration.

The TMWA's Position

64. Mr. Isaefff testified that the TMWA expects the terms of each transitional service contract to be from 12 to 18 months. (Tr. at 98.)

65. Mr. Pierce also testified that due to the economies of scale associated with joint meter reading, the TMWA desires the ability to contract for meter reading service on a long-term basis. (Exhibit 11 at 7; Tr. at 129, 130.)

The BCP's Position

66. The BCP believes Sierra should implement a record system that would facilitate verification that the revenues received by Sierra are sufficient to cover the costs associated with the provision of transitional services. (Exhibit 8 at 9.)

Staff's Position

67. It appeared to Staff that the TMWA's ability to provide adequate customer service right from the outset was having transitional services received from Sierra. (Tr. at 66.) Mr. Galloway testified that Staff generally opposes Sierra's provision of services similar in nature to the transitional services or shared services to be provided to the TMWA to third parties. However, Staff is not opposed to the provision of transitional services or shared services to the TMWA for a period not to exceed 12 months. (Exhibit 9 at 11, 12.)

68. Mr. Galloway noted that the transitional services will be provided at cost. He expressed Staff's desire to review the development of the costs for the transitional services and recommendation that Sierra be required to file the transitional service agreements with the Commission for its approval. (Exhibit 9 at 12.)

69. Mr. Galloway stated that the filing of such contracts for Commission approval should not delay the transaction from closing because it was not anticipated that an evidentiary hearing on the matter would ensue. (Tr. at 119, 120.)

70. Mr. Galloway also voiced Staff's desire that Sierra notify the Commission of the closing of the transaction with the TMWA. (Exhibit 9 at 14, 15.)

///

Other Parties' Positions

71. None of the other parties in this docket expressed a position on this issue.

Commission Findings and Conclusion

72. While Sierra anticipates the transactions to be "small in magnitude," the BCP has expressed concern that the impact on the TMWA's ability to retain the existing rates implies that the costs may be significant. Until the contracts are executed, the estimated costs for these services are unknown.

73. The Commission notes that Section 11.1 of the APA specifies that the agreement may be terminated by either Sierra or the TMWA if not closed by June 30, 2001. However, the APA allows the closing date to become December 31, 2001, in accordance with Section 8.1(b), if governmental approval was "... obtained on terms reasonably acceptable to the Seller or Purchaser, as may be the case." While Staff does not anticipate that the filing of the transitional agreements with the Commission will necessitate a hearing on the filing, the possibility of a hearing still exists. The hearing process may delay the issuing of an order beyond June 30, 2001, making it impossible for Sierra to determine if any conditions placed upon the transitional contract are sufficient for Sierra to implement its Section 8.1(b) right to terminate the APA.

74. Further, even if no hearing on any transitional service agreement is required, the timing of the completion of the transitional agreement and the Commission's noticing requirements may delay the Commission's decision beyond the June 30, 2001, closing date.

75. The Commission finds that Section 6.7 of the APA allows for the provision of shared services. As noted by the TMWA, the provision of shared services between Sierra and TMWA may provide economies of scale in areas such as meter reading.

76. The Commission believes that Sierra should file all transitional service agreements with the Commission for approval. However, in order to balance the Commission's regulatory authority with a desire not to impede the closing of the transaction, the Commission will require the filing of transitional agreements only where their terms exceed six (6) months in duration. However, Sierra bears the risk that the transitional service agreements not approved by the Commission are compensatory.

77. For periods extending beyond the transitional period, the Commission encourages Sierra and the TMWA to enter into shared services agreements (e.g., meter reading) where it is operationally efficient to do so. The Commission directs Sierra to file any shared service agreement with the Commission for approval.

///

4. WHOLESALE AGREEMENTS

Sierra's Position

78. Mr. Ceccarelli testified that when Sierra entered into the APA with the TMWA, it intended to continue or pass forward any obligations that it had to its customers, particularly wholesale customers. He testified that these were obligations with which the TMWA has agreed to abide, even though the Letter Agreements (*see* discussion in Paragraph 22, above) were not specifically listed in the APA. (Tr. at 54-58.) The omission of discussion of these documents from the APA was not an intentional oversight, but rather was a matter of definition of materiality. (Tr. at 58.) To honor the existing agreements with all of its customers in the system, including Panther Valley and Sun Valley, would not interfere with completion of the sale of the assets. (Tr. at 58.)

The TMWA's Position

79. Mr. Isaeff additionally testified that the TMWA was prepared to honor the terms of the Letter Agreements. (Tr. at 83.) He asserted that although the Commission would not have jurisdiction over the TMWA once Sierra received approval to discontinue service and transfer the water assets, the TMWA would provide excellent water service to the former water customers of Sierra. (Exhibit 7 at 3.)

Other Parties' Positions

80. None of the other parties in this docket expressed a position on this issue.

Commission Findings and Conclusion

81. The Commission finds that: (1) Schedule 4.7 of the APA contains a list of Material Contracts and generic references to categories of contracts, water sales agreements being one such category (*See* Exhibit 1 to the APA); (2) Sierra intends to transfer these contracts, along with other agreements currently under negotiation with other customers, to the TMWA; (3) Section 34 of the Cooperative Agreement creating the TMWA "grandfathers in" existing wholesale agreements; and (4) the TMWA agrees to honor the Letter Agreements described in Exhibits 3, 4, and 5, of this docket (as discussed in Paragraph 22 of this Order, above).

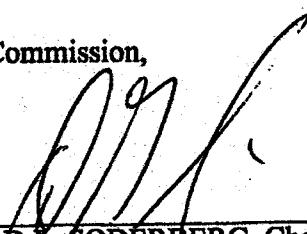
82. The Commission concludes that the terms of existing wholesale agreements between Sierra and its customers shall be transferred to and honored by the TMWA.

IV. CONCLUSION

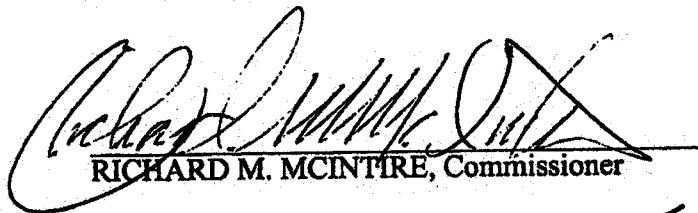
83. This Order is the result of careful review of all the testimony and exhibits introduced in this phase of the docket and reflects the appropriate conclusions made from the

5. The Commission retains jurisdiction for the purpose of correcting any errors that may have occurred in the drafting or issuance of this Order.

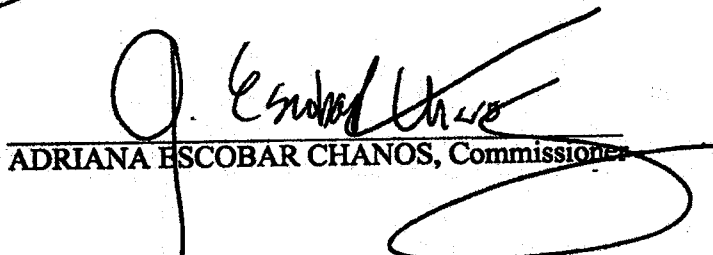
By the Commission,



DONALD L. SODERBERG, Chairman and Presiding Officer



RICHARD M. MCINTIRE, Commissioner

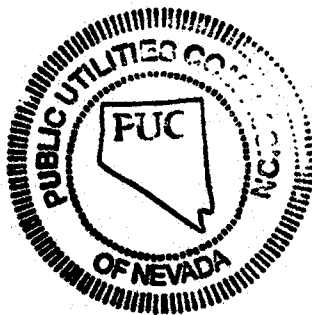


ADRIANA ESCOBAR CHANOS, Commissioner

Attest: Crystal Jackson
CRYSTAL JACKSON, Commission Secretary

Dated: Carson City, Nevada

(SEAL) 4-11-01



COPY

BEFORE THE PUBLIC UTILITIES COMMISSION OF NEVADA

-oOo-

In re petition of SIERRA PACIFIC
POWER COMPANY for approval to
discontinue certificated water
service and to voluntarily cancel
Certificate of Public Convenience
and Necessity 689.

DOCKET NO. 01-1044

TRANSCRIPT OF PROCEEDINGS

HEARING

VOLUME 1

10:00 a.m., Wednesday
March 14, 2001

Offices of the Public Utilities Commission
1150 East William Street
Carson City, Nevada

Reported by:

DEBRA J. BARTGIS, CCR #56

APPEARANCES:

Commissioners Present:	DONALD SODERBERG Chairman and Presiding Officer
	RICHARD McINTIRE Commissioner
Chairman's Administrative Attorney:	DONNA LaGUE
Commission Policy Advisor:	PAUL ANDERSON
For Sierra Pacific Power Company:	ELIZABETH ELLIOT Associate General Counsel 6100 Neil Road P.O. Bdx 10100 Reno, Nevada 89520
For PUCN Regulatory Operations Staff:	RICHARD HINCKLEY Staff Counsel 1150 East William Street Carson City, Nevada
For Bureau of Consumer Protection:	CHRIS VAN DYCK Deputy Attorney General 1000 East William Street Suite 200 Carson City, Nevada
For Utility Shareholders Association of Nevada, Inc.:	BRIAN SANDOVAL Attorney at Law 421 Court Street Reno, Nevada 89501

For Truckee Meadows
Water Authority:

WILLIAM KOCKENMEISTER
Attorney at Law
6005 Plumas Street
Suite 301
Reno, Nevada 89509

For Sun Valley General
Improvement District &
Panther Valley Water
Users Association:

HALE, LANE, PEEK,
DENNISON, HOWARD & ANDERSON
Attorneys at Law
by FRED SCHMIDT
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Carson City, Nevada 89702

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1 CARSON CITY, NEVADA, WEDNESDAY, MARCH 14, 2001

2 10:00 A.M.

3 -oOo-

4 CHAIRMAN SODERBERG: This hearing will come
5 to order.

6 The record will reflect that this is the
7 time and place set before the Public Utilities Commission
8 of Nevada in the matter of the petition of Sierra Pacific
9 Power Company for approval to discontinue certificated
10 water service and to voluntarily cancel its Certificate
11 of Public Convenience and Necessity and accompanying
12 sub-certificates.

13 This matter is more fully described in the
14 filing designated as Docket Number 01-1044.

15 Appearing today for the Commission are
16 myself, Don Soderberg, Chairman and Presiding Officer;
17 Commissioner Richard McIntire; and in Las Vegas
18 Commissioner Adriana Escobar Chanos; Paul Anderson, my
19 Policy Advisor; and Donna LaGue, my Administrative
20 Attorney.

21 Appearing for Sierra Pacific Power Company?

22 MS. ELLIOT: Good morning, Chairman.

23 Elizabeth Elliot on behalf of Sierra Pacific.

24 CHAIRMAN SODERBERG: Appearing for the
25 Commission's Regulatory Operations Staff?

1 MR. HINCKLEY: Good morning, Chairman and
2 other Commissioners. Richard Hinckley.

3 CHAIRMAN SODERBERG: Appearing for the
4 Attorney General's Bureau of Consumer Protection?

5 MR. VAN DYCK: Good morning. Chris Van
6 Dyck.

7 CHAIRMAN SODERBERG: Appearing for the
8 Truckee Meadows Water Authority?

9 MR. KOCKENMEISTER: Bill Kockenmeister.

10 CHAIRMAN SODERBERG: Appearing for the
11 Sun Valley General Improvement District and the Panther
12 Valley Water Users Association?

13 MR. SCHMIDT: Fred Schmidt.

14 CHAIRMAN SODERBERG: Appearing for the
15 Utility Shareholders Association of Nevada?

16 MR. SANDOVAL: Good morning, Mr. Chairman.
17 Brian Sandoval on behalf of the Shareholders.

18 CHAIRMAN SODERBERG: The record will
19 reflect the public notice of both this petition and
20 hearing was made on February 1st, 2001, with comments,
21 protests, and/or petitions for leave to intervene due on
22 or before February 21st of 2000.

23 Are there any individuals, other than the
24 parties of record, who would like to comment on this
25 matter today?

1 MS. ELLIOT: Chairman Soderberg, I
2 understand that there are people in the audience who have
3 not been granted intervenor status who would like to make
4 a public statement at some point in time that's
5 convenient to the Commission; whether that's now or as we
6 move on in the day. I'm sure that they would appreciate
7 an early calendaring of that.

8 CHAIRMAN SODERBERG: Why don't we take care
9 of the noticing matters first of all, and then we will
10 take public comment.

11 MS. ELLIOT: That would be great.

12 CHAIRMAN SODERBERG: It's a public meeting,
13 but we so rarely get public comment we actually have to
14 wedge it in someplace. We're not used to that.

15 The record will reflect that the Commission
16 has in its files Affidavits of Publication regarding
17 notice of this petition and hearing for this time and
18 place.

19 Are there any parties at this proceeding
20 that wish to examine the affidavits on file?

21 (No response.)

22 CHAIRMAN SODERBERG: Hearing no requests,
23 the Commission deems that this matter has been duly and
24 properly noticed for a hearing at this time and place.

25 Before we get into the preliminary

1 procedural matters, I would like to make a microphone
2 available for members of the public that would like to
3 comment on this case.

4 What we would ask you to do is to come to
5 this chair here and state your name, address, and any
6 entity affiliation so we have that on the record.

7 ALAN MANDELL

8 a public witness

9 WITNESS STATEMENT

10 THE WITNESS: Good morning, Mr. Chairman.
11 Thank you very much.

12 My name is Alan Mandell, and I would like
13 to thank the Commission for the opportunity to present
14 this statement in support of the petition to voluntarily
15 cancel Sierra Pacific Power Company's Certificate of
16 Public Convenience and Necessity before you today.

17 I'm the Chairman of the Pyramid Lake Paiute
18 Tribe. The Tribe is one of the two original signatories
19 of the Preliminary Settlement Agreement, and a mandatory
20 party of the Truckee River Operating Agreement under
21 PL 101-618, which is also known as the Negotiated
22 Settlement.

23 The Tribe would first like to commend
24 Sierra Pacific for its efforts with respect to the
25 Negotiated Settlement. As most of you know, the history

1 of litigation over the Truckee River goes back over
2 80 years, and Sierra was our opponent most of the time.
3 Sierra took the risk of trusting the Tribe by entering
4 into this Negotiated and Settlement Agreement and
5 process. It was not easy for either of us to set aside
6 our history of fighting, but we now feel comfortable that
7 we can go forward working as partners with Sierra and
8 this community.

9 When Sierra announced that it would sell
10 its water company, the Tribe was deeply concerned. It
11 took a long time to develop mutual respect, trust, and a
12 good working relationship with our Truckee Meadows
13 neighbors. The possibility of a water company being sold
14 to an entity with a different agenda that did not have
15 any roots in the community or awareness of the history or
16 familiarity with the issues involving Indian tribes or
17 endangered species or experiencing joint problem-solving
18 with us, was very unsettling. The Tribe was relieved and
19 pleased when Sierra announced its selection of the local
20 governments combined as Truckee Meadows Water Authority
21 as the winning bidder.

22 The Tribe has a history of being able to
23 resolve difficult issues with the members of the Truckee
24 Meadows Water Authority, including the Unappropriated
25 Water Agreement, the Conservation Agreement, and the

1 Water Quality Settlement Agreement. More recently the
2 Tribe and the local governments have forged a partnership
3 on water quality issues with respect to the TTSA
4 expansion, and are working with water quality regulators
5 to find a consistent approach to setting water quality
6 standards for the multi-jurisdictional river system. We
7 understand each other's concerns, objectives, and
8 perspectives, and we believe that we can and should find
9 solutions that work for all of us.

10 Therefore, the Pyramid Lake Tribe therefore
11 supports Sierra's application to transfer the water
12 company to the Truckee Meadows Water Authority.

13 And with that, I would submit the hard copy
14 of my presentation.

15 And once again I would like to thank you,
16 and good luck with the application process here.

17 CHAIRMAN SODERBERG: Thank you.

18 THE WITNESS: And thank you very much for
19 the opportunity to come forward.

20 CHAIRMAN SODERBERG: Are there any
21 questions from the Commission of this individual?

22 COMMISSIONER McINTIRE: No, Chairman.

23 CHAIRMAN SODERBERG: In Las Vegas?

24 (Inaudible)

25 CHAIRMAN SODERBERG: Oh, I'm sorry. Okay.

1 COMMISSIONER McINTIRE: We're not noticed
2 for questions, Chairman.

3 CHAIRMAN SODERBERG: Thank you very much.
4 I appreciate it.

5 THE WITNESS: Thank you very much.

6 (The witness was excused.)

7 CHAIRMAN SODERBERG: Is there anybody else
8 that would like to make public comments on this
9 application?

10 STEVE BRADHURST
11 a public witness
12 WITNESS STATEMENT

13 THE WITNESS: Good morning, Mr. Chairman.
14 My name is Steve Bradhurst, and I want to thank you for
15 the opportunity to present this statement in favor of
16 Sierra Pacific Power Company's petition for approval to
17 discontinue certificated water service and to voluntarily
18 cancel Certificate CPC 689.

19 I appear before you today on behalf of the
20 Truckee River Partnership, a non-profit organization
21 whose members include both business and environmental
22 leaders in Washoe County. The Partnership was created in
23 1997 to support the most environmentally and economically
24 sound water future for the Truckee River watershed. The
25 Partnership believes the federal law known as the

1 Negotiated Settlement, Public Law 101-618, accomplishes
2 this goal since its focus is on resolving serious Truckee
3 River water issues, including water supply, water
4 quality, water allocation, and fish habitat.

5 The bottom line is the Negotiated
6 Settlement provides a new way to manage the waters of the
7 Truckee River, and it has a direct bearing on the quality
8 of life in the Truckee River watershed.

9 The Partnership was concerned when Sierra
10 Pacific Power Company announced it would sell its water
11 business. That concern was based on the fact that the
12 Power Company has served the Truckee Meadows Community
13 well in the operation of its water business, and the
14 Power Company has been a strong supporter of the
15 Negotiated Settlement. We understand Sierra Pacific
16 Power Company's business is changing, hence the need to
17 sell its water business. The Partnership is pleased the
18 winning bidder for the water business is the Truckee
19 Meadows Water Authority.

20 The future of the Power Company's water
21 business is one of the most important issues facing the
22 residents of the Truckee Meadows. The care of water
23 rights not only involve scientists and engineers, but
24 it involves stewardship and relationships. Our local
25 governments are in a unique position to provide the

1 stewardship on behalf of the community.

2 The Power Company's water rights not only
3 protect the water business, but also all water users in
4 the community. Therefore, we believe that the best
5 scenario for local government to own -- therefore, we
6 believe the best scenario is for local governments to own
7 these water assets.

8 We are also pleased that the local
9 governments have forged the necessary relationships with
10 the Pyramid Lake Paiute Tribe and the Federal government
11 on important Truckee River water issues. For example,
12 the local governments have had successful negotiations
13 with the Tribe and the Federal government that have
14 resulted in the Water Quality Settlement Agreement, the
15 Unappropriated Water Agreement, and the Conservation
16 Agreement. Recently the Tribe and the local governments
17 have forged a partnership on water quality issues
18 concerning expansion of the Tahoe-Truckee Sanitation
19 Agency's water reclamation plant, and other water quality
20 problems associated with this multi-jurisdictional river
21 system.

22 To conclude, the Truckee River Partnership
23 believes the transaction negotiated between the Truckee
24 Meadows Water Authority and the Sierra Pacific Power
25 Company is a necessity, and therefore the petition should

1 be approved.

2 Now that, Mr. Chairman, is the extent of
3 the statement of the Truckee River Partnership. We would
4 be more than happy to respond to any questions.

5 CHAIRMAN SODERBERG: Are there any
6 questions of Mr. Bradhurst?

7 (No response.)

8 CHAIRMAN SODERBERG: Thank you very much.

9 THE WITNESS: Thank you.

10 (The witness was excused.)

11 ROBERT JONES

12 a public witness

13 WITNESS STATEMENT

14 THE WITNESS: Mr. Chairman, for the record,
15 my name is Robert Jones. I'm the Executive Director for
16 the Builders Association of Northern Nevada.

17 And I had asked to intervene in this, and
18 it was suggested that the documents were either too late
19 or inappropriate so I was not allowed that intervention.
20 However, what I would like to do is read into the record
21 in the public section our testimony that was later
22 submitted for this decision.

23 CHAIRMAN SODERBERG: Yes, and I believe we
24 have a copy of that, but if you could read it into the
25 record that would be wonderful.

1 THE WITNESS: Good. Thank you.

2 The Builders Association of Northern Nevada
3 is a trade organization representing the construction
4 industry in Northern Nevada. We presently have
5 approximately 820 business members primarily composed of
6 housing and light construction contractors and supporting
7 trades.

8 We as an association have some concerns
9 regarding Docket Number 01-1044. Our concerns are
10 different than those that you presently seem to be
11 dealing with. Our association does not have enough
12 information to render an opinion as to the
13 appropriateness of Sierra Pacific Power's release of its
14 Certificate of Public Convenience. We're not sure if our
15 concerns are within your purview in this docket.
16 However, we feel it necessary to go on the record with
17 our concerns.

18 We must first say that we are sure that the
19 intent of all parties in this matter, Sierra Pacific
20 Power and TMWA are above reproach, and that were it not
21 for the condensed time some of our concerns would be
22 addressed through further examination of the transition
23 rules with both companies.

24 The Builders Association does not have an
25 overriding concern for the fact that there is no -- we do

1 have an overriding concern for the fact there is no third
2 party overview once TMWA takes control of this system.
3 The TMWA transition team has assured us that they will be
4 moving forward expeditiously to put in place the rules,
5 regulations, and overview process for our industry and
6 the public. We do not doubt the veracity, but only their
7 ability to perform the needed overview and rules in as
8 timely a manner as our industry needs.

9 Our association has always appreciated the
10 role that both the PUC and the Consumer Advocate have
11 played in the rulemaking and rule adjusting process. We
12 also appreciate that there is always a complaint process
13 open to us if we feel it necessary to voice our concerns.
14 The relationship between the PUC, the Consumer Advocate,
15 the utility, and our industry usually dispenses
16 regulatory clarification that represents a compromise of
17 all parties. The process may be adversarial, but usually
18 arrives at a position where everyone feels equally
19 affected, indicating justice has been served.

20 The association would like to make the
21 following suggestion, knowing that this may be outside
22 the purview of these proceedings, and equally knowing
23 that these concerns would eventually be fairly
24 adjudicated by the TMWA board.

25 That the Public Utility Commission allow

1 for the voluntary cancellation of Public Convenience and
2 Necessity 689; but to add as a condition of the release
3 of the Public Utilities Commission, keep the present
4 rules in place that have the PUC functioning in an
5 expedited process to oversee TMWA's operations for a
6 two-year period.

7 That the PUC not deal with rates, as the
8 legally established TMWA board can deal with these
9 issues, and as a public elected board should deal with
10 rates.

11 That the regulatory portion of the
12 rulemaking and the regulatory oversight remain with the
13 PUC. We believe that because of the expedited process
14 that both Sierra Pacific and TMWA have had to deal with,
15 even with the transfer of staff from Sierra Pacific Power
16 to TMWA, that the rulemaking and regulatory portion of
17 the transference will not be in place to allow the
18 customers of this new TMWA board to be protected against
19 inevitable confusion caused by this transition.

20 We at the Builders Association of Northern
21 Nevada believe we have standing in this matter, and we
22 also believe that once the Commission rules, that TMWA
23 will be predisposed to answer the day-to-day regulatory
24 questions necessary for a smooth transition, thus our
25 request for the proposed oversight.

1 Thank you for consideration of our issues
2 and we stand ready to answer any questions you may have.

3 CHAIRMAN SODERBERG: Are there any
4 questions of Mr. Jones from the Commission?

5 COMMISSIONER McINTIRE: No.

6 CHAIRMAN SODERBERG: Mr. Jones, I do
7 appreciate the fact that your body has felt that the
8 PUC's regulatory process has been a good one in the past.
9 At first glance of what you have proposed, I don't know
10 that we have statutory authority to maintain any
11 regulatory oversight over TMWA once the certificate is
12 transferred. I think that is just one of the situations
13 we find ourselves in.

14 We did face a situation in another matter
15 where we had a utility entity not within our jurisdiction
16 seek to voluntarily bring themselves before us for a
17 complaint matter, and it was our General Counsel's
18 opinion at that time that even voluntarily we could not
19 exert any jurisdiction or conduct hearings with ratepayer
20 funds in order to give some sort of arbitrated decision
21 to people because we just didn't have the jurisdiction.

22 If your organization would like to pursue
23 this further, I would suggest that it come to us in the
24 form of a petition, but I think from the past legal
25 opinions that we have been getting from our General

1 Counsel's office, and a plain reading of the statute,
2 we're in one of those situations that the Legislature has
3 not given us the ability to go strict -- you know, cut
4 the, however you say it, down the middle of the road. We
5 either are in the business of regulating this
6 investor-owned utility, or we are not in the business of
7 regulating a publicly-owned utility.

8 But I do appreciate your comments. Thank
9 you.

10 THE WITNESS: Mr. Chairman, I appreciate
11 your concerns.

12 I would only like to mention that a few
13 years ago in some preliminary research that we did, there
14 are other states - they probably have the statutory
15 authority already written into the PUCs - but there are
16 expedited processes whereby this kind of relationship
17 continues to exist. On an ongoing basis Nevada probably
18 doesn't have it. And I realized you didn't have that
19 purview, but we needed this on the record.

20 CHAIRMAN SODERBERG: Thank you very much.

21 THE WITNESS: Thank you.

22 (The witness was excused.)

23 CHAIRMAN SODERBERG: Are there any other
24 members of the public that would like to make comments on
25 this application before the Commission?