DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

STEPHANIE MILLER

DAVID SCHUNKE

DONALD HOWELL

BRAD PURDY

BEVERLY BARKER

GARY RICHARDSON

TONYA CLARK

WORKING FILE

FROM:TERRI CARLOCK

DATE:JULY 18, 1995

RE:WASHINGTON WATER POWER COMPANY'S REQUEST FOR AUTHORITY TO TRANSFER ALL SECURITY AUTHORIZATIONS TO RESOURCES WEST ENERGY CORPORATION SIMULTANEOUSLY WITH THE MERGER; WWP-S-95-1, RWC-S-95-1.

RECOMMEND:  APPROVAL WITH TERM LIMITATIONS.

Resources West Energy Corporation (Resources West) a subsidiary of Washington Water Power Company (Water Power) and the surviving utility corporation of the Water Power merger, if approved, with Sierra Pacific Resources and Sierra Pacific Power Company (Sierra) jointly request authority to transfer securities.  The Order is requested simultaneously with or shortly after the merger order.  The requested authority includes the following:

a)Transfer unissued securities of Water Power and Sierra previously authorized by this Commission and any other Commission regulating Water Power or Sierra to Resources West and to eliminate any expiration dates.

b)Issue and sell up to $324 million in Debt Securities transferred in (a) above in one or more series on or before December 31, 1998.

c)Enter into Swap Agreements for no more than 20% of the long-term debt.  The request is to have the Swap independent of any debt approval and to also be available for any existing debt instrument.  Water Power states the Swaps would be utilized for hedging (i.e., interest rate changes and  exchange rate risks) but not for speculative purposes.

d)Issue and sell up to an additional 1.5 million shares of Common Stock.  Most of these shares would be utilized for the dividend reinvestment plan and stock programs including compensation and benefit plans.

e)Issue and sell up to an additional $70 million of Preferred Stock in one or more series on or before December 31, 1998.

f)Execute and deliver any and all documents required in connection with the issuance and sale of these securities.

g)Utilize the proceeds to fund construction programs and/or reimburse Treasury for such purposes.

h)Formally shift the required filing date for the Annual Securities Compliance Reports from January 31 to April 1.

The merged capital structure for Resources West consists of  43% common equity,  9% preferred stock and  48% debt.  With the proposed additional financings the proposed capital structure would consist of  39% common equity, 11% preferred stock and 50% debt.  If short-term debt were included in the capital structure the ratios would consist of 38% common equity, 11% preferred stock and  51% debt.

STAFF ANALYSIS AND RECOMMENDATION

I am concerned about unilaterally approving the transfer and issuance of the complete financing request without expiration dates and Staff notification of terms before issuance.  Water Power responded to this concern by requesting authority through December 31, 1998 for the debt and preferred issuances and filing the terms of issue after the issuance.

I further recommend any Swap agreements be discussed with Staff with a review of the risk management/cost effective analysis for Swap arrangements entered before

December 31, 1998.  I also recommend Staff be notified of the expected terms of any issuance.  This is a requirement that has been included in prior orders.

Any changes in management philosophy related to financing can be better monitored with expiration dates and a review of Swap arrangements.   Water Power and Sierra expect movement from short-term interim financings to longer-term financings over the first year.   I recommend approval of the application with the above restrictions.

COMMISSION DECISION

Should the application be approved as the Companies requested?

Should the application be approved with the changes recommended by Staff?

Should other changes or restrictions be included?

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Terri Carlock

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