



**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

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Joint Application of Sierra Pacific Power Company (U903E) and California Pacific Electric Company, LLC for Transfer of Control and Additional Requests Relating to Proposed Transaction.

Application 09-10-028
(Filed October 16, 2009)

Joint Application of Sierra Pacific Power Company (U903E) and California Pacific Electric Company, LLC for Authority to Enter Into Two Agreements.

Application 10-04-032
(Filed April 30, 2010)

**NOTICE OF EX PARTE COMMUNICATION
BY SIERRA PACIFIC POWER COMPANY (U903E) AND
CALIFORNIA PACIFIC ELECTRIC COMPANY, LLC**

Christopher A. Hilen
Associate General Counsel
Sierra Pacific Power Company
6100 Neil Road
Reno, NV 89511
Tel. (775) 834-5696
Fax. (775) 834-4811
Email: chilen@NVEnergy.com

Steven F. Greenwald
Mark J. Fumia
Vidhya Prabhakaran
Davis Wright Tremaine LLP
Suite 800
505 Montgomery Street
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email: stevegreenwald@dwt.com

Attorneys for California Pacific Electric
Company, LLC

August 6, 2010

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Joint Application of Sierra Pacific Power Company (U903E) and California Pacific Electric Company, LLC for Transfer of Control and Additional Requests Relating to Proposed Transaction.	Application 09-10-028 (Filed October 16, 2009)
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**NOTICE OF EX PARTE COMMUNICATION
BY SIERRA PACIFIC POWER COMPANY (U903E) AND
CALIFORNIA PACIFIC ELECTRIC COMPANY, LLC**

Pursuant to Article 8 of the California Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure, Sierra Pacific Power Company (U903E), a Nevada corporation (“Sierra”), and California Pacific Electric Company, LLC, a California limited liability company (“CalPeco,” and together with Sierra, “Joint Applicants”) hereby file this notice of ex parte communications with Matthew Tisdale, advisor to Commissioner Grueneich.

On August 3, 2010, Christopher Hilen (Associate General Counsel to Sierra), Steven F. Greenwald and Vidhya Prabhakaran (outside counsel to CalPeco), met with Matthew Tisdale, Advisor to Commissioner Grueneich, from approximately 10:00 a.m. to 10:45 a.m. at the Commission’s offices in San Francisco.

The meeting was requested by the Joint Applicants to discuss the joint application regarding the transfer of control of the California assets of Sierra necessary to serve Sierra’s California customers to CalPeco in the above referenced consolidated proceedings.

At the meeting, Mr. Hilen reviewed the current status of the proceedings and the procedural timeline. Mr. Greenwald explained the Joint Applicants’ position that the transfer of

control was in the public interest. Specifically, Mr. Greenwald explained that the transfer of control would, at a minimum, maintain the status quo, provide for the potential for various benefits to the customers of the California service territory, and that the regulatory commitments Joint Applicants have agreed to are sufficient to protect ratepayers.

The written presentation used during the meeting is attached to this notice. To request a copy of this notice, please contact Judy Pau at (415) 276-6587.

Respectfully submitted,

/s/

Christopher A. Hilen
Associate General Counsel
Sierra Pacific Power Company
6100 Neil Road
Reno, NV 89511
Tel. (775) 834-5696
Fax. (775) 834-4811
Email: chilen@NVEnergy.com

Steven F. Greenwald
Mark J. Fumia
Vidhya Prabhakaran
Davis Wright Tremaine LLP,
Suite 800
505 Montgomery Street
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email: stevegreenwald@dwt.com

Dated: August 6, 2010

Attorneys for California Pacific Electric Company, LLC



Sale of Sierra Pacific Power Company's California Distribution Utility

August 3, 2010

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

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Application 09-10-028
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Application 10-04-032
(Filed April 30, 2010)

**EXCERPT FROM OPENING BRIEF OF SIERRA PACIFIC POWER COMPANY
(U903E) AND CALIFORNIA PACIFIC ELECTRIC COMPANY, LLC
(APPENDIX A – REGULATORY COMMITMENTS)**

Christopher A. Hilén
Associate General Counsel
Sierra Pacific Power Company
6100 Neil Road
Reno, NV 89511
Tel. (775) 834-5696
Fax. (775) 834-4811
Email: chilen@NVEnergy.com

Steven F. Greenwald
Mark J. Fumia
Vidhya Prabhakaran
Davis Wright Tremaine LLP
Suite 800
505 Montgomery Street
San Francisco, CA 94111-6533
Tel. (415) 276-6500
Fax. (415) 276-6599
Email: stevegreenwald@dwt.com

Attorneys for California Pacific Electric
Company, LLC

July 12, 2010

Appendix A
Regulatory Commitments

1. Separateness.

- (a) The California Utility¹ shall be held in a separate legal subsidiary (CalPeco) with no other operations. The only other California business activity currently undertaken by Algonquin Power & Utilities Corp. (“Algonquin”) and/or by Emera Incorporated (“Emera”) and/or their respective affiliates is a non-utility cogeneration power plant in the Fresno area (“Sanger Cogeneration”), which is owned and operated by Algonquin. Sanger Cogeneration sells power only at wholesale. It owns no electric distribution or transmission lines and it serves no retail electric customers. Sanger Cogeneration shall have no ownership or other interest in CalPeco. There shall be no overlapping of employees or responsibilities between the operations of Sanger Cogeneration and CalPeco.
- (b) Although each of Algonquin and Emera is an experienced owner/operator of regulated utilities and actively involved in developing and operating electric generating assets, including renewable generation sources, neither Algonquin nor Emera owns utility assets in the State of California subject to public utility regulation. In the event that either Algonquin or Emera were to acquire any other regulated utility in addition to CalPeco:
1. The assets of such other public utility would be held in a legal entity separate from CalPeco;
 2. Algonquin or Emera, as the case may be, would segregate the capitalization, financing, and working cash for such other utility and CalPeco in totally separate money pools;
 3. There would be no cross ownership or other interests between such other utility and CalPeco; and
 4. The operations of such other utility and CalPeco would be totally discrete.
- (c) CalPeco will not provide financing or guarantees for, extend credit to, or pledge utility assets in support of either Algonquin or Emera or any of their respective affiliates. Algonquin and Emera each shall finance and fund their respective other business activities independently of CalPeco. The assets of CalPeco shall be used solely and exclusively for the purpose of providing electric distribution services to its customers and securing any debt financing obtained by CalPeco.
- (d) To the extent that Algonquin or Emera shall finance its non-utility or any business activities other than CalPeco’s provision of public utility service, any such financing shall provide the financing parties no recourse to CalPeco’s assets.

¹ Capitalized terms used in the Regulatory Commitments and not otherwise defined in the Regulatory Commitments have the meanings ascribed to such terms in the Joint Application.

- (e) CalPeco shall not alter the “ring fencing” provisions set forth in sections 1(a)-1(d) above without first requesting and obtaining approval from the Commission to make any such change.
- (f) CalPeco shall not transfer any physical assets used to provide services to its customers to either Algonquin or Emera or any of their respective affiliates without first obtaining the necessary approvals from the Commission and shall in no event request approval to transfer any physical assets if such transfer would impair CalPeco’s ability to fulfill its public utility obligations to serve, or to operate in a prudent and efficient manner.
- (g) Emera and Algonquin will provide sufficient initial equity to fund fifty percent (50%) of the purchase price for CalPeco. CalPeco shall seek to obtain the balance of the required capital necessary for the purchase price through stand-alone debt issued by CalPeco. Algonquin and Emera are prepared to make this initial equity investment and invest any additional equity in CalPeco based on their understanding that the Commission shall grant CalPeco timely recovery in rates (i) for the reasonable expenses it will make or undertake, respectively, to provide electric service; and (ii) for CalPeco to earn a reasonable return of and on CalPeco’s investment in rate base. On this basis Emera and Algonquin are committed to ensure that CalPeco maintains sufficient funds to operate and has sufficient capital available for necessary capital investments. CalPeco, Algonquin and Emera acknowledge that dividends or similar distributions by CalPeco may be restricted as necessary to maintain minimum equity levels that are reasonable in relation to any equity ratio requirements.
- (h) CalPeco shall hold all of its assets in its own name, and will maintain adequate capital and number of employees in light of its business purposes. CalPeco shall maintain the current level of employees for a period of at least three (3) years.

2. Books and Records.

- (a) CalPeco shall maintain separate books and records, systems of accounts, financial statements and bank accounts and shall in all events maintain its books and records in full compliance with Commission, and to the extent applicable, FERC, rules and regulations. All financial books and records of CalPeco will be kept in the California operations office, and, together with any records of any Emera and/or Algonquin affiliate that are relevant to CalPeco (wherever held), will be made available for review by the Commission upon request. Algonquin and Emera will make available to the Commission upon request its books and records and the books and records of any of their respective affiliates that allocate overhead or have operational or financial dealings with CalPeco, including any Algonquin or Emera affiliate that is a recipient of any funds (including dividends or similar distributions) from CalPeco. Algonquin, Emera and CalPeco have reviewed the Commission’s regulations and decisions on affiliate transactions and commit to comply fully with such rules and regulations.
- (b) Neither Algonquin nor Emera nor any of their respective affiliates conducts any other business within the geographic proximity of the California Utility. Accordingly, Algonquin and Emera (and their respective affiliates) do not

anticipate that CalPeco and either Algonquin and/or Emera (and/or their respective affiliates) will be providing any operations-related services to one another. It is, however, contemplated that Algonquin or Emera (or their respective affiliates) may provide management, administrative, and regulatory services to CalPeco with respect to the California Utility. In the event that Algonquin and/or Emera (and/or or their respective affiliates) provide services to CalPeco or CalPeco provides services to Algonquin and/or Emera (and/or their respective affiliates), CalPeco will develop and file with the Commission such shared services agreements and such agreements will comply with applicable affiliate rules and regulations of the Commission.

3. Operating Commitments.

- (a) Credit extended by Algonquin or Emera, jointly or individually, to CalPeco will be at rates and upon terms no less advantageous than those otherwise available to CalPeco from unaffiliated third parties for similar transactions.
- (b) CalPeco will conduct business in the same or similar manner as it has under Sierra's ownership concerning functions such as power delivery, contracting and management, system operation and maintenance activities, safety and service reliability, customer service functions, and billing operations. With respect to regulatory relations, CalPeco will maintain a manager level representative (having such authority as may be required by the Commission) physically present in an office located within the California Utility's service territory with primary responsibility for maintaining Sierra's positive relationships with, and responding to requests for information from, the Commission and other regulatory agencies. CalPeco will also engage competent and respected area consultants such as the Davis Wright Tremaine law firm to provide CalPeco with San Francisco-based support and presence with respect to the maintenance of such positive relationship.
- (c) For an initial period extending through the filing of the next general rate case for the California Utility, CalPeco will maintain and accept all tariffs of the California Utility existing at the Closing or approved by the Commission in response to filings made by Sierra prior to the Closing and as requested to be modified in this proceeding with respect to (i) the reallocation of certain amounts of revenue recovery from general rate to ECAC rate recovery and (ii) the ECAC tariff as explained and requested at pages 30-37 of the Joint Application (but shall not be required to accept a reduction or roll-back in such rates pursuant to the Required Regulatory Approvals).² In this § 854(a) proceeding, CalPeco is requesting no increase in rates or in the total revenue requirement; on the day after Closing, rates for the customers of the California Utility shall remain at the same

² References to "Joint Application" herein are to the Joint Application of Sierra Pacific Power Company (U903E) and California Pacific Electric Company, LLC for Transfer of Control and Additional Requests Relating to Proposed Transaction filed with the Commission on October 16, 2009, as updated and supplemented by Joint Applicants' letters to Administrative Law Judge Vieth dated April 7, 2010, June 11, 2010 and June 16, 2010.

rate levels as the day prior to Closing and the total revenue requirement shall remain the same.

- (d) CalPeco shall provide service to its customers in compliance with all rules, regulations and decisions issued by the Commission. Among other matters, CalPeco will not change any rate or any other terms and conditions of service for its customers without first having obtained the necessary Commission approvals and CalPeco shall comply with all existing statutes and Commission regulations regarding affiliated interest transactions.
- (e) CalPeco agrees to maintain the existing low-income programs as part of the pending request under § 854(a) to acquire the California Utility. CalPeco shall operate within the existing rate case cycles now in effect for Sierra, including for general rates and ECAC rates.
- (f) CalPeco and Sierra have entered into a settlement agreement with the Plumas-Sierra Rural Electric Cooperative (“PSREC”), City of Loyalton, City of Portola, Sierra County and Plumas County (“PSREC Settlement”). The PSREC Settlement is Exhibit Q to Exhibit 1 to the proceeding. The PSREC Settlement obligates Sierra and CalPeco to make certain payments to PSREC at specified times and subject to certain conditions. Among these is a payment of \$250,000 to be made to PSREC within fifteen days of Closing. Under the terms of the PSREC Settlement, in the event that the Commission were to ultimately approve CalPeco making an \$1 million investment in the Herlong Transmission Project (as defined in the PSREC Settlement) and to authorize CalPeco to recover rates on this investment, PSREC has agreed that it will credit the \$250,000 payment as an advance payment against CalPeco’s \$1 million investment. CalPeco and Sierra commit that if CalPeco never requests authority to make an investment in the PSREC Herlong Transmission Project or if CalPeco requests Commission authorization to invest in the Herlong Transmission Project and the Commission rejects such request in its entirety, that CalPeco and Sierra will retain 100% of the cost responsibility for the \$250,000 payment to PSREC (i.e., customers will be held harmless).
- (g) CalPeco shall adopt, maintain and strive to improve the high quality of service standards that Sierra presently provides its customers.
- (h) Algonquin shall own at least fifty percent (50%) of CalPeco for a minimum period of ten (10) years.
- (i) CalPeco has requested that the Commission approve that either Algonquin or Emera be allowed to transfer to the other all or any portion of its ownership interest in CalPeco and without the need for any additional approval by the Commission (“Internal Transfer Approval”). The Internal Transfer Approval is described at page 70 and 71 of the Joint Application. In the event that the Commission were to grant the request for the Internal Transfer Approval, Emera and Algonquin will also commit to the following additional terms and conditions:

1. Any reduction in the dollar amount of Emera's direct investment in CalPeco will be made up by an increase in a corresponding dollar amount of Emera's investment in Algonquin;
2. Emera shall maintain its investment in Algonquin for a minimum period of three (3) years;
3. Should Emera use the Internal Transfer Approval process to sell down all or any portion of its direct ownership in CalPeco, Emera nonetheless through its ownership in Algonquin would continue to be active in the oversight of CalPeco in a manner designed to enable CalPeco to continue to realize the benefits of Emera's financial and operating strengths and resources and in developing renewable projects; and
4. Regardless of the authority that the Commission grants with respect to the Internal Transfer Approval with respect to changes of ownership interests in CalPeco between Algonquin and Emera, in no event shall Algonquin reduce for a minimum period of ten (10) years its ownership interest in CalPeco below the fifty percent (50%) interest committed to in Section 3(h) above.

4. Employees and Management Team.

- (a) CalPeco intends to the extent practicable to retain the same experienced operations team that has been responsible for operations of the California Utility under Sierra's ownership. Any additional management team members which need to be recruited by CalPeco shall be experienced in electric utility operations.
- (b) CalPeco intends to maintain a local headquarters within the California Utility's service territory, including maintaining a local management and customer service headquarters at a location within such service territory.
- (c) CalPeco intends to offer each of Sierra's current administration and operations employees located within the service territory employment with CalPeco at the same locations with responsibilities and remuneration consistent with each of their existing roles. Accordingly, CalPeco shall make no material changes in the nature of the employment roles of the California Utility fulfilled by individuals located within the service territory and intends, to the extent practical, to recruit within the California Utility service territory any additional operations staff necessary to replace functions currently performed by staff of Sierra located in Nevada. CalPeco will recognize the service and seniority of the former employees of Sierra who accept CalPeco's offer of employment for all non-pension purposes, which would include post retirement benefits such as vacation, sick pay benefits, and retiree health benefits.

5. Premium and Cost Synergies.

- (a) CalPeco agrees that its rate recovery shall be calculated based on the regulatory value of the California Utility, as depreciated by Sierra, and totally independent of the purchase price to acquire the California Utility. CalPeco shall in no event

seek to recover the excess of the purchase price over the regulatory book value of the utility assets (i.e., “premium”) in rates. Any premium which CalPeco shall pay shall not be recorded in the accounts of CalPeco utilized in the establishment of rates and tariffs for the California Utility.

- (b) The cost levels CalPeco shall use to request rates in future general rate cases shall be based on the actual recorded cost levels of CalPeco and will incorporate any cost savings synergies arising in comparison to the baseline costs established in Sierra’s 2008 rate case with respect to the California Utility.
- (c) CalPeco shall not seek to recover from ratepayers the “transaction costs” (e.g. investment banking and legal fees, and perimeter metering costs) associated with its acquisition of the California Utility. CalPeco recognizes that its incurrence of any such “transaction costs” is not related to the provision of electric service to the ratepayers of the California Utility and thus these costs are necessarily to be borne exclusively by its owners.

6. California Regulatory Programs.

- (a) Subject to the exemptions which are to be sought pursuant to the Required Regulatory Approvals as set out in the Power Purchase Agreement, CalPeco shall reaffirm Sierra’s commitment to comply fully with the California RPS standards, the Commission’s GHG Emissions Performance Standard, and the compliance requirements for operators of generating units imposed by the Commission’s General Order 167.

CERTIFICATE OF SERVICE

I, Marjory Finn, certify:

I am employed in the City and County of San Francisco, California, am over eighteen years of age and am not a party to the within entitled cause. My business address is 505 Montgomery Street, Suite 800, San Francisco, California 94111-6533.

On August 6, 2010, I caused the following to be served:

NOTICE OF EX PARTE COMMUNICATION BY SIERRA PACIFIC POWER COMPANY (U903E) AND CALIFORNIA PACIFIC ELECTRIC COMPANY, LLC

via electronic mail to all parties on the service list A.09-10-028/A.10-04-032 who have provided the Commission with an electronic mail address and by First class mail on the parties listed as "Parties" and "State Service" on the attached service list who have not provided an electronic mail address.

/s/

Marjory Finn

VIA EMAIL and US MAIL

Commissioner Dian M. Grueneich
California Public Utilities Commission
505 Van Ness Avenue, Room 5218
San Francisco, CA 94102

Administrative Law Judge Jean Vieth
California Public Utilities Commission
505 Van Ness Avenue, Room 5218
San Francisco, CA 94102

VIA EMAIL – A.09-10-028

Pau, Judy; cem@newsdata.com; dietrichlaw2@earthlink.net; abb@eslawfirm.com;
glw@eslawfirm.com; clerk-recorder@sierracounty.ws; brianmorris@countyofplumas.com;
plumascoco@gmail.com; marshall@psln.com; stephenhollabaugh@tdpud.org;
gross@portersimon.com; Stephen.Aftanas@Emera.com; Ian.Robertson@algonquinpower.com;
dao@cpuc.ca.gov; dlf@cpuc.ca.gov; jrw@cpuc.ca.gov; xjv@cpuc.ca.gov; mmg@cpuc.ca.gov

VIA EMAIL – A.10-04-032

kjl@cpuc.ca.gov; chilen@nvenergy.com; liddell@energyattorney.com; Greenwald, Steven;
cem@newsdata.com; abb@eslawfirm.com; glw@eslawfirm.com; Stephen.Aftanas@Emera.com;
Ian.Robertson@algonquinpower.com; xjv@cpuc.ca.gov

VIA US MAIL

Office of the General Counsel
Sierra Pacific Power Company
c/o NV Energy
6226 West Sahara Avenue
Las Vegas NV 89146