

CACD/RHG

**ORIGINAL**

Decision 92-12-068 December 16, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
THE WASHINGTON WATER POWER COMPANY )  
U-907-G, for an Order authorizing the )  
sale of up to and including \$45,000,000 )  
of the Company's Accounts Receivable and ) Application 92-11-018  
for an exemption from the Commission's ) (Filed November 13, 1992)  
Competitive Bidding Rule. )

O P I N I O N

Summary of Decision

This decision grants The Washington Water Power Company (WWPC) the authority requested in Application 92-11-018 (Application).

WWPC requests authority, pursuant to §§ 816 through 818, § 821, § 830, and § 851 of the California Public Utilities Code (PU Code) for the following:

- 1) To sell up to and including \$45,000,000 of WWPC's accounts receivable to the Corporate Asset Funding Co., Inc. (CAFCO), a subsidiary of Citibank N.A., on a continually revolving basis until December 31, 1997.
- 2) To exempt WWPC from the Commission's Competitive Bidding Rule.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of November 19, 1992. No protests have been received.

Background

WWPC is a corporation organized and existing under the laws of the State of Washington, and is primarily engaged in the business of generation, transmission, distribution, and sale of

electric energy, which it sells at retail to approximately 258,000 residential, commercial, and industrial customers in eastern Washington and northern Idaho, and at wholesale to public utilities, municipalities, and others.

WWPC is also in the business of selling and distributing natural gas to approximately 172,000 residential, commercial, and industrial customers in eastern Washington, northern Idaho, central and southwest Oregon, and South Lake Tahoe, California. On September 30, 1991, WWPC acquired the South Lake Tahoe gas system from CP National pursuant to D.91-09-062, dated September 25, 1991. Accordingly, WWPC's South Lake Tahoe gas system became a public utility subject to the jurisdiction of this Commission since September 30, 1991.

#### Accounts Receivable Sale

WWPC seeks authorization to sell up to and including \$45,000,000 of its accounts receivable. WWPC originally sold \$30,000,000 of its accounts receivable in 1988, (prior to its acquisition of the South Lake Tahoe gas system). The proceeds were used to repay outstanding long-term debt and to fund its construction program. As a result, \$30,000,000 of the requested \$45,000,000 sales authority is to affirm the existing sales agreement between WWPC and CAFCO. Proceeds from the additional \$15,000,000 in sales will be used to reimburse WWPC's treasury for funds expended in its ongoing construction program.

The terms and conditions of the sales facility, which is summarized in Exhibit C to the Application, provide for the purchase of interests of WWPC's eligible billed and/or unbilled accounts receivable by CAFCO. The facility provides a source of low-cost funds to WWPC because CAFCO's commercial paper rating (the underlying source of funds for the purchase) is higher than WWPC's (A-1/P versus A/2/P2). The monthly fee paid by WWPC is a composite of CAFCO's cost of money plus an increment to cover costs. Total cost is approximately 4.8% per annum. The sale of accounts receivable is viewed by many sources as off-balance sheet financing (e.g.: another form of debt). The net effect of the sale is to reduce WWPC's need for alternative financings, such as medium-term

notes, which WWPC posits would be approximately 200 basis points higher in cost for a comparable five year period. The term of the contract is five years. However, WWPC can terminate the agreement at any time upon five business days' notice.

WWPC has maintained this facility with CAFCO since January 1988, and has found it to be beneficial in both its costs and flexibility. WWPC states that program fees and costs have been reduced in the new proposed contract period and its analysis of other similarly available programs proved CAFCO's costs to be the most competitive.

### Discussion

WWPC is subject to regulation in four utility jurisdictions, including California. According to WWPC, the commissions in the other three states have concurred with WWPC's position that this is a true sale of non-utility assets because the accounts receivable are sold without recourse to WWPC and working capital has not been a component of their determination of WWPC's rate base. The staffs of the Washington Utilities and Transportation Commission and the Idaho Public Utilities Commission have twice decided (both in 1987 and 1992) that the sale of WWPC's accounts receivable did not require a hearing or decision by their commissions. The staff of the Public Utility Commission of Oregon has recently made a similar finding.

However, § 851 of the California PU Code states that:

"No public utility.....shall sell, lease, assign, mortgage, or otherwise dispose of or encumber the whole or any part of its...plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or any right thereunder...without first having secured from the commission an order authorizing it so to do."

"Nothing in this section shall prevent the sale, lease, encumbrance or other disposition by any public utility of property which is not necessary or useful in the performance of its duties to the public..."

§ 851 of the PU Code refers to sale of any utility asset, tangible or intangible, with emphasis on protecting consumer interests and the public good. Accounts receivables are assets which represent claims against customers for completed sales on account not evidenced by promissory notes. In California ratemaking accounts receivables are recognized in the determination of working cash, which is used to determine the base on which utilities are entitled to earn a return.

The working cash component is normally a small percentage of ratebase. It is provided, however, to compensate investors for funds permanently required by the utility to pay operating expenses in advance of receipt of offsetting revenues from customers and to maintain minimum bank balances. This operational cash requirement is not used for new construction or plant replacement.

After careful review and deliberation, the Commission Advisory and Compliance Division (CACD) concludes that accounts receivables are "other property necessary or useful in the performance of a utility's duty to the public" as provided by § 851 of the PU Code. However, CACD finds no objection to WWPC's proposed sale of accounts receivables and notes that WWPC's California revenue, when compared to the revenues generated from Washington, Idaho, and Montana, is modest. The annual revenue generated by WWPC in California is only \$10,194,598 or 1.98% of total operating revenues. The amount of proceeds sought in this Application is \$45,000,000, of which the California related proceeds will be approximately \$892,000.

There is nothing to dissuade us from giving favorable consideration for the authority requested in this Application. We will accept CACD's recommendations, however, the authority granted herein is simply permissive. We make no finding regarding the reasonableness of the proposed facility terms or conditions and we place WWPC on notice that its sale of accounts receivables may be reviewed in conjunction with a future ratemaking proceeding to the extent that it affects rates.

Exemption from Competitive Bidding

Rules adopted by this Commission in D.38614 dated January 15, 1946 in Case 4761, as amended by D.49941, D.75556 and D.81908 generally require California public utilities to obtain competitive bids for the purchase of their debt securities. In Resolution F-616, Ordering Paragraph No. 3, this Commission exempted from the Competitive Bidding Rule all "debt issues for which competitive bidding is not viable or available." The Report on the California Public Utilities Commission's Competitive Bidding Rule for Issuance of Debt Securities, dated September 5, 1986 (Report), contained a discussion of reasons for the exemption and specifically referred to types of debt instruments that should be exempt. The Report states, in relevant part:

A number of...debt securities, either by their nature or by established business practices do not lend themselves to competitive bidding. Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets...Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of instruments should be exempt from the Competitive Bidding Rule. However, domestic issues of Debentures and First Mortgage Bonds still lend themselves quite nicely to competitive bidding...

The conditions for an exemption to the Rule appear to apply to the negotiations between WWPC and CAFCO for the accounts receivable sale facility. CACD recommends that the exemption be granted and we will accept CACD's recommendations.

Findings of Fact

1. WWPC, a Washington corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. WWPC has need for external funds for the purposes set forth in the Application.
3. The proposed sale of accounts receivable is for proper purposes.

4. Authorizing WWPC to sell its accounts receivable, within the provisions set forth in this Decision, is not adverse to the public interest.

5. Because the proposed sales facility is partly a continuation of an existing sale (negotiated with CAFCO), WWPC's claim for exemption from the Competitive Bidding Rule is valid.

6. The proposed sale is for lawful purposes and the money, property, or labor to be procured, or paid for by them are required for these purposes.

7. WWPC's California revenue is only 1.98% of total revenue.

8. There is no known opposition to the Application and there is no reason to delay granting the authority requested.

#### Conclusions of Law

1. A public hearing is not necessary.

2. The Application should be granted to the extent set forth in the order which follows.

3. In reference to this Application, accounts receivables are considered "other property necessary or useful in the performance of a utility's duty to the public" and are therefore governed by § 851 of the PU Code.

4. The proposed sale of accounts receivable is for lawful purposes and the money, property, or labor to be obtained are required for these purposes. Proceeds from the sale may not be charged to operating expenses or income.

5. WWPC has demonstrated that competitive bidding is not a viable or available alternative and that it should be exempted from the Competitive Bidding Rule.

6. The following order should be effective on the date of signature and payment of a fee of \$1,783.22 as set forth by § 1904(b) of the PU Code.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, Washington Water Power Company (WWPC) may sell up to and including \$45,000,000 of its accounts receivable to the Corporate Asset Funding Co., Inc. (CAFCO), a subsidiary of Citibank N.A., on a continually revolving basis until December 31, 1997.

2. WWPC's proposed funding is exempted from the requirements of the Commission's Competitive Bidding Rule.

3. The money, property and labor to be procured or paid for with the net proceeds is reasonably required for the purposes specified in this decision and such proceeds are not in whole or in part, chargeable to operating expenses or to income.

4. WWPC shall file with the Commission Advisory and Compliance Division (CACD) copies of the documentation pertaining to the sales facility authorized by this Order, within 15 days of execution.

5. On or before the 25th day of each month, WWPC shall file the reports required by General Order Series 24 (in respect to the disbursements of proceeds only).

6. WWPC shall use the net proceeds for the purposes set forth in the Application.

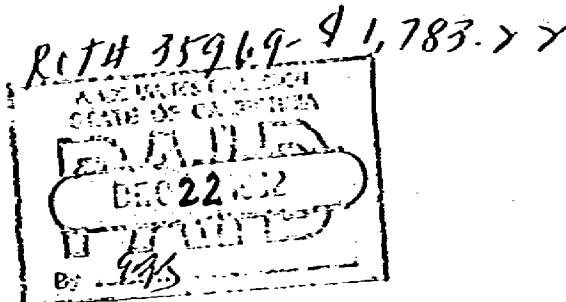
7. The Application is granted as set forth above.

A.92-11-018 CACD/RHG

8. The authority granted by this order to issue Debt Securities shall become effective when WWPC pays \$1,783.22, the fee set forth by Public Utilities Code § 1904(b). In all other respects, this order is effective today.

Dated December 16, 1992, at San Francisco, California.

DANIEL Wm. FESSLER  
President  
JOHN B. OHANIAN  
PATRICIA M. ECKERT  
NORMAN D. SHUMWAY  
Commissioners



I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY

*Neal J. Schulman*  
NEAL J. SCHULMAN, Executive Director