

Decision 97-04-026 April 9, 1997

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)	
Issuance and Sale of Preferred Stock,)	Application 96-09-011
Unsecured Debt Securities, or Subordina-)	(Petition for Modification
ted Deferrable Interest Securities, in)	filed March 3, 1997)
One or More Series, with an Aggregate)	
Stated Value of up to and Including)	
\$150,000,000.)	

ORIGINAL

S U P P L E M E N T A L O P I N I O N

Summary of Decision

This decision grants The Washington Water Power Company (WWP) the authority requested in its Petition for Modification of Decision (D.) 96-12-022 (Petition).

Notice of the filing of the Petition appeared on the Commission's Daily Calendar of March 5, 1997. No protests have been received.

D.96-12-022 dated December 9, 1996, in Application (A.) 96-09-011, authorized WWP to issue from time to time its shares of no par value preferred stock, unsecured debt securities, or subordinated deferrable interest securities, in one or more series, with an aggregate stated value of up to and including \$150,000,000.

A deferrable interest securities transaction, as described in D.96-12-022, consists of a special purpose entity which issues "trust originated preferred securities" and commits the proceeds from their issuance to a utility. In return for the proceeds the utility issues subordinated deferrable interest securities to the special purpose entity.

The securities issued by a special purpose entity include a limited guarantee by the utility covering accrued and unpaid distributions from the special purpose entity as well as the liquidation value of the securities. The utility commits interest

payments to the special purpose entity, covering all declared distributions and any expenses incurred by the special purpose entity in connection with the financing.

Rating agencies have historically classified these securities as preferred securities for balance sheet purposes, while the distributions paid to the special purpose entity by a utility have been considered debt service payments for tax purposes. It has a significant tax advantage since capital costs are comprised of interest, not dividend, and would therefore be tax deductible.

Modification Sought

Of the original authority granted by D.96-12-022, WWP has issued \$61,855,675 in fixed rate subordinated deferrable interest securities. In part, A.96-09-011 specifically requested authority for the issuance of fixed rate subordinated deferrable interest securities, and this authority was granted in D.96-12-022.

WWP is now proposing that the subordinated deferrable interest securities authorization be expanded to allow WWP the flexibility to issue floating rate subordinated deferrable interest securities (in addition to the existing fixed rate authority) to a special purpose entity, which in turn would issue floating rate trust originated securities.

Because of anticipated tax changes, WWP would like to take advantage of the cost benefits of issuing debt through the use of the special purpose entity.

By supplemental data to the Petition, WWP states that floating rate securities may provide a lower cost alternative to the outstanding series of its Auction Rate Preferred Securities (Series J). The Series J Preferred Stock recently had a rate of 4.06%. The broker/dealer fee raises the all-in cost of the series to 4.216%. The all-in cost is increased another 35 basis points if the "dividends-received deduction" (DRD) is reduced from 70% to 50% as proposed in President Clinton's Budget Proposal.

In either case, an issuance of floating rate securities through the use of the special purpose entity would theoretically contain an all-in cost of approximately 4.087%. This is significantly lower than the all-in cost of the Series J Preferred Stock, regardless of the DRD.

WWP claims that the President's Budget Proposal contains several tax changes like the reduction of the DRD, including the elimination of tax-deductibility of new issuances of hybrid securities through the use of the special purpose entity. If approved, this change would be effective with the first committee mark-up of the budget, a move that is anticipated to occur in early May.

Concurrently with this Petition, WWP is seeking the necessary regulatory commission approvals in Washington, Idaho, and Oregon for the issuance of fixed or floating rate subordinated deferrable interest securities. At the time D.96-12-022 was rendered, WWP's operating revenues for its California operations was approximately 1.7% of its total operating revenues.

WWP's Petition should be granted. Deferrable interest securities may provide a utility a better complement of financing options and opportunity to achieve a lower cost of debt.

We remind WWP that it will be expected to demonstrate and support in a future proceeding that the specific capital costs incurred were appropriate and beneficial under the circumstances.

In addition to Ordering Paragraph 2 of D.96-12-022, we will require WWP to engage in subordinated deferrable interest securities only while a net benefit to it and its customers exists.

We approve WWP's Petition in this order.

Findings of Fact

1. The proposed floating distribution rate transaction under the remaining authority granted by D.96-12-022 would be for proper purposes and would not be adverse to the public interest.

2. There is no known opposition to the modification and there is no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The Petition should be granted to the extent set forth in the supplemental order that follows.
3. The following supplemental order should be effective today.

S U P P L E M E N T A L O R D E R

IT IS ORDERED that:

1. The authority granted to The Washington Water Power Company (WWP) by Decision (D.) 96-12-022 is modified to include the issue of floating rate subordinated deferrable interest securities to a special purpose entity, which in turn would issue floating rate trust originated securities, as contemplated in WWP's Petition for Modification.
 2. WWP may engage in deferrable interest securities only while a net benefit to it and its customers exists.
 3. The Petition is granted as set forth above.
 4. In all other respects, D.96-12-022 remains in full force and effect.
 5. Application 96-09-011 is closed.
- This supplemental order is effective today.
Dated April 9, 1997, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners