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ENERGY/RHG\*

**ORIGINAL**

Decision 97-05-084 May 21, 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 ) Application 92-11-018  
sale of up to and including \$45,000,000 ) (Petition for Modification  
of the Company's Accounts Receivable and) filed February 2, 1997)  
for an exemption from the Commission's )  
Competitive Bidding Rule. )

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.) 92-12-068 (Petition).

Notice of the filing of the Petition appeared on the Commission's Daily Calendar of April 4, 1997. No protests have been received.

D.92-12-068 dated December 16, 1992, in Application (A.) 92-11-018, authorized WWP to sell up to and including \$45,000,000 of WWP'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. WWP has sold \$40,000,000 of its accounts receivable to CAFCO.

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. D.96-12-068 stated that accounts receivables are "other property necessary or useful in the performance of a utility's duty to the public" as provided by PU Code § 851.

WWP states in the Petition that the securitization market has evolved considerably since 1988 and believes that the overall program costs may be reduced now if it selected a purchaser other than CAFCO. In addition, certain accounting standards recently adopted by the Financial Accounting Standards Board in FASB Statement 125 require a restructuring of accounts receivable sales in order to secure the transaction's status of a true sale of assets in both accounting and legal terms.

Modification Sought

WWP proposes to terminate the CAFCO purchase agreement and enter into a purchase agreement with Clipper Receivables Corporation (CRC) through the use of a special purpose entity, a bankruptcy-remote wholly owned subsidiary of WWP. The use of a special purpose entity is driven by FASB 125, securing the purchaser's interest in the receivables that are sold. In all other respects, the transaction remains substantially the same as was originally described in A.92-11-018, with the exception of the purchaser.

D.92-12-068 described the purchase of interests of WWP's eligible billed and/or unbilled accounts receivable by CAFCO. The facility is a source of low-cost funds and the monthly fee is a composite of CAFCO's cost of money plus an increment to cover costs. The sale of accounts receivable is viewed by many sources as off-balance sheet financing (e.g.: another form of debt).

By supplemental data to the Petition, WWP states that it will originate and sell trade receivables on a "without recourse basis" to a newly formed, bankruptcy remote subsidiary, who will in turn sell an undivided interest in the receivables to CRC. The transaction as a whole will qualify for a legal and accounting "true sale", while also qualifying as debt for tax purposes. The receivable purchase program limit will be \$40,000,000, subject to a minimum increase of \$5,000,000, and a term of five years.

WWP therefore requests to sell its accounts receivable to a purchaser other than CAFCO and to have an extension of the expiration date of D.92-12-068 from December 31, 1997 to December 31, 2002.

We have reviewed WWP's Petition to enter into a purchase agreement (other than CAFCO) through the use of a special purpose entity and to extend the effectiveness of the Commission's authorization in D.92-12-068 through December 31, 2002, and have determined that it is for proper purposes and is not adverse to the public interest. We are aware of WWP's intention of finding more favorable terms for its accounts receivable financing in order to have the opportunity to reduce costs and to comply with FASB Statement 125.

We approve WWP's Petition in this order. We make no finding regarding the reasonableness of the proposed facility terms or conditions and we place WWP on notice that the sale of accounts receivable through the use of a special purpose entity may be reviewed in conjunction with a future ratemaking proceeding to the extent that it affects rates.

#### Findings of Fact

1. The proposed sale of accounts receivable to a purchaser other than CAFCO and the proposed extension of time to December 31, 2002, would be for proper purposes and would not be adverse to the public interest.

2. Notice of the filing of the Petition appeared on the Commission's Daily Calendar of April 4, 1997. There is no known opposition to the Petition, and the authority requested should be granted.

#### Conclusions of Law

1. A public hearing is not necessary.
2. Accounts receivables are considered "other property necessary or useful in the performance of a utility's duty to the public" and are governed by PU Code § 851.
3. The Petition should be granted to the extent set forth in the supplemental order that follows.
4. 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.) 92-11-018 is modified upon terms and conditions as set forth in or contemplated in WWP's Petition for Modification, and Ordering Paragraph 1 is modified to read as follows:

On or after the effective date of this order, The Washington Water Power Company may sell up to and including \$45,000,000 of its accounts receivable through the use of a special purpose entity, on a continually revolving basis until December 31, 2002.

2. WWP may execute and deliver any and all related documents required for completion of the transaction.

3. The Petition is granted as set forth above.

4. In all other respects, D.92-12-068 remains in full force and effect.

5. Application 92-11-018 is closed.

This supplemental order is effective today.

Dated May 21, 1997, at Sacramento, California.

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