

Decision 97-10-054 October 22, 1997

ORIGINAL

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)
 (a) issuance, sale, delivery, and/or)
 guarantee of Debt Securities, in one or)
 more series, with an aggregate stated)
 value of up to and including)
 \$250,000,000; (b) issuance, sale, deli-)
 very, and/or guarantee of Conservation)
 Bonds through the use of a special pur-)
 pose entity, in one or more series, with)
 an aggregate stated value of up to and)
 including \$60,000,000; (c) refunding of)
 tax-exempt debt securities currently)
 outstanding, in one or more series, with)
 an aggregate stated value of up to and)
 including \$85,000,000; and (d) issuance)
 and sale of up to and including)
 \$45,000,000 of outstanding short-term)
 debt in excess of the amount provided)
 in PU Code § 823.)

Application 97-08-008
(Filed August 5, 1997)

O P I N I O N

Summary of Decision

This decision grants the authority requested by The Washington Water Power Company (WWP) in Application (A.) 97-08-008 (Application).

WWP requests authority pursuant to §§ 816 to 830 of the Public Utilities (PU) Code and the Commission's Rules of Practice and Procedure to:

1. issue, sell, deliver, and/or guarantee Debt Securities, in one or more series, with an aggregate stated value of up to and including \$250,000,000;

2. issue, sell, deliver, and/or guarantee Conservation Bonds through the use of a special purpose entity, in one or more series, with an aggregate stated value of up to and including \$60,000,000;
3. refund tax-exempt debt securities currently outstanding, in one or more series, with an aggregate stated value of up to and including \$85,000,000; and
4. issue and sell up to and including \$45,000,000 of outstanding short-term debt in excess of the amount provided in PU Code § 823, (numbers 1 to 4, collectively, the "Securities") utilizing the net proceeds to (a) retire or exchange one or more outstanding stock, bond, or note issuances, (b) fund WWP's construction, facility improvement, and maintenance programs, (c) reimburse the treasury for funds previously expended, or (d) for such other purposes as may be permitted by law.

Notice of the filing appeared on the Commission's Daily Calendar of August 27, 1997. No protests have been received.

Background

WWP is a public utility which owns and operates property in Eastern Washington, Northern Idaho, Western Montana, Central and Southwest Oregon, and South Lake Tahoe, California. WWP is engaged in the generation, transmission, distribution, and sale of electric energy, which it sells at retail to approximately 297,000 residential, commercial, and industrial customers in Eastern Washington and Northern Idaho, and at wholesale to public utilities, municipalities and others. Its electric properties are operated as a unified system and are interconnected with adjacent electric utilities. The electric energy sold by WWP is generated in power stations which it owns in whole or in part, or obtained by purchase or exchange from other utilities and governmental agencies. WWP distributes and sells natural gas to approximately 238,000 residential, commercial and industrial customers in Eastern Washington, Northern Idaho, Central and Southwest Oregon, and South Lake Tahoe, California. WWP does business in the State of California as WP Natural Gas, serving approximately 17,000 customers.

WWP's Unconsolidated Statement of Income for the year ended December 31, 1996, shown as Exhibit B(h)ii to the Application, shows total operating revenues of \$798,994,000 and net income of \$83,454,000. WWP's operating revenues for its California operations for the same period amount to \$11,584,000 or 1.4% of total operating revenues.

Exhibit B(h) of the Application presents WWP's Unconsolidated Balance Sheet as of December 31, 1996, summarized below:

<u>Assets</u>	(in thousands) <u>Amount</u>
Net utility plant	\$1,397,876
Other property and investments	234,818
Current assets	144,885
Deferred charges	<u>265,692</u>
Total Assets	\$2,043,271
 <u>Liabilities and Equity</u>	
Common stock and additional paid in capital	\$ 594,853
Other shareholders' equity (includes retained earnings)	110,180
Preferred stock (not subject to mandatory redemption)	50,000
Preferred Stock (subject to mandatory redemption)	65,000
Long-term debt	732,115
Current liabilities	145,336
Deferred credits	<u>345,787</u>
Total Liabilities and Equity	\$2,043,271

Debt Securities

WWP proposes to issue and sell Debt Securities, in one or more series, with an aggregate stated value of up to and including \$250,000,000, as described in the Application, and outlined below. Debt Securities may be issued in the form of Unsecured Debt Securities (Debentures) or Unsecured Medium-Term Notes (Notes), and may contain certain features which enhance the Debt Securities.

Debentures - may be sold to underwriters or through agents who in turn will offer the Debentures to investors, or may be sold directly to investors either with or without the assistance of a private placement agent. Debentures may be registered with the Securities and Exchange Commission and may be listed on a securities exchange. Early redemption or callable provisions will be determined and supplied at the time of issuance.

Notes - may require registration under the federal securities laws. Notes may be issued as part of a program on a continuous or periodic basis. WWP may sell Notes through placement agents who market Notes on a reasonable efforts basis. WWP may also sell Notes to underwriters who in turn offer Notes to investors or it may sell Notes directly to investors. Notes may be listed on a securities exchange.

If Notes are sold through a placement agent, at least two agents will be used to ensure competitive pricing. Based on market conditions or consultation with the placement agents, WWP will determine the interest rates or interest rate formulas at which it would be willing to issue Notes of various maturities. The placement agents will be notified of those interest rates or the method of calculation. The rates can be continuously updated to reflect changing market conditions and WWP's demand for funds.

It may be appropriate from time to time for WWP to issue and sell other types of Debt Securities. These could be in the form of, but not limited to, convertible debt or a variation or combination of the types of Debt Securities described above. Market conditions change rapidly and continuously, and WWP requests the flexibility to issue a form of Debt Securities that has not been specifically described in the Application, albeit within the dollar limits requested. WWP proposes to notify the Commission, by letter, in advance of the date of issuance, of the nature of any such other types of Debt Securities.

Conservation Bonds

WWP proposes to issue, sell, and guarantee Conservation Bonds through the use of a special purpose entity, in one or more series, with an aggregate stated value of up to and including \$60,000,000. WWP has approximately \$60,000,000 of deferred expenditures relating to its investment in demand-side management programs. Due to legislation in the state of Washington (and potential legislation in Idaho), WWP may have the ability to issue Conservation Bonds based on future revenues.

WWP states in its supplemental data to the Application that although the specific provisions of the issuance of Conservation Bonds may vary from the procedure detailed below, the general process by which the Conservation Bonds will be issued is similar to, but not limited to, as follows:

1. The Washington Utilities and Transportation Commission, and the Idaho Public Utilities Commission, if legislation is enacted, will review the demand-side management investments within that specific state to determine the prudence of the investment. Once the investment has been determined prudent, the Commission declares the investment a "Bondable Conservation Investment."
2. The Commission will establish an irrevocable tariff to the retail customers within that state's jurisdiction. This tariff will be calculated to include all interest and principal payments on the Conservation Bonds as well as all expenses associated with establishing and maintaining the trust. Thus, it is important to note that Washington's electric customers will pay for the costs of the Washington Conservation Bonds and Idaho electric customers will pay for the Idaho Conservation Bonds if legislation is passed in Idaho.
3. WWP would then establish a wholly-owned and wholly-controlled subsidiary trust, which would issue Conservation Bonds to the investor public. Funds received from the Conservation Bond issuance will be used to purchase or reduce WWP's Bondable Conservation Investments.

4. WWP, acting as servicer, will collect the irrevocable tariff from the customers and periodically submit the tariff proceeds to the trust, which will in turn utilize the proceeds to pay principal, interest, and trust expenses.

Tax-Exempt Debt Securities

WWP proposes to refund tax-exempt debt securities, in one or more series, with an aggregate stated value of up to and including \$85,000,000. WWP currently has outstanding \$83,700,000 of tax-exempt first mortgage bonds. When the bonds were originally issued, WWP entered into financing arrangements with a political subdivision or Authority which was able to issue tax-exempt debt. Given the current environment of interest rates, WWP believes it may be able to refund these securities with lower interest rates in generally the same procedure as originally issued.

WWP states in the Application that each issue of Securities may contain a provision allowing it to be redeemed or repaid prior to maturity. An early redemption provision may allow the Securities to be redeemed or repaid at any time, or it may allow the Securities to be redeemed or repaid only after a certain restrictive period. In either case, the Securities will be redeemable at par or at a premium over par. Securities may bear a fixed or floating rate of interest and may be issued at par or with an original issue discount or premium. In all series' issuances, the terms for the sale of each series will be determined at the time of issuance, and underwriters, agents, or other purchasers will be selected at that time. The terms for the sale of each series and the names of the underwriters, agents, or other purchasers will be supplied at the time of issuance.

Short-Term Debt Securities

In its ongoing operations, WWP utilizes short-term debt securities for its daily cash needs. WWP proposes to issue and sell up to and including \$45,000,000 of outstanding short-term debt. PU Code § 823 provides for a maximum outstanding balance of short-term debt of 5% of a public utility's total capitalization. Based on WWP's capitalization on December 31, 1996, WWP is authorized by PU Code § 823 to have outstanding approximately \$75,000,000 in short-term debt.

WWP requests authority from the Commission to maintain a total of \$120,000,000 outstanding in short-term debt at any one time (7.7% of total capitalization of \$1,552,147), or \$45,000,000 of outstanding short-term debt in excess of the amount provided in PU Code § 823.

In D.94-01-022, the Commission allowed WWP to issue up to a total of \$160,000,000 of short-term debt or 12.7% of its capitalization, and for a period of two years, to refund previously issued short-term debt securities without the need to periodically request authorization from the Commission.

Therefore pursuant to PU Code § 829, we will allow WWP to issue an additional \$45,000,000 of short-term debt securities, which is in excess of the amount provided in PU Code § 823(c).

PU Code § 823(d) provides that the continuous refunding of previously issued short-term debt securities, which brings the combined terms of the original and the refunding debt securities to exceed twelve months requires Commission authorization.

Again, pursuant to PU Code § 829, we will permit WWP, for a period of three (3) years from the date of this decision, to refund previously issued short-term debt securities such that the combined terms of the refunded issues and the new debt securities may exceed twelve months to comply with the requirements of PU Code § 823(d).

WWP must maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities (long-term debt, preferred stock and common stock) then outstanding at least once every twelve months.

Exemption from the Competitive Bidding Rule

In approving previous financing requests, most recently in D.94-01-022, the Commission has recognized WWP's statements that it is not subject to competitive bidding requirements in the other states in which it operates and that only 1.4% of its total operating revenues are derived in California as reasons for exempting WWP from the requirements of the Competitive Bidding Rule. To the extent that it would otherwise apply, we will not subject WWP's proposed Securities in this Application to the Competitive Bidding Rule.

Construction Budget

WWP's estimated construction budget expenditures for the calendar years 1997, 1998 and 1999, shown in Supplemental Exhibit A to the Application, are \$78,000,000, \$85,000,000 and \$76,000,000 respectively.

WWP's construction budgets raise no questions that should dissuade us from giving favorable consideration to the financing requested in the Application. We will not, however, make a finding in this decision on the reasonableness of the proposed construction levels. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate cases or other ratemaking proceedings.

Cash Requirements Forecast

WWP's cash requirements forecast for 1997, 1998 and 1999, shown as Supplemental Exhibit C to the Application is summarized as follows:

	(in thousands)		
	<u>1997</u>	<u>1998</u>	<u>1999</u>
Funds for Capital Expenditures	\$ 78,351	\$ 84,671	\$ 75,720
Funds for Cash dividends	80,044	79,012	78,652
Maturities of Long Term Debt	31,000	10,000	50,500
Preferred Stock Redemptions	<u>70,000</u>	<u>10,000</u>	<u>0</u>
Total Cash Required	\$259,395	\$183,683	\$204,872
Less: Cash from Internal Sources	<u>185,046</u>	<u>165,342</u>	<u>132,890</u>
Cash Required from External Sources	\$ 74,349	\$ 18,341	\$ 71,982

WWP's forecasts for 1997 through 1999 indicate that internally generated funds will provide approximately \$483,278,000 or 74.6% of its total cash requirements of \$647,950,000. The issuance of Securities is necessary to help WWP meet its forecasted cash requirements.

Capital Ratios

WWP's unconsolidated capital ratios as of December 31, 1996, presented as Exhibit H to the Application are presented below on recorded and pro forma bases:

	(in thousands)			
	<u>Recorded</u>		<u>Pro Forma*</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Long-Term Debt	\$ 732,115	47.2%	\$1,136,115	55.1%
Preferred Stock	115,000	7.4	155,000	7.5
Common Equity	<u>705,032</u>	<u>45.4</u>	<u>772,477</u>	<u>37.4</u>
Total	\$1,552,147	100.0%	\$2,063,592	100.0%

*Pro forma data includes (1) approvals requested in the Application: \$250,000,000 Debt Securities; \$45,000,000 Short-Term Debt, and (2) all authorized but unissued capital, including: 109,000,000 in Secured Medium-Term Notes; 40,000,000 Trust Preferred Securities; 67,445,000 in Common Stock authorizations (3,621,183 shares @ \$18.625 12/31/96 share price).

The proposed \$60,000,000 issue of Conservation Bonds is not reflected above since this is perceived as an off-balance sheet item and will not be included in WWP's cost of capital.

WWP's next general rate case filing is due no later than January 1, 2000. We will not, therefore, make a finding in this decision of the reasonableness of WWP's capital ratios for ratemaking purposes.

Use of Proceeds

WWP states in the Application that the proceeds from the proposed Securities may be used for any or all of the following purposes: (1) construction, facility improvement, and maintenance programs, (2) retirement or exchange of one or more outstanding stock, bond, or note issuances, (3) reimbursement of WWP's treasury for funds previously expended, and (4) such other purposes as may be permitted by law.

We remind WWP that the use of proceeds must conform with the requirements of PU Code § 817.

Findings of Fact

1. WWP, a Washington corporation, operates as a public utility subject to the jurisdiction of this Commission.
2. WWP's California revenue is 1.4% of total revenue.
3. WWP has need for external funds for the purposes set forth in the Application.
4. The proposed issue of Securities as set forth in the Application would be for proper purposes and not adverse to the public interest.
5. The money, property or labor to be procured, or paid for by the proposed Securities is reasonably required for the purposes specified in the Application.
6. Authorizing WWP to determine the amount, timing, terms and conditions, and method of offering its proposed Securities would not be adverse to the public interest.
7. A three-year authority to refund short-term debt so that the combined terms of such indebtedness may exceed twelve months is not adverse to the public interest.
8. Requiring WWP to maintain or bring down the aggregate amount of short-term borrowings to 5% of the par value of the other securities then outstanding at least once every twelve months is reasonable. It would still allow WWP flexibility to use short-term borrowings when market conditions for long-term debt are not favorable.
9. The subsidiary trust described in the Application would be established solely for the purpose of issuing securities to the public to support WWP's utility operations or service, and would be under WWP's ownership and control.
10. Exempting WWP from the Competitive Bidding Rule in issuing the Securities proposed in the Application would not be adverse to the interests of WWP's California ratepayers.

11. The Commission does not by this decision determine that WWP's construction budget, capital ratios, cash requirements forecast are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate case proceedings.

12. Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 27, 1997, and no protests have been received. There is no known opposition to the Application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.
2. The proposed Securities are for lawful purposes and the money, property or labor to be obtained are required for these purposes. Proceeds of the issuances may not be charged to operating expenses or income.
3. The Application should be granted to the extent set forth in the order which follows.
4. WWP will pay the fee in accordance with PU Code § 1904(b).
5. The following order should be effective on the date of signature.

O R D E R

IT IS ORDERED that:

1. The Washington Water Power Company (WWP), on or after the effective date of this order, is authorized to do the following upon terms and conditions substantially consistent with those set forth in or contemplated by Application 97-08-008 (Application):

- a. to issue, sell, deliver, and/or guarantee Debt Securities, in one or more series; with an aggregate stated value of up to and including \$250,000,000;

- b. to issue, sell, deliver, and/or guarantee Conservation Bonds through the use of a special purpose entity, in one or more series, with an aggregate stated value of up to and including \$60,000,000;
- c. to refund tax-exempt debt securities currently outstanding, in one or more series, with an aggregate stated value of up to and including \$85,000,000; and
- d. to issue and sell up to and including \$45,000,000 of outstanding short-term debt in excess of the amount provided in PU Code § 823, (letters a to d, collectively, the "Securities") utilizing the net proceeds of the indebtedness authorized for the purposes specified in the Application;
- e. to determine the precise amount and timing of each financing, the market in and method by which each is effected, price and interest rate and other material terms and provisions of the Securities; and
- f. to issue and sell other types of Debt Securities which may become available in the market within the dollar limits authorized in this decision.

2. WWP's proposed issuance of Securities is exempted from the requirements of the Commission's Competitive Bidding Rule.

3. WWP shall refund its previously-issued short-term debt securities such that the combined terms of the refunded issues and the new debt securities may exceed twelve months, without the need for additional Commission authorization for a period of three (3) years from the date of this order.

4. WWP shall maintain or bring down the aggregate amount of its short-term borrowings to 5% of the par value of the other securities then outstanding at least once every twelve (12) months.

5. WWP shall notify the Energy Division in writing of the nature of any new offering of Debt Securities not specifically described in the Application prior to its issuance.

6. On or before the 25th day of each month, WWP shall file the reports required by General Order Series 24.

7. The authority granted by this order shall become effective when WWP pays \$7,160, the fee set forth by Public Utilities Code § 1904(b).

8. This proceeding is closed.

This order is effective today.

Dated October 22, 1997, at San Francisco, California.

P. GREGORY CONLON
President

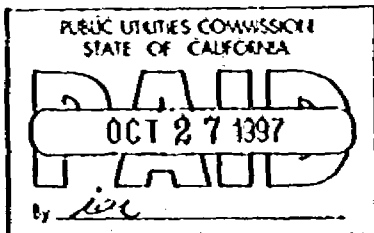
JESSIE J. KNIGHT, JR.

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RICHARD A. BILAS

Commissioners



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\$7,160 -