

ENERGY/RIIG

Decision 98-09-035 September 3, 1998

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 sale of up to and including \$45,000,000 of the)
Company's Accounts Receivable and for an)
exemption from the Commission's Competitive)
Commission's Competitive Bidding Rule.)
_____)

Application 92-11-018
Petition for Modification
(filed July 24, 1998)

SUPPLEMENTAL OPINION

Summary of Decision

This decision grants The Washington Water Power Company (WWPC) the authority requested in its Petition for Modification of Decision (D.) 92-12-068 as modified by D.97-05-084 (Petition).

Notice of the filing of the Petition appeared on the Commission's Daily Calendar of July 28, 1998. No protests have been received.

Pursuant to Rule 47 of the Commission's Rules of Practice and Procedure, WWPC seeks a further modification of the authority granted in D.92-12-068, as modified, to increase WWPC's Accounts Receivable financing facility from \$45,000,000 to \$80,000,000.

Background

WWPC is a corporation organized and existing under the laws of the State of Washington, and is under the jurisdiction of this Commission, the Washington, Idaho, and Oregon Commissions.

For the year ended June 30, 1998, WWPC reported in its Unconsolidated Statement of Income that it generated total operating revenues of \$904,657,495 and net income of \$80,934,785.

WWPC's operating revenues for its California operations for the same period is \$13,895,794 or 1.5% of total operating revenues.

In 1988, WWPC entered a five year agreement with the Corporate Asset Funding Co., Inc. (CAFCO), a subsidiary of Citibank, for the sale of \$30,000,000 of its accounts receivable. In D.92-12-068 dated December 16, 1992, in Application (A.) 92-11-018, the Commission authorized WWPC to sell up to and including \$45,000,000 of its accounts receivable to CAFCO on a continually revolving basis until December 31, 1997. D.97-05-084 dated May 21, 1997 modified D.92-12-068, and granted WWPC authority to enter into a purchase agreement (other than CAFCO) through the use of a special purpose entity¹. This decision also extended the expiration date of WWPC's accounts receivable financing facility from December 31, 1997 to December 31, 2002.

We note herein that the Idaho, Oregon, and Washington Commissions considered WWPC's accounts receivable financing as a true sale of assets because the accounts receivable are sold without recourse to the utility. Additionally, the sale of the accounts receivable and all costs associated with the program are not to be included or recovered through the utility's cost of capital. As a result of these determinations, no hearings were required and no applications were filed with the Idaho, Oregon, and the Washington Commissions. In line with this Petition, WWPC by letter, will notify the three Commissions of the intended increase in its accounts receivable financing program.

In California ratemaking, accounts receivables (being assets which represent claims against customers for completed sales on account not evidenced by promissory notes) are recognized in the determination of working cash, which is used to determine the base on which utilities are entitled

¹ As stated in D.97-05-084, WWPC 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 Clipper Receivables Corporation. The transaction qualifies for a legal and accounting "true sale" and also qualifies as debt for tax purposes.

to earn a return. Public Utilities (PU) Code § 851 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..."

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.

Modification Sought

WWPC states in the Petition that the accounts receivable program would reduce overall program costs and would provide greater financing flexibility if the dollar limit could be increased from \$45,000,000 to \$80,000,000. Effectively, the proposed increase could reduce WWPC's need for other types of financing and provide a source of funds with a much lower effective cost.

Construction Budget

WWPC's estimated construction budgets - capital expenditures for the calendar years 1998, 1999 and 2000, as shown in its supplemental information to the Petition, are \$90,000,000, \$93,000,000, and \$93,000,000 respectively.

Cash Requirements Forecast

WWPC's statement of cash requirements for 1998 through 2000, shown as supplemental information to the Petition is summarized as follows:

	(Dollars in Thousands)		
	<u>1998</u>	<u>1999</u>	<u>2000</u>
Funds Required for Capital Expenditures	89,951	93,315	93,183
Funds Required for Cash Dividends	72,184	72,362	73,306
Maturities of Long-Term Debt	10,000	47,500	55,000
Conservation Bonds	1,417	2,295	2,544
Preferred Stock Redemptions	10,000	0	0
Investment in Subsidiaries	<u>15,750</u>	<u>28,040</u>	<u>25,369</u>
 Total Cash Required	 199,302	 243,512	 249,402
 Less: Cash from Internal Sources	 <u>148,156</u>	 <u>148,013</u>	 <u>143,630</u>
 Cash Required from External Sources	 51,146	 95,499	 105,772

WWPC's forecasts for 1998 through 2000 indicate that internally generated funds will provide approximately \$439,799,000 or 63.5% of its total cash requirements of \$692,216,000.

Capital Ratios

WWPC's unconsolidated capital ratios as shown in its supplemental information to the Petition are shown below as recorded and as adjusted to give pro forma effect to the transactions that follow:

	(Dollars in thousands)			
	1998		1999	
	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Long-Term Debt	724,147	44.6%	789,784	45.2%
Preferred Stock	155,000	9.5%	145,000	8.3%
Common Stock	<u>746,736</u>	<u>45.9%</u>	<u>812,339</u>	<u>46.5%</u>
 Total	 1,625,883	 100.0%	 1,747,123	 100.0%

- (a) Long-term debt includes issuance of approximately \$82.5 million bonds authorized under D.97-10-054 and reduction of approximately \$16 to \$17 million current outstanding short-term debt.
- (b) Preferred stock reflects \$10 million mandatory redemption under the sinking fund provision.
- (c) Issue of approximately \$20 million currently authorized but unissued common stock plus an estimated \$46 million retained earnings for years 1998 and 1999..

WWPC's ratesetting matters are normally reviewed during its Performance Based Ratemaking filings. We make no finding in this decision of the reasonableness of WWPC's projected capital budget and capital ratios.

Use of Proceeds

WWPC proposes to use the proceeds from the sale of Accounts Receivable to (1) retire or exchange one or more outstanding stock, bonds, or note issuances, (2) fund its construction, facility improvement and maintenance programs, (3) reimburse its treasury for funds previously expended, and (4) use for other purposes as may be permitted by law.

The amount of proceeds sought in this Petition is \$80,000,000, of which the California related proceeds will be approximately \$1,200,000. WWPC's California revenue, when compared to the revenues generated from Idaho, Oregon, and Washington, is modest. To the extent that the Idaho, Oregon, and Washington Commissions do not require any filing or hearing with regards to WWPC's accounts receivable program, we will grant the proposed increase to provide WWPC which is under our jurisdiction, the benefit of using its accounts receivable financing program for the purposes set forth in the Petition.

Findings of Fact

1. WWPC's proposal to sell up to \$80,000,000 of accounts receivable would provide WWPC financial flexibility and additional source of funds.
2. WWPC's accounts receivable financing program would be for proper purposes and would not be adverse to the public interest.
3. WWPC's California revenue is 1.5% of its total revenue.

4. WWPC is not required to file an application with the Idaho, Oregon, or Washington Commissions in relation to its accounts receivable financing program.
5. WWPC has need for external funds for the purposes set forth in the Petition.
6. Notice of the filing of the Petition appeared on the Commission's Daily Calendar of July 28, 1998. 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. The Petition should be granted to the extent set forth in the order which follows.
3. WWPC will pay the additional fee in accordance with PU Code §1904(b).
4. The following order should be effective on the date of signature.

SUPPLEMENTAL ORDER

IT IS ORDERED that:

1. The authority granted to Washington Water Power Company (WWPC) by Decision (D.) 92-12-068 in Application (A.) 92-11-018, as modified by D.97-05-084, is amended as set forth in WWPC's Petition for Modification (Petition). Ordering Paragraph 1 is modified to read as follows:

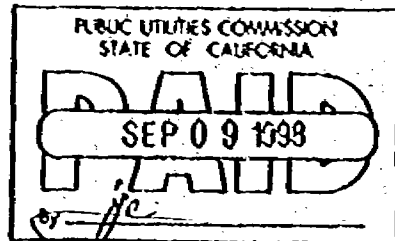
On or after the effective date of this Order, The Washington Water Power Company (WWPC) may sell up to and including \$80,000,000 of its accounts receivable through the use of a special purpose entity, on a continually revolving basis until December 31, 2002.

2. WWPC may execute and deliver any and all related documents required for completion of the transaction.
3. WWPC shall apply the net proceeds authorized by this decision to the purposes set forth in the Petition.

4. The Petition is granted as set forth above.
5. In all other respects, D.92-12-068 as modified by D.97-05-084 remains in full force and effect.
6. The authority granted by this order shall become effective when WWPC pays \$1,050, the additional fee set forth by Public Utilities Code §1904(b).
7. A.92-11-018 is closed.

This supplemental order is effective today.

Dated September 3, 1998, at San Francisco, California.



CSR # 40129
\$1,050.00

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