

ENERGY/RHG

Decision 98-10-018 October 8, 1998

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) issue of up to 2,000,000 shares of a new)
 series of its Preferred Stock, Convertible Series L,)
 in exchange for up to 20,000,000 shares of Common)
 Stock, on the basis of one share of new Preferred)
 Stock for each ten shares of Common Stock, and to)
 cause the delivery to the exchanging shareholders of)
 the associated Depository Shares each constituting a)
 one-tenth interest in one share of Preferred Stock,)
 (b) issue shares of Common Stock upon the)
 mandatory conversion of the Preferred Stock into)
 Common Stock on the Mandatory Conversion Date,)
 on the basis of ten shares of Common Stock for one)
 share of new Preferred Stock (subject to antidilution)
 adjustments as described in the documents)
 submitted with the Application) and (c) issue shares)
 of Common Stock in connection with the)
 conversion of the new Preferred Stock, at the option)
 of this Applicant, prior to the Mandatory)
 Conversion Date in a number sufficient for (i) the)
 Optional Conversion Price, as described herein and)
 (ii) the Optional Conversion Premium, as described)
 herein.)
 _____)

ORIGINAL

Application 98-08-042
(Filed August 24, 1998)

OPINION

Summary of Decision

This decision grants The Washington Water Power Company (WWPC) the authority requested in Application (A.) 98-08-042 (Application).

WWPC requests authority, pursuant to §§ 816 through 830 of the Public Utilities (PU)

Code for the following:

1. to issue up to 2,000,000 shares of a new series of its Preferred Stock, Convertible Series L (Series L Preferred), in exchange for up to 20,000,000 shares of Common Stock, on the basis of one share of new Series L Preferred for each ten shares of Common Stock, and to cause the delivery to the exchanging shareholders of the associated Depository Shares each constituting a one-tenth interest in one share of Preferred Stock;
2. to issue shares of Common Stock upon the mandatory conversion of the Preferred Stock into Common Stock on the Mandatory Conversion Date, on the basis of ten shares of Common Stock for one share of new Series L Preferred (subject to antidilution adjustments as described in the documents submitted with the Application); and
3. to issue shares of Common Stock in connection with the conversion of the Series L Preferred, at the option of WWPC, prior to the Mandatory Conversion date in a number sufficient for (i) the Optional Conversion Price, as described in the Application and (ii) the Optional Conversion Premium, as described therein.

Notice of the filing of Application appeared on the Commission's Daily Calendar of August 27, 1998. No protests have been received.

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 December 31, 1997, WWPC reported in its Unconsolidated Statement of Income that it generated total operating revenues of \$1,302,172,000 and net income of \$114,797,000. WWPC's operating revenues for its California operations for the same period is \$11,916,000 or 1.3% of total operating revenues.

WWPC's Unconsolidated Balance Sheet as of December 31, 1997, shown as Exhibit B(h) to the Application, is summarized as follows:

(Dollars in Thousands)

ASSETS

Net Utility Plant	\$1,433,123
Other Property and Investments	297,227
Current Assets	376,843
Deferred Charges	<u>304,592</u>
Total	\$2,411,785

CAPITALIZATION AND LIABILITIES

Common Stock and Additional Paid in Capital	\$ 594,852
Other Shareholders Equity (includes retained earnings)	153,960
Preferred Trust Securities	110,000
Preferred Stock (subject to mandatory redemption)	45,000
Long-term Debt	<u>762,185</u>
Total Capitalization	\$1,665,997
Current Liabilities	339,738
Deferred Credits	<u>406,050</u>
Total	\$2,411,785

Description of Obligation

WWPC seeks authorization to exchange up to and including 20,000,000 shares of Common Stock for depositary shares. Each depositary share will constitute a one-tenth interest in one share of Series L Preferred. The exchange will be conditional upon at least 6,000 shares of Common Stock being tendered for exchange. If more than 20,000,000 Common Stock are validly tendered and not withdrawn pursuant to the Exchange Offer, WWPC will accept such shares for exchange on a pro rata basis.

The shares of Series L Preferred will be deposited with The Bank of New York, as Preferred Stock Depositary, and each depositary share will entitle the owner to all of the

proportionate rights, preferences and privileges of the Series L Preferred represented thereby. Dividends on the Series L Preferred are cumulative and will accrue at the rate of \$12.40 per annum, payable quarterly in arrears in cash on or before the 15th day of each March, June, September and December, commencing December 15th, 1998. The proportionate annual dividend rate for each depositary share will be \$1.24 per share, and dividends will be payable on the depositary shares as, when and if paid on the Series L Preferred. Each share of Series L Preferred will have a liquidation preference of ten times the fair market value per share of the Common Stock on or about the date of issuance, plus accrued and unpaid dividends. The proportionate liquidation preference of each depositary share will be one-tenth of this amount.

On or about November 1, 2001 (the Mandatory Conversion Date) each of the outstanding shares of Series L Preferred will be mandatorily converted by WWPC into (i) ten Common Share, subject to certain antidilution adjustments, and (ii) the right to receive cash amount equal to all accrued but unpaid dividends thereon.

The shares of Series L Preferred may be converted, at the option of WWPC, at any time on or after December 15, 1998 and prior to the Mandatory Conversion Date, in whole or in part from time to time, into, for each share so converted (1) a number of Common Shares equal to the Optional Conversion Price (as defined below) then in effect plus (2) the right to receive an amount, in cash, equal to the accrued and unpaid dividend thereon to the conversion date plus (3) the right to receive the Optional Conversion Premium (as defined herein).

The Optional Conversion Price means, for each share of Preferred Stock converted at the option of WWPC, a number of shares of Common Stock equal to the lesser of (a) the "dollar amount" divided by the current market price as of the close of business on the second trading day immediately preceding the day on which WWPC gives notice of optional conversion and (b) ten shares of Common Stock, subject to antidilution adjustment. The amount to be inserted in the "dollar amount" indicated above will be a percentage, ranging from 110% to 130%, of an amount equal to ten times the current market price per share of Common Stock before the commencement of the Exchange Offer.

The Optional Conversion Premium means, for each share of Preferred Stock converted at the option of WWPC, an amount, in cash, initially equal to \$20.90, declining by \$0.02111 for each day following December 15, 1998 to and including the optional conversion date

(computed on the basis of a 360-day year consisting of twelve 30-day months) and equal to zero on and after September 15, 2001; provided, however, that, in lieu of delivering such amount in cash, WWPC may, at its option, deliver a number of Common Shares equal to the quotient of such amount divided by the current market price on the second trading day immediately preceding the day in which WWPC gives notice of such conversion.

The initial Optional Conversion Premium of \$20.90 represents the difference between the annual dividend of \$12.40 on each share of Series L Preferred and an assumed annual dividend of \$4.80 for ten Common Shares for the period after December 15, 1998 through September 15, 2001 (i.e. \$1.90 per quarter for eleven quarters). The premium declines to zero on September 15, 2001; no premium will be paid on or after September 15, 2001. Dividends will accrue on the Series L Preferred through the conversion date.

A holder of Series L Preferred (or of Depositary Shares) will not be entitled to vote on matters voted upon by the shareholder of WWPC. Holders of Preferred Stock have certain additional voting rights exercisable together with all the other holders of each other series of preferred stock of WWPC, including certain rights to elect directors during the default of payment of dividends for six consecutive quarters.

WWPC's dividend payment dates are March 15, June 15, September 15 and December 15. Pursuant to the Application, in order for shareholders who elect to exchange their Common Shares for Depositary Shares to realize no change in cash dividend payments, (which is a key reason for making the exchange offer) the exchange offer must be completed prior to the record date for the December 15, 1998 dividend payment.

WWPC's exchange offer is conditioned on obtaining approvals from this Commission and the other state regulatory commissions that monitor and approve changes in WWPC's business activities. On August 17, 1998, WWPC filed a S-4 filing (Registration No. 333-61599) with the Securities and Exchange Commission (SEC) in connection with the intended new-issue exchange offer.

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 Application 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 Application 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 Application 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%	485,000	27.8%
Common Stock	<u>746,736</u>	<u>45.9%</u>	<u>472,339</u>	<u>27.0%</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 a decrease of \$10 million for mandatory redemption under the sinking fund provision; approximately \$340 million increase due to the exchange offer (treated as Preferred Stock for accounting purposes only).
- (c) Issue of approximately \$20 million currently authorized but unissued Common Stock; an estimated \$46 million retained earnings for years 1998 and 1999; and a corresponding \$340 million decrease due to the exchange offer (with mandatory conversion to Common Stock after three years).

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.

Purpose of Offering

Following a dividend reduction plan¹, WWPC proposes to offer its shareholders (particularly those with an income orientation) the opportunity to exchange their Common Shares for an equal number of mandatorily convertible Preferred Shares, each of which will pay an annual dividend of \$1.24 per share for a period of about three years. WWPC will offer to exchange up to 20 million Common Shares or about 35% of the company's outstanding Common Shares. If more than 20 million shares are tendered for exchange, the tendered shares will be subject to proration.

After three years, the new-issue Preferred Shares will automatically convert back to Common Stock on a one-for-one basis. WWPC has the option of converting some or all of the new-issue shares to Common Stock prior to the end of the three-year period.

Shareholders who choose not to participate in the exchange plan will retain their ownership in WWPC's Common Stock.

WWPC's proposed exchange offer of up to and including 20,000,000 shares of its Common Stock for Depository Shares falls within the purview of PU Code § 817(g), which states:

A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for the retirement of or in exchange for one or more outstanding stocks or stock certificates or other evidence of interest or ownership of such public utility, or bonds, notes, or other evidence of indebtedness of such public utility, with or without the payment of cash.

To the extent that WWPC has (1) filed its registration with the SEC in relation to the intended exchange issue; (2) filed the necessary applications with the Idaho, Oregon, and Washington Commissions; (3) operating revenues derived in California of only 1.3% of its total operating revenues; and (4) complied with the requirements of the PU Code in reference to the new-issue exchange offer, it has fulfilled the applicable regulatory requirements

¹ This will restrict the distribution of dividends and effectively increase and preserve undistributed earnings or retained earnings which may be used for plant expansion, general contingencies, acquisitions, etc.

necessary to grant WWPC the authority to proceed with the exchange issue for the purposes set forth or contemplated in A.98-08-012.

In Resolution (Res.) ALJ176-2999 dated 9/3/98, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ176-2999.

WWPC and its stockholders are placed on notice that the Commission does not regard the number of shares outstanding, the total par value of the shares, or the exchange offering as determining WWPC's allowable return on plant investment. Our authorization is not a finding of the value of WWPC's stock or property, nor does it indicate the amount to be included in ratemaking proceedings.

Findings of Fact

1. WWPC, a Washington corporation, operates as a public utility subject to the jurisdiction of the Commissions of California, Washington, Idaho, and Oregon.
2. The exchange offer is intended to allow income-oriented shareholders the opportunity to continue to receive cash dividend payments following WWPC's dividend reduction plan.
3. The proposed exchange offer would not be adverse to the public interest.
4. WWPC's California revenue is 1.3% of its total revenue.
5. WWPC has filed and registered the proposed exchange offer with the SEC.
6. WWPC is seeking the necessary regulatory commission approvals in Washington, Idaho, and Oregon for the proposed exchange offer.
7. There are no proceeds from this Application.
8. Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 27, 1998. There is no known opposition to the Application, and the authority requested should be granted.

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. The number of shares outstanding, the total par value of the shares, and the dividends paid do not determine allowable return on plant investment. This authorization is not a finding of the value of WWPC's stock or property, nor does it indicate the amounts to be included in ratemaking proceedings.
4. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order, The Washington Water Power Company (WWPC), upon terms and conditions substantially consistent with those set forth or contemplated in Application 98-08-042 (Application), is authorized to:
 - (a) issue up to 2,000,000 shares of a new series of its Preferred Stock, Convertible Series L, in exchange for up to 20,000,000 shares of Common Stock, on the basis of one share of New Preferred Stock for each ten shares of Common Stock, and to cause the delivery to the exchanging shareholders of the associated Depositary Shares each constituting a one-tenth interest in one share of Preferred Stock;
 - (b) issue shares of Common Stock upon the mandatory conversion of the Preferred Stock into Common Stock on the Mandatory Conversion Date, on the basis of ten shares of Common Stock for one share of new Preferred Stock, subject to antidilution adjustments as described in the Application;
 - (c) issue shares of Common Stock in connection with the conversion of the new Preferred Stock, at the option of WWPC, prior to the Mandatory Conversion Date in a number sufficient for (i) the Optional Conversion Price, as described in the Application and (ii) the Optional Conversion Premium, as also described in the Application.

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

3. Application 98-08-042 is closed.

This order is effective today.

Dated October 8, 1998, at Laguna Hills, California.

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