

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking on the
Commission's Own Motion to Consider
Effectiveness and Adequacy of the
Competitive Bidding Rule for Issuance of
Securities and Associated Impacts of
General Order 156, Debt Enhancement
Features, and General Order 24-B.

R. 11-03-007
(Filed March 10, 2011)

**PRE-WORKSHOP STATEMENT OF
CALIFORNIA WATER ASSOCIATION
AND ITS CLASS A WATER COMPANY MEMBERS**

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In accordance with the instructions accompanying the Administrative Law Judge's Ruling Adding Items for Discussion at the January 9 and 10, 2012 Workshop, and Adding An Evidentiary Hearing On January 10, 2012, issued on November 28, 2011 (the "Ruling") in the above-captioned proceeding (the "Rulemaking"), California Water Association and its Class A water company members¹ (together, "CWA") hereby submit the following pre-workshop statement addressing the Commission's Competitive Bidding Rule, and the applicability of General Order ("G.O.") 156 and G.O. 24-B in the context of the utilities' current financial practices.

¹ Class A water companies joining in these Comments include Apple Valley Ranchos Water Company (U-346-W), California American Water Company (U-210-W), California Water Service Company (U-60-W), Golden State Water Company (U-133-W) (including Bear Valley Electric Service (U-913-E), Park Water Company (U-314-W), San Gabriel Valley Water Company (U-337-W), San Jose Water Company (U-168-W), Suburban Water Systems (U-339-W), and Valencia Water Company (U-342-W).

I. Introduction

CWA is a statewide association that represents the interests of investor-owned water utilities regulated by the Commission, including, especially, the Respondent Class A water utilities (the “Water Companies”) that are, together with all investor-owned utilities, required to obtain Commission approval for their long-term financing needs, the subject of this Rulemaking (collectively, the “Respondent Utilities”). In light of the December 21, 2011 proposal circulated by Southern California Edison (“Edison”), CWA’s pre-workshop statement focuses on the draft rules circulated in the November 28, 2011 Ruling in the context of the Edison recommendations.

II. The Edison Proposal

Edison presented its proposal in a December 21, 2011 letter to Commissioner Simon. Edison recommends that: (1) the Competitive Bidding Rule (the “Rule”) be repealed; (2) the requirement to provide compelling evidence of the benefit of debt enhancement features and swap and hedging arrangements not be adopted; (3) the G.O. 24-B requirements for separate bank accounts for proceeds, as well as for detailed reporting related to the issuance of financial instruments be repealed; (4) the scope of this Rulemaking be amended to focus on the Commission’s G.O. 156 objectives; and (5) in lieu of the evidentiary hearing scheduled for January 10, 2012, a workshop report be drafted collaboratively by the workshop participants and issued for comment (collectively, the “Edison Proposal”).

CWA supports the Edison Proposal as a reasoned approach to updating and modernizing the Commission’s requirements with respect to the competitive marketplace for regulated-utility debt issuances, as detailed more specifically below.

A. Repealing the Competitive Bidding Rule

As originally noted in its May 9, 2011 Comments on the Order Instituting Rulemaking, CWA continues to believe that the Rule, established nearly 60 years ago to help utilities secure the

lowest cost of money on behalf of their customers, has become outdated and ineffective. Merely revising the Rule to, for example, authorize public notice by electronic communication and/or narrow the circumstances under which debt issuances must be competitively bid, would not address the changed financial and economic conditions that render the 1946 Rule, as updated only as recently as 1986, obsolete. Therefore, CWA supports the recommendation that the Rule be repealed as part of a comprehensive evaluation of the Rule, G.O 156 and G.O. 24-B.

Alternatively, if the Commission desires to retain the Rule in some modified form, CWA strongly urges the Commission to modify Exemption No. 3 (as proposed by the Draft Rules contained in the Ruling) to exempt issuances of \$200 million or less.² The Commission has not raised the exemption limit since 1986 (when the limit was raised from \$5 million to the now-current \$20 million). The Commission authorized that most recent increase – now more than 25 years ago – reasoning that utilities had difficulty generating sufficient interest among investment bankers for issuances of such a relatively small size. Should the Commission decline to repeal the Rule entirely, this same rationale amply justifies a increase in the size of issuances exempt from the Rule.

B. Debt Enhancements and Swap and Hedge Arrangements

The types of discretionary debt enhancements and swap and hedging arrangements at issue in this Rulemaking are generally not available or applicable to the Water Companies and their smaller-scale financings. Because experience using these enhancements and arrangements is limited to nonexistent, CWA declines to comment on Edison’s recommendation to reject the restrictions and requirements proposed in the Ruling with respect to these transactions.

² CWA originally recommended that bond issuances of \$100 million or less be exempt from the Rule, but proposes to revise the recommended level after further discussions with membership.

C. G.O. 24-B Requirements and Reporting

Consistent with its May 9, 2011 Comments, CWA supports modifications of G.O. 24-B that would lessen its associated costs and administrative burdens. As such, the Water Companies support the Edison Proposal to repeal the detailed reporting and accounting requirements contained in G.O. 24-B. In the alternative, CWA would recommend that the reporting under G.O. 24-B simply be on an annual basis.

D. Scope of the Rulemaking and G.O. 156

This Commission initiated this Rulemaking to consider, in part, whether and how to include the utilities' financial services procurements in the program goals advanced by G.O. 156 – namely, expanding economic opportunity for emerging firms and promoting competition among regulated public utility financial services providers. The Edison Proposal urges the Commission to consider developing a stand-alone rule that requires the utilities to report on their efforts to include diverse business enterprises in their financing efforts. CWA agrees that, going forward, a major focus in reaching a decision in this proceeding should be to determine how to institutionalize G.O. 156's goals in the context of financial services procurements and supports Edison's conceptual approach.

E. Suspension of the Evidentiary Hearing and Workshop Report

CWA concurs with Edison that in lieu of holding an evidentiary hearing during the afternoon of January 10, 2012, a workshop report should be drafted by the workshop participants and circulated for comment. The issues to be discussed during the upcoming workshops are broad and may involve consideration of a revised scope of Rulemaking. If the Commission decides to encourage the parties to the workshop to produce a workshop report, CWA looks forward to participating in the effort to craft an accurate and collaborative document to be incorporated into the record of this proceeding.

III. Conclusion

CWA supports the Commission's ongoing efforts to evaluate the effectiveness and adequacy of the Competitive Bidding Rule and the related requirements contained in G.O. 156 and G.O. 24-B, and appreciates the opportunity to continue to discuss these important issues during the forthcoming January 9-10, 2012 workshops.

Respectfully submitted,

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