Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of GOLDEN STATE WATER COMPANY (U-133-W) for authority to: (1) Issue, Sell, and Deliver Common Shares and One or More Types of Preferred Shares or Debt, the Total Aggregate Amount of Such Offerings) not to Exceed $200,000,000; (2) Enter into One or More Interest Rate Risk Management Agreements; and (3) Obtain an Exemption From the Commission's Competitive Bidding Rule.	Application 06-10-029 (Filed October 25, 2006)

OPINION GRANTING APPLICATION TO ISSUE UP TO $200 MILLION IN NEW SECURITIES

I. Introduction

This decision grants Golden State Water Company (GSWC) the authority requested in Application (A.) 06-10-029 (Application), pursuant to Public Utilities Code Sections 816-830[1] associated with the issue, sale, and delivery of securities not exceeding $200,000,000. GSWC is a public utility under the jurisdiction of this Commission, providing water service in portions of Los Angeles, Orange, San Bernardino, Ventura, Lake, San Luis Obispo, Sacramento, Imperial, Contra Costa and Santa Barbara Counties, and electric service in the Big Bear Lake area of San Bernardino County. GSWC was organized as a California corporation on

[1] Subsequent section references are to the Public Utilities Code.

December 31, 1929, and in July 1998, became a wholly owned subsidiary of American States Water Company (ASWC).

GSWC filed its application on October 25, 2006. Notice of the filing of the Application appeared on the Commission's Daily Calendar of October 27, 2006. No protests have been received.

GSWC was previously granted financing authority in Decision (D.) 00-12-054, dated December 21, 2000, for the issuance, sale, and delivery of $160 million in securities consisting of common shares, bonds, debentures and notes. As of June 30, 2006, GSWC had utilized $90 million of new debt, and issued $60.1 million of common shares. Remaining authority under D.00-12-054 totals $9.9 million. GSWC anticipates substantial cash requirements in the next few years to upgrade aging infrastructure and to invest in various capital projects to ensure a reliable water supply, to meet environmental regulations, and to refinance short-term debt. In view of these requirements, GSWC anticipates a need for up to $200 million over the next five years. Accordingly, in the instant Application, GSWC seeks Commission authorization:

a. To issue, sell and deliver by public offering or private placement securities not exceeding $200,000,000 in aggregate offering amount, said securities consisting of, but not limited to, (i) common shares and preferred shares (New Equity Securities), and (ii) bonds, debentures, medium-term notes, loans and tax exempt debt (New Debt Securities) on terms and conditions in accordance with its Application (collectively, the New Securities);

b. To use the net proceeds to be received from the New Securities for the purposes permitted under Section 817, including (i) retirement and discharge of all or a portion of its then-outstanding short-term debt issued for temporary financing of additions to GSWC's utility plant,

(ii) reimbursement of GSWC for capital expenditures and for the acquisition of utility properties, and (iii) refund of existing long-term debt obligations;

c. To execute and deliver one or more indentures, supplemental indentures, or board resolutions and/or loan, credit, or note purchase agreements or other agreements; in connection with any issue of Debt Securities, and to assign, mortgage or encumber utility property in connection with the issuance and sale of Debt Securities;

d. To be exempt from the Commission's Competitive Bidding Rule GSWC's issuance of any and all of the New Securities;

e. To utilize interest rate management techniques to enhance its New Debt Securities in accordance with this Application;

f. For specification that the instruments set forth in Sections VII and VIII of the Application shall not be counted against GSWC's authorized amount of New Securities since these instruments would not affect the amount of the underlying securities issued;

g. For specification that the authority granted shall become effective upon payment of fees prescribed by Public Utilities Code Sections 1904(b) and 1904.1; and

h. For such other and further relief as the Commission may deem appropriate in this matter.

As set forth in Exhibit D of its Application, covering the period 2007-2011 GSWC allocates the $200 million, in the following manner:

Category	(in $000s)
New Debt Issuance	$113,000
New Equity Issuance	62,000
Refunding Existing Debt	25,000

Total Security Issuance $200,000

GSWC requests the authorizations summarized above as additions to the unused authority previously granted in D.00-12-054.

II. Description of the New Securities

A. New Equity Securities

GSWC seeks authority to issue, sell, and deliver common equity shares from time to time to its parent, ASWC, the proceeds of which will be infused to GSWC in exchange for common shares from GSWC. GSWC also seeks authority to issue and sell preferred shares to the public, by private placements with investors, or to its parent. GSWC has not yet determined the amount or timing of sale of preferred shares,[2] but intends to establish the terms and features of any preferred shares prior to an offering based on its funding requirements and market conditions at the time of issuance.

B. New Debt Securities

GSWC also seeks authority to issue the New Debt Securities so that it may expeditiously secure indebtedness at the lowest possible cost and most favorable terms consistent with its capital requirements. GSWC states that, because of the fluctuating conditions in the financial market, it cannot ascertain at this time which of its New Debt Securities (or combination thereof) would provide the most favorable terms. GSWC intends to determine the precise characteristics and methods associated with the issuance of each type of New

[2] GSWC's Articles of Incorporation do not currently permit issuance of preferred shares. Prior to issuing preferred shares, if any, GSWC agrees to amend its Articles of Incorporation accordingly, and to submit the amended Articles to the Commission.

Debt Security at the time of sale based on market conditions. GSWC's proposed issue of bonds, debentures, medium-term notes, and tax-exempt debt are described in detail on pages 6 through 15 of the Application.

C. Use of Proceeds from New Securities

GSWC proposes to use the proceeds from the sale of the New Securities, after payment of expenses incident to their issue and sale, to discharge all or a portion of GSWC's then-existing short-term debt obligations, and to the extent that proceeds remain, for other purposes permitted by Section 817, including for the acquisition of property or the construction, completion, extension or improvement of GSWC's facilities, refunding of existing long-term debt obligations, and for other projected cash requirements from 2007 to 2011. The proposed uses are reflected in the Statement of Cash Flow for 2005 to 2011 in Attachment D of the Application.

D. Discussion

We conclude that GSWC has provided a reasonable justification to grant its request for authority to issue, sell, and deliver the New Securities up to $200 million in principal amount. The additional funds will be useful in helping to finance needed plant facilities to serve customers and other purposes authorized by Section 817. We will authorize GSWC's proposed issue of Debt and Equity Securities in the aggregate principal amount not exceeding $200,000,000. Within 30 days from a request, GSWC shall provide the Commission's Water Division any or all of the following:

1. The price, interest rate and other terms pertaining to its issuance of Debt Securities.

2. Copies of the purchase or underwriting agreements and the final prospectus pertaining to the common shares offering.

3. Copies of the indentures and supplemental indentures setting forth, among other things, the aggregate principal amount, interest rate, conversion factors, redemption and sinking fund requirements and the maturity date of the series of the debentures.

4. Copies of the agreements setting forth, among other things, the aggregate principal amount, interest rate, final maturity date and other items of any series of notes.

III. Proposals to Manage Debt Costs and Risks

A. Debt Enhancement Features

GSWC requests authorization to include at its discretion one or a combination of certain debt enhancement features, as described in detail on pages 12 to 13 of the Application. GSWC seeks to use these features to improve the terms and conditions of the Debt Securities and to lower the overall cost of money. These features include put and call options and use of a sinking fund.

The put option, under certain circumstances, would give holders of New Debt the right to require GSWC to buy back their securities. By offering the put option, GSWC may be able to reduce the interest rate required for the New Debt securities.

The call option is the reverse of a put option, and would allow GSWC to retire a New Debt Security, fully or partially, before the scheduled maturity date. This feature is beneficial when interest rates are anticipated to be lower over time by allowing for a New Debt Security to be retired and replaced at a lower cost.

The sinking fund feature involves setting aside a sum of money periodically to provide for the availability of cash to redeem all, or a specified portion, of a New Debt Security at its maturity. GSWC seeks to preserve the discretion to make use of a sinking fund should a market preference for such a feature be indicated.

B. Interest Rate Management Techniques

GSWC also requests authorization to utilize at its discretion one or more of certain interest rate management techniques in connection with the issuances of New Debt Securities and/or preferred stock. These techniques are intended to be used to minimize GSWC's exposure to potential interest rate increases. Such techniques do not affect the amount of the underlying securities that would be issued. These techniques include treasury lock, treasury option, forward-starting interest rate swap, spread lock, spread option, interest rate swap, and cap and collar contracts.

The treasury lock may be utilized to lock in the treasury interest rate yield component of GSWC's borrowing cost. The treasury option is an alternative technique, which provides the option holder the right, but not the obligation to sell Treasury securities at a specified yield. The forward-starting interest rate swap allows for a lock-in of a fixed rate prior to the issuance of floating rate New Debt Securities in order to mitigate interest rate risk. The spread lock allows for a lock-in of the "spread" or differential between the interest rate of a Treasury security and a GSWC New Debt security with the same maturity.

The spread option mitigates the risk that the credit spread may increase over a designated level. If the credit spread exceeds the designated level, the option may be exercised as an offset to the cost of the higher spread. With an

interest rate swap, GSWC will have the flexibility to convert a security with a floating interest rate to a fixed rate in order to minimize potential interest rate risk. Under a cap contract, GSWC would only pay a cap (i.e., ceiling) rate even if variable interest rates were to rise above the cap. Under a collar contract, the effective interest rate would remain between a cap and a floor rate.

C. Discussion

We agree that the use of the above-described debt enhancement features and interest rate management techniques may be beneficial in minimizing the overall cost of debt while managing associated risks of interest rate movements. Ratepayers benefit as a result through the lowering of interest costs that may be passed through in a rate case proceeding. Accordingly, we approve the request of GSWC for authority to utilize these debt enhancement features and interest rate management techniques.

We place GSWC on notice, however, that the reasonableness of any resulting interest rates and cost of money arising from debt capital are normally subject to review in general rate case proceedings. By granting this application, we make no determination that the construction budget or capital ratios are necessary or reasonable for ratemaking purposes.

IV. Exemption from the Competitive Bidding Rule

A. Proposal Seeking Exemption

GSWC requests an exemption from the Commission's Competitive Bidding Rule with respect to issues of any and all of the New Securities. Rules adopted in D.38614, as amended in D.49941, D.75556, and D.81908, and Commission Resolution (Res.) F-616 generally require California public utilities

to obtain competitive bids for the purchase of their debt securities in order to advance the method that produces the lowest cost to the public utility.

Exhibit A of Res. F-616 dated October 1, 1986, however, exempted certain types of debt instruments from competitive bidding, which stated:

> "Securities privately placed with specific lenders and bank term loans obviously must be negotiated. Competitive bidding is not presently available in European or Japanese markets. Certain tax-exempt pollution control bonds have terms that are specifically negotiated. Variable interest rate debt is normally completed on a negotiated basis. It is reasonable that these types of debt instruments should be exempt from the Competitive Bidding Rule."

In Res. F-616, the Commission also exempted from the resolution all bond issues of $20 million or less in light of findings that it was not financially prudent to subject issues below this threshold to the Competitive Bidding Rule because of the difficulty of generating sufficient interest among investment bankers to form bidding syndicates for such small amounts.

In addition, in D.03-06-011, the Commission stated that it had previously exempted from the Competitive Bidding Rule issues for "overseas indebtedness, foreign currency denominated securities, medium-term notes, commercial paper, preferred securities, tax exempt securities and for obtaining loans."

Based on these Commission precedents, GSWC requests to be exempted from the Competitive Bidding Rule with respect to debt issues for which competitive bidding is not viable or available, which include, without limitation, variable interest rate debt, medium-term notes, tax exempt securities, and privately placed debt. GSWC requests further exemptions from the

Competitive Bidding Rule for its remaining New Debt Securities, including, without limitation, bonds, debentures and direct loans.

GSWC states that as a relatively small and infrequent participant in the capital and debt markets, its debt offerings require substantial marketing efforts to potential investors. If a competitive bidding process were utilized, GSWC explains, bidding underwriters would be unable to obtain adequate market intelligence on GSWC. As a result, underwriters would be forced to bid up their price for the debt securities above levels that would be available through a negotiated offering. Thus, GSWC seeks exemption from the competitive bidding rules so that it can obtain more cost-effective financing through negotiated offerings.

B. Discussion

GSWC's request for exemption is within the purview of the modified and prevailing conditions for enforcement and exemptions defined in Res. F-616. In previous decisions, (e.g., D.03-06-011, D.98-02-104, D.00-10-063 and D.88-07-069), we granted exemptions from the Competitive Bidding Rule to a major electric utility for issues of variable rate debt securities, overseas indebtedness, foreign currency denominated securities, medium term notes, commercial paper, preferred securities, and tax exempt securities. These exemptions were granted in recognition that these types of debt issues did not lend themselves to competitive bidding. Consistent with those exemptions, we likewise find it reasonable to grant exemptions here for debt issues of like kind by GSWC.

In addition to those limited exemptions, GSWC seeks exemption from the Competitive Bidding Rule for all of its remaining issuances of New Debt. In considering the request for a broader exemption, a guiding consideration is that

GSWC minimize overall costs to ratepayers. In this regard, it is useful to contrast competitive bidding versus negotiated offerings as a means of issuing debt.

In a competitive bidding process, an issuer, usually after consulting with one or more investment banks, determines the amount, structure and timing of the debt offering. The issuer invites two or more lead managers to bid on the transaction. The lead managers form underwriting syndicates consisting of other investment and commercial banks, and possibly other financial institutions. With competitive bidding, there is no premarketing of the securities. At a specified time and date (determined by the issuer), the lead managers submit bids to the issuer. The issuer awards the deal to the lowest bidder, but retains the ability to reject all bids.

The competitive bidding process is fundamentally designed for highly rated, well-known issuers who do not require pre-sale meetings or discussions with potential investors. These issuers are frequently in the market, and the investment community knows and is comfortable with their credit profiles, performance and outlook. Investor confidence in the issuer, and consequently the debt issue itself, is essential to obtaining successful and cost-effective financing. Furthermore, the debt issue must be small enough to be fully sold to investors in a short period of time.

In contrast, under a negotiated offering, an issuer, such as GSWC, would select one or more underwriters for a debt offering. The underwriting group advises the issuer as to the appropriate structure, timing, and amount of the proposed transaction, given the issuer's credit history and current market conditions.

If necessary, the lead underwriter arranges and schedules investor presentations in strategic locations. After the investor presentations by company

executives and investment bankers, an order period is initiated whereby the investment banks solicit purchase orders from investors. This period is critical in identifying investor demand at different pricing levels and in setting the final price on the securities. This type of market intelligence cannot be obtained through a competitive bid process.

In a negotiated offering, final pricing is determined based upon investor demand for the bonds based on the lowest possible rate to achieve the necessary transaction size. Underwriting fees for negotiated capital market transactions are generally determined according to an industry-wide standard, based upon the debt's maturity.

Negotiated transactions are the most common means used for issuing securities, and are necessary when there are potential investor concerns about the issuer and/or the financing. In these types of situations, the investor presentations described above are commonly conducted to perform additional marketing and solicit investor interest in the debt offering. Accordingly, a negotiated offering would allow potential investors to obtain market intelligence on GSWC.

As noted in D.03-06-011, the "competitive bidding process is fundamentally designed for highly rated and well-known issuers who do not require any pre-sale meetings or discussions with potential investors." Investor confidence in the issuer and, as a result, in the debt issue itself, is essential in obtaining cost-effective financing. If a competitive bidding process were used by GSWC, however, the bidding underwriters would be unable to obtain adequate market intelligence about GSWC. These underwriters would be forced, as a result, to bid above what the issuer would be able to obtain in a negotiated deal in order to minimize unexpected market or interest rate risk. We therefore

conclude that a negotiated offering would lead to a lower cost as compared with competitive bidding given the characteristics of GSWC. We agree therefore that a negotiated offering it is the appropriate process through which GSWC can market its New Debt securities.

We also recognize that as a relatively small and infrequent participant in the capital and debt markets, competitive bidding is not viable or realistically suitable for GSWC. Accordingly, we hereby grant its request for exemption from the Commission's Competitive Bidding Rules with respect to issuances of New Securities authorized pursuant to this decision. However, we will review the reasonableness of the interest rate and associated fees in GSWC's next GRC or cost of capital proceeding.

V. Collection of Fees

Whenever the Commission authorizes a utility to issue debt, the Commission must charge and collect a fee in accordance with § 1904(b). Section 1904(b) states, in part, that for a certificate authorizing an issue of bonds, notes, or other evidences of indebtedness, a fee shall be collected in the manner prescribed therein. Pursuant to § 1904.1, the Commission is also required to charge and collect a fee for a certificate authorizing an issue of stock, computed at the rates set forth above under Sec. 1904(b), to be determined based upon the proposed maximum proceeds. Based on Exhibit D of the Application, the total funding requested includes issuances attributable to new debt of $113 million and new equity of $62 million.[3] The following table shows the calculation of the

[3] Applicants request authorization for issuances of $113 million for New Debt and $25 million for refunding Existing Debt. Section 1904(b) does not require the payment

Footnote continued on next page

fee that GSWC is required to pay pursuant to the formula set forth in § 1904(b) for the additional $175 million (equal to $113 million increase in its borrowing capacity and $62 million increase in equity securities) as authorized by this decision.

Computation of § 1904(b) Fee
For $175 Million of Additional Debt and Equity

Fee on First $ 1 Million	$ 2,000
Fee on $2 Million - $10 Million	$ 9,000
Fee on $10 Million to $165 Million	$ 82,500
Total Fee	$ 93,500

GSWC shall remit the required fee of $93,500 to the Commission's Fiscal Office. The authority granted by this opinion shall not become effective until the fee is paid.

VI. Categorization of the Proceeding

In Resolution ALJ 176-3182, published in the Commission's Daily Calendar on October 27, 2006, the Commission preliminarily categorized this proceeding as ratesetting and preliminarily determined that hearings were not necessary. It is not necessary to disturb the preliminary determination made in Resolution ALJ 176-3182.

VII. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code, and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure,

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of a fee on issuances attributable to the refunding of existing debt on which a fee has previously been paid to the Commission.

the otherwise applicable 30-day period for public review and comment is waived.

VIII. Assignment of Proceeding

John A. Bohn is the assigned Commissioner and Thomas R. Pulsifer is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. GSWC, a California corporation, is a public utility subject to the jurisdiction of this Commission.

2. GSWC projects a need for external funds for the purposes authorized in Section 817, as set forth in the Application.

3. The proposed issue of Debt Securities and Equity Securities are for proper purposes and not adverse to the public interest.

4. The use of debt enhancement features and interest rate management techniques in appropriate circumstances is not adverse to the public interest.

5. Authorizing GSWC to determine the amount, timing, terms and conditions, and method of offering its proposed financing would not be adverse to the public interest.

6. Public Utilities Code Section 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

7. As a relatively small and infrequent participant in the capital and debt markets, the debt offerings of GSWC require substantial marketing efforts to potential investors.

8. If a competitive bidding process were utilized by GSWC, bidding underwriters would be unable to obtain adequate market intelligence, and as a result, underwriters would be forced to bid up their price for GSWC debt securities above levels available through a negotiated offering.

9. An exemption from the Commission's Competitive Bidding Rules would enable GSWC to obtain lower cost financing through the negotiated offering process.

10. GSWC's request for exemption from the Commission's Competitive Bidding Rule is reasonable.

11. Granting GSWC's request for exemption from the Commission's Competitive Bidding Rule with respect to issuance of its New Securities would not be adverse to the public interest.

12. The Commission does not by this decision determine that the construction budget, cash requirements forecast, and capital ratios presented in the Application are necessary or reasonable for ratemaking purposes.

13. Notice of the filing of the Application appeared on the Commission's Daily Calendar of October 27, 2006, 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 Application should be granted to the extent set forth in the order, which follows.

3. The proposed issue of Debt and Equity Securities, including features to enhance the terms and conditions of the offerings, is for lawful purposes.

4. The following order should be effective immediately.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order, Golden State Water Company (GSWC), upon terms and conditions substantially consistent with those set forth or contemplated in Application 06-10-029 (Application) is authorized to:

   a. issue, sell and deliver by public offering or private placement securities not exceeding $200,000,000 in aggregate offering amount, said securities consisting of, but not limited to, (i) common shares and preferred shares (New Equity Securities), and (ii) bonds, debentures, medium-term notes, loans and tax exempt debt (New Debt Securities) on terms and conditions in accordance with its Application (collectively, the New Securities). The authorization to issue preferred shares is predicated on the requirement that prior to issuing such shares, GSWC shall amend its Articles of Incorporation to permit issuance thereof, and submit the amended articles to the Commission's Water Division Director;

   b. use the net proceeds to be received from the New Securities for the purposes permitted under Section 817 of Public Utilities Code, including (i) retirement and discharge of all or a portion of its then-outstanding short-term debt issued for temporary financing of additions to GSWC's utility plant, (ii) reimbursement of GSWC for capital expenditures and for the acquisition of properties for utility purposes and (iii) refund of existing long-term debt obligations; and

   c. execute and deliver one or more indentures, supplemental indentures, or board resolutions and/or loan, credit, or note purchase agreements or other agreements; in connection with any issue of Debt Securities, and to assign, mortgage or encumber utility property in connection with the issuance and sale of Debt Securities.

2. GSWC is exempt from the Commission's Competitive Bidding Rule in connection with GSWC's issuance of any and all of the New Securities authorized in this order.

3. GSWC is authorized to utilize the interest rate management techniques and debt securities features to enhance its New Debt Securities as proposed with this Application.

4. The instruments to manage and enhance the Debt Securities described in the Application shall not be counted against GSWC's authorized amount of New Securities since these instruments would not affect the dollar amount of the underlying securities issued; GSWC shall maintain and provide within 30 days from request by the Commission any or all of the following:

a. The price, interest rate and other terms pertaining to the issuance of Debt Securities.

b. Copies of the purchase and underwriting agreements and the final prospectus pertaining to the Common Shares offering.

c. Copies of the Indentures and/or Supplemental Indentures setting forth, among other things, the aggregate principal amount, interest rate, conversion factors, redemption and sinking fund requirements and the maturity date of the series of the debentures.

d. Copies of the agreements setting forth, among other things, the aggregate principal amount, interest rate, final maturity date and other items of series of the notes.

5. The authority granted in this order shall become effective upon payment of fees of $93,500 for New Debt Securities and for New Equity Securities as prescribed by Public Utilities Code Sections 1904(b) and 1904.1. Unless

additional fees are paid, the authority granted by this decision shall be limited to $113 million in new debt and $62 million in new equity for which fees have not been previously paid.

6. On or before the 25th day of each month, GSWC shall file reports required by Commission General Order 24.
7. The Application is granted as set forth above.
8. Application 06-10-029 is closed.

This order is effective today.

Dated _____, at San Francisco, California.