Decision ______________

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Golden State Water Company (U133W) for authorization to issue and sell additional debt and equity securities not exceeding the aggregate amount of $225,000,000 and other related requests.	Application 12-07-011 (Filed July 9, 2012)

DECISION AUTHORIZING GOLDEN STATE WATER COMPANY TO ISSUE UP TO $177.1 MILLION OF NEW DEBT SECURITIES AND EQUITY SECURITIES

TABLE OF CONTENTS

TABLE OF CONTENTS

DECISION AUTHORIZING GOLDEN STATE WATER COMPANY TO ISSUE UP TO $177.1 MILLION OF NEW DEBT SECURITIES AND EQUITY SECURITIES

1. Summary

This decision grants Golden State Water Company (GSWC) the authority to issue and sell new debt securities, common equity securities, and preferred equity securities[1] not exceeding $177,100,000, pursuant to Public Utilities Code Sections 816-830. GSWC revised its requested amount of new securities during the pendency of this proceeding. This decision also authorizes GSWC to: 1) guarantee the securities or other obligations of governments or agencies that issue securities on behalf of GSWC; 2) issue short-term debt securities for as much as 24 months; 3) execute and deliver one or more indentures, supplemental indentures or board resolutions and/or loan, credit or note purchase agreements or other agreements; 4) utilize selected debt securities enhancement and interest rate management features to improve the terms and lower the cost of new securities; and 5) in compliance with the New Financing Rule, these authorized debt securities enhancement and interest rate management features are not counted against GSWC's authorized amount of new securities.

2. Background

Golden State Water Company (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

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[1] These three types of securities are collectively referred to throughout this decision as "securities." Common equity securities and preferred equity securities are collectively referred to throughout this decision as equity securities.

service in the Big Bear Lake area of San Bernardino County. GSWC was organized as a California corporation on December 31, 1929, and in July 1998, became a wholly owned subsidiary of American States Water Company (ASWC).

On July 9, 2012, GSWC filed Application (A.) 12-07-011 requesting authorization to issue and sell additional debt securities and equity securities not exceeding the aggregate amount of $225,000,000 and other related requests.

A glossary of financial terms used herein is attached to this decision (Attachment A).

3. Request

In its application, GSWC seeks authorization to issue up to $225 million of new debt and equity securities, in addition to previously-authorized amounts, to meet its future financing needs based on a long-term forecast covering the period 2012 through 2016. The terms and conditions of each new financing issue will be determined by GSWC's management or Board of Directors according to market conditions at the time of sale or issuance.

In response to two requests for information from the assigned Administrative Law Judge (ALJ),[2] GSWC revised its request for new debt and equity securities from $225 million to $177.1 million. This reduction is due to a revision of its need for new securities based on forecasted capital expenditures as well as consideration of existing financing authority, both of which are discussed further in Section 4.2 of this decision. In its responses, GSWC's also stated that it wanted to extend its request through the beginning of 2017 in order to account for financing requirements prior to its next planned request for new financing

[2] *See* responses dated August 27, 2012 and September 10, 2012.

later in 2017. Therefore, its request is for new financing to cover its needs from 2012 through the beginning of 2017 instead of through the end of 2016.

GSWC anticipates substantial cash requirements in the next few years to upgrade aging infrastructure, invest in capital projects, ensure reliable water supply as demands increase, meet environmental regulations, refinance short-term debt securities and increase operational flexibility. Additionally, GSWC seeks authorization to:

a. Use the net proceeds to be received from the new securities for the purposes permitted under Public Utilities (Pub. Util.) Code § 817, including (i) retirement and discharge of all or a portion of its then-outstanding short-term debt securities 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 securities obligations;

b. Execute and deliver one or more indentures, supplemental indentures, or board resolutions and/or loan, credit, or note purchase agreements or other agreements;

c. Utilize debt securities enhancement and interest rate management techniques to enhance its new debt securities; and

d. Exclude debt securities enhancement and interest rate management features from GSWC's authorized amount of new Securities since these instruments would not affect the amount of the underlying securities issued.

GSWC also asks that its request become effective upon payment of fees prescribed by Pub. Util. Code §§ 1904(b) and 1904.1; and that it be granted such other and further relief as the Commission may deem appropriate in this matter.

3.1. Requested New Debt Securities

GSWC proposes to issue its new debt securities in the form of bonds; debentures; mortgage bonds; medium-term notes; loans with banks, insurance companies, or other financial institutions; and tax-exempt debt securities which may require letters of credit, security agreements, sale-leaseback agreements, or guarantees. Such new debt securities may:

a. Carry interest rates that are either fixed, adjustable, variable, or set by auction or remarketing, on a firm commitment or agency basis;

b. Be issued to GSWC's parent; via public or private placement; or with institutional or other investors;

c. Secured, unsecured, redeemable, non-redeemable, or convertible; and

d. Have terms of one to 40 years or more.

Even though GSWC requests authority to issue secured debt (in order to have the flexibility to issue various forms of debt), it is not currently requesting authority to encumber its assets pursuant to Pub. Util. Code § 851. GSWC states that if it decides to issue secured debt in the future, it will seek the required Commission authority to encumber its assets.

Tax-exempt debt securities may be issued by one or more political subdivisions (Authority). GSWC would either provide an unconditional guarantee for or secure such debt securities. GSWC would use tax-exempt debt securities whenever its facilities qualify for tax-exempt financing under federal or state law, and to the extent such funds for tax-exempt financing are available. In order to obtain the benefits of tax-exempt financing, GSWC would engage in one or more financing arrangements with an Authority.

In order to issue bonds or debentures in the public markets, GSWC requests authority to enter into one or more new indentures or supplemental indentures; and that each series of the bonds or debentures, if issued, would be issued in accordance with the provisions of supplemental indentures or board resolutions to be executed and delivered by GSWC. Such supplemental indentures or board resolutions would set forth, among other things, the aggregate principal amount, interest rate, redemption and sinking fund requirements and the maturity date of that series of bonds or debentures.

3.1.1. Requested New Debt Securities Enhancement and Interest Rate Management Features

In order to improve the terms and conditions of new debt securities issuances, lower the overall cost of new debt securities, and manage potential interest rate increases, GSWC requests authority to utilize: put options; call options; sinking funds, treasury locks, treasury options, forward-starting interest rate swaps; spread locks; spread options, interest rate swaps; and caps and collars. GSWC also requests that such debt securities enhancement and interest rate management features not be counted against its authorized amount of new debt securities and equity securities.

3.2. Requested New Equity Securities

GSWC seeks authority to issue and sell shares of its common equity securities from time to time to its parent, ASWC, for capital expenditures and other purposes permitted by Pub. Util. Code § 817.

GSWC also seeks authority to issue and sell shares of its preferred equity securities[3] to the public, by private placements with investors or to its parent. The amount and timing of the sale and the equity securities features have not yet been determined and would be established by GSWC prior to the offering based on its funding requirements, and prevailing and anticipated market conditions.

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[3] GSWC's Articles of Incorporation do not permit the issuance of preferred shares. Accordingly, prior to issuing preferred shares, if any, GSWC states that it would take the necessary steps to amend its Articles of Incorporation. Upon doing so, GSWC will submit these amended Articles of Incorporation to the Commission.

The terms and conditions of such securities may include liquidation preferences, dividend preferences or requirements, and redemption features.

GSWC has not entered into any purchase agreement as of this time and does not anticipate doing so with ASWC or any other party until the actual requirement for the issuance of the new equity securities is determined. GSWC seeks authority at this time to issue the new equity securities, rather than waiting until a determination has been made by its Board of Directors

3.3. Use of Proceeds from New Securities

GSWC would use the proceeds from the sale of the new securities, after payment and discharge of obligations incurred for expenses incident to their issue and sale, to discharge all or a portion of GSWC's then existing short-term debt securities obligations and, to the extent there are proceeds remaining, for other purposes permitted by Pub. Util. Code § 817, including to provide for the acquisition of property and for the construction, completion, extension or improvement of GSWC's facilities, refunding of existing long-term debt securities obligations and for other projected cash requirements during the calendar years 2012 through the beginning of 2017.

3.4. Request for Waiver from Pub. Util. Code § 818 and GSWC's Holding Company Rules

GSWC requests a waiver from Pub. Util. Code § 818 and GSWC's Holding Company Rules,[4] as well as authorization to amend the terms of its unsecured line of credit (Credit Agreement), which currently has a term of up to 12 months,

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[4] *See* Decision (D.) 98-06-068, Attachment A, Item 16 "Any loan of more than twelve months to the Utility by the holding company or any other affiliate requires prior approval by the Commission."

to allow the use of short-term debt for terms up to 24 months. GSWC states that the cost of the 24-month debt is less than that of 12-month debt, and that use of the lengthier term short-term debt would give it the opportunity to avoid periods of market uncertainty when issuing long-term debt securities and improve financial flexibility by deferring the issuance of longer-term securities. GSWC also states that it will continue to account for this 24-month term debt as short-term.

Pursuant to Pub. Util. Code § 818 and GSWC's Holding Company Rules, the issuance of short-term debt securities is restricted to a 12-month period. Both rules require a utility to receive prior approval from the Commission of any indebtedness payable at periods of more than 12 months after the date of issuance.

GSWC requests that the Commission waive the requirements of Pub. Util. Code § 818 and the Holding Company Rules only as it applies to GSWC's short-term borrowings under its revolving credit arrangements, and that it be allowed to increase the period of time that its short-term borrowings under such revolving credit arrangements be outstanding from the present maximum period of 12 months to a maximum period of 24 consecutive months.

GSWC states that it uses amounts borrowed under revolving credit arrangements for working capital purposes and such borrowings are recorded as short-term debt. Under GSWC's existing revolving credit arrangement, amounts are borrowed and repaid based on GSWC's monthly cash needs to fund current operations.

With such a waiver, GSWC posits that it would have greater flexibility to defer the issuance of long-term debt securities in the face of potential market disruptions in order to repay short-term borrowings under revolving credit arrangements. GSWC states that it would also be able to reduce the costs of obtaining long-term capital by enabling GSWC to issue larger amounts of long-term debt securities less frequently. Given the cost of issuance for long-term debt securities, it is more cost effective to accumulate shorter-term debt securities in order to eventually issue a larger amount of long-term Debt Securities in a given issue.

4. Discussion

4.1. Public Utilities Code Requirements for Issuance of Securities

GSWC's request is subject to Pub. Util. Code §§ 816, 817, and 818. The Commission has broad discretion under § 816 et seq. to determine if a utility should be authorized to issue debt securities. Where necessary and appropriate, the Commission may attach conditions to the issuance of debt securities and stock to protect and promote the public interest.

Pursuant to Pub. Util. Code § 817, a public utility may only issue and use financing for selected purposes. Those purposes not listed in Pub. Util. Code § 817 may only be paid for with funds from normal utility operations.

Pub. Util. Code § 818 states that no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, in addition to the other requirements of law, it shall first have secured from the Commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied. Pub. Util. Code § 818 also requires the Commission, in issuing such an order, to find that the money, property, or labor to be procured or paid for with the proceeds of the debt securities authorized is reasonably required for the purposes specified in the order and, unless expressly permitted in an order authorizing debt securities, that those purposes are not, in whole or in part, reasonably chargeable to expenses or to income. These purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income. GSWC has substantiated its need for issuance of new debt securities and equity securities and that the proceeds would be used for proper purposes, such as the acquisition of property and for the construction, completion, and extension or improvement of GSWC's facilities. GSWC's request to extend the term of its short-term debt securities is addressed separately in Section 4.4 below.

Since GSWC's request for issuance of new debt securities and equity securities is in compliance with Pub. Util. Code § 816 et seq., we grant it authority to issue new debt securities and equity securities for the aforementioned purposes and terms, and for the amounts determined in the order of this decision.

4.2. Forecast of Sources and Uses

Utility applications seeking authority to issue securities are based, in part, on forecasted sources and uses of funds that illustrate a need for the requested funding. GSWC used a long-term forecast covering the period of 2012 through the beginning of 2017 to determine its future financings needs. GSWC's forecast includes uses of funds for capital expenditures, payment of maturing long-term debt securities and short-term debt, and payment of dividends; and sources of funds such as cash from operating activities, cash from issuance of short-term debt, and other sources. We rely on GSWC's forecast to determine the forecast of Sources and Uses set forth below in Table 1.

Table 1

USES OF FUNDS	(Millions of Dollars) 2012	2013	2014	2015	2016	2017	Total
Capital Expenditures	86.00	91.00	95.00	97.00	100.00	37.00	506.00
Maturing LTD	0.00	26.00	6.00	0.00	0.00		32.00
Maturing Short Term Debt	0.00	15.00	0.00	30.00	0.00		45.00
Dividends Paid	24.00	28.00	30.00	33.00	35.00		150.00
Total Uses of Funds	110.00	160.00	131.00	160.00	135.00	37.00	733.00
SOURCES OF FUNDS							
Cash from Operating Activities	84.00	86.00	88.00	86.00	91.00		435.00
Cash from Short Term Debt Borrowings	15.00	0.00	30.00	0.00	0.00		45.00
Other	12.00	4.00	4.00	4.00	4.00		28.00
Total Source of Funds	111.00	90.00	122.00	90.00	95.00		508.00
Sub-Difference between Uses and Sources	*1.00*	*-70.00*	*-9.00*	*-70.00*	*-40.00*	*-37.00*	-225.00
Existing Debt Authority							47.90
Surplus (Deficient) Financial Sources[1]							*-177.10*

[1] Surplus (deficit) equals total financial requirements less total source of funds.

GSWC has total estimated existing financing authority of $47.9 million.[5] After deduction of GSWC's existing financing authority from the need of $225 million shown in Table 1, a need for funds of $177.1 million remains. GSWC

[5] Response to Inquiries of assigned ALJ at Response to Question 1 from August 16, 2012.

proposes to use $177.1 million of debt securities and equity securities to offset this net need over the period 2012 through the beginning of 2017.

Given that the net need for funds equals the request, it is reasonable to authorize GSWC to issue $177.1 million of new securities for the period 2012 through the beginning of 2017. This new financing will allow GSWC to fund its future net financing needs for the period 2012 through the beginning of 2017, to the extent authorized by Pub. Util. Code § 817(a), (b), (c), (d), and (h). We find GSWC's request to be reasonable and supported by the record.

We also remind GSWC that it's currently authorized financing authority of $47.9 million, authorized in D.00-12-054 and D.07-02-014, does not have an expiration date and therefore may still be used by GSWC in addition to the new authority granted herein.

Granting of financing authority to a utility does not obligate the Commission to approve any capital projects. This financing authority provides GSWC with sufficient liquid resources to timely finance its upcoming public utility projects and to reimburse its treasury. Review of the reasonableness of capital projects occurs as needed through the regulatory process applicable to each capital project. Therefore, any approval of this financing request would not prejudge any of GSWC's forecasted projects for the period 2012 through the beginning of 2017.

4.3. Types of Debt Securities and Equity Securities to be Issued

4.3.1. Debt Securities

GSWC requested authority to issue new debt securities, described in Section 3 of this decision, similar to those types of debt securities authorized in D.07-02-014. Therefore, we will authorize GSWC to issue the types of debt securities under the terms and conditions detailed in Section 3 of this decision and enumerated in the order herein.

4.3.2. Debt Securities Enhancement and Interest Rate Management Features

GSWC has sought authority to include certain debt securities enhancement and interest rate management features detailed in Section 3 of this decision, to improve the terms of new debt securities issuances, lower the overall cost of new debt securities, and manage potential interest rate increases. In its application, GSWC provided a brief description and rationale for the potential use of the requested features, as required by the New Financing Rule. We have previously granted GSWC such authority, most recently in D.07-02-014.

GSWC also requests that such debt securities enhancement and interest rate management features not be counted as additional financing against its authorized amount of new debt securities and equity securities, which is in compliance with the New Financing Rule.

As GSWC's requests have been granted in the past and are in compliance with the New Financing Rule, we authorize GSWC to use its requested debt securities enhancement and interest rate management features, and to exclude the amount of such features from GSWC's amount of new debt securities and equity securities authorized herein.

4.3.3. Equity Securities

GSWC also requested authority to issue new equity securities, described in Section 3 of this decision. We last authorized GSWC to issue new equity securities in D.07-02-014. We authorize GSWC to issue Common and Preferred Equity under the terms and conditions detailed in Section 3 of this decision, pursuant to applicable codes and rules, and enumerated in the order herein.

Consistent with § 824, GSWC must maintain records to identify the specific securities issued pursuant to this decision, and demonstrate that proceeds from such securities have been used only for public utility purposes.

4.4. Waiver from Pub. Util. Code § 818 and GSWC's Holding Company Rules

As discussed in Section 4.1 above, Pub. Util. Code § 818 requires that long-term debt securities (term of greater than 12 months) be used for proper purposes, such as purchase of regulatory assets, unless expressly permitted in an order authorizing debt securities. We have authorized such exceptions in the past for other utilities, when good cause is shown and the purposes of the debt are specifically identified.[6]

GSWC believes it is more cost effective, given the cost of issuing long-term debt securities, to accumulate short-term debt in order to eventually issue a larger amount of long-term debt securities in a single issue. GSWC's current short-term borrowing rate is approximately 1.50%,[7] while its most recent long-term debt rate[8] was about 6.15%.[9] GSWC posits that, given that its current cost of short-term debt is so much lower than its cost of long-term debt, it is more cost effective to accumulate shorter-term debt in order to eventually issue a larger amount of long-term debt in a given issue. This would also result in reduced costs of obtaining long-term debt securities by enabling GSWC to issue

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6 *See* D.01-06-016 at 7-8, D.10-09-026 and D.11-01-034.

7 GSWC's current short-term borrowing rate is equal to the London Interbank Offered Rate plus 1.20%.

8 GSWC currently has an A+ credit rating.

9 This long-term debt securities issuance was completed in April 2011.

larger amounts less frequently. GSWC also states that it would use such short-term debt for working capital purposes.

We find that issuance of more short-term debt in order to accumulate debt securities, so that long-term debt securities can be issued in larger, less frequent issues, is a reasonable basis on which to authorize GSWC to issue short-term debt over a 24-month term. Since GSWC plans to use this 24-month short-term debt for proper short-term purposes (for example, working capital), plans to record such as short-term debt, and given our recent authorization of similar requests, we grant GSWC a waiver from the requirements of Pub. Util. Code § 818 and the Holding Company Rules as they apply to short-term debt it issues over the period 2012 through the beginning of 2017. By doing so, we authorize GSWC to issue short-term debt under its revolving credit arrangements for short-term purposes for a term of up to 24 months and amend its Credit Agreement as ordered herein.

5. New Financing Rule and General Order (GO) 24-C

The New Financing Rule set forth in D.12-06-015 replaced the Competitive Bidding Rule (CBR) authorized in Resolution F-616 in 1986, in recognition of current market conditions and Commission policies enacted since our last review of the CBR in 1986. These revisions include but are not limited to: 1) allowing utilities to choose whether to issue debt securities via competitive or negotiated bid, as long as the basis for the method is chosen to achieve the lowest cost of capital; 2) requiring utilities with $25 million or more of operating revenues to make every effort to encourage, assist, and recruit Women-, Minority-, Disabled Veteran-Owned Business Enterprises (WMDVBE) in being appointed as lead underwriter, book runner or co-manager of debt securities offerings; 3) eliminating the notification and form of communication requirement for the solicitation of bids; 4) establishing requirements for the use of debt securities Enhancement Features; and 5) providing additional exemptions applicable to use of the Financing Rule.

5.1. General Order 24-C

Revisions to GO 24 include: 1) the filing of a GO 24-C report on a quarterly, then semi-annual, instead of a monthly basis;[10] 2) revisions to the type of information provided in such reports; and 3) the elimination of the requirement that a utility maintain a separate bank account to record securities proceeds except as required by the Commission. We remind GSWC to comply with the new requirements of GO 24-C.

5.2. Women-Minority-Disabled Veteran Business Enterprises

In compliance with the New Financing Rule, GO 156, and Pub. Util. Code §§ 8281-8286, GSWC has, since 2004, had a Utility Supplier Diversity Program in place, which encourages businesses owned by women, minorities, and disabled veterans to supply GSWC with needed products and services. As reported in its 2011 Annual Report on the Utilization of WMDVBE, GSWC awarded 11.3% of its 2011 annual procurement expenditures to WMDVBE.

In its most recent debt securities offering of $62 million completed in April 2011, GSWC engaged a WMDVBE business as co-manager. GSWC commits to use its best efforts to encourage the participation of diverse suppliers in any transaction conducted under the requested authorizations. Where diverse

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[10] *See* D.12-06-015, Attachment B. For the first year after authorization of the new GO, the GO 24-C report will be filed quarterly. For the second year after authorization of the new GO and for every year thereafter, the GO 24-C report will be filed semi-annually.

suppliers may be unavailable or unqualified to provide the product or service, GSWC will use its best efforts to encourage the secondary use of diverse suppliers by its chosen suppliers.

6. Fee

Whenever the Commission authorizes a utility to issue new securities, the Commission is required to charge and collect a fee pursuant to Pub. Util. Code §§ 1904(b) and 1904.1. The fee is calculated as follows:

$177.1 Million of new debt and equity securities	$1,000,000	$2 per $1,000	$2,000
	$9,000,000	$1 per $1,000	$9,000
	$167,100,000	$0.50 per $1,000	$83,550
Total			$94,550

7. Financial Information

We place GSWC on notice that the reasonableness of any resulting interest rate and cost of money arising from the issuance of securities as well as capital structures, is normally subject to review in the appropriate cost of capital or general rate case proceeding. Therefore, we will not make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes or the appropriate cost of money. We do not make a finding in this decision on the reasonableness of GSWC's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in a general rate case or specific application. The authority to issue securities is distinct from the authority to undertake construction or the right to recover the cost of capital in rates.

8. California Environmental Quality Act

The California Environmental Quality Act (CEQA) applies to projects that require discretionary approval from a governmental agency, unless exempted by statute or regulation. It is long established that the act of ratemaking by the Commission is exempt from CEQA review. As stated in the California Public Resources Code, the "establishment, modification, structuring, restructuring or approval of rates, tolls, fares, or other charges by public agencies" is exempt from CEQA.[11] Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment is not a "project" subject to CEQA.[12]

This decision does not authorize any capital expenditures or construction projects. New construction projects which GSWC intends to finance via this application should undergo CEQA review as early as feasible in the planning process, as required by CEQA Guidelines Section 15004(b). To the extent capital expenditures are financed with the proceeds of the long-term debt securities issued pursuant to this decision, ongoing projects have already been subject to any necessary CEQA review undertaken prior to GSWC receiving a certificate of public convenience and necessity or permit to construct. CEQA review for future projects will occur through the regulatory processes applicable to each capital project when meaningful information necessary for conducting an environmental assessment is available.

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[11] Public Resource Code Section 21080(b)(8).

[12] CEQA Guidelines Section 15378(b)(4).

9. Category and Need for Hearings

By Resolution ALJ 176-3298, dated August 2, 2012, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would be necessary. No protests were filed. We affirm that this is a ratesetting proceeding, and, since no protests were filed, change the preliminary determination of a need for hearings to no hearings necessary.

10. Exemption from Comment Period

This is an uncontested matter in which the decision grants the relief requested by a water utility. Accordingly, pursuant to Pub. Util. Code § 311(f) and Rule 14.7 of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is waived.

11. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Seaneen M. Wilson is the assigned ALJ in this proceeding.

Findings of Fact

1. In its application, GSWC requested authority for new securities in the amount of $225 million for the period 2012-2016.

2. No protests were filed in this proceeding.

3. In its responses dated August 27, 2012 and September 10, 2012, GSWC reduced its request for authority for new securities to $177.1 million and extended the period over which the authority is requested to the beginning of 2017.

4. Based on GSWC's forecast of uses, the forecast of funds needed by GSWC over the period 2012 through the beginning of 2017 is $733 million. Of this need:

   a. $47.9 million will be provided from current financing authority;

b. $435 million will be provided from cash from operating activities;

c. $45 million will be provided from short-term debt;

d. $28 million will be provided from other sources; and

e. $177.1 million will be provided from new securities.

5. The proper term for securities issued pursuant to Pub Util. Code § 817 is greater than 12 months.

6. The requested financing authority of $177.1 million of new securities is necessary to provide the external funding required to meet GSWC's projected cash requirements through the beginning of 2017.

7. The proposed new financing requested by GSWC and the associated money, property, or labor to be procured or paid for with the proceeds of this proposed new financing, are, pursuant to Pub. Util. Code §§ 817 and 818, reasonably required for proper purposes, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, except as detailed in Section 4.4 of this decision.

8. GSWC's forecast of sources and uses includes uses of funds for capital expenditures, payment of maturing long-term and short-term debt securities, and payment of dividends; and sources of funds such as cash from operating activities, cash from issuance of short-term debt, and other sources.

9. GSWC's currently authorized financing authority of $47.9 million, authorized in D.00-12-054 and D.07-02-014, does not have an expiration date, and therefore may still be used by GSWC, in addition to the new authority granted herein.

10. Pub. Util. Code § 818 allows for exceptions to the requirements of Pub. Util. Code § 817.

11. D.98-06-068, Attachment A, Item 16 states "Any loan of more than 12 months to the Utility by the holding company or any other affiliate requires prior approval by the Commission."

12. Pub. Util. Code § 818 requires that long-term debt securities (term of greater than 12 months) be used for proper purposes, such as purchase of regulatory assets, unless expressly permitted in an order authorizing debt securities. We have authorized such exceptions in the past for other utilities (*see* D.01-06-016 at 7-8, D.10-09-026 and D.11-01-034), when good cause is shown and the purposes of the debt securities specifically identified.

13. GSWC's current short-term borrowing rate is approximately 1.50%, while its most recent long-term debt rate was about 6.15%.

14. When a utility issues fewer and larger issuances of long-term debt securities, the costs it incurs to issue such debt securities is less than if it issued more but smaller issuances.

15. Granting of financing authority to a utility does not obligate the Commission to approve any capital projects. Review of the reasonableness of capital projects occurs as needed through the regulatory process applicable to each capital project.

16. The necessity or reasonableness of GSWC's construction budget, cash requirements forecast, and capital structure, are normally reviewed and authorized in general rate cases or cost of capital proceedings.

17. The New Financing Rule set forth in D.12-06-015 replaced the CBR authorized in Resolution F-616 in 1986. These revisions include but are not limited to: 1) allowing utilities to choose whether to issue debt securities via competitive or negotiated bid, as long as the basis for the method is chosen to achieve the lowest cost of capital; 2) requiring utilities with $25 million or more of

operating revenues to make every effort to encourage, assist, and recruit WMDVBE in being appointed as lead underwriter, book runner or co-manager of debt securities offerings; 3) eliminating the notification and form of communication requirement for the solicitation of bids; 4) establishing requirements for the use of debt securities Enhancement Features; and 5) providing additional exemptions applicable to use of the Financing Rule.

Conclusions of Law

1. GSWC should be authorized to issue up to $177.1 million of new securities over the period 2012 through the beginning of 2017, all of which are for proper purposes and consistent with the requirement of Pub. Util. Code §§ 817 and 818 except as detailed in Section 4.4 of this decision and Conclusion of Law 10 below.

2. GSWC should be authorized to issue new debt securities including: bonds; debentures; mortgage bonds; medium-term notes; loans with banks, insurance companies, or other financial institutions; and tax-exempt debt securities which may require letters of credit, security agreements, sale-leaseback agreements, or guarantees. Such securities should be issued: with interest rates that are either fixed, adjustable, variable, set by auction or remarketing, or on a firm commitment or agency basis; as secured, unsecured, redeemable, non-redeemable, or convertible; and with a term of one year to forty years or more.

3. New debt securities should be issued: to GSWC's parent; via public or private placement; or with an institutional or other investor.

4. GSWC should be authorized to enter into one or more new indentures or supplemental indentures. GSWC should issue new bonds or debentures in accordance with the provisions of indentures or board resolutions.

5. GSWC should be authorized to use the following debt enhancement and interest rate management features to improve the terms and condition of new debt securities, lower the overall cost of new debt securities, and manage potential interest rate increases: put options; call options; sinking funds; treasury locks; treasury options; forward-starting interest rate swaps; spread locks; spread options; interest rate swaps; and caps and collars.

6. GSWC should be authorized, pursuant to the New Financing Rule, to exclude such new debt enhancement and interest rate management features from its authorized new debt securities.

7. GSWC should be authorized to issue new tax-exempt debt securities through one or more political subdivisions, authorized herein, whenever GSWC's facilities qualify for such financing under federal or state law. In this structured financing, GSWC should be authorized to unconditionally guarantee or otherwise secure the obligations of the issuer.

8. GSWC should be authorized to issue and sell new shares of Common equity securities to its parent, ASWC, for capital expenditures and other proper purposes.

9. GSWC should be authorized to issue and sell new shares of its Preferred equity securities to the public by private placements with investors, or to its parent. The terms and conditions of such securities should include liquidation preferences, dividend preferences or requirements, and redemption features.

10. GSWC should be granted a waiver from the requirements of Pub. Util. Code § 818 and the Holding Company Rules as they apply to GSWC's new short-term borrowings under its revolving credit arrangements. By doing so, GSWC should be authorized to issue new short-term debt under its revolving

credit arrangements for short-term purposes for a term of up to 24 months and amend its Credit Agreement as ordered herein.

11. The order herein should not be a finding of the reasonableness of GSWC's proposed construction plan or expenditures, the resulting plant balances in rate base, the capital structure, or the cost of money, nor should it indicate approval of matters subject to review in a general rate case or other proceedings.

12. GSWC should remit a check for $94,550, as required by §§ 1904(b) and 1904.1 of the Pub. Util. Code.

13. The authority granted by this order should not become effective until GSWC has paid the fees prescribed by §§ 1904(b) and 1904.1.

14. GSWC should not use the proceeds from the new securities authorized by this order to fund its capital projects until GSWC has obtained all required approvals for the projects, including any required environmental review under CEQA.

15. The order herein does not involve any commitment to any specific project which may result in a potentially significant impact on the environment; thus it is not a project subject to CEQA.

16. The authority granted GSWC herein is in compliance with Pub. Util. Code §§ 816, 817, 818, 824, and 851, and the New Financing Rule adopted in D.12-06-015.

17. Since no protests were filed in this proceeding, we should change the preliminary determination of a need for hearings to no hearings needed.

18. A.12-07-011 should be closed.

O R D E R

IT IS ORDERED that:

1. Golden State Water Company is authorized to issue up to $177.1 million of new debt securities, common equity securities, and preferred equity securities to cover its needs for proper purposes over the period 2012 through the beginning of 2017, all of which are for proper purposes and consistent with the requirement of Pub. Util. Code §§ 817 and 818, except as authorized in Ordering Paragraph 13 below.

2. Golden State Water Company is authorized to issue new debt securities including: bonds; debentures; mortgage bonds; medium-term notes; loans with banks, insurance companies, or other financial institutions; and tax-exempt debt securities which may require letters of credit, security agreements, sale-leaseback agreements, or guarantees.

3. Golden State Water Company is authorized to issue new debt securities: with interest rates that are either fixed, adjustable, variable, set by auction or remarketing, or on a firm commitment or agency basis; as secured, unsecured, redeemable, non-redeemable, or convertible; and with a term of one year to 40 years or more.

4. Golden State Water Company is authorized to issue new debt securities to: its parent; via public or private placement; or with an institutional or other investor.

5. Golden State Water Company is authorized to enter into one or more new indentures or supplemental indentures.

6. Golden State Water Company is authorized to issue new bonds or debentures in accordance with the provisions of indentures or board resolutions.

7. Golden State Water Company is authorized to use the following debt enhancement and interest rate management features to improve the terms and condition of new debt securities, lower the overall cost of new debt securities, and manage potential interest rate increases: put options; call options; sinking funds; treasury locks; treasury options; forward-starting interest rate swaps; spread locks; spread options; interest rate swaps; and caps and collars.

8. Golden State Water Company is authorized to exclude, pursuant to the New Financing Rule adopted in Decision 12-06-015, such new debt enhancement and interest rate management features from its authorized new debt securities.

9. Golden State Water Company is authorized to issue new tax-exempt debt securities through one or more political subdivisions, whenever Golden State Water Company's facilities qualify for such financing under federal or state law.

10. With regards to the authority granted herein to issue new tax-exempt debt securities, Golden State Water Company is authorized to unconditionally guarantee or otherwise secure the obligations of the issuer.

11. Golden State Water Company is authorized to issue and sell shares of new common equity securities to its parent, American States Water Company, for capital expenditures and other proper purposes.

12. Golden State Water Company is authorized to issue and sell shares of its new preferred equity securities to the public by private placements with investors, or to its parent, American States Water Company for capital expenditures and other proper purposes. The terms and conditions of such securities include liquidation preferences, dividend preferences or requirements, and redemption features.

13. Golden State Water Company is granted a waiver from the requirements of Public Utilities Code Section 818 and the Holding Company Rules (adopted in

Decision 98-06-068) as they apply to Golden State Water Company's new short-term borrowings under its revolving credit arrangements. By doing so, Golden State Water Company is authorized to issue new short-term debt securities under its revolving credit arrangements for short-term purposes for a term of up to 24 months and amend its unsecured line of credit agreement.

14. The order herein is not a finding of the reasonableness of Golden State Water Company's proposed construction plan or expenditures, the resulting plant balances in rate base, the capital structure, or the cost of money, nor does it indicate approval of matters subject to review in a general rate case or other proceedings.

15. Golden State Water Company should remit a check for $94,550, as required by Public Utilities Code Sections 1904(b) and 1904.1.

16. The authority granted by this order does not become effective until Golden State Water Company has paid the fees prescribed by Public Utilities Code Sections 1904(b) and 1904.1, to the California Public Utilities Commission's Fiscal Office at 505 Van Ness Avenue, Room 3000, San Francisco, CA 94102. The number of this Decision must appear on the face of the check. The authority granted by this decision is effective once Golden State Water Company has paid the fees prescribed by Public Utilities Code Section 1904(b).

17. Golden State Water Company may not use the proceeds from the new debt securities, new Common equity securities, and new Preferred equity securities authorized by this order to fund its capital projects until Golden State Water Company has obtained all required approvals for the projects, including any required environmental review under the California Environmental Quality Act.

18. The order herein does not involve any commitment to any specific project which may result in a potentially significant impact on the environment; thus it is not a project subject to California Environmental Quality Act.

19. The authority granted Golden State Water Company herein is in compliance with Public Utilities Code Sections 816, 817, 818, 824, and 851, and the New Financing Rule adopted in Decision 12-06-015.

20. The preliminary determination in Resolution ALJ 176-3298 that hearings were necessary is changed to no hearing necessary.

21. Application 12-07-011 is closed.

This order is effective today.
Dated ______________________________, at San Francisco, California.

Attachment A

Glossary of Selected

Financing Terms

1. **Agency Basis:** Payment to a broker (that sells a security for an issuer) based on a previously determined commission (fee).

2. **Adjustable/Variable Interest Rate:** Interest rate that varies based on the movement of other predetermined variables. For example, an adjustable interest rate could be the Ten-year Treasury Rate plus 1%. Assuming a Ten-year Treasury Rate is 2% at issuance and 4% a year later; the adjustable interest rate would have been 3% at the beginning **and 5% a year later.**

3. **Auction Rate:** Interest rate is based on competitive bids by prospective lenders.

4. **Bond:** A loan issued by a government or corporate entity for a specified time and rate of interest.

5. **Call Options:** From time to time a utility may retain the right to partially or fully retire a debt security before the scheduled maturity date. This is commonly referred to as "calling" the security. The chief benefit of such a feature is that it permits a utility, should market rates fall, to replace the security with a lower-cost issue, thus producing a positive net benefit to ratepayers.

6. **Caps and Collars:** In order to reduce ratepayers' exposure to interest rate risk on variable-rate securities, a utility may negotiate some type of maximum rate, usually called a cap. In that case, even if variable rates increase above the cap (or ceiling) rate, the utility would only pay the

ceiling rate. In addition to the ceiling rate, sometimes a counterparty will desire a "floor" rate. In the event that the variable rate falls below the floor rate, a utility would pay the floor rate. The combination of a floor and a ceiling rate is called an interest-rate "collar" because the utility's interest expense is restricted to a band negotiated by the utility and the counterparty.

7. **Convertible Security:** A security that, given specific requirements, may be exchanged for another type of security.

8. **Debenture:** An unsecured debt security. This form of debt is not secured only by the financial repute of the issuer.

9. **Firm Commitment:** Commitment by a party to a loan to fulfill their obligations pursuant to the terms of the loan.

10. **Fixed Interest Rate:** A Debt Security that does not change during the term of the loan.

11. **Guarantee**: Commitment by an entity to be responsible for a debt security.

12. **Letters of Credit:** A letter issued by a financial institution that serves as a guarantee for payments made by a specified entity.

13. **Loan:** Form of debt security by which one entity lends money (lender) to another entity (borrower), with the agreement that the borrower will repay the funds to the lender, including principal plus an agreed upon rate of interest over an agreed upon term.

14. **Indenture:** An agreement between a borrower (issuer of security) and lenders, that details the terms and conditions of bond issuances by the borrower. An indenture can be changed through the issuance of a Supplemental Indenture.

15. **Institutional Investor:** A large entity, such as a bank, insurance company, or mutual fund, that purchases securities.

16. **Medium Term Notes**: Notes that have a term of greater than one year to about three, five or ten years.

17. **Mortgage Bond**: A bond that is secured by a mortgage on the assets of the borrower.

18. **Private Placement:** The sale of an entire security issuance directly from the issuer to either one or a small group of investors.

19. **Public Placement:** The sale of a security issuance to the market in general instead of to a select group of investors.

20. **Put Options:** Grants the owner of a debt security the right to require the borrower to repurchase all or a portion of the securities issued by that borrower. Owners of a debt security would be willing to accept a lower interest rate in exchange for the protection against rising interest rates offered by a put option.

21. **Redemption Provisions:** An issue of debt securities may contain a provision allowing it to be redeemed or repaid prior to maturity. An early redemption provision may allow the debt securities to be redeemed or repaid at any time, or only after a certain period. In either case, the debt

securities would be redeemable at par, at a premium over par, or at a stated price.

22. **Remarketing of Debt**: When the terms of an existing debt security are changed, such as a new interest rate or term, and sold by the issuer. This does not change the terms of previously issued/sold versions of the existing debt security.

23. **Secured Debt:** A debt security that is guaranteed by the borrower's assets.

24. **Security Agreement:** An agreement between a lender and a borrower, stating that if the borrower does not pay back the funds borrowed (defaults) the lender may take ownership of the assets of the borrower that were pledged to secure the debt.

25. **Sinking Funds:** The cost of debt securities may be reduced by the use of a sinking fund. A sinking fund normally operates in one of two ways: (1) a utility may set aside a sum of money periodically so that, at the maturity date of the bond issue, there is a pool of cash available to redeem the issue, or (2) a utility may periodically redeem a specified portion of the bond issue.

26. **Spread Lock**: This feature locks the interest rate spread (range of interest rates) used in an interest rate swap.

27. **Tax Exempt Debt:** The cost of debt securities may be reduced by issuing them through a governmental body, political subdivision, or other conduit issuer, thereby obtaining tax-exempt status for the securities. A utility would normally use this tax-exempt option whenever its

facilities, such as pollution control, sanitary, solid waste disposal, or other eligible facilities qualify for tax-exempt financing under federal law and it can obtain the necessary State approvals for the issuance of tax-exempt debt.

28. **Treasury Lock:** This feature locks in the Treasury component of a utility's borrowing cost. A utility can delay securities issuance and capture the current Treasury yield by selling short Treasury securities (i.e., selling Treasury securities that it does not own) of a maturity comparable to that of the contemplated debt security. If interest rates rise, the utility will cover its short Treasury position at a profit, which will be offset by the higher interest cost of the newly issued securities. If interest rates decline, the utility will cover its short Treasury position at a loss, but this will be offset by the lower cost on the newly-issued securities.

29. **Unsecured Debt:** Debt security that is not secured by the assets of the borrower.

30. **Various Types of Interest Rate Swaps:** An interest rate swap is a contractual agreement between two parties to exchange a series of payments for a stated period. In a typical interest rate swap, one party issues fixed-rate debt while another issues floating rate debt, and the two swap interest payment obligations are based on a notional principal amount (the principal itself is not exchanged). Swaps are generally used to reduce either fixed-rate or floating-rate costs, or to convert fixed-rate borrowing to floating.

a. **Fixed Rate Payer Swap:** A forward-starting interest rate swap allows a utility to delay a securities issuance and capture current yields. As the fixed-rate payer in an interest rate swap, the utility hedges its borrowing cost: if interest rates rise, unwinding the swap at a profit offsets higher borrowing costs. Conversely, if rates decline, lower borrowing costs offset the loss caused by unwinding the swap.

b. **Floating-Rate Payer Swap:** A forward-starting interest rate swap allows a utility to issue securities immediately and benefit from a subsequent fall in interest rates. As the floating-rate payer in an interest rate swap, a utility hedges its borrowing cost: if interest rates decline, unwinding the swap at a profit will compensate a utility for the lost opportunity to finance at lower rates. Conversely, if rates rise, the interest expense savings realized by issuing immediately will be offset by the loss caused by unwinding the swap.

31. **Various Types of Treasury Options:**

a. **Treasury Put Options:** The purchase of Treasury put options is an alternative to the Treasury lock. In this transaction, a utility would purchase put options entitling it to sell Treasury securities of a maturity comparable to that of the contemplated security issuance at a specified yield (the “strike yield”) at any time before the option's expiration date. If interest rates rise above the put's strike yield, the utility will exercise the put and the resulting profit offsets the increased cost of borrowing. If interest rates decline, the utility will let the option expire as worthless and issue securities at prevailing lower rates.

b. **Treasury Call Options:** The purchase of Treasury call options is an alternative to the long hedge. With this approach, the utility would issue securities today and purchase call options on Treasury securities of a comparable maturity. Such a call option allows the holder to purchase Treasury securities at a specified yield (the "strike yield") any time before the expiration date. If rates decline below the strike yield, exercising the option produces a gain used to offset the interest cost of the securities issued today. If interest rates rise above the strike yield, the option will expire unexercised. In this case, the utility benefits from the lower borrowing rate.

(END OF ATTACHMENT A)