Decision 10-07-004 July 8, 2010

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) (1) to issue, sell and deliver not exceeding in the aggregate $85 million of debt securities consisting of long-term notes; and (2) exempting the issuance, sale and delivery of such debt securities from the Commission's competitive bidding rule.	Application 10-03-024 (Filed March 10, 2010)

DECISION AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY TO ISSUE UP TO $85 MILLION OF NEW LONG-TERM DEBT SECURITIES

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DECISION AUTHORIZING CALIFORNIA-AMERICAN WATER COMPANY TO ISSUE UP TO $85 MILLION OF NEW LONG-TERM DEBT SECURITIES

1. Summary

This decision grants California-American Water Company (Cal Am) the authority to issue up to $85 million of long-term Debt Securities either through its affiliate American Water Capital Corporation, pursuant to its Financial Services Agreement dated June 15, 2000, or directly with a governmental entity. This decision also authorizes Cal Am to: 1) encumber utility property subject to the conditions enumerated in orders of this decision; 2) exempt the issuance of Debt Securities authorized herein from the Commission's Competitive Bidding Rule; and 3) report all Debt Securities information required by General Order 24-B to the Commission on a quarterly basis.

2. Background

California-American Water Company (Cal Am) is a Class-A water utility subject to the jurisdiction of this Commission, providing water service in portions of Los Angeles, Ventura, San Diego, Monterey, Sacramento, and Sonoma counties.

On March 10, 2010, Cal Am, a subsidiary of American Water Works Company, Inc. (AWWC), filed Application (A.) 10-03-024 requesting authorization to issue, sell, and deliver $85 million of Debt Securities. Notice of the application appeared in the Commission's Daily Calendar of April 1, 2010. On April 9, 2010, Resolution ALJ 176-3251 was issued, preliminarily categorizing this application as ratesetting and preliminarily determining that no hearings were needed.

On April 16, 2010, the assigned Administrative Law Judge (ALJ) issued *Administrative Law Judge's Ruling Requiring Applicant to File a Response to*

Information Request Within 10 Days (Ruling). On April 26, 2010, Cal Am filed *Response of California-American Water Company to Inquiries of Assigned Administrative Law Judge* (Response).

3. Request

Cal Am seeks authorization to issue, sell, and deliver up to $85 million of Debt Securities until the aggregate principal amount authorized has been fully utilized to meet its future financing needs based on a long-term forecast covering the three-year period 2010 through 2012. Cal Am plans to use the proceeds to discharge existing debt, reimburse its treasury for capital expenditures, and fund construction, completion, and improvement of facilities.

Cal Am proposes to issue the majority of the Debt Securities requested in the current application pursuant to its Financial Services Agreement[1] (Agreement) with American Water Capital Corporation (Capital Corp.), another subsidiary of AWWC, whose purpose is to provide financing to AWWC and its regulated subsidiaries. The terms of borrowing under the Agreement are as follows:

1. Debt Securities may be issued up to the aggregate authorized amount.
2. Maturities will be not more than 30 years from the date of issue, with the expectation that the maturity dates can be from 5 to 30 years, depending upon market conditions.
3. Interest rates will be determined by market conditions.
4. Interest will be payable on the same business day on which Capital Corp. must pay its corresponding interest payments on the borrowings from which the proceeds of the loan were

[1] Financial Services Agreement dated June 15, 2000.

derived. This is expected to be monthly, quarterly or semiannually and is subject to final negotiation.

5. No taxes on Debt Securities are assumed by issuer.
6. The Debt Securities will be unsecured.
7. The Debt Securities will have the same callability and redemption features that Capital Corp. obtains in connection with its borrowings from which the proceeds of the loans are derived. The Debt Securities will have no conversion features.
8. There are no maintenance and depreciation requirements unless the borrowings are made on a tax-free basis.
9. The Debt Securities will reflect whatever terms Capital Corp. can obtain from its lenders.
10. Normally there will be no sinking or other fund provisions.

If Cal Am issues Debt Securities to an entity other than its affiliate Capital Corp., the contract will be between Cal Am and the issuer. Cal Am also proposes that it may obtain tax-exempt financing through Capital Corp. or directly through government entities. As discussed above, issuances of Debt Securities through Capital Corp. will be unsecured, while tax-exempt financing issued through Capital Corp. or obtained directly from a government entity may be issued on a secured or an unsecured basis. In general, each series of long-term Debt Securities is expected to have a maturity of between 5 and 30 years. Cal Am also seeks exemption from the Commission's Competitive Bidding Rule.

4. Discussion

4.1. Public Utilities Code Requirements for Issuance of Securities

Cal Am's request is subject to Pub. Util. Code §§ 816, 817, and 818.[2] The Commission has broad discretion under §§ 816 et seq. to determine if a utility should be authorized to issue debt. Where necessary and appropriate, the Commission may attach conditions to the issuance of debt and stock to protect and promote the public interest.

Pursuant to § 817, a public utility may only issue and use financing for selected purposes.[3] Those purposes not listed in § 817 may only be paid with

[2] Unless specified otherwise, all subsequent code section references are to the Public Utilities Code.

[3] 817. A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others:

(a) For the acquisition of property.

(b) For the construction, completion, extension, or improvement of its facilities.

(c) For the improvement or maintenance of its service.

(d) For the discharge or lawful refunding of its obligations.

(e) For the financing of the acquisition and installation of electrical and plumbing appliances and agricultural equipment which are sold by other than a public utility, for use within the service area of the public utility.

(f) For the reorganization or readjustment of its indebtedness or capitalization upon a merger, consolidation, or other reorganization.

(g) For the retirement of or in exchange for one or more outstanding stocks or stock certificates or other evidence of interest or ownership of such public utility, or bonds, notes, or other evidence of indebtedness of such public utility, with or without the payment of cash.

(h) For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant

Footnote continued on next page

funds from normal utility operations. Cal Am has substantiated that the issuance of new Debt Securities is necessary for the acquisition of property, construction, completion, extension, or improvement of Cal Am facilities, retirement/refinancing of previously issued debt, and/or reimbursement of Cal Am for money expended from income or its treasury funds. These purposes are authorized by § 817 and, as required by § 818, are not reasonably chargeable to operating expenses or income.

Consistent with § 824, Cal Am shall maintain records to identify the specific long-term debt issued pursuant to this decision, and demonstrate that proceeds from such debt have been used only for public utility purposes.

Therefore, we will grant Cal Am authority under §§ 816 et seq. to issue new Debt Securities for the aforementioned purposes, and for the amounts determined in Section 4.2 of this decision.

4.2. Forecast of Sources and Uses

Utility applications seeking authority to issue debt or other securities are based, in part, on forecasted sources and uses of funds that illustrate the requested need for funding. Cal Am used a long-term forecast covering the three-year period of 2010-2012 to determine its future financings needs. Cal Am's forecast includes uses of funds such as capital expenditures and payment of maturing debt obligations. Cal Am stated that it may reimburse its treasury as well, but forecast no specific amount for this item. Cal Am's forecast also includes sources of funds, such as cash flow from operations, issuance of short-

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has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

term debt, and contributed capital from AWWC. Cal Am's request is supported by Exhibit E, Schedule E-1 to this application, which provides a summary of its forecasted capital expenditures for 2010-2012; Schedule E-2, which provides its forecasted sources and uses for 2010-2012; and Exhibit A to its Response, which provides a sources and uses statement in the format requested by the ALJ. In its Response, Cal Am also stated that it has no outstanding financing authority. We rely on these documents to determine the forecast of Sources and Uses set forth below in Table 1.

Table 1

Sources and Uses Statement for 2010-2012

USES OF FUNDS	**(Thousands of Dollars)**			
	2010	**2011**	**2012**	**Total**
Construction less Advances	77,037	90,945	121,211	289,193
Refinance of Short-Term Debt	38,301	37,927	27,041	103,269
Debt Issuance Costs	1,050	300	1,200	2,550
Total Uses of Funds	*116,388*	*129,172*	*149,452*	*395,012*
SOURCES OF FUNDS				
Cash From Operation	26,763	24,495	33,036	84,294
Capital Contributions From AWWC	25,000	57,000	35,000	117,000
Short-Term Debt Issues	29,625	37,677	41,416	108,718
Total Sources of Funds	*81,388*	*119,172*	*109,452*	*310,012*
Surplus (Deficient) Financial Sources [4]	***(35,000)***	***(10,000)***	***(40,000)***	***(85,000)***

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

Based on the results from Table 1, we will authorize $85 million of new Debt Securities. This new financing will allow Cal Am to fund its capital expenditure plans for the period 2010 through 2012, retire/refinance existing securities, and reimburse Cal Am for money expended from income or treasury funds. We find Cal Am's request to be reasonable and supported by the record.

A granting of financing authority to a utility does not obligate the Commission to approve any capital projects. This financing authority provides Cal Am with sufficiently liquid resources to timely finance its upcoming public utility projects, to refund maturing debt, 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, approval of this financing request does not prejudge any of Cal Am's forecasted projects for the period 2010 through 2012.

4.3. Tax-Exempt Financing and Encumbrance of Assets

Cal Am seeks authority to finance capital projects, if available and cost effective, through tax-exempt government securities, issued either through Capital Corp. or directly from a government entity. Both of these types of tax-exempt bonds may be issued on either a secured or an unsecured basis. If issued on a secured basis, the tax-exempt financing would be secured by the assets of Cal Am. When Cal Am qualifies for tax-exempt financing under federal or state law, and these tax-exempt securities result in a lower overall cost when compared with similar taxed securities, we find it reasonable for Cal Am to utilize tax-exempt long-term financing.

For the tax-exempt Debt Securities issued on a secured basis through Capital Corp. as well as directly with a government entity, Cal Am seeks authority to sell, lease, assign, mortgage, or otherwise dispose of or encumber its utility property. This request to encumber utility property is subject to § 851, which states, in relevant part, that no utility shall encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or right there under without first having secured from the Commission an order authorizing it to do so. In those cases where secured tax-exempt financing is issued through Capital Corp., § 701.5 also applies. This code section requires that Commission authorization be received before a utility pledges its assets on behalf of an affiliate that engages in financing arrangements for the utility.

It is reasonable for Cal Am to encumber its utility assets in order to issue tax-exempt securities, as discussed earlier in this section, which are governed by federal or state law and result in a lower cost to the ratepayer.

4.4. Financial Services Agreement

Cal Am seeks authority to issue Debt Securities through Capital Corp., pursuant to the Agreement. We have granted Cal Am this authority for the same Agreement in the past, and do so again here.[5]

5. Competitive Bidding Rule

Resolution F-616 requires utilities to issue debt using competitive bids. The purpose of this requirement, known as the Competitive Bidding Rule, is to reduce the cost of debt issued by utilities. The Resolution also provides for utilities to seek an exemption from the Competitive Bidding Rule for debt issues when competitive bidding is not viable or available.

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5 See Decision (D.) 08-11-025 at 1 and D.06-07-035 at 4, 7, and Ordering Paragraph (OP) 4.

Cal Am seeks an exemption from the Competitive Bidding Rule with respect to issuing long-term Debt Securities, both directly as well as through Capital Corp. Cal Am also has no bond rating. Given its lack of a bond rating as well as issuance of Debt Securities through Capital Corp., Cal Am states that it would not be "viable, practical, or feasible" to issue and sell long-term notes through the competitive bid process.

In regards to those issuances made through Capital Corp., Cal Am is bound by the Affiliate Transaction Rules authorized in D.02-12-068, which require, in part, that Cal Am may only deal with an affiliate if the conditions are arms length and competitive.[6] The Affiliate Transaction Rules provide protection against Cal Am and its ratepayers being charged a higher than market rate on the debt it issues through Capital Corp.

Item 6 of Resolution F-616 allows for exemption from the Competitive Bidding Rule for utilities with a bond rating lower than "A." As stated above, Cal Am does not have a bond rating of its own; therefore, by default, it qualifies for an exemption under this criterion as well.

Cal Am's request for an exemption from the Competitive Bidding Rule is granted on the basis that: the request is consistent with the terms of Resolution

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[6] See D.02-12-068, Appendix B, Affiliated Transaction Rules, No. 16: "Except for common costs allocated in the manner described in Paragraph 7, the cost of services provided by an affiliated company to Cal-Am shall be considered reasonable if it is at or below the lowest of (a) the cost which would have been incurred by Cal-Am if it provided such services on comparable terms, (b) the rate which would have been charged to Cal-Am by an unaffiliated party for the provision of comparable services on comparable terms, or (c) the rate which would have been charged by the affiliated company to an unaffiliated party for the provision of comparable services on comparable terms."

F-616; the Commission has routinely granted Cal Am a similar exemption in the past with no discernable adverse impacts on the utilities, their customers, or the public at large;[7] the cost of debt issued through Capital Corp. is governed by the affiliate transaction rules authorized in D.02-12-068; and, Cal Am has represented that granting the exemption will enable it to take prompt advantage of pricing opportunities in the debt market.

However, we make no finding regarding the reasonableness of the rates, terms, and conditions of debt issued by Cal Am pursuant to the exemption granted herein. The reasonableness of the resultant interest rate and cost of money to the utility is subject to scrutiny in Cal Am's cost of capital proceedings.

6. Affiliate Transaction Rules

In addition to those rules referenced in Section 5 of this decision, Cal Am represents that it will continue to follow the affiliate transaction rules and business practices relating to intercompany debt and equity financing authorized in D.02-12-068 and D.00-01-067. We support Cal Am's continued adherence to the affiliate transaction rules authorized in these two decisions, unless and until they are replaced by new affiliate transaction rules applicable to Cal Am. The Commission has opened Rulemaking (R.) 09-04-012 on its own motion to, in part, develop standardized affiliate transaction rules for water and sewer utilities. If the Commission authorizes a new set of affiliate transaction rules and requires Class A water utilities to comply with them, we require Cal Am to note such new rules in its next request for new financing, and state how these new rules would affect its issuance of debt or equity through an affiliate.

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[7] See D.08-11-025 at OP 2 and D.06-07-035 at OP 4.

7. Reporting Requirement

General Order (GO) 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (a) the amount of debt issued by the utility during the previous month; (b) the total amount of debt outstanding at the end of the prior month; (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior month; and (d) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

The Commission has granted utilities authority to report quarterly the information required by GO 24-B in order to reduce their administrative cost of complying with the GO and to conform to past practice.[8] Cal Am should be treated no differently. Cal Am may report quarterly to the Commission the information required by GO 24-B. However, Cal Am shall report this information on a monthly basis if directed to do so by the Commission staff.

8. Fee

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee pursuant to §§ 1904(b) and 1904.1. Sections 1904(b) and 1904.1 are not applicable to any issue used to guarantee, take over, refund, discharge, or retire any stock, bond, note, or other evidence of indebtedness on which a fee has theretofore been paid to the Commission. Therefore, Cal Am should pay a fee on $85 million of Debt Securities. Cal Am shall remit the required $48,500 fee to the Commission's

[8] See, for example, D.05-08-008 at 36; D.04-10-037 at 51; and D.03-12-052 at 11-12.

Fiscal Office.[9] The authority granted by this order shall not become effective until Cal Am remits the $48,500 fee to the Commission's Fiscal Office.

9. Financial Information

We place Cal Am on notice that the reasonableness of any resulting interest rate and cost of money arising from debt capital as well as capital structures, are 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. We will not make a finding in this decision on the reasonableness of Cal Am'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.

10. California Environmental Quality Act

Under the California Environmental Quality Act (CEQA) and Rule 2.4 of the Commission's Rules of Practice and Procedure (Rules), we must consider the environmental consequences of projects that are subject to our discretionary approval.[10] Thus, we must consider whether approval of this application will alter an approved project, result in new projects or change operations in ways that have an environmental impact.

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[9] The fee is assessed on $85 million of authorized Debt Securities as follows: $2 x ($1,000,000/$1,000) + $1 x ($9,000,000/$1,000) + $0.50 x ($75,000,000/$1,000) = $48,500.

[10] Public Resources Code Section 21080.

According to Cal Am, it is unknown at this time what the specific project activities and new construction associated with the authority to issue debt will be. The application specifies that the purpose of the application is to secure approval for Debt Securities, to be used partly for acquisition of property, construction, completion, extension, or improvement of Cal Am facilities. Cal Am has general plans for the use of the debt proceeds, but it does not have the basic details regarding those contemplated projects. Cal Am simply possesses inadequate basic information regarding future projects that might be financed through the contemplated Debt Securities. However, securing the financing authority now will put Cal Am in a better position to undertake plant improvements without delay when construction plans are finalized.

Cal Am is aware and states in the application that the utility will comply with all environmental permitting requirements applicable to the construction and improvements that it will undertake in conjunction with the proposed debt issue.

Since the details of the proposed improvements are unknown at this time, we will put Cal Am on notice that our approval to issue debt does not constitute an implied or expressed waiver of applicable environmental regulations.

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

11. Expiration of Authority

We find that it is unlikely that Cal Am will cease to have long-term borrowing needs and therefore a need for long-term financing in the foreseeable future. Therefore, we will not impose an expiration date on today's authority, and this order shall remain in effect until good cause is shown to modify or eliminate this authority.

12. Category and Need for Hearings

By Resolution ALJ 176-3251, dated April 9, 2010, the Commission preliminarily determined that this was a ratesetting proceeding and that a hearing would not be necessary.

Based on the record, we affirm that this is a ratesetting proceeding, and that a hearing is not necessary.

13. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with § 311 and comments were allowed under Rule 14.3. No comments were filed.

14. Assignment of Proceeding

John A. Bohn is the assigned Commissioner and Seaneen M. Wilson is the assigned ALJ in this proceeding.

Findings of Fact

1. Based on Cal Am's forecast of sources and uses, the forecast of funds needed by Cal Am over the period 2010-2012 is $395 million. Of this need, $108.7 million will be provided from short-term debt, $117 million equity from

the parent, $84.3 million from cash from operations, and $85 million from new Debt Securities.

2. Pursuant to the Agreement, Capital Corp. provides financial services to Cal Am.

3. Cal Am has no outstanding financing authority.

4. Resolution F-616 requires utilities to issue debt using competitive bids and provides for exemptions from the Competitive Bidding Rule.

5. Cal Am is required to follow affiliate transaction rules authorized in D.00-01-067 and D.02-12-068.

6. The Commission does not, by this decision, determine that Cal Am's construction budget, cash requirements forecast, and capital structure are necessary or reasonable for ratemaking purposes. These issues are normally reviewed and authorized in general rate case or cost of capital proceedings.

7. The Commission has opened R.09-04-012 on its own motion to, in part, develop standardized affiliate transaction rules for water and sewer utilities.

8. GO 24-B requires utilities to submit a monthly report to the Commission that contains, among other things: (a) the amount of debt issued by the utility during the previous month; (b) the total amount of debt outstanding at the end of the prior month; (c) the purposes for which the utility expended the proceeds realized from the issuance of debt during the prior month; and (d) a monthly statement of the separate bank account that the utility is required to maintain for all receipts and disbursements of money obtained from the issuance of debt.

9. The Commission has routinely authorized utilities to report on a quarterly basis the information required by GO 24-B in order to reduce the utilities' administrative and compliance costs.

10. Cal Am's request for financing authority is made pursuant to §§ 701.5, 816, 817, 818, 824, and 851.

11. This application does not propose, and today's Decision does not authorize, any specific new construction or changes in use of existing assets and facilities.

12. Notice of A.10-03-024 appeared in the Commission's Daily Calendar on April 1, 2010.

13. In Resolution ALJ 176-3251, the Commission preliminarily determined that A.10-03-024 should be categorized as ratesetting and that a hearing would not be necessary.

14. Cal Am has no bond rating.

Conclusions of Law

1. Cal Am should be granted authority to issue new Debt Securities of $85 million for terms of no more than 30 years.

2. Cal Am should be granted authority to issue new Debt Securities on an unsecured basis through Capital Corp. pursuant to the Agreement, dated June 15, 2000.

3. Cal Am should be granted authority to issue tax-exempt financing through Capital Corp. or through a governmental entity, on either a secured or an unsecured basis. This authority should be used whenever Cal Am's facilities qualify for tax-exempt financing under federal or state law and result in lower cost financing.

4. Cal Am should be granted authority to sell, lease, assign, mortgage, or otherwise dispose of or encumber its utility property as part of issuing secured tax-exempt financing, consistent with §§ 701.5 and 851.

5. Cal Am should be granted an exemption from the Competitive Bidding Rule.

6. Cal Am should continue to follow the affiliate transaction rules authorized in D.02-12-068 and D.00-01-067 in all transactions with Capital Corp., unless and until they are replaced by new affiliate transaction rules applicable to Cal Am.

7. A granting of financial authority to a utility does not obligate the Commission to approve any capital projects.

8. Review of the reasonableness of capital projects occurs as needed through the regulatory process applicable to each capital project.

9. Approval of this financing request does not prejudge any of Cal Am's forecasted capital projects for the period 2010 through 2012.

10. The authority granted by this decision should not become effective until Cal Am has paid the fees prescribed by §§ 1904(b) and 1904.1. This decision should be effective, once Cal Am pays its fees pursuant to §§ 1904(b) and 1904.1, so that Cal Am may issue the securities authorized herein as soon as possible.

11. Pursuant to §§ 1904(b) and 1904.1, Cal Am should pay a fee on $85 million of new Debt Securities of $48,500 to the Commission's Fiscal Office.

12. If the Commission authorizes a new set of affiliate transaction rules in R.09-04-012, and requires Class A water utilities to comply with them, Cal Am should note such new rules in its next request for new financing, and state how these new rules would affect its issuance of debt or equity through an affiliate.

13. Cal Am should be authorized to report on a quarterly basis the information required by GO 24-B.

14. Cal Am should not use the proceeds from the debt authorized by this decision to fund its capital projects until Cal Am has obtained any required

Commission approvals for the projects, including any required environmental review under CEQA.

15. The financing authority granted in this decision should have no expiration date.

16. Cal Am's request is in compliance with §§ 701.5, 816, 817, 818, 824, and 851.

17. Resolution F-616 specifies that the Competitive Bidding Rule is only applicable to utilities with bond ratings of "A" or higher.

18. It is Cal Am's responsibility to abide by and comply with any applicable environmental regulations for any capital improvement undertaken using the debt authorized herein.

O R D E R

IT IS ORDERED that:

1. California-American Water Company is granted authority to issue new Debt Securities in the amount of $85 million for terms of no more than 30 years.

2. California-American Water Company is granted authority to issue new Debt Securities in compliance with Pub. Util. Code §§ 701.5, 816, 817, 818, 824, and 851.

3. California-American Water Company is granted authority to issue new Debt Securities on an unsecured basis through American Water Capital Corporation pursuant to their Financial Services Agreement dated June 15, 2000.

4. California-American Water Company is granted authority to issue tax-exempt financing through American Water Capital Corporation or through a governmental entity, on either a secured or an unsecured basis. This authority must only be used whenever California-American Water Company's facilities qualify for tax-exempt financing under federal or state law. In this structured

financing, California-American Water Company may unconditionally guarantee or otherwise secure the issuer's obligations to its debt holders. As a means of securing the issuer's obligations, California-American Water Company may issue and pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

5. California-American Water Company is granted authority to sell, lease, assign, mortgage, or otherwise dispose of or encumber its utility property as part of issuing secured tax-exempt financing through American Water Capital Corporation or a governmental entity, consistent with Pub. Util. Code §§ 701.5 and 851.

6. Pursuant to Resolution F-616, California-American Water Company is granted an exemption from the Competitive Bidding Rule for all Debt Securities issued pursuant to the authority granted herein.

7. California-American Water Company must continue to follow the affiliate transaction rules adopted in Decision (D.) 02-12-068 and D.00-01-067 in all transactions with American Water Capital Corporation unless otherwise directed by the Commission.

8. If the Commission adopts a new set of affiliate transaction rules in Rulemaking 09-04-012, and requires Class A water utilities to comply with them, California-American Water Company must note such new rules in its next request for new financing, and state how these new rules would affect its issuance of debt or equity through an affiliate.

9. California-American Water Company must remit a check for $48,500, as required by Pub. Util. Code §§ 1904(b) and 1904.1, to the 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 California-American Water Company has paid the fees prescribed by Pub. Util. Code §§ 1904(b) and 1904.1.

10. California-American Water Company must report on a quarterly basis all the information required by General Order 24-B with respect to debt issued pursuant to this Order. However, California-American Water Company must report this information on a monthly basis if directed to do so by the Commission staff.

11. California-American Water Company must comply with all applicable environmental laws and regulations when planning and implementing any capital expenditure programs financed, in whole or in part, with the proceeds from the debt authorized by this decision.

12. California-American Water Company must not use the proceeds from the debt authorized by this decision to fund its capital projects until California-American Water Company has obtained all required Commission approvals for the projects, including all required environmental review under California Environmental Quality Act.

13. This decision does not authorize any capital expenditures or construction project.

14. The financing authority granted to California-American Water Company in this decision has no expiration date.

15. Application 10-03-024 is closed.

This order is effective today.

Dated July 8, 2010, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
TIMOTHY ALAN SIMON
NANCY E. RYAN
Commissioners