

ORIGINAL

Decision No. 73070

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of)
))
SAN JOSE WATER WORKS, a)
corporation,)
))
for an order authorizing it to)
issue an additional amount of)
its bonds)

Application No. 49606
Filed August 16, 1967
and Amendment
Filed August 25, 1967

O P I N I O N

In this application San Jose Water Works requests authorization from the Commission to issue and sell \$1,500,000 principal amount of its First Mortgage Bonds, and to execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture.

Applicant is a California corporation engaged in the business of supplying water to domestic, commercial and industrial consumers located in portions of Santa Clara County. For the twelve months ended May 31, 1967, the company reports gross operating revenues of \$11,570,827 and net income of \$1,234,401.

In its May 31, 1967 balance sheet applicant shows an investment of \$60,817,336 in net utility plant. On the basis of such balance sheet, the company's capitalization ratios, excluding \$1,532,968 of contributions in aid of construction,

and adjusted to give effect to the \$1,500,000 bond issue proposed herein, are as follows:

Long-term debt	46%
Advances for construction	20
Preferred stock	8
Common stock equity	<u>26</u>
Total	<u>100%</u>

The application shows that as of May 31, 1967, the company had a balance of \$2,250,000 outstanding on short-term bank obligations incurred for construction purposes and that applicant's unfinanced capital expenditures totaled \$5,136,276 on said date.

The proposed bond issue will be designated First Mortgage 6-1/2% Bonds, Series P, and will be secured by an existing Mortgage of Chattels and Trust Indenture as heretofore supplemented and as further supplemented by a proposed Twentieth Supplemental Indenture. The bonds will mature June 1, 1997, and will be redeemable at the company's option upon payment of an initial redemption price of 106.50% plus accrued interest if redeemed during the twelve months ending June 1, 1968, and thereafter at annually reducing premiums. However, redemption may not be made prior to June 1, 1977, through the use of funds borrowed at an effective net interest cost of less than 6-1/2% per annum.

With respect to the restricted redemption provision extending over a period of ten years, applicant has submitted a letter from Dean Witter & Co. dated August 21, 1967, which is attached to the amendment to the application as Exhibit F. The opinions expressed therein indicate, among other things,

that (a) institutional buyers of long-term debt securities of smaller utilities are willing to purchase at private sales only if such securities carry ten year nonrefunding protection, and (b) it is probable that a premium of one-quarter of 1%, or more, above the 6-1/2% rate would be required for bonds with a lesser period of nonrefundability.

Applicant plans to sell the \$1,500,000 of new bonds to three life insurance companies at their principal amount plus accrued interest. The utility states that the proceeds, exclusive of accrued interest, will be used for (a) defraying the expenses of issuance and sale of said bonds, and (b) repaying short-term bank loans incurred for construction.

The Commission has considered this matter and finds that: (1) the proposed bond issue is for proper purposes; (2) applicant has need for funds from external sources for the purposes set forth in the application; (3) applicant will be required to pay interest at a lower effective rate than it would in the absence of the proposed restricted redemption provision; (4) the execution of a Twentieth Supplemental Indenture will not be adverse to the public interest; (5) the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required for the purposes specified herein; and (6) such purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income. A public hearing is not necessary.

On the basis of the foregoing findings we conclude that the application, as amended, should be granted. The authorization herein granted is for the purpose of this proceeding only and is not to be construed as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. San Jose Water Works may execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture (Twentieth Supplemental Indenture) in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit D.
2. On or before December 31, 1967, San Jose Water Works may issue and sell not exceeding \$1,500,000 principal amount of its First Mortgage 6-1/2% Bonds, Series P, for purposes specified in the application. The accrued interest may be used for said purposes or for general corporate purposes.
3. San Jose Water Works shall file with the Commission a report, or reports, as required by General Order No. 24-B, which order, insofar as applicable, is hereby made a part of this order.

4. This order shall become effective when San Jose Water Works has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code, which fee is \$1,250.

Dated at San Francisco, California, this 12th day of SEPTEMBER, 1967.

John E. Mitchell
President

William G. Bernard

Augusta

William J. ...

Joseph R. ...
Commissioners

