

ORIGINAL

Decision No. 77028

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
	)	
SAN JOSE WATER WORKS, a corporation	)	Application No. 51761
	)	Filed March 9, 1970
for an order authorizing it to issue	)	
an additional amount of its First	)	
Mortgage Bonds	)	
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O P I N I O N

San Jose Water Works requests an order of the Commission authorizing it to issue and sell \$1,500,000 principal amount of its bonds, and to execute and deliver a supplemental indenture.

Applicant is a California corporation engaged in the business of supplying water to domestic, commercial and industrial consumers in portions of Santa Clara County. For the year 1969, the company reports total operating revenues and net income amounting to \$15,326,750 and \$2,112,816, respectively.

The company's reported net utility plant, after deducting depreciation and amortization reserves, amounted to \$68,088,238 at December 31, 1969. The utility's capital ratios as of such date, after giving effect to the proposed \$1,500,000 bond issue, as set forth in the application, are as follows:

First mortgage bonds	54.09%
Preferred stock	8.46
Common stock (including all surplus)	<u>37.45</u>
Total	<u>100.00%</u>

The application shows that on February 28, 1970, the company had a balance of \$800,000 outstanding on short-term bank loans incurred for construction purposes, and that applicant's unfinanced capital expenditures totaled \$7,654,633 on December 31, 1969.

The proposed bond issue will be designated as First Mortgage 9-1/2% Bonds, Series Q, and will be secured by an existing Mortgage of Chattels and Trust Indenture as heretofore supplemented and as further supplemented by a proposed Twenty-First Supplemental Indenture. The bonds will be dated November 1, 1969, will mature November 1, 1999, and will be redeemable at the company's option at an initial redemption price of 109.5% plus accrued interest, and thereafter at annually reducing premiums. However, the bonds will not be redeemable prior to November 1, 1979, through the use of borrowed funds having an effective net interest cost to the utility of less than 9-1/2% per annum.

As justification for the ten-year restricted redemption provision, applicant cites its First Mortgage 6-1/2% Bonds, Series P, which are subject to ten-year refunding protection. Based upon the company's observations of the marketing by private placement of bonds similar to those of the utility, as well as the experience and advice

of Dean Witter & Co. Incorporated, applicant states upon information and belief, the following:

"(1) that it would have been extremely difficult to sell the Series Q Bonds in a private placement without ten-year refunding protection, and

"(2) that the inclusion of ten-year refunding protection tended to lower the interest rate from what the Series Q Bonds would have had to bear in the present market if sold with a shorter period of refunding protection."

The utility intends to sell the new bonds at a price equal to 100% of their principal amount plus accrued interest to The American United Life Insurance Company, The Franklin United Life Insurance Company and Aid Association for Lutherans in principal amounts of \$500,000, \$250,000 and \$750,000, respectively. Applicant proposes to apply the gross proceeds (exclusive of accrued interest which will be applied to general corporate purposes) to defraying the expenses of the issuance and sale of said bonds, and to reimbursing its treasury.

After consideration the Commission 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 rate than it would in the absence of the proposed restricted redemption provision.
4. The proposed Twenty-First Supplemental Indenture would 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, which purposes, except as otherwise authorized for accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. 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

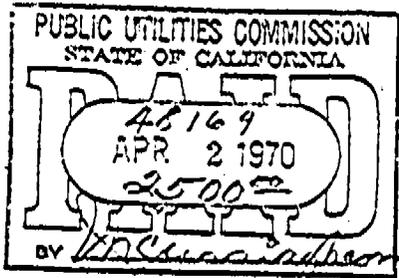
IT IS ORDERED that:

1. San Jose Water Works may execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture (Twenty-First Supplemental Indenture) in the same form, or in substantially the same form, as that filed in this proceeding as Exhibit D.
2. On or after the effective date hereof and on or before June 30, 1970, San Jose Water Works may issue and sell, at private sales, not exceeding \$1,500,000 aggregate principal amount of its First Mortgage 9-1/2% Bonds, Series Q, at a price equal to the principal amount thereof and accrued interest to the date of issuance, and shall use the proceeds for the purposes set forth in the application.

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 \$2,500.

Dated at San Francisco, California,  
this 31st day of MARCH, 1970.



William Amos J.  
President

[Signature]

[Signature]

Vernon L. Sturgeon  
Commissioners