

EC/JAB/CFF

Decision 87 10 058 OCT 28 1987**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN JOSE WATER COMPANY,)
 a corporation, to issue and sell)
 \$6,000,000 principal amount of its)
 First Mortgage Bonds, Series Y, and)
 to execute and deliver a Supplemental)
 Mortgage of Chattels and Trust)
 Indenture.)
 (U-168-W))

Application 87-09-003
 (Filed September 3, 1987)

OPINIONSummary of Decision

This decision grants San Jose Water Company (San Jose Water) the authority requested in the application.

San Jose Water requests authority, under Public Utilities (PU) Code Sections 818 through 851, for the following:

1. To issue, sell and deliver at a private sale, not to exceed \$6,000,000 aggregate principal amount of First Mortgage Bonds, Series Y (New Bonds); and
2. To execute and deliver a proposed Twenty-Ninth Supplemental Mortgage of Chattels and Trust Indenture (Supplemental Indenture).

Notice of the filing of the application appeared on the Commission's Daily Calendar of September 9, 1987. No protests have been received.

San Jose Water, a California corporation, operates as a public utility under the jurisdiction of the Commission. San Jose Water is engaged in the retail water business in the cities of

Campbell, Los Gatos, Saratoga and Monte Sereno and in portions of the cities of San Jose, Cupertino and Santa Clara and in adjacent territory in Santa Clara County.

For the 12 months ended June 30, 1987, San Jose Water reported it generated total operating revenues of \$65,597,425 and net income of \$9,269,280, shown as a part of Exhibit A attached to the application.

Also shown as part of Exhibit A attached to the application is San Jose Water's Balance Sheet as of June 30, 1987, summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$149,983,623
Current Assets	14,231,083
Deferred Charges	<u>323,612</u>
Total	\$164,538,318
<u>Liabilities and Equity</u>	
Common Stock Equity	\$ 59,028,790
Long-Term Debt	38,217,500
Current Liabilities	12,591,432
Advances for and Contributions in Aid of Construction	46,775,476
Deferred Credits	<u>7,925,120</u>
Total	\$164,538,318

San Jose Water proposes to issue and sell its New Bonds on a negotiated private placement basis and not for resale to the general public. The New Bonds would be secured by an existing indenture as previously supplemented and amended by the proposed

Supplemental Indenture. As soon as available, San Jose Water indicates in the application that it will file as Exhibit C a preliminary proof of the proposed Supplemental Indenture.

San Jose Water has not yet entered into any contract for the disposition of the New Bonds, but proposes to sell them to an institutional investor or investors. San Jose Water states it will furnish the Commission a copy of the agreement for the sale of the New Bonds as soon as available. San Jose Water also states it will not execute any underwriting agreement relating to the New Bonds, but proposes to pay a reasonable commission (estimated not to exceed \$45,000) to E. F. Hutton & Company, Inc. for its services in negotiating the sale.

Competitive Bidding Rule

Under the provisions of Commission Resolution F-616 dated October 1, 1986, San Jose Water's proposed issue and sale of the New Bonds is exempt from the Commission's Competitive Bidding Rule because the aggregate principal amount is less than \$20,000,000.

Use of Proceeds

San Jose Water states in the application that it will use the proceeds from the sale of the New Bonds to reimburse its treasury for a portion of the moneys actually expended prior to June 30, 1987 for capital improvements. The unreimbursed capital expenditures as of June 30, 1987 totaled \$39,063,921, shown as part of Exhibit B attached to the application.

Construction Budget

San Jose Water's construction budget for 1987 and 1988, provided to the Commission's Evaluation and Compliance Division (E&C Division) by its letter dated September 21, 1987, is summarized as follows:

<u>Component</u>	<u>1987</u>	<u>1988</u>
Land and Land Rights	\$ 5,000	\$ 5,000
Source of Supply Plant	1,159,000	50,000
Pumping Plant	495,900	557,000
Transmission and Distribution Plant	4,935,900	5,762,000
General Plant	<u>670,200</u>	<u>428,000</u>
Total	\$7,266,000	\$6,802,000

The Commission's E&C Division has reviewed San Jose Water's construction budget and has concluded that the issue and sale of New Bonds is necessary in part, to fund the planned construction. However, San Jose Water is placed on notice by this decision that the Commission does not find that the company's construction program is necessary or reasonable for ratefixing purposes. These are issues normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

San Jose Water's estimated cash requirements forecasts for 1987 and 1988 provided in a letter to the Commission, dated September 21, 1987, indicate internally generated funds will provide about 33% or \$2,398,000 of capital expenditures in 1987 and about 53% or \$3,605,000 in 1988. The E&C Division concludes

that the proposed sale of San Jose Water's New Bonds is necessary to help meet forecasted cash requirements. San Jose Water will need cash from outside sources of about \$4,868,000 in 1987 and about \$3,197,000 in 1988.

Capital Ratios

San Jose Water's capital ratios as of June 30, 1987, as recorded and adjusted to give pro forma effect to the proposed issue of New Bonds, are as follows:

	<u>Recorded</u>	<u>Pro Forma</u>
Long-Term Debt	39.3%	42.8%
Common Stock Equity	<u>60.7</u>	<u>57.2</u>
Total	100.0%	100.0%

The E&C Division has reviewed San Jose Water's financial data. The E&C Division has no objection to the proposed issue and sale of New Bonds.

Findings of Fact

1. San Jose Water, a California corporation, operates as a public utility under the jurisdiction of this Commission.
2. The proposed issuance of New Bonds would be for proper purposes and not adverse to the public interest.
3. The terms and conditions of the proposed Supplemental Indenture are reasonable and not adverse to the public interest.
4. San Jose Water has need for external funds for the purposes set forth in the application.

5. The proposed issue of New Bonds is not required to be through competitive bidding.

6. The Commission does not, by this decision, determine that San Jose Water's construction program is necessary or reasonable for ratefixing purposes. These issues are normally tested in general rate or rate base offset proceedings.

7. There is no known opposition to the application and no reason to delay granting the authority requested.

Conclusions of Law

1. A public hearing is not necessary.

2. The application should be granted to the extent forth in the order which follows.

The proposed New Bonds are for lawful purposes and the money, property or labor to be obtained by them is required for these purposes. Proceeds from the securities issue may not be charged to operating expenses or income.

The following order should be effective on the date of signature and payment of the fee set by PU Code Section 1904(b) to enable San Jose Water to proceed with its financing expeditiously.

O R D E R

IT IS ORDERED that:

1. San Jose Water Company (San Jose Water), on or after the effective date of this order and on or before July 1, 1988, may issue, sell, and deliver its First Mortgage Bonds, Series Y. (New

Bonds) in an aggregate principal amount not to exceed \$6,000,000 in accordance with the terms and conditions to be negotiated as described in the application.

2. San Jose Water may execute and deliver a Twenty-Ninth Supplemental Mortgage of Chattels and Trust Indenture in substantially the same form as Exhibit C attached to the application.

3. San Jose Water shall apply the net proceeds of the sale of the New Bonds for the purposes set forth in the application.

4. Promptly, after executing the contract of sale of its New Bonds, San Jose Water shall file a copy of the contract and a written report with the Commission, showing the interest rate and the cost of money to the company based on the price and interest rate.

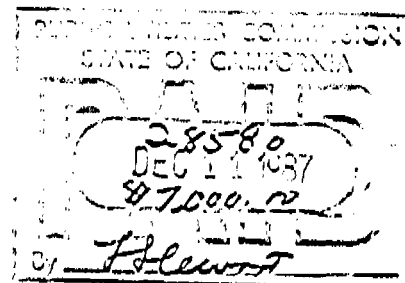
5. San Jose Water shall file the reports required by General Order Series 24.

6. The application is granted as set forth above.

The authority granted by this order to issue the New Bonds will become effective when San Jose Water pays \$7,000, the fee set by PU Code Section 1904(b). In all other respects, this order is effective today.

Dated OCT 28 1987, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
FREDERICK R. DUDA
G. MITCHELL WILK
JOHN B. OHANIAN
Commissioners



I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

Victor Weiss
Victor Weiss, Executive Director