

CACD/KLE

Decision 88 10 031 OCT 14 1988

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

RECEIVED
OCT 14 1988

Application of SAN JOSE WATER COMPANY,)
a corporation, to issue and sell)
\$4,000,000 principal amount of its)
First Mortgage Bonds, Series Z, and)
to execute and deliver a Supplemental)
Mortgage of Chattels and Trust)
Indenture.)
(U-168-W))

OCT 18 1988

Application 88-07-051
(Filed July 26, 1988;
Amended September 23, 1988)

O P I N I O N

Summary 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 Code (Code) Sections 818 through 830 and 851, for the following:

1. To issue and sell at a private sale, on or before December 31, 1988, up to \$4,000,000 aggregate principal amount of First Mortgage Bonds, Series Z (New Bonds) and
2. To execute and deliver a proposed Thirtieth Supplemental Indenture of Chattels and Trust Indenture (Supplemental Indenture).

Notices of the filing of the application, as amended, appeared on the Commission's Daily Calendar of August 2, 1988 and September 26, 1988, respectively. 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 engages in the sale and distribution of water service 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, 1988, San Jose Water reported it generated total operating revenues of \$64,202,274 and net income of \$8,188,077, shown as part of Exhibit A attached to the application.

Also shown as part of Exhibit A attached to the application is San Jose's Balance Sheet as of June 30, 1988, summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$155,250,393
Investment in Non-Utility Plant	277,345
Current Assets	16,549,355
Deferred Charges	<u>2,337,154</u>
Total	\$174,414,247
 <u>Liabilities and Equity</u>	
Common Equity	\$ 60,091,867
Long-Term Debt	43,972,500
Current Liabilities	10,308,250
Advances and Contributions in Aid of Construction	50,153,419
Deferred Credits	<u>9,888,211</u>
Total	\$174,414,247

Proposed Sale of New Bonds

San Jose has not entered into a contract for the sale of the New Bonds, but the utility proposes to issue and sell the New Bonds to an institutional investor by a negotiated private placement and not for resale to the public. San Jose Water states that it will furnish to the Commission Advisory and Compliance

Division (CACD) a copy of the agreement for the sale of the New Bonds, as soon as that document is available. San Jose Water also stated that it will not execute any underwriting agreement relating to the New Bonds, but proposes to pay a commission (estimated at about \$30,000) to Donaldson, Lufkin & Jenrette Securities Corporation for its services in negotiating the sale of the New Bonds.

The New Bonds will be secured by an existing indenture as previously supplemented, amended and modified and as further supplemented and amended by the proposed Supplemental Indenture. A preliminary proof of the form of the proposed Supplemental Indenture was late-filed as Exhibit C attached to the application, as amended. After the form of the Supplemental Indenture has been fully agreed upon with the purchaser of the New Bonds, San Jose Water will furnish the CACD a copy of this document. The terms and form of the New Bonds will be as set forth in the Supplemental Indenture.

Exemption from Competitive Bidding

Under the provisions of Commission Resolution F-616 dated October 1, 1986, San Jose Water's proposed issuance 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 proposes to use the net proceeds from the sale of the New Bonds as follows:

1. The refund at maturity, on November 1, 1988, all \$1,000,000 principal amount outstanding of San Jose Water's 4.5% First Mortgage Bonds, Series G and
2. To reimburse San Jose Water's treasury for a portion of moneys actually expended prior to June 30, 1988 and for capital improvements.

By Exhibit B to the application, San Jose Water reported that it has certain unfinanced capital expenditures as of June 30, 1988 totaling \$35,077,346.

Construction Budgets

For the years 1988 and 1989, San Jose Water's estimated construction budgets, excluding projects covered by advances for construction and contributions in aid of construction, were furnished by letter dated August 17, 1988 to the CACD and are summarized in the following tabulation:

<u>Component</u>	<u>1988</u>	<u>1989</u>
Land and Land Rights	\$ 5,000	\$ 5,000
Structures and Non-Specifics	375,000	454,500
Source of Supply	426,600	30,000
Reservoirs and Tanks	420,200	241,000
Pump Stations and Equipment	672,700	739,000
Distribution Systems	3,841,000	5,046,500
Equipment	176,200	89,100
Cost of Retiring	<u>400,000</u>	<u>400,000</u>
Total	\$6,316,700	\$7,005,100

The CACD has reviewed San Jose Water's construction budgets and it has concluded that the reimbursement of San Jose

Water's treasury for prior unfinanced capital improvements from the proposed sale of the New Bonds will permit it to fund, in part, the planned construction. However, San Jose Water is placed on notice, by this decision, that the Commission does not find that its construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts

San Jose Water's capital requirements for calendar years 1988 and 1989 amount to about \$25,229,000 are summarized as follows:

<u>Components</u>	<u>1988</u>	<u>1989</u>
Funds Used and/or Required for Construction Expenditures	\$10,583,000	\$10,000,000
Maturities of Long-Term Debt: Bonds, Notes, Debentures, etc.	2,445,000	2,945,000
Increase (Decrease) in Cash Reserves	<u>1,482,000</u>	<u>(2,226,000)</u>
Total	\$14,510,000	\$10,719,000
Less: Estimated Cash Available from Internal Sources	<u>6,937,000</u>	<u>5,339,000</u>
Additional New Funds Required from External Sources	\$ 7,573,000	\$ 5,380,000

The CACD has analyzed San Jose Water's cash requirements forecasts, shown above and as indicated by the utility in its letter dated August 17, 1988 and concludes that internally

generated funds will provide about 48% or \$6,937,000 of cash expenditures for 1988 and about 50% or \$5,339,000 for 1989. The CACD has concluded that the reimbursement of San Jose Water's treasury, for prior unfinanced capital improvement, from the proceeds of the proposed sale of the New Bonds is necessary to help meet forecasted cash requirements. San Jose Water will need cash from outside sources of about \$7,573,000 in 1988 and about \$5,380,000 in 1989.

Capital Ratios

San Jose Water's capital ratios as of June 30, 1988 are shown below as recorded and adjusted to give pro forma effect to the transactions that follow:

<u>Component</u>	<u>June 30, 1988</u>	<u>Pro Forma</u>
Long-Term Debt	42.3%	44.4%
Common Stock	<u>57.7</u>	<u>55.6</u>
Total	100.0%	100.0%

1. The proposed issuance and sale of First Mortgage Bonds, Series Z, in the aggregate principal amount of \$4,000,000 and
2. The refund at maturity, on November 1, 1989, of 4.5% First Mortgage Bonds, Series G, in the aggregate principal amount of \$1,000,000 (authorized by Decision 57447 dated October 15, 1988 in Application 40440).

The CACD has reviewed and analyzed the financial data included in San Jose Water's amended application and the utility's other financial data covered by subsequent letters and attached supplemental data sheets forwarded to the CACD. The CACD has no

objection to the proposed issue and sale of the New Bonds and recommends that San Jose Water be granted the authority to issue and deliver its proposed Supplemental Indenture.

CACD has reviewed the application and has concluded that the proposed sale of San Jose Water's New Bonds is reasonable and that the authority should be granted.

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 the New Bonds would be for proper purposes and would not be adverse to the public interest.

3. The terms and conditions of the proposed Supplemental Indenture are reasonable and are not adverse to the public interest.

4. San Jose Water has need for external funds for the purposes set forth in the application, as amended.

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

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

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

Conclusions of Law

1. A public hearing is not necessary.
2. The application, as amended, should be granted to the extent set forth in the following order.

The proposed New Bonds are for lawful purposes and the money, property or labor to be obtained, or paid for, by them is required for these purposes. Proceeds from the New Bonds 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 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 December 31, 1988, may issue, sell and deliver at a private sale its New Bonds in an aggregate principal amount not to exceed \$4,000,000 substantially in accordance with the terms and conditions to be negotiated as described in the application, as amended, and any letters, documents, exhibits or information submitted to the CACD in connection with these proceedings.
2. San Jose Water may execute and deliver a Supplemental Indenture in or substantially in the form late-filed as Exhibit C to the application, as amended.

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

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

5. 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 CACD, showing the interest rate and the cost of money to the company based on the price and interest rate.

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

7. The application, as amended, is granted as set forth above.

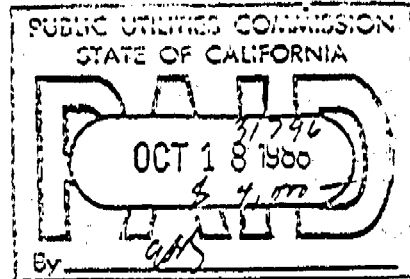
The authority granted by this order to issue the New Bonds will become effective when San Jose Water pays \$4,000, the fee set by Public Utilities Code Section 1904(b) after taking

credit for the retirement of \$1,000,000 of 4.5% First Mortgage Bonds, Series G. In all other respects, this order is effective today.

Dated OCT 14 1988, 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 Weissor
Victor Weissor, Executive Director

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Water's treasury for prior unfinanced capital improvements from the proposed sale of the New Bonds will permit it to fund, in part, the planned construction. However, San Jose Water is placed on notice, by this decision, that the Commission does not find that its construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.

Cash Requirements Forecasts:

San Jose Water's construction budgets for calendar years 1988 and 1989 amount to about \$25,229,000, estimated as of June 30, 1988. Major classifications of the total budgeted construction are summarized as follows:

<u>Components</u>	<u>1988</u>	<u>1989</u>
Funds Used and/or Required for Construction Expenditures	\$10,583,000	\$10,000,000
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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 the New Bonds would be for proper purposes and would not be adverse to the public interest.
3. The terms and conditions of the proposed Supplemental Indenture are reasonable and are not adverse to the public interest.
4. San Jose Water has need for external funds for the purposes set forth in the application, as amended.
5. The proposed issue of New Bonds is not required to be issued and sold through competitive bidding.
6. The Commission does not, by this decision, determine that San Jose Water's construction program is necessary or reasonable for rate making purposes. These issues are normally tested in general rate or rate base offset proceedings.
7. There is no known opposition to the application, as amended, and no reason to delay granting the authority requested.