

CACD/BVC

Decision 90 10 031 OCT 12 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN JOSE WATER COMPANY)	
U-168-W, a corporation, to issue and)	
sell not to exceed \$12,000,000 principal)	
amount of its First Mortgage Bonds,)	
Series AA, and to execute and deliver a)	Application 90-07-072
Supplemental Mortgage of Chattels and)	(Filed July 24, 1990)
Trust Indenture.)	

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 Sections 818-851 of the California Public Utilities Code (PU Code), for the following:

1. To issue and sell up to \$12,000,000 principal amount of its Series AA Bonds at private sale at a price not less than the principal amount thereof;
2. To use the proceeds of the issuance and sale of the Bonds for the purposes set forth in the application;
3. To execute and deliver the Supplemental Mortgage of Chattels and Trust Indenture (Thirty-first Supplemental Indenture).

Notice of the filing of the application appeared on the Commission's Daily Calendar of August 3, 1990. No protests have been received.

San Jose Water, a California corporation, 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 the County of Santa Clara.

For the twelve months ended May 31, 1990, San Jose Water reported that it generated total operating revenue of \$58,440,965 and net operating income of \$4,012,859, as shown as part of Exhibit A to the application.

Also shown as part of Exhibit A, attached to the application, is San Jose Water's Condensed Balance Sheet as of May 31, 1990 summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$167,232,261
Invest. in Non-Util. Prop.	277,345
Current Assets	8,110,260
Deferred Charges	<u>468,488</u>
Total	\$176,088,354

<u>Liabilities and Equity</u>	<u>Amount</u>
Common Equity	\$ 58,816,778
Long-Term Debt	42,582,500
Current Liabilities	13,585,632
Deferred Credits	<u>61,103,444</u>
Total	\$176,088,354

Proposed Financing

San Jose Water proposes to issue and sell not to exceed \$12,000,000 principal amount of its First Mortgage Bonds, Series AA (Bonds). San Jose Water has not yet entered into any contract for the sale of the Bonds, but proposes to sell the Bonds to an institutional investor or investors for investment purposes and not for resale to the public. The interest rate will be as approved by San Jose Water's Board of Directors in light of

market conditions at the time of sale. San Jose Water will furnish the Commission a copy of the agreement for the sale of the Bonds within 30 days following any such issuance and sale.

A Thirty-first Supplemental Indenture will be submitted to the Commission within 30 days after any such issuance and sale. San Jose Water will not execute any underwriting agreement relating to the Bonds, but proposes to pay a reasonable commission (estimated not to exceed \$90,000 and expenses) to Donaldson, Lufkin & Jenrette Securities Corporation for its services in negotiating the sale.

San Jose Water seeks this authority at this time rather than waiting until all terms and conditions are known so that they will have the authority in a fluctuating money market to secure long-term indebtedness in an expeditious manner as market conditions dictate.

Exemption from Competitive Bidding

San Jose Water notes in its application that since the principal amount of the Bonds is less than the sum of \$20,000,000, the issuance and sale is exempt from the requirements of the Commission's Competitive Bidding Rule set forth in Decision (D.) 38614, as amended by D.49941, 75556 and 81903, and by Resolutions F-591 and F-616. The Commission Advisory and Compliance Division (CACD) has reviewed San Jose Water's request and has determined that the exemption is warranted and recommends that San Jose Water's request be granted. We concur with CACD's recommendation.

Construction Budget

Schedule I of the Supplementary Information filed with the application, indicates the following construction budget for San Jose Water for 1990 and 1991:

<u>Item</u>	<u>1990</u>	<u>1991</u>
Land	\$ 5,000	\$ 5,000
Source & Supply	463,200	1,000,000
Resv. & Tanks	648,500	250,000
Pump Stations & Equip.	698,100	700,000
Distr. System	6,903,900	4,945,000
Equipment	466,650	1,300,000
Structure & Non-Spec.	574,000	400,000
Cost of Retirement	400,000	400,000
Total	\$10,159,350	\$9,000,000

CACD has reviewed the application and San Jose Water's construction program. CACD concludes that the proposed financing is necessary for the construction program; however, San Jose Water is placed on notice, by this decision, that the Commission does not find that its construction budget is necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or rate base offset proceedings.

Capitalization Ratios

San Jose Water's capitalization ratios at May 31, 1990, recorded, and at May 31, 1990, *pro forma* after giving effect to the proposed issuance of its Bonds in the aggregate principal amount of \$12,000,000 and the proposed retirement of \$4,445,000 millions in bonds and sinking fund payments are as set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u> (thousands)	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 42,582.5	42.0%	\$ 50,137.5	46.0%
Common Equity	<u>58,816.8</u>	<u>58.0</u>	<u>58,816.8</u>	<u>54.0</u>
Total	\$101,399.3	100.0%	\$108,954.3	100.0%

San Jose Water is placed on notice, by this decision, that the Commission does not find that its capital ratios are necessary or reasonable for ratemaking purposes. These are issues which are normally tested in general rate cases or cost of capital proceedings.

Cash Requirements Forecast

San Jose Water's cash requirements forecast for 1990, and 1991 is summarized as follows:

<u>Components</u>	<u>1990</u>	<u>1991</u>
Funds Needed for Construction Expenditures ¹	\$13,771,000	\$12,552,000
Long-Term Debt Maturities	4,445,000	2,945,000
Increase (De- crease) in Cash Reserve	5,742,000	1,043,000
Less: Estimated Cash From Internal Sources	<u>9,610,000</u>	<u>4,140,000</u>
Additional Funds Re- quired from Out- side Sources	\$14,348,000	\$12,400,000

CACD has analyzed San Jose Water's cash requirements forecasts for 1990 and 1991. CACD has concluded that internally generated funds will provide \$9,610,000 or 40.1% of San Jose Water's cash requirements for 1990, and \$4,140,000 or 25.1% in 1991. CACD concludes that the proposed borrowing of the funds by San Jose Water is necessary to help meet forecasted

¹ Includes Advances for Construction.

cash requirements which includes capital expenditures. CACD has reviewed the application and has concluded that the proposed financing is reasonable and that the authority should be granted.

Use of Proceeds

The net proceeds from the sale of the Bonds will be used to (i) refund at maturity on November 1, 1990 all \$3,000,000 principal amount outstanding of San Jose Water's First Mortgage 5.0% Bonds, Series I; to fund the November 1, 1990 sinking fund payment of \$120,000 on San Jose Water's \$4,000,000 First Mortgage 9.75% Bonds, Series T; to fund the November 1, 1990 sinking fund payment of \$62,500 on San Jose Water's \$2,500,000 First Mortgage 8.5% Bonds, Series U; to fund the November 1, 1990 sinking fund payment of \$62,500 on San Jose Water's \$2,500,000 First Mortgage 9.25% Bonds, Series V; to fund the November 1, 1990 sinking fund payment of \$1,200,000 on San Jose Water's \$6,000,000 First Mortgage 16.0% Bonds, Series X; or, if the Series AA Bonds are issued subsequent to November 1, 1990, to reimburse San Jose Water's treasury for the sum of \$4,445,000 used to refund the foregoing series of Bonds, and (ii) to reimburse San Jose Water's treasury for a portion of moneys actually expended prior to May 31, 1990 for capital improvements.

Findings of Fact

1. San Jose Water, a Nevada corporation, operates as a water utility subject to the jurisdiction of this Commission.
2. San Jose Water has need for external funds for the purposes set forth in the application.
3. The proposed financing program, as outlined in the application, is for proper purposes and is not adverse to the public interest.
4. The money, property or labor to be obtained, or paid for by the proposed financing is reasonably required for the purposes specified in the application.

5. There is no known opposition and there is 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 set forth in the order which follows.

The proposed financing agreement and related agreements are for lawful purposes and the money, property or labor to be obtained by them is required for these purposes. Proceeds from the financing may not be charged to operating expenses or income.

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

ORDER

IT IS ORDERED that:

1. San Jose Water Company (San Jose Water), on or before June 30, 1991, is authorized to issue and sell at private sale not exceeding \$12,000,000 aggregate principal amount of its First Mortgage Bonds (Bonds), Series AA, at a price not less than the principal amount of the Bonds.
2. San Jose Water may execute any and all related documents required for completion of the proposed financing.
3. San Jose Water shall use the net proceeds from the Bonds for the purposes specified in the application.

4. San Jose Water shall file, with CACD, copies of the agreement for the sale of the Bonds, within 15 days after the documents have been executed.

5. San José Water shall file, with CACD, copies of the Thirty-first Supplemental Mortgage of Chattels and Trust Indenture within 15 days after the document has been executed.

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

7. The application is granted as set forth above.

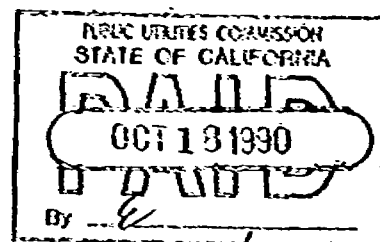
8. The authority granted by this order shall become effective when San Jose Water pays \$8,555, the fee set forth by Public Utilities Code §1904(b). In all other respects this order is effective today.

Dated OCT 12 1990, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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

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108



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