

CACD/RHG

Decision 92-05-065 May 20, 1992

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 \$20,000,000 principal amount of)
its First Mortgage Bonds and/or)
Debentures and to execute and deliver)
Supplemental Mortgage(s) of Chattels)
and Trust Indenture and/or Loan)
Agreement(s))

ORIGINAL

Application 92-02-050
(Filed February 28, 1992)

O P I N I O N

Summary of Decision

This decision grants San Jose Water Company (SJWC) the authority requested in Application (A.) 92-02-050.

SJWC requests authority, pursuant to Sections 818 and 851 of the California Public Utilities Code (PU Code), for the following:

1. On or before April 30, 1993, to issue and sell at private sale not exceeding \$20,000,000 aggregate principal amount of one or a combination of debt instruments.
2. To execute and deliver Supplemental Mortgage(s) of Chattels and Trust Indenture and/or Loan Agreement(s).

Notice of the filing of the Application appeared on the Commission's Daily Calendar of March 9, 1992. No protests have been received.

Background

SJWC, a California corporation, operates as a water utility under the jurisdiction of this Commission. SJWC engages in the retail water business in the cities of Campbell, Saratoga and Monte Sereno, Town of Los Gatos, 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 December 31, 1991 (unaudited), SJWC reported it generated total operating revenues of \$76,164,147 and net income of \$8,809,056 as shown in Exhibit I to the Application.

Also shown as part of Exhibit I is SJWC's Balance Sheet as of December 31, 1991 (unaudited) which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$176,650,118
Invest. in Non-Util. Prop.	375,355
Current Assets	13,909,316
Deferred Charges	<u>540,890</u>
Total	\$191,475,679
 <u>Liabilities and Equity</u>	 <u>Amount</u>
Common Share. Equity	\$ 66,439,662
Current Liabilities	18,307,172
Long Term Debt	45,192,500
Unamortized Inv. Tax Cr.	2,633,700
Deferred Inc. Taxes	1,946,962
Advances for Constr.	31,781,352
Contri. in Aid of Constr.	23,959,881
Other Non-Current Credits	<u>1,214,450</u>
Total	\$191,475,679

Debt Securities

On or before April 30, 1993, SJWC proposes to issue and sell \$20,000,000 aggregate principal amount of one or a combination of the following debt instruments:

Secured Debt Securities (Bonds)

One or more series of its first mortgage bonds, to be issued under and secured by that certain Mortgage of Chattels and Trust Indenture from SJWC to Bank of America National Trust and Savings Association, as trustee, dated December 1, 1936, as supplemented, amended and modified to date by thirty-one indentures supplemental thereto, and as to be further supplemented by additional series

under authority granted herein. The Bonds will be sold with the assistance of a private placement agent.

Unsecured Debt Securities (Debentures)

Debentures issued pursuant to a Debenture Purchase Agreement may be sold to one or more parties with the assistance of a private placement agent.

Terms and Conditions

SJWC has not yet entered into any contract for the sale of debt to which the Application relates, but proposes to sell the Bonds and/or Debentures to an institutional investor or investors for investment purposes and not for resale to the public. The Bonds and/or Debentures will be sold for cash at 100% par value, plus accrued interest from the date of the debt instrument. The Bonds and/or Debentures will mature in 20 or more years and will be redeemable at the option of SJWC at any time, subject to the following restrictions:

1. The interest rate will be approved by SJWC's Board of Directors in light of market conditions at the time of sale.
2. SJWC will furnish the Commission a copy of the agreement(s) for the sale within 30 days following any such issuance and sale.
3. SJWC will not execute any underwriting agreement relating to the debt, but will pay a reasonable commission (estimated not to exceed \$150,000 and expenses) to Donaldson, Lufkin & Jenrette Securities Corporation or some other such broker for its services in negotiating the sale.

Redemptions

Prior to maturity, the Bonds and/or Debentures may be redeemable at a price based upon the principal amount then outstanding, accrued interest and a premium. The premium would be based upon either a percentage of the principal amount decreasing every twelve months from the date the Bonds and/or Debentures were first sold, or some later date, and would decline in total to zero by the year of maturity, or some other "make-whole" method, or a combination of these methods.

SJWC believes that the market terms for Bonds and/or Debentures issued without such redemption provisions would be less favorable than for those containing such provisions.

The Bonds and/or Debentures may be issued with terms that include a non-redemption provision for some period following the issue date but such period would be less than the term of the Bonds and/or Debentures.

The Bonds and/or Debentures may be issued with terms that include provision for sinking funds designed to amortize the outstanding amount of the Bonds and/or Debentures to less than face value at maturity.

The terms of the Bonds and/or Debentures may prohibit redemptions for a specified period of time if the redemption is in anticipation of refunding the Bonds and/or Debentures by the use, directly or indirectly, of funds borrowed by SJWC at an annual cost less than the annual cost of the Bonds and/or Debentures being redeemed.

All of the above provisions have been required in some or all of SJWC's previous debt issues in order to make them marketable at the time of their issuance.

Exemption from Competitive Bidding

The principal amount of the Bonds and/or Debentures which SJWC proposes to sell does not exceed \$20,000,000. Therefore the issuance and sale of the Bonds and or/Debentures are exempt from the requirements of the Commission's Competitive Bidding Rule as set forth in its Decision (D.) 38614, as amended by D.49941, D.75556 and D.81908, and by Resolution F-616.

Construction Budget

A summary of SJWC's construction budget for 1992 and 1993 will approximate the following, as summarized and included as Exhibit III, Schedule A to SJWC's Application:

<u>Item</u>	<u>Amount</u>	
	<u>1992</u>	<u>1993</u>
Land	\$ 155,000	\$ 5,000
Source of Supply	4,689,750	4,100,000
Reservoirs & Tanks	891,000	1,047,000
Pump Stations & Equip.	1,701,440	502,600
Distribution System		7,271,900
New Mains	221,500	
City, County & State	100,000	
Replacement Mains	2,639,100	
Main Extensions	21,000	
Services	934,000	
Meters	717,150	
Hydrants	28,200	
Equipment	643,815	1,232,550
Structure & Non Specific	366,300	276,110
Total	\$13,108,255	\$14,435,160
Cost of Retiring	458,200	435,000
Total Construction Budget	\$13,566,455	\$14,870,160

The Commission Advisory and Compliance Division (CACD) has reviewed the Application and SJWC's construction budget and concludes that the proposed financing is necessary for SJWC's construction requirements; however, SJWC is placed on notice, by this decision, that the Commission does not find that SJWC's construction budget is necessary or reasonable for ratemaking purposes. These are issue which are normally tested in general rate cases or rate base offset proceedings.

Capitalization Ratios

SJWC's capitalization ratios at December 31, 1991, recorded and at December 31, 1991, pro forma after giving effect to the proposed issuance of its Bonds and/or Debentures in the aggregate principal amount of \$20,000,000 are set forth below:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	\$ 45,192,500	37.9	\$ 65,192,500	49.5
Short-Term Debt	7,575,000	6.4	0	0
Common Stock	66,439,662	55.7	66,439,662	50.5
Total	\$119,207,162	100	\$131,632,162	100

SJWC is placed on notice, by this decision, that the Commission does not find that the above 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 Requirments Forecast

SJWC's cash requirements forecast for 1992 and 1993 are summarized as follows:

<u>Components</u>	<u>1991</u>	<u>1992</u>
Funds Used or Required for Construction Expenditures	\$13,566,000	\$14,870,000
Maturities of Long-Term Debt:		
Series K, Due 1992	2,500,000	0
Series L, Due 1993	0	2,500,000
Series T, Due 2000	120,000	120,000
Series U, Due 2001	62,500	62,500
Series V, Due 2003	62,500	62,500
Series X, Due 1992	1,200,000	0
Short-Term Debt		
Outstanding as of Beginning of Year	7,575,000	0
Increase (Decrease) in Cash Reserve	2,779,000	(2,282,000)
Total	\$27,865,000	\$15,333,000
Less: Estimated Cash Available from Internal Sources	6,380,000	3,561,000
Additional New Funds Required from Outside Sources	\$21,485,000	\$11,772,000

CACD has analyzed WWPC's cash requirements forecast for 1992 and 1993, provided in SJWC's Exhibit III, Schedule C. CACD has concluded that internally generated funds will only provide \$6,380,000 or 23% of SJWC's cash requirements for 1992 and \$3,561,000 or 23% in 1993. SJWC projects it will need funds from external sources amounting to \$21,485,000 in 1992 and \$15,333,000 in 1993. CACD concludes that the proposed issuance of Bonds and/or Debentures is necessary to help meet forecasted cash requirements which includes capital expenditures.

CACD has reviewed the Application and has concluded that the proposed issuance of SJWC's Bonds and/or Debentures is reasonable and that the authority should be granted. The Commission has considered CACD's recommendations and, finding them reasonable, will adopt them as stated above.

Use of Proceeds

As shown in Exhibit III, Schedule C of the Application, SJWC proposes to use the \$20,000,000 for any or all of the following purposes: (1) to refund at maturity on June 1, 1992 all \$2,500,000 principal amount outstanding of SJWC's First Mortgage 4.75% Bonds, Series K; to fund the November 1, 1992 sinking fund payment of \$120,000 on SJWC's \$4,000,000 First Mortgage 9.75% Bonds, Series T; to fund the November 1, 1992 sinking fund payment of \$62,500 on SJWC's \$2,500,000 First Mortgage 8.5% Bonds, Series U; to fund the November 1, 1992 sinking fund payment of \$62,500 on SJWC's \$2,500,000 First Mortgage 9.25% Bonds, Series V; to fund the November 1, 1992 sinking fund payment of \$1,200,000 on SJWC's \$6,000,000 First Mortgage 16.0% Bonds, Series X; or if the Bonds and/or Debentures are issued subsequent to November 1, 1992, to reimburse SJWC's treasury for the sum of \$3,945,000 used to refund in whole or part the foregoing Series of Bonds; (2) to repay short term loans in the amount of \$7,575,000; and (3) to reimburse SJWC's treasury for a portion of moneys actually expended prior to December 31, 1991 for capital improvements.

CACD has reviewed SJWC's Application and its proposed sale of Bonds and/or Debentures for the purposes set forth in the Application and has concluded that SJWC's proposed financings are

necessary to provide funds for the purposes set forth in the Application. Furthermore, CACD has no objection to the proposed financing.

Findings of Fact

1. SJWC, a California corporation, is a water utility subject to the jurisdiction of this Commission.
2. SJWC has need for external funds for the purposes set forth in the Application.
3. The proposed issuance and sale of Bonds and/or Debentures is for proper purposes.
4. SJWC has a valid claim for requesting exemption from the Competitive Bidding Rule for the Bonds and/or Debentures requested in the Application.
5. The money, property, or labor to be procured or paid for by the proposed Bonds and/or Debentures are reasonably required for the purposes specified in the Application.
6. There is no known opposition to this Application, 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.
3. The proposed issuance of Bonds and/or Debentures is for lawful purposes and the money, property, or labor to be obtained therefrom are required for these purposes. The proceeds from the issuance of Bonds and/or Debentures may not be charged to operating expenses or income.
4. SJWC should be granted exemption from the Competitive Bidding Rules because the proposed issuance of Bonds and/or Debentures does not exceed \$20,000,000.
5. SJWC will pay the fee in accordance with PU Code §§1904.1 and 1904.2(b). The fee computation will take into account the fee exemption allowed by PU Code §1904(b), as a result of credits from prior outstanding indebtedness refundings, as shown in Exhibit II, Schedule I attached to the Application.

ORDER

IT IS ORDERED that:

1. On or after the effective date of this order until April 30, 1993, San Jose Water Company (SJWC) may issue and sell at private sale not exceeding \$20,000,000 aggregate principal amount of its First Mortgage Bonds and/or Debentures, in substantially the same form as set forth in the Application.

2. SJWC may execute and deliver any and all related documents required for the completion of the financing, including without limitation a Supplemental Mortgage(s) of Chattels and Trust Indenture in substantially the same form as those previously placed on file with this Commission by SJWC or a Debenture Purchase Agreement.

3. SJWC's proposed issuance and sale of Bonds and/or Debentures, not exceeding \$20,000,000 aggregate principal amount, is exempted from the requirements of the Commission's Competitive Bidding Rule.

4. The final form of the Indenture and/or Debenture and their related Purchase Agreements shall be submitted to the Commission within 30 days after any such issuance and sale.

5. On or before the 25th day of each month, SJWC shall file the reports required by General Order Series 24.

6. The Application is granted as set forth above.

7. The authority granted by this order to issue the Bonds and/or Debentures will become effective when SJWC pays \$13,028, the fee set forth by Public Utilities Code §§1904(b) and 1904.1. In all other respects this order is effective today.

Dated May 20, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President

JOHN B. OHANIAN
NORMAN D. SHUMWAY
Commissioners

Commissioner Patricia M. Eckert,
being necessarily absent, did not
participate. ~~CERTIFY THAT THIS DECISION~~
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY

