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Decision No. 89670 NOV 28 1978

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN JOSE WATER WORKS,	)	
a corporation, to issue and sell	)	Application No. 58383
\$2,500,000 principal amount of its	)	(Filed September 27, 1978)
First Mortgage 9.25% Bonds, Series V,	)	and Amendment
and to execute and deliver a	)	(Filed October 27, 1978)
Supplemental Mortgage of Chattels	)	
and Trust Indenture.	)	

O P I N I O N

San Jose Water Works (SJWW) requests authority to issue and sell at private sale not exceeding \$2,500,000 aggregate principal amount of its First Mortgage 9.25% Bonds, Series V, and to execute and deliver a Twenty-Sixth Supplemental Indenture.

SJWW is a California corporation providing public utility water service in Santa Clara County. For the twelve months ended June 30, 1978, the utility reported operating revenues of \$24,638,248, depreciation and amortization expenses totalling \$2,469,865, and net income of \$2,934,323. Exhibit A, attached to the application, contains a balance sheet dated June 30, 1978, which is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net utility plant	\$ 96,875,791
Other physical property	579
Current assets	4,546,116
Deferred charges	348,143
Total	<u>\$101,770,629</u>
 <u>Liabilities and Capital</u>	
Long-term debt	\$ 36,010,000
Preferred stock	6,657,200
Common stock equity	30,764,959
Advances for construction	18,868,489
Contributions in aid of construction	5,185,055
Current liabilities	4,259,656
Miscellaneous reserves	25,270
Total	<u>\$101,770,629</u>

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The application indicates that SJWW at June 30, 1978 had outstanding \$1,900,000 short-term bank loans, the proceeds of which were applied to the current construction program. The company indicates that these loans have been repaid. It will be necessary, however, for the company to make short-term borrowings of approximately \$2,500,000 prior to the sale of the Series V Bonds. Such borrowings will be repaid following the sale of the Series V Bonds. ✓

Unreimbursed capital expenditures reported by SJWW as of June 30, 1978 totalled \$13,309,821.

SJWW proposes to issue and sell \$2,500,000 aggregate principal amount of First Mortgage 9.25% Bonds, Series V, due November 1, 2003. The bonds would be secured by an existing Mortgage of Chattels and Trust Indenture as previously supplemented, and by a proposed Twenty-Sixth Supplemental Indenture. The bonds would be subject to a ten-year restricted redemption provision, and annual sinking fund payments of \$62,500 would commence on November 1, 1981.

According to the Commission's Competitive Bidding Rule, as most recently promulgated by Decision No. 81908, dated September 25, 1973, in Case No. 4761, competitive bidding is not required for debt security issues of \$5,000,000 or less.

SJWW has tentative commitments from two institutional investors for purchase of the Series V Bonds at 100% of their principal amount, as follows:

<u>Name</u>	<u>Principal Amount</u>
The National Life and Accident Insurance Company	\$2,000,000
Woodmen Accident and Life Company	500,000

SJWW will not execute any underwriting agreement relating to the Series V Bonds, but proposes to pay a commission (estimated not to exceed \$12,500) to Dean Witter Reynolds Inc. for services rendered in negotiating the sale. Net proceeds derived from the sale would be used to reimburse the company's treasury for a portion of the moneys actually expended prior to June 30, 1978 for capital improvements.

The utility's recorded capital ratios as of June 30, 1978 and as adjusted on a pro forma basis after giving effect to the proposed issuance of Series V Bonds, are summarized from the application, as follows:

<u>Component</u>	<u>June 30, 1978</u>	
	<u>Recorded</u>	<u>Pro Forma</u>
Long-term debt	49.0%	50.7%
Preferred stock	9.1	8.8
Common equity	<u>41.9</u>	<u>40.5</u>
Total	<u>100.0%</u>	<u>100.0%</u>

In support of the application, SJWW states that the proposed interest rate for the bonds is reasonable for a private placement in light of market conditions prevailing at the time of negotiation. The sale of the Series V Bonds, moreover, would be extremely difficult without ten-year refunding protection which tended to lower the interest rate below that required for a shorter period of refunding protection.

The Operations Division has reviewed the application and concurs with the conclusion of the Finance Division that the proposed financing is required to reimburse the company's treasury for capital expenditures.

After consideration the Commission finds that:

1. The proposed bonds would be for proper purposes.
2. Applicant has need for external funds for the purposes set forth in the application.
3. The proposed restricted redemption provision is reasonable.
4. The proposed Twenty-Sixth Supplemental Indenture would not be adverse to the public interest.
5. The money, property or labor to be procured or paid for by the bonds herein authorized is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expenses or to income.

There is no known opposition and there is no reason to delay granting the relief requested. On the basis of the foregoing findings we conclude that the application should be granted, and that the effective date of the order should be the date on which applicant pays the prescribed fee. 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. On or after the effective date hereof and on or before February 28, 1979, San Jose Water Works may issue and sell its First Mortgage 9.25% Bonds, Series V, due November 1, 2003 in an aggregate principal amount not exceeding \$2,500,000.

2. San Jose Water Works may execute and deliver a Supplemental Mortgage of Chattels and Trust Indenture (Twenty-Sixth Supplemental Indenture) in substantially the same form as Exhibit D, attached to the application as amended.

3. San Jose Water Works shall apply the proceeds from the sale of the Series V Bonds to the purposes specified in the application.

4. San Jose Water Works shall file with the Commission a report, or reports, as required by General Order 24-B, which order, insofar as applicable, is hereby made a part of this order.

5. 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 \$3,500.

Dated at San Francisco, California, this 28th day of NOVEMBER, 1978.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

Robert Barinovich  
President

William J. ...

Charles D. ...

Clive L. ...  
Commissioners

