

WATER/RHG

ORIGINAL

Decision 98-07-086 July 23, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN JOSE)
WATER COMPANY U-168-W, for authority to) Application 98-06-021
issue and sell Debentures not exceeding the) (Filed June 8, 1998)
aggregate amount of \$60,000,000 and to execute)
and deliver Loan Agreement(s).)
_____)

OPINION

Summary of Decision

This decision grants San Jose Water Company (San Jose) the authority requested in Application (A.) 98-06-021 (Application).

San Jose requests authority, pursuant to §§ 817, 818, 823 and 851 of the Public Utilities (PU) Code for the following:

1. to issue and sell at private sale on or before September 30, 2001 up to \$60,000,000 aggregate principal amount of its first mortgage bonds, debentures, notes, project specific financing, and debt securities relating to participation in governmental or agency tax free debt financing (collectively Debt Securities), at a price not less than the principal amount thereof;
2. to use the proceeds of the issuance and sale of Debt Securities for the purposes set forth in the Application;
3. to execute and deliver all related documents required for the completion of the proposed financing, including without limitation a Note Agreement in or substantially in the same form to that previously placed on file with the Commission. The final form of the Debt Securities and its related Note Agreements will be submitted to the Commission within 30 days after any such issuance and sale; and
4. to obtain an exemption from the Commission's Competitive Bidding Rule for the sale of the Debt Securities.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of June 17, 1998. No protests have been received.

Background

San Jose, a California corporation, operates as a water utility under the jurisdiction of this Commission. San Jose is engaged in the retail water business in the cities of Campbell, Saratoga, Monte Sereno, the 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.

Pursuant to its Statement of Income for the twelve months ended April 30, 1998 (unaudited), shown as Exhibit I to the Application, San Jose reported it generated total operating revenues of \$104,342,493 and net income of \$12,625,442.

San Jose's Balance Sheet at April 30, 1998 (unaudited), shown as part of Exhibit I, is summarized as follows:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$255,327,861
Utility Plant Held for Future Use	110,108
Non-Utility Property	232,600
Current Assets	11,355,834
Other Assets	<u>15,838,391</u>
 Total	 \$282,864,794
 <u>Liabilities and Equity</u>	 <u>Amount</u>
Common Shareholders' Equity	\$ 95,571,721
Long-term Debt	75,000,000
Current Liabilities	16,119,559
Deferred and Other Credits	<u>96,173,514</u>
 Total	 \$282,864,794

Description of Financing

San Jose proposes to issue and sell up to the aggregate amount of \$60,000,000 Debt Securities consisting of any combination of senior notes with or without insurance, medium term notes, project specific financing, first mortgage bonds, debentures and debt securities relating to participation in governmental or agency tax free debt financing, to be issued to one or more parties pursuant to a Note Agreement expected to be substantially in the same form and content as that certain Note Agreement dated December 1, 1995 previously submitted by San Jose to the Commission in A.95-06-059; or debt securities relating to participation in governmental or agency tax free debt financing.

San Jose proposes to sell the debentures to an institutional investor/s for investment purposes and not for resale to the public. The debentures will be sold for cash at 100% par value, plus accrued interest from the date of the debt instrument and will mature in 20 or more years and will be redeemable at the option of San Jose at any time, subject to certain restrictions described in the Application.

If San Jose participates with governmental or agency entities in tax-free debt financing in which it will pledge its assets which qualify for such financing, the amount shall not exceed in the aggregate \$60,000,000 as combined with debt financing described above.

San Jose seeks authority at this time rather than waiting until all the terms and conditions of the financing agreements are known so that it 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

Commission Resolution F-616 dated October 1, 1986, provides that the Competitive Bidding Rule applies only to utilities with bond ratings of "A" or higher. San Jose has informed staff by letter dated June 10, 1998 that it has not been rated by any rating company. The May 1998 and earlier issues of Standard and Poor's Bond Guide do not include San Jose in its broad list of bonds. Accordingly, San Jose is exempt from the requirements of the Competitive Bidding Rule.

Construction Budget

San Jose's construction budgets for calendar years 1998 through 2000, included as Exhibit III, Schedule A to the Application, are as follows:

<u>Item</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Land	\$ 5,000	\$ 5,000	\$ 5,000
Source of Supply	86,200	100,000	120,000
Reservoirs & Tanks	364,800	400,000	450,000
Pump Stations & Equipment	2,148,300	1,350,000	1,400,000
Distribution System	13,766,000	15,143,500	16,528,000
Equipment	1,831,400	2,100,000	1,500,000
Structures & Non-Specifics	<u>1,513,300</u>	<u>1,280,000</u>	<u>1,210,000</u>
Subtotal	\$19,715,000	\$20,378,500	\$21,213,000
Cost of Retiring	<u>600,000</u>	<u>630,000</u>	<u>662,000</u>
Total	\$20,315,000 ¹	\$21,008,500 ²	\$21,875,000 ³

We will not make a finding in this decision on the reasonableness of San Jose's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate case proceedings.

¹ Excludes advances for 1998 and carryovers from 1997 amounting to approximately \$8.5 million.

² Excludes advances for 1999 amounting to approximately \$3.5 million.

³ Excludes advances for 2000 amounting to approximately \$3.6 million.

Capital Ratios

San Jose's capital ratios, as of April 30, 1998, submitted as Exhibit III, Schedule H to the Application, are presented below, as recorded and as adjusted to give pro forma effect to the issuance of the Debt Securities and repayment of short-term debt:

	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Long-Term Debt	\$ 75,000,000	42.7%	\$135,000,000	58.5%
Short-Term Debt	<u>5,000,000</u>	<u>2.9%</u>	<u>0</u>	<u>0.0%</u>
Total Debt	\$ 80,000,000	45.6%	\$135,000,000	58.5%
Common Equity	<u>95,571,721</u>	<u>54.4%</u>	<u>95,571,721</u>	<u>41.5%</u>
Total	\$175,571,721	100.0%	\$230,571,721	100.0%

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Cash Requirements Forecast

San Jose's estimated cash requirements forecasts are summarized as follows:

	<u>1998</u>	<u>1999</u>
Funds Needed for Construction	\$28,800,000 ⁴	\$24,500,000 ⁵
Maturity of Long-Term Debt	0	0
Short-Term Debt O/S Beg. of Year	2,700,000	0
Increase (Decrease) in Cash Reserve	<u>2,114,000</u>	<u>(1,805,000)</u>
 Total	 \$33,614,000	 \$22,695,000
 Less Estimated Cash Available from Internal Sources	 <u>16,314,000</u>	 <u>16,302,000</u>
 Additional New Funds Required from Outside Sources	 \$17,300,000	 \$ 6,393,000

San Jose's estimated cash requirements indicate that it would require for the covered period additional funds from external financing sources amounting to \$23,693,000.

Use of Proceeds

San Jose states in the Application that the net proceeds derived from the proposed issue of Debt Securities will be used for such purposes as are allowed by the PU Code, including without limitation to (1) repay \$5,000,000 outstanding short-term debt, (2) reimburse San Jose's treasury for a portion of moneys actually expended prior to April 30, 1998 for capital improvements, (3) finance a portion of San Jose's capital expenditure program from 1999 through 2001, and (4) for the acquisition of existing water systems.

The proposed use of proceeds is for proper purposes and is not adverse to the public interest. San Jose is placed on notice that the proceeds from the debt issue cannot be charged to operating expenses or income.

In Resolution (Res.) ALJ#176-2995 dated 6/18/98, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings

⁴ Includes advances for 1998 and carryovers from 1997 amounting to approximately \$8.5 million.

⁵ Includes advances for 1999 amounting to approximately \$3.5 million.

were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ#176-2995.

We place San Jose on notice that the reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in general rate case proceedings.

Findings of Fact

1. San Jose, a California corporation, is a public utility under the jurisdiction of this Commission.
2. San Jose needs external funds for the purposes set forth in the Application.
3. The proposed issue of Debt Securities is for proper purposes.
4. It is in the public interest to authorize San Jose to determine the precise amount and timing of each financing, the market in and method by which each financing is effected and the terms and provisions, price of and interest rate of the Debt Securities issued in each financing.
5. Authorizing San Jose to mortgage or otherwise encumber its properties as security for its Debt Securities or other evidences of indebtedness is not adverse to the public interest.
6. The money, property, or labor to be procured or paid for by the proposed Debt Securities is reasonably required for the purposes specified in the Application.
7. San Jose does not have any bond rating.
8. The Commission does not by this decision determine that the construction budget, capital structure, and cash requirements forecast presented herein are necessary or reasonable for ratemaking purposes.
9. Notice of the filing of the Application appeared on the Commission's Daily Calendar of June 17, 1998, and no protests have been received. 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. Rules of Practice and Procedure Rules 6 through 6.5 do not apply in this proceeding.
3. The Application should be granted to the extent set forth in the order which follows.
4. The proposed issue of Debt Securities is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the debt issue may not be charged to operating expense or income.
5. San Jose will pay the fee in accordance with PU Code § 1904(b).
6. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. San Jose Water Company (San Jose), on or after the effective date of this order and on or before September 30, 2001 is authorized to issue and sell at private sale up to \$60,000,000 aggregate principal amount of its first mortgage bonds, debentures, notes, project specific financing, and debt securities relating to participation in governmental or agency tax free debt financing (collectively Debt Securities), upon terms and conditions substantially consistent with those set forth or contemplated in Application 98-06-021 (Application).
2. San Jose shall use the proceeds of the issuance and sale of Debt Securities for the purposes set forth in the Application.

3. San Jose shall execute and deliver all related documents required for the completion of the proposed financing, including without limitation a Note Agreement in or substantially in the same form to that previously placed on file with the Commission. The final form of the Debt Securities and its related Note Agreements will be submitted to the Water Division within 30 days after any such issuance and sale.

4. San Jose's proposed issue of Debt Securities is exempt from the requirements of the Commission's Competitive Bidding Rule.

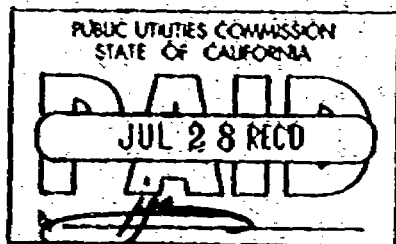
5. On or before the 25th day of each month, San Jose shall file the reports required by General Order Series 24.

6. The authority granted by this order shall become effective when San Jose pays \$36,000, the fee set forth by Public Utilities Code § 1904(b).

7. Application 98-06-021 is closed.

This order is effective today.

Dated July 23, 1998, at San Francisco, California.



CSR # 40092

\$36,000.00

RICHARD A. BILAS

President

J. GREGORY CONLON

JESSIE J. KNIGHT, JR.

HENRY M. DUQUE

JOSIAH L. NEEPER

Commissioners

WATER/RHG

Decision 98-07-086 July 23, 1998

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN JOSE)
WATER COMPANY U-16S-W, for authority to)
issue and sell Debentures not exceeding the)
aggregate amount of \$60,000,000 and to execute)
and deliver Loan Agreement(s).)

Application 98-06-021
(Filed June 8, 1998)

OPINION

Summary of Decision

This decision grants San Jose Water Company (San Jose) the authority requested in Application (A.) 98-06-021 (Application).

San Jose requests authority, pursuant to §§ 817, 818, 823 and 851 of the Public Utilities (PU) Code for the following:

1. to issue and sell at private sale on or before September 30, 2001 up to \$60,000,000 aggregate principal amount of its first mortgage bonds, debentures, notes, project specific financing, and debt securities relating to participation in governmental or agency tax free debt financing (collectively Debt Securities), at a price not less than the principal amount thereof;
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Construction Budget

San Jose's construction budgets for calendar years 1998 through 2000, included as Exhibit III, Schedule A to the Application, are as follows:

<u>Item</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Land	\$ 5,000	\$ 5,000	\$ 5,000
Source of Supply	86,200	100,000	120,000
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Subtotal	\$19,715,000	\$20,378,500	\$21,213,000
Cost of Retiring	<u>600,000</u>	<u>630,000</u>	<u>662,000</u>
Total	\$20,315,000 ¹	\$21,008,500 ²	\$21,875,000 ³

We will not make a finding in this decision on the reasonableness of San Jose's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues which are normally addressed in general rate case proceedings.

¹ Excludes advances for 1998 and carryovers from 1997 amounting to approximately \$8.5 million.

² Excludes advances for 1999 amounting to approximately \$3.5 million.

³ Excludes advances for 2000 amounting to approximately \$3.6 million.

Capital Ratios

San Jose's capital ratios, as of April 30, 1998, submitted as Exhibit III, Schedule II to the Application, are presented below, as recorded and as adjusted to give pro forma effect to the issuance of the Debt Securities and repayment of short-term debt:

	<u>Recorded</u>		<u>Pro-Forma</u>	
	Amount	Percentage	Amount	Percentage
Long-Term Debt	\$ 75,000,000	42.7%	\$135,000,000	58.5%
Short-Term Debt	<u>5,000,000</u>	<u>2.9%</u>	<u>0</u>	<u>0.0%</u>
Total Debt	\$ 80,000,000	45.6%	\$135,000,000	58.5%
Common Equity	<u>95,571,721</u>	<u>51.4%</u>	<u>95,571,721</u>	<u>41.5%</u>
Total	\$175,571,721	100.0%	\$230,571,721	100.0%

Capital structures are normally subject to review in cost of capital or general rate case proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

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Maturity of Long-Term Debt	0	0
Short-Term Debt O/S Beg. of Year	2,700,000	0
Increase (Decrease) in Cash Reserve	<u>2,114,000</u>	<u>(1,805,000)</u>
 Total	 \$33,614,000	 \$22,695,000
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San Jose states in the Application that the net proceeds derived from the proposed issue of Debt Securities will be used for such purposes as are allowed by the PU Code, including without limitation to (1) repay \$5,000,000 outstanding short-term debt, (2) reimburse San Jose's treasury for a portion of moneys actually expended prior to April 30, 1998 for capital improvements, (3) finance a portion of San Jose's capital expenditure program from 1999 through 2001, and (4) for the acquisition of existing water systems.

The proposed use of proceeds is for proper purposes and is not adverse to the public interest. San Jose is placed on notice that the proceeds from the debt issue cannot be charged to operating expenses or income.

In Resolution (Res.) ALJ#176-2995 dated 6/18/98, the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings

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were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ#176-2995.

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Findings of Fact

1. San Jose, a California corporation, is a public utility under the jurisdiction of this Commission.
2. San Jose needs external funds for the purposes set forth in the Application.
3. The proposed issue of Debt Securities is for proper purposes.
4. It is in the public interest to authorize San Jose to determine the precise amount and timing of each financing, the market in and method by which each financing is effected and the terms and provisions, price of and interest rate of the Debt Securities issued in each financing.
5. Authorizing San Jose to mortgage or otherwise encumber its properties as security for its Debt Securities or other evidences of indebtedness is not adverse to the public interest.
6. The money, property, or labor to be procured or paid for by the proposed Debt Securities is reasonably required for the purposes specified in the Application.
7. San Jose does not have any bond rating.
8. The Commission does not by this decision determine that the construction budget, capital structure, and cash requirements forecast presented herein are necessary or reasonable for ratemaking purposes.
9. Notice of the filing of the Application appeared on the Commission's Daily Calendar of June 17, 1998, and no protests have been received. 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. Rules of Practice and Procedure Rules 6 through 6.5 do not apply in this proceeding.
3. The Application should be granted to the extent set forth in the order which follows.
4. The proposed issue of Debt Securities is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the debt issue may not be charged to operating expense or income.
5. San Jose will pay the fee in accordance with PU Code § 1904(b).
6. The following order should be effective on the date of signature.

ORDER

IT IS ORDERED that:

1. San Jose Water Company (San Jose), on or after the effective date of this order and on or before September 30, 2001 is authorized to issue and sell at private sale up to \$60,000,000 aggregate principal amount of its first mortgage bonds, debentures, notes, project specific financing, and debt securities relating to participation in governmental or agency tax free debt financing (collectively Debt Securities), upon terms and conditions substantially consistent with those set forth or contemplated in Application 98-06-021 (Application).
2. San Jose shall use the proceeds of the issuance and sale of Debt Securities for the purposes set forth in the Application.

3. San Jose shall execute and deliver all related documents required for the completion of the proposed financing, including without limitation a Note Agreement in or substantially in the same form to that previously placed on file with the Commission. The final form of the Debt Securities and its related Note Agreements will be submitted to the Water Division within 30 days after any such issuance and sale.

4. San Jose's proposed issue of Debt Securities is exempt from the requirements of the Commission's Competitive Bidding Rule.

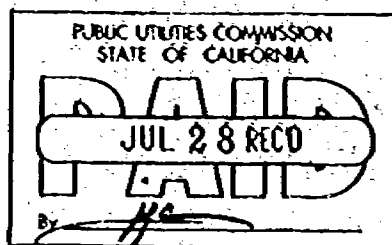
5. On or before the 25th day of each month, San Jose shall file the reports required by General Order Series 24.

6. The authority granted by this order shall become effective when San Jose pays \$36,000, the fee set forth by Public Utilities Code § 1904(b).

7. Application 98-06-021 is closed.

This order is effective today.

Dated July 23, 1998, at San Francisco, California.



CSR # 40092
\$36,000.00

RICHARD A. BILAS
President

J. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners