

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SAN JOSE WATER COMPANY (U168W), a California corporation, for an order to authorize the issuance and sale of additional debt and equity securities not exceeding the aggregate amount of \$150,000,000 and other related requests.

Application 15-08-016
(Filed August 21, 2015)

**DECISION AUTHORIZING SAN JOSE WATER COMPANY TO ISSUE
UP TO \$100,000,000 OF NEW DEBT AND \$50,000,000
OF NEW COMMON EQUITY SECURITIES**

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**DECISION AUTHORIZING SAN JOSE WATER COMPANY TO ISSUE UP
TO \$100,000,000 OF NEW DEBT AND \$50,000,000 OF NEW COMMON
EQUITY SECURITIES**

Summary

This decision grants San Jose Water Company (SJWC) the authority to issue up to \$100 million of new debt securities and \$50 million of new Common Equity Securities (equity securities) under the terms authorized herein. This decision requires SJWC to furnish the Commission copies of all contracts or agreements for the sale or issuance of equity or debt securities authorized herein within 30 days following such sale or issuance, and closes this proceeding.

1. Background

On August 21, 2015, San Jose Water Company (SJWC) filed this application requesting authorization: (1) to issue up to \$100 million of new debt securities, and \$50 million of equity securities; (2) encumber utility property to secure new debt; and (3) authorize SJWC to include the cost of issuing common equity securities through its parent¹, SJW Corp., or its successor, in Account 414 - Miscellaneous Debt to Surplus, as capital stock expense incurred in connection with the issuance and sale of capital stock.

Notice of the application appeared in the Commission's Daily Calendar of August 25, 2015. On August 28, 2015, Resolution ALJ 176-3362 was issued, preliminarily categorizing this application as a ratesetting proceeding and finding that no hearing was needed. There are no protests to this application.

¹ In a recently filed Application 15-07-027, SJWC (U168W), together with two others, request approval from the Commission to reincorporate San Jose Water Corporation (SJWC's parent) as San Jose Water Group, Inc. If reincorporation is approved by the Commission, San Jose Water Group, Inc. (a Delaware corporation) will become the parent of SJWC and San Jose Water Corporation would cease to be the parent of SJWC.

This decision authorizes SJWC to: (1) issue equity securities, medium and long-term debt securities; (2) encumber utility property; (3) guarantee securities or other obligations of governments or agencies that issue securities on behalf of SJWC pursuant to this authorization; and (4) enter into required contracts or agreements for the issuance of equity securities or sale of debt securities authorized herein.

2. Request

SJWC seeks authorization to issue additional debt securities of up to \$100 million and up to \$50 million of equity securities in order to meet its future financing needs based on a long-term forecast covering the period 2015 through 2019. The terms and conditions of each new financing issue will be determined by SJWC's management or Board of Directors according to market conditions at the time of sale or issuance. Each series of debt is expected to have a maturity of fifteen or more years.

2.1. Debt Securities

SJWC indicated that, if authorized, it intends to issue its debt securities in a combination of: (1) senior notes with or without insurance; (2) medium term notes; (3) project specific financing; or (4) first mortgage bonds and/or debt securities relating to participation in government or agency taxable, or tax exempt debt financing (government debt) in order to maintain an appropriately balanced capital structure.

SJWC asserts that it may or may not secure the debt securities described above by its plant, property and equipment. Based on the application, the new debt securities may be redeemable, prior to maturity, at a price based upon the principal amount then outstanding plus accrued interest and a premium. Also, the premium would be based on a percentage of the principal amount decreasing

every 12 months from the date the debt securities were first sold, or some later date, and would decline in total to zero by the year of maturity, or under some other type of “make-whole” method, or a combination of methods.²

SJWC intends to issue the new debt securities with the assistance of an equity agent or financing agent. In order to make the debt securities marketable, SJWC contends that: (1) the authorized debt may need to be issued with terms that include a non-redemption provision for some period following the issuance date, but that such period would be less than the term of the Debt; (2) the terms of the debt may prohibit redemptions for a specified period of time if the redemption is in anticipation of refunding the debt by the use, directly or indirectly, of funds borrowed by SJWC at an annual cost less than the annual cost of the debt being redeemed; (3) the debt may be issued with terms that include provision for sinking funds designed to amortize the outstanding amount of debt to not less than face value at maturity.

SJWC states that all of the above redemption provisions have been required and allowed in some or all of its previously authorized debt securities in order to make them marketable.³

2.2. Equity Securities

SJWC proposes to issue new Common Equity solely to its parent San Jose Water Corporation (Parent).⁴ Parent or its successor would issue common stock

² The make-whole method is related to the lump-sum payments made when a loan or bond is called. The amount of the payment is equal to the net present value of future loan or coupon payments not paid because of the call. The payment can be significant and negate the attractiveness of the call.

³ See Decisions (D.) 09-05-008 and (D.) 11-01-034.

in a combination of a direct public offering, private negotiated sale, or individual dividend reinvestment and stock purchase plan, all in compliance with Securities and Exchange Commission's guidelines and requirements.

2.3. Use of Proceeds

SJWC proposes to use its new financing authority for all proper purposes pursuant to Public Utilities Code § 817.⁵ More specifically, SJWC would use the proceeds to: (1) reorganize, readjust, pay off, discharge, refund, retire or exchange outstanding short-term debt and obligations where necessary or prudent; (2) reimburse its treasury for monies expended for capital improvements; (3) finance certain capital expenditures from 2015 through 2019; (4) acquire water systems and properties, or improve service, as needed, in the normal course of its business in order to provide utility service to its customers; (5) construct, complete, replace, extend, or improve existing facilities in the normal course of its business in order to provide utility service to its customers.⁶

SJWC requests authorization to record the pro-rata cost of issuance of common equity through its Parent in Account 414, in total or installments, as capital stock expense incurred in connection with the issuance and sale of capital stock.

SJWC asserts that it only pays for operating expenses with operating revenues. SJWC indicates that it uses short-term debt to temporarily fund capital

⁴ San Jose Water Corporation is the only shareholder of SJWC and owns all of its outstanding common stock.

⁵ All statutory references are to the Public Utilities Code, unless otherwise indicated.

⁶ SJWC's projected construction budget, Exhibit III, Schedule A to the Application, is replicated in Attachment A to this Decision.

improvement investments when cash on hand is insufficient to meet construction expenditures.

Finally, SJWC requests authority to encumber its utility property to secure new debt securities authorized herein as necessary and/or prudent to do.

3. Discussion

3.1. Public Utilities Code Requirements for Issuance of Securities

SJWC's request is subject to the provisions of §§ 816, 817, and 818, which require all public utilities issuing certain debt instruments to obtain approval from the Commission prior to the issuance of the debt. Pursuant to § 818, no public utility may issue notes or other evidences of indebtedness payable at periods of more than 12 months unless, in addition to the other requirements of law, it must first have secured from the Commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied.

Pursuant to § 817, a public utility may only "issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof" for selected purposes. Accordingly, in authorizing new debt, the Commission must find that the money, property, or labor to be procured or paid for with the proceeds of an authorized debt is reasonably required for the purposes specified in § 817,⁷ and that, unless expressly permitted in the order

⁷ Those purposes not permitted by § 817 may only be paid for with funds from normal utility operations.

authorizing the debt, the purposes are not, in whole or in part, be reasonably chargeable to expenses or to income.⁸

Pursuant to § 816, the Commission has broad discretion in determining whether and how a utility should be authorized to issue debt, and the amount of such debt. Accordingly, the Commission may attach conditions to the issuance of debt and stock to protect and promote public interest as necessary and appropriate.

In this application, SJWC demonstrated the need to issue additional debt and equity securities, and has established that the proceeds from any debt and equity securities authorized would be used for proper purposes in accordance with § 816 et seq. SJWC must ensure that the retirement of any short-term debt, and any refunding of its treasury, with the proceeds of the debt or equity securities authorized herein are in compliance with § 817.

Overall, as discussed in Section 4.2 below, SJWC's application for authorization to issue new debt and equity securities complies with § 816 et seq., and the Commission should grant SJWC's application for new authority to issue additional debt and equity securities, for the purposes and amount, and based on the terms and conditions set forth in this decision.

3.2. Forecast of Sources and Uses

Applications seeking authority to issue debt or other securities are typically based, in part, on forecasted sources and uses of funds that illustrate a need for the requested financing authorization. SJWC used a long-term forecast covering the period of 2015-2019 to determine its future financing needs. SJWC's forecast includes estimated cash requirements and/or uses of funds for

⁸ Section 818.

construction, payment of short-term debt, and change in cash reserve; and sources of funds such as cash from internal sources and a line of credit. We rely on SJWC's forecast to determine the forecast of Sources and Uses set forth below in Table 1.

Table 1
Sources and Uses Statement for 2015-2019
(\$000)

Description	2015	2016	2017	2018	2019	Total
Uses						
Construction	(150,834) ⁹	(140,527)	(127,146)	(141,567)	(146,084)	(706,158)
Short-Term Debt	(12,200)	0	0	0	0	(12,200)
Increase (Decrease) in Cash Reserve¹⁰	46,765	(3,972)	7,309	47,069	15,795	305
Subtotal	(116,269)	(144,499)	(119,837)	(94,498)	(130,289)	(605,392)
Sources						
Cash from Internal Sources¹¹	73,785	91,298	91,540	91,102	76,792	424,517
Subtotal	73,785	91,298	91,540	91,102	76,792	424,517
Net Need	(42,484)	(53,201)	(28,297)	(3,396)	(53,497)	(180,875)

Based on the above table, SJWC's projected cash requirements for years 2015-2019 is \$605,392,035, and the projected available cash from all internal sources/revenues for years 2015-2019 is \$424,517,000. SJWC has a shortfall of

⁹ According to SJWC's response to the Commission's Utility Audit, Finance & Compliance Branch staff, Ramon Go, on October 22, 2015, the \$150,834,000 shown for the 2015 Construction Expenditures includes approximately \$17,900,000 of capital expenditures carried over from the 2014 construction budget.

¹⁰ This represents net change in cash each year from the Statement of Cash Flows.

¹¹ According to its application, and SJWC's response to the ALJ's information request dated October 20, 2015 (Response to the ALJ's Questions), these sources includes cash from operation and/or financing activities, and its available net line of credit.

about \$180,875,000 for the projected years, and it is clear that SJWC would not be able to meet its forecasted cash requirements for the years without other funding from external sources.

In this application, SJWC has requested \$150 million in new financing authority, out of which SJWC proposes to issue \$100 million in new debt securities and \$50 million in new equity securities in order to offset the shortfall in its net cash requirements for the years 2015-2019.

While SJWC has unused existing financing authority of \$50 million pursuant to Decision 11-01-034,¹² SJWC still has \$131.8 million in unmet cash requirements for the years projected even after deducting the unused existing financing authority from its projected cash requirements.

If the Commission grants the requested authority in full, SJWC would have about \$19.0 million in excess financing authority. In its application and subsequent October 20, 2015 response to the Administrative Law Judge's (ALJ's) questions, SJWC states that the excess financing authority, if granted, would afford it needed and important flexibility, and would enable it to take, from time to time, financially prudent actions regarding its finances. Specifically, SJWC believes that such flexibility would enable it to refund its financial obligations, retire other securities, acquire and reimburse its treasury and/or reorganize its capitalization and indebtedness as needed and consistent with § 817 purposes. SJWC established that having the \$19.0 million in excess financing authority would afford it the ability to manage its financial affairs as expediently and prudently necessary.

¹² Response to the ALJ's Information Request dated October 20, 2015, at Response 6a.

Accordingly, SJWC established a need for the requested financing authority, and its request for new authority to issue additional debt and equity securities is reasonable and supported.

SJWC states that it would use the proceeds from the authority granted for authorized purposes only. The new financing authority will allow SJWC to fund its future financing needs, during the years 2015 through 2019, and for proper purposes enumerated in § 817.

3.3. Financing Authorization

The Commission has previously required an applicant for a financing authority to demonstrate that it has a need for the financing authority requested, and that the proceeds from the authorized debt and/or equity securities would be used for purposes authorized by law in compliance with § 816 et seq.

SJWC's instant application meets these requirements. SJWC's requests for authority to issue new debt and equity securities, described in Section 3, are similar to the debt and equity securities authorized by the Commission in D.09-05-008 and D.11-01-034. SJWC has demonstrated a need for the financing authority requested, and has established that the proceeds would be used for purposes authorized by law. Accordingly, SJWC's request meets the Commission's requirements, and the Commission should authorize SJWC to issue the new debt and equity securities as described in Section 3.

Pursuant to § 824, SJWC must account for and maintain records of the disposition of the proceeds of all debt and equity securities sold or issued pursuant to this decision, and demonstrate that proceeds from such securities have been used only for proper purposes under § 817.

Granting of financing authority to a utility does not obligate the Commission to approve any capital projects, as reviews regarding the

reasonableness of capital projects occur as needed through the regulatory process applicable to each capital project. Therefore, the approval of this financing request does not prejudice the appropriateness of SJWC's future capital projects for the period 2015 through 2019. Rather, this financing authority provides SJWC with liquid resources needed to finance its upcoming public utility projects and to reimburse its treasury, among others purposes.

3.4. Encumbrance of Utility Property

Pursuant to § 851, no utility shall encumber any part of its plant, system, or other property necessary or useful in the performance of its duties to the public, or any franchise or permit or right thereunder without first having secured from the Commission an authority to do so.

SJWC states that it may encumber its utility property in issuing a secured or government debt securities authorized by the Commission, and has requested authority to do so. As further discussed below, the Commission has previously authorized similar SJWC requests, and we do so here. SJWC may encumber utility property as part of the issuance of debt securities authorized herein. Consistent with § 851, if a default occurs and title to any SJWC's property, franchise, permit, or right that is necessary or useful in the performance of SJWC's duties to the public is transferred pursuant to terms of the encumbrance, the property, franchise, permit, or right transferred must be used to provide utility service to the public until the Commission authorizes otherwise.

3.5. Redemption Provisions

As described in Section 3, SJWC proposes that its new debt securities may be redeemable, prior to maturity, at a price based upon the principal amount then outstanding plus accrued interest and a premium. The request is proper, and is approved. The Commission has previously authorized SJWC to engage in

a similar redemption process,¹³ and we do so here. Accordingly, SJWC's proposed redemption process is authorized.

3.6. Account 414

SJWC requests authority to charge the pro-rata cost of issuance of common equity through its Parent to Account 414, miscellaneous Debt to Surplus, in total or installments, as capital stock expense incurred in connection with the issuance and sale of capital stock. The request is denied, as SJWC is unable to cite any authority to support its request to charge the prorata cost of issuance of Common Equity through its Parent. Further, pursuant to the Uniform System of Accounts (USOA) for Class A water utilities adopted by the Commission, the cost of issuing and selling Common Equity may not be included in Account 414.¹⁴ Accordingly, the request must be denied.

3.7. Diverse Business Enterprises

In compliance with General Order (G.O.) 156, and §§ 8281-8286, SJWC has, since 2004, had a Utility Supplier Diversity Program (Supplier Diversity Program) in place, which encourages businesses owned by women, minorities, and disabled veterans to supply SJWC with needed products and services. As reported in its 2014 Annual Report submitted to the Commission on March 1, 2015, SJWC awarded 25.2 percent of its procurement expenditures to women-, minority-, and disabled veteran-owned business enterprises.

SJWC pledges to continue its best efforts to engage and encourage the participation of diverse suppliers in any transaction conducted under the requested authorizations. Where diverse suppliers may be unavailable or

¹³ See D.09-05-008 and D.11-01-034.

unqualified to provide the product or service, SJWC must use its best efforts to encourage the secondary use of diverse suppliers by its suppliers in the spirit of its Supplier Diversity Program.

4. Commission's Financing Rule

In D.12-06-015, the Commission issued its Financing Rule which replaced the Competitive Bidding Rule authorized in Resolution (Res.) F-616. The Commission requires utilities to procure their long-term debt to achieve the lowest long-term cost of capital for ratepayers. SJWC states in its filing that it will comply with the terms of the Financing Rule by conducting its long-term debt issues prudently, consistent with market standards, with the goal of achieving the lowest long-term cost of capital for ratepayers, and will determine the financing terms of such debt issues with due regard for its financial condition and requirements and market conditions. SJWC also states that it will use its best efforts to engage with diverse suppliers of financial services as contemplated by the Financing Rule.

5. Commission's Reporting Requirements

In D.12-06-015, the Commission revised G.O. 24-B by replacing it with G.O. 24-C. Revisions to G.O. 24-B include: 1) the filing of a G.O. 24-C report on a quarterly then semi-annual instead of a monthly basis; 2) revisions to the type of information provided in such reports; and 3) the elimination of the requirement that a utility maintain a separate bank account to record securities proceeds except as required by the Commission.¹⁵

¹⁵ See D.12-06-015, Attachment B. For the first year after authorization of the new G.O., the G.O. 24-C report will be filed quarterly. For the second year after shall be filed semi-annually.

GO 24-C requires utilities to submit the report to the Commission that contains, among other things: (a) a description of the stock issued; (b) the total amount of stock issued and outstanding at the end of the period; (c) a description of the bonds or other evidences of indebtedness issued during the period; (d) the total bonds or other evidences of indebtedness issued and outstanding at the end of the period; (e) the purposes for which the utility expended the proceeds realized from the issuance of debt during the period; and (e) details of separate bank account if required for specific construction project.

6. Fee

Whenever the Commission authorizes a utility to issue debt and equity securities, the Commission is required to charge and collect a fee pursuant to §§ 1904(b) and 1904.1. The fee applicable to this authorization is \$81,000.¹⁶

7. Capital Ratios and Other Information

In Exhibit III, Schedule H, SJWC presented its capital structure, recorded as of December 31, 2014, and adjusted to give pro forma effect to SJWC's proposed debt transaction. SJWC's pro forma capital structure is shown in the following table.¹⁷

¹⁶ The fee is determined as follows: Two dollars (\$2) for each one thousand dollars (\$1,000) of the face value of the authorized issue or fraction thereof up to one million dollars (\$1,000,000), one dollar (\$1) for each one thousand dollars (\$1,000) over one million dollars (\$1,000,000) and up to ten million dollars (\$10,000,000), and fifty cents (\$0.50) for each one thousand dollars (\$1,000) over ten million dollars (\$10,000,000), with a minimum fee in any case of fifty dollars (\$50).

¹⁷ For the years for which authorization is requested, SJWC projected net income is \$216,121,000 (that is, \$29,145,000 for 2015, \$40,333,000 for 2016, \$42,490,000 for 2017, \$48,770,000 for 2018 and \$55,383,000 for 2019).

Table 2
Pro Forma Capital Structure

	<u>2014</u> <u>Recorded</u>	<u>%</u>	<u>Adjustment</u>	<u>2019 Pro</u> <u>Forma</u>	<u>%</u>
Long-Term Debt	\$301,898,078	45.85%	\$150,000,000 ^(A)	\$ 451,898,078	42.54%
Short-Term Debt	<u>12,200,000</u>	<u>1.85%</u>	(<u>12,200,000</u>) ^(B)	<u>0</u>	<u>0.00%</u>
Total Debt	\$314,098,078	47.70%	\$ 137,800,000	\$451,898,078	42.54%
Preferred Stock	\$ 0	0.00%	\$ 0	\$ 0	0.00%
Common Equity ¹⁸	<u>344,382,012</u>	<u>52.30%</u>	<u>266,121,000</u> ^(C)	<u>610,503,012</u>	<u>57.46%</u>
Total	\$658,480,090	100 %	\$403,921,000	\$1,062,401,090	100 %

(a) Issuance of \$100,000,000 debt securities requested in this filing, and Issuance of \$50,000,000 debt securities under D.11-01-034.

(b) Repayment of \$12,000,000 short-term debt.

(c) Issuance of \$50,000,000 common stock.

SJWC's authorized capital structure as indicated in D.12-07-009, dated July 12, 2012, consists of 48.48% debt and 51.52% common equity for years 2013 and 2014. While SJWC's proposed debt and equity issuances will materially change its authorized capital structure, capital structures are normally subject to review in cost of capital or general rate case proceedings.

For ratemaking purposes, this decision does not make a finding regarding the reasonableness of the projected capital ratios put forward by SJWC in this application, or the appropriateness of the cost of money. Typically, the

¹⁸ Common Equity consists of \$6.00 common stock, and \$87,605,960 additional paid-in capital, and \$256,776,046 retained earnings for a total of \$344,382,012.

Commission reviews the reasonableness of interest rates and costs of money arising from the issuance of debt securities, equity as well as capital structures in appropriate cost of capital or general rate case proceedings.

In addition, this decision does not make a finding regarding the reasonableness of any proposed construction program or project, as an order by the Commission authorizing the issuance debt or equity securities does not include authority to undertake a construction, or to recover the cost of capital involved in such construction through rate increases, unless otherwise stated.¹⁹

8. California Environmental Quality Act

SJWC's request for new financing authority is exempt from the California Environmental Quality Act (CEQA). CEQA applies to projects that require discretionary approval from a governmental agency, unless exempted by statute or regulation. It is long established that the act of ratemaking by the Commission is exempt from CEQA review. As stated in the California Public Resources Code, the "establishment, modification, structuring, restructuring or approval of rates, tolls, fares, or other charges by public agencies" is exempt from CEQA.²⁰

Likewise, the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant impact on the environment is not a "project" subject to CEQA.²¹

¹⁹ Construction expenditures and plant balances in rate base are addressed in general rate case proceedings or specific applications.

²⁰ Public Resource Code Section 21080(b)(8).

²¹ CEQA Guidelines Section 15378(b)(4).

This decision does not authorize any capital expenditures or construction projects. New construction projects which SJWC intends to finance with the proceeds from any financing authority granted herein must comply with all applicable CEQA requirements, and must undergo CEQA review as early as feasible in the planning process as required by CEQA Guidelines, Section 15004(b).

9. Category and Need for Hearing

By Resolution ALJ 176-3362, dated August 27, 2015, the Commission preliminarily determined that this is a ratesetting proceeding and that a hearing is not necessary. The preliminarily determination is affirmed. There are no protests or responses to the application and no hearing is necessary.

10. Comments on Proposed Decision

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2), the otherwise applicable 30-day period for public review and comment is deemed waived.

11. Assignment of Proceeding

Catherine J.K. Sandoval is the assigned Commissioner and Adeniyi A. Ayoade is the assigned ALJ in this proceeding.

Findings of Fact

1. Notice of A.15-08-016 appeared in the Commission's Daily Calendar on August 25, 2015.
2. On August 28, 2015, Resolution ALJ 176-3362 preliminarily categorized A.15-08-016 as ratesetting, and the Commission determined that a hearing would not be necessary.
3. There were no protests to this application.

4. SJWC is a public utility water company, which seeks the Commission's approval to issue long-term debt and equity securities, and encumber its utility property in order to secure the debt securities.

5. SJWC requests approval to issue up to \$100 million of new debt securities, and up to \$50 million of equity securities, in order to meet the shortfalls in its forecasted cash requirements for the Years 2015 through 2019.

6. SJWC has total cash requirements in the amount of \$605.3 million for the five years 2015 through 2019. Out of the \$605.3 cash requirements:

- a. SJWC will issue new debt and equity securities in the amount \$50 million based on current and existing (but unused) financing authority and terms authorized by D.11-01-034;
- b. \$424.5 million will be provided from cash from internal sources including available line of credit;
- c. \$100 million will be provided from new debt securities issued; and
- d. \$50 million will be provided from new Common Equity securities.

7. In order to meet its forecasted Cash requirements from 2015 through 2019, SJWC would have to raise additional funds from outside sources, given the amount of cash and all existing but unused financing authority available to it.

8. The requested financing authority, to issue up to \$100 million of new debt securities, and up to \$50 million of new equity securities, is necessary to meet its projected Cash requirements from 2015 through 2019.

9. The new financing authority requested, and associated money, property, or labor to be procured or paid for with the proceeds of the proposed new financing are reasonably required for proper purposes allowed by §§ 817 and

818. The proceeds will not, in whole or in part, be reasonably chargeable to operating expenses or to income.

10. SJWC indicated that it will comply with the terms of the Commission's Financing Rule by conducting its long-term debt issues prudently, consistent with market standards, with the goal of achieving the lowest long-term costs of capital for ratepayers.

11. SJWC indicated that it will comply with GO 24-C, which requires utilities to submit reports to the Commission with the information listed in section 6 of this decision above.

12. In order to achieve the lowest long-term cost of capital for ratepayers through the issuance of new authorized debt securities, SJWC needs the maximum degree of flexibility.

13. SJWC meets the requirements for authorization to unconditionally guarantee or otherwise secure the obligations of the issuer when structuring government, or agency taxable, or tax-exempt debt financing as a means of securing the issuer's obligations.

14. SJWC meets the requirements for new/additional financing authorization.

15. The debt and equity securities authorized by this decision are exempt from CEQA.

16. SJWC did not adequately support its request to charge the pro-rata cost of issuance of Common Equity through its Parent.

Conclusions of Law

1. A.15-08-016 is subject to the Commission's jurisdiction because all securities issued by a utility for more than 12 months (long-term debt or equity securities) is subject to the authority of the Commission pursuant to § 817.

2. SJWC should be authorized to issue new debt securities of up to \$100 million and new equity of up to \$50 million in order to meet its projected cash requirements for the Years 2015 through 2019.

3. The purposes for which SJWC intends to use the proceeds, from any newly authorized debt and equity securities, are authorized pursuant to §§ 817 and 818.

4. SJWC should be allowed to use its best judgement, prudence, and consistency with market standards in determining the timing, size and terms of the newly authorized debt securities.

5. In order to achieve the lowest long-term cost of capital for ratepayers and issue the newly authorized debt securities consistent with market conditions, SJWC should be authorized to issue any combination of debt offerings including: (1) Senior Notes with or without insurance; (2) Medium-term Notes; (3) Project Specific Financing; (4) First Mortgage Bonds; or (5) Debt securities relating to participation in government or agency taxable or tax-exempt debt financing, in issuing the authorized debt securities.

6. SJWC should be authorized to encumber its utility property in order to secure debt securities authorized herein pursuant to § 851.

7. SJWC meets the requirements for authorization to issue debt securities through government, or agency taxable, or tax-exempt debt financing, whenever its facilities qualify for such financing under federal or state law, and should be authorized accordingly.

8. SJWC should be authorized to issue, pledge or deliver bonds in an equal principal amount to the issuer or a trustee.

9. SJWC should be authorized to issue new debt securities that may be redeemable, prior to maturity, at a price based upon the principal amount then outstanding plus accrued interest and a premium.

10. SJWC should be permitted to base the premium for new debt securities on a percentage of the principal amount decreasing every 12 months from the date the debt securities were first sold, or some later date, and should decline in total to zero by the year of maturity, or under some other type of “make-whole” method, or a combination of methods.

11. SJWC should be authorized to include some or all of the following redemption provisions in the issuance of its authorized new debt securities:

- a. The debt securities may be issued with terms that include a non-redemption provision for some period following the issuance date, but such period must be less than the term of the debt securities.
- b. The terms of the debt securities may prohibit redemptions for a specified period of time if the redemption is in anticipation of refunding the debt by the use, directly or indirectly, of funds borrowed by SJWC at an annual cost less than the annual cost of the debt securities being redeemed.
- c. The debt securities may be issued with terms that include provision for sinking funds designed to amortize the outstanding amount of debt securities to not less than face value at maturity.

12. SJWC must ensure that the retirement of any short-term debt or a refunding of its treasury with the proceeds of the debt or equity securities authorized herein are in compliance with § 817, and that the proceeds from the debt and equity authorized herein are used for proper purposes.

13. The cost of issuing and selling Common Equity should not be included in Account 414 because SJWC did not adequately support its request to charge the prorata cost of issuance of Common Equity through its Parent.

14. SJWC must comply with G.O. 24-C, and file with the Commission required report, containing, among other things: (a) a description of the stock issued;

(b) the total amount of stock issued and the outstanding at the end of the period; (c) a description of the bonds or other evidences of indebtedness issued during the period; (d) the total bonds or other evidences of indebtedness issued and outstanding at the end of the period; (e) the purposes for which the utility expended the proceeds realized from the issuance of debt during the period; and (e) details of separate bank account if required for specific construction project.

15. This authorization to issue new debt and equity securities is not subject to CEQA because this decision does not involve, approve or disapprove any specific project which may result in a potentially significant impact on the environment.

16. SJWC should not be authorized to use the proceeds from the debt or equity securities authorized by this decision to finance any project until SJWC has obtained all required environmental review and approval for the project under CEQA, and has obtained all required Commission approval.

17. Matters relating to the necessity or reasonableness of SJWC's construction budget, its cash requirements forecast, and capital structure for ratemaking purposes should be addressed in a general rate cases or cost of capital proceeding.

18. SJWC should remit a check for \$81,000 in fees to the Commission, pursuant to the §§ 1904(b) and 1904.1 for the requested and granted authorization.

19. The authority granted by this decision should become effective upon SJWC payment of the \$81,000 fee.

20. The authority granted SJWC herein is in compliance with §§ 816, 817, 818, 824, and 851.

21. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. San Jose Water Company is authorized to issue new debt securities of up to \$100 million for terms of greater than 12 months. The new debt securities may be issued in the form of Senior Notes with or without insurance, Medium-term Notes, Project Specific Financing, First Mortgage Bonds, or debt securities relating to participation in government or agency taxable or tax-exempt debt financing.

2. San Jose Water Company is authorized to issue new equity securities of up to \$50 million.

3. San Jose Water Company may utilize equity and/or financing agents for the issuance of the authorized debt or equity securities.

4. Pursuant to § 851, San Jose Water Company is authorized to encumber its utility property to secure the debt securities authorized herein. Consistent with § 851, if a default occurs and title to any San Jose Water Company's property, franchise, permit, or right that is necessary or useful in the performance of SJWC's duties to the public is transferred pursuant to terms of the encumbrance, the property, franchise, permit, or right transferred must be used to provide utility service to the public until the Commission authorizes otherwise.

5. San Jose Water Company is authorized to issue debt securities through a government or agency to obtain taxable or tax exempt debt financing authorized

herein, whenever San Jose Water Company's facilities qualify for such financing under federal or state law.

6. San Jose Water Company is authorized to issue new debt securities that may be redeemable, prior to maturity, at a price based upon the principal amount then outstanding plus accrued interest and a premium. The premium may be based on a percentage of the principal amount decreasing every 12 months from the date the debt securities were first sold, or some later date, and declining in total to zero by the year of maturity, or under some other type of "make-whole" method, or a combination of methods.

7. San Jose Water Company (SJWC) is authorized to include some or all of the following redemption provisions in the issuance of its authorized new debt securities: (1) the debt securities may be issued with terms that include a non-redemption provision for some period following the issuance date, but such period must be less than the term of the debt securities; (2) the terms of the debt securities may prohibit redemptions for a specified period of time if the redemption is in anticipation of refunding the Debt by the use, directly or indirectly, of funds borrowed by SJWC at an annual cost less than the annual cost of the debt securities being redeemed; and (3) the debt securities may be issued with terms that include provision for sinking funds designed to amortize the outstanding amount of debt securities to not less than face value at maturity.

8. San Jose Water Company must report to the Commission, all the information required by General Order 24-C with respect to securities issued pursuant to this decision.

9. San Jose Water Company must not use the proceeds from the debt securities and equity securities authorized by this decision to fund its capital projects until it has obtained required Commission approvals for such projects

and has complied with all environmental laws and regulations applicable to the capital projects.

10. San Jose Water Company must remit a check for \$81,000 to the Commission, as fees for the authorization granted herein, as required by §§ 1904(b) and 1904.1. The check must be sent to the Commission's Fiscal Office at 505 Van Ness Avenue, Room 3000, San Francisco, CA 94102. The number of this decision and/or application number "A.15-08-016" must appear on the face of the check.

11. The financing authority granted by this decision is effective upon San Jose Water Company's payment of the \$81,000 fees prescribed ordered herein pursuant to § 1904(b) and § 1904.1 .

12. Application 15-08-016 is closed.

This order is effective today.

Dated _____, 2015, at San Francisco, California.

ATTACHMENT A**Construction Budget²²**

Table 1
Construction Budget for 2015 - 2019
(with Advances/CIAC from Schedule B)

	2015	2016	2017	2018	2019	Total
Land	\$ 10,200	\$ 10,500	\$ 410,900	\$ 11,227	\$ 11,564	\$ 54,391
Source of Supply	8,469,100	8,748,100	12,234,500	12,601,535	12,979,581	55,032,816
Water Treatment Reservoirs & Tanks	876,800	2,253,200	2,503,500	2,578,605	2,655,963	10,868,068
Pump Stations & Equip. Distribution System	20,145,500	14,031,100	12,650,700	13,030,221	13,421,128	73,278,649
Equipment Structures	6,010,800	11,414,700	13,468,200	13,872,246	14,288,413	59,054,359
Montevina WTP Upgrades	60,743,400	62,697,500	66,843,800	68,849,114	70,914,588	330,048,402
Recycled Water AMI Project	5,756,900	11,119,700	6,044,700	6,226,041	6,412,822	35,560,163
	3,576,600	3,652,300	2,267,700	2,335,731	2,405,803	14,238,134
	24,100,000	25,500,000	10,000,000	-	-	59,600,000
	-	-	-	12,132,800	12,982,100	25,114,900
	-	-	-	<u>8,934,000</u>	<u>8,915,999</u>	<u>17,849,999</u>
<i>Subtotal</i>	129,689,300	139,427,100	126,024,000	140,571,520	144,987,961	680,699,881
Cost of Retiring Advances/CIAC	(2,040,000)	(2,101,200)	(2,174,700)	(2,400,000)	(2,400,000)	(11,115,900)
	<u>5,284,000</u>	<u>3,201,000</u>	<u>3,297,000</u>	<u>3,396,000</u>	<u>3,497,000</u>	<u>18,675,000</u>
Total	<u>\$132,933,300</u>	<u>\$140,526,900</u>	<u>\$127,146,300</u>	<u>\$141,567,520</u>	<u>\$146,084,961</u>	<u>\$688,258,981</u>

²² SJWC's projected construction budget as provided in Exhibit III, Schedule A to the Application is replicated herein, with Advances/Contribution in Aid of Construction from Schedule B added.