



110 W. Taylor Street
San Jose, CA 95110-2131

November 23, 2021

Public Utilities Commission
of the State of California
505 Van Ness Avenue
San Francisco, CA 94102

Advice Letter No. 571

San Jose Water Company (U-168-W) (SJWC) hereby transmits for filing the following request for approval:

SJWC requests by this advice letter the Commission's permission to amortize the as yet unamortized portion of its 2010 Private Activity Bond issuance costs as part of its cost of servicing a newly issued Senior Note over the 30-year term of the new Senior Note.

Background

The Uniform System of Accounts for Class A Water Utilities, as revised by the Commission's Decision 16-11-016 effective no later than January 1, 2018, provides, at page A20, in Paragraph 6.E., under the heading Balance Sheet Accounts, Instructions for Discount, Expense and Premium on Long-Term Debt,

When the redemption of one issue or series of bonds or other long-term obligations is financed by another issue or series before the date of maturity of the first issue, any unamortized discount, expense or premium on the first issue and any premium paid or discount earned on re-acquirement shall be debited or credited, as appropriate, to Account 414, Miscellaneous Debits to Surplus, or Account 401, Miscellaneous Credits to Surplus, provided, however, that if the utility desires to amortize any of the discount, expense, or premium associated with the issuance or redemption of the first issue over a period subsequent to the date of redemption, the permission of the Commission must be obtained.

Because of the historically low interest rates currently available to SJWC for issuance of long-term debt, SJWC has an opportunity to achieve a significant reduction in its cost of borrowed capital by refinancing the \$50,000,000 in outstanding principal of its 2010 Private Activity Bond Debt (PAB). It is appropriate for SJWC to recover the unamortized portion of the 2010 PAB issuance costs as part of the cost of servicing the newly issued Senior Note over the 30-year term of the new Senior Note.

The memorandum and schedule provided as Attachments A and B, respectively, provide further background and demonstrate the annual savings SJWC anticipates achieving by the planned refinancing of the 2010 PAB. Attachment B shows the substantially reduced interest expense associated with the new Senior Note as compared to the 2010 PAB. Attachment B also shows that transferring the unamortized portion of the 2010 PAB issuance costs to the new Senior Note issuance and amortizing such costs along with the new Senior Note issuance costs over the 30-year term of the new Senior Note result in a net annual pre-tax savings of \$1,040,875.

The Commission has previously authorized Class A water utilities to amortize costs associated with the redemption of long-term debt before the date of maturity of the first issue ratably over the remaining life of the replacement obligation. For example, in an application filed in 2010, California Water Service Company (CalWater) asked the Commission's permission to amortize costs associated with redeeming long-term debt before the date of maturity of the first issue ratably over the remaining life of the replacement obligation. CalWater explained that such early redemption would lower its debt costs for the benefit of ratepayers. The Commission agreed that "customers benefit from the lower financing costs over the life of the replacement obligation," and so granted CalWater's request "as this matches the benefits of an obligation with the costs." *Re California Water Service Company*, Decision (D.) 10-09-026. The Commission authorized CalWater to "[a]mortize any discount, expense, or premium associated with the issuance or redemption of its long-term obligations before the date of maturity of the first issue ratably over the remaining life of the replacement obligation." D.10-09-026, Ordering Paragraph 1.

Request

In order to achieve the reduced cost of long-term debt indicated above and in accordance with the requirements of the Uniform System of Accounts for Class A Water Utilities, SJWC requests by this filing the Commission's permission to amortize the as yet unamortized portion of its 2010 PAB issuance costs as part of its cost of servicing the newly issued Senior Note over the 30-year term of the new Senior Note.

Effective Date

In planning to refinance its 2010 PAB at a substantially reducing borrowing cost, SJWC is similarly situated in all material requests to the circumstances addressed by CalWater in proposing the ratable recovery of financing costs that the Commission approved in D.10-09-026. Accordingly, pursuant to General Order 96-B, Water Industry Rules 7.3.2(7) and 8.2, SJWC submits the present request as a Tier 2 advice letter. SJWC therefore asks that the Commission grant the requested permission effective as of December 23, 2021, 30 days after the filing of this advice letter.

Protests and Responses

Anyone may respond to or protest this advice letter. A response does not oppose the filing but presents information that may prove useful to the Commission in evaluating the advice letter. A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds may include the following:

- (1) The utility did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or

- Commission order, or is not authorized by statute or Commission order on which the utility relies;
- (3) The analysis, calculations, or data in the advice letter contain material error or omissions;
 - (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding;
 - (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
 - (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require re-litigating a prior order of the Commission).

A response or protest must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, Water Division, 3rd floor
California Public Utilities Commission,
505 Van Ness Avenue
San Francisco, CA 94102
water_division@cpuc.ca.gov

On the same date, the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy of the protest by mail to us, addressed to:

Regulatory Affairs
San Jose Water Company
110 West Taylor Street
San Jose, California 95196
Fax 408.279.7934
regulatoryaffairs@sjwater.com.

The advice letter process does not provide for any responses, protests or comments, except for the utility's reply, after the 20-day comment period.

In compliance with Paragraph 4.3 of General Order 96-B, a copy of this advice letter has been mailed to all interested and affected parties as detailed in Attachment C.

There are currently no Advice Letters pending before the Commission. This filing will not cause the withdrawal of service nor conflict with other schedules or rules.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'John Tang', with a large, sweeping initial 'J'.

/s/JOHN TANG
Vice President of Regulatory Affairs

Enclosures

SAN JOSE WATER COMPANY

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ATTACHMENT A

MEMORANDUM

Background

In June of 2010, San Jose Water Company (the Company) entered into a Loan Agreement with the California Pollution Control Financing Authority (the Authority Loan) relating to \$50,000,000 of California Pollution Control Authority Revenue Bonds, Series 2010A (the Revenue Bonds).

Proceeds from the Authority Loan were used to finance a portion of the cost of (i) improvements to the structures and facilities that are integral to the supply of water throughout the water supply system (the Water System), including the replacement of wells, storage tanks, reservoir, motor control center, pump motors, water treatment equipment and pump stations, (ii) improvements to the distribution system, including replacement of existing distribution mains, and (iii) the acquisition of equipment for the Water System, including hydrants, meters and related installation, facility retirements and customer information system; all located in one or more of the following areas: the Borrower's certificated service area in portions of the Cities of San Jose, Santa Clara, Cupertino, Campbell, Saratoga, Monte Sereno and Los Gatos and contiguous areas in the County of Santa Clara, California.

The term of the Authority Loan is coincident with the length of time the Revenue Bonds are outstanding or the Revenue Bond Trustee holds repayment money under the Bond Indenture. The Authority Loan principal and interest payments are similarly tied to the Revenue Bonds and are equal to the amount payable on the next Bond payment for as long as the Revenue Bonds are outstanding, as provided in the Bond Indenture Agreement.

The Bond Indenture Agreement requires interest only payments at a rate of 5.10% per year through the maturity date of June 2040. The Bond Indenture Agreement also includes an optional redemption provision such that on any date on or after June 1, 2020, the bonds may be redeemed, in whole or in part, at a redemption price equal to 100% of the principal amount, without premium, plus any accrued but unpaid interest.

Current Initiative

With the current low rate interest environment, the Company is able to cause redemption of the Revenue Bonds and refinance the \$50,000,000 Authority Loan at a significantly lower interest rate (estimated at 3.00% per annum) without incurring an early redemption premium. Refinancing the Authority Loan/Revenue Bonds would lower the interest rate by 2.10%, generating a significant ratepayer benefit. After debt issuance costs, the anticipated pre-tax annual savings from the Authority Loan/Revenue Bond refinancing is estimated to be approximately \$1,041,000 per year. The total pre-tax savings over the remaining 19 year Authority Loan/Revenue Bond term is estimated to be approximately \$19,780,000. The annual and total savings include capitalization of remaining unamortized issuance cost on the Authority Loan/Revenue Bond plus issuance costs of the new debt. Attachment B demonstrates the savings calculations.

Guidance

Per CPUC Uniform System of Accounts for Class A Water Utilities dated January 2018, page A-20, Paragraph E:

When the redemption of one issue or series of bonds or other long-term obligations is financed by another issue or series before the date of maturity of the first issue, any unamortized discount, expense or premium on the first issue and any premium paid or discount earned on re-acquirement shall be debited or credited, as appropriate, to Account 414, Miscellaneous Debits to Surplus, or Account 401, Miscellaneous Credits to Surplus, provided, however, that if the utility desires to amortize any of the discount, expense, or premium associated with the issuance or redemption of the first issue over a period subsequent to the date of redemption, the permission of the Commission must be obtained.

Request

The unamortized debt issuance cost on the existing Authority Loan/Revenue Bond arrangement is estimated to be \$529,000 as of December 1, 2021. Should the Company elect to refinance the Authority Loan/Revenue Bond before the date of maturity (2040), the Company would be required to expense these unamortized costs to the Miscellaneous Debits to Surplus account unless the Commission permits their amortization over a subsequent period. The Company desires to amortize these costs over the life of the new debt issued to redeem the Authority Loan/Revenue Bond and is requesting Commission permission to do so.

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ATTACHMENT B

Annual Interest on 2010 Private Activity Bond (2010 PAB)

2010 PAB outstanding principal	\$	50,000,000	
2010 annual interest rate		5.10%	
2010 PAB annual interest	\$	<u>2,550,000</u>	\$ 2,550,000

2010 PAB Issuance Cost Amortization

Outstanding 2010 PAB principal	\$	50,000,000	
Unamortized issuance costs (12/1/2021)	\$	529,003	
Remaining 2010 PAB term		19 yrs	
Remaining annual amortization costs	\$	<u>27,842</u>	\$ 27,842
Annual 2010 PAB debt cost			\$ <u>2,577,842</u>

Annual Interest on Proposed New Senior Note

Proposed new debt principal	\$	50,000,000	
Estimated interest rate (annual)		3.0%	
Estimated annual interest	\$	<u>1,500,000</u>	\$ 1,500,000

Proposed New Senior Note Issuance Cost Amortization

Proposed new debt principal	\$50,000,000	
Issuance costs rate	1.16%	
Estimated issuance costs	\$ 580,000	
Remaining unamortized 2010 PAB issuance costs	\$ 529,003	
Total estimated issuance cost*	\$ 1,109,003	
Proposed new senior note term	30 yrs	
Annual new issuance amortization	<u>\$36,967</u>	\$36,967
Annual proposed new senior note debt costs		\$ <u>1,536,967</u>
Net annual pre-tax debt cost savings*		\$ <u>1,040,875</u>

* Includes amortization of remaining capitalized 2010 PAB issuance cost as part of the new senior debt issuance.

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ATTACHMENT C

**SAN JOSE WATER COMPANY (U-168-
W) ADVICE LETTER 571 SERVICE LIST**

Big Redwood Park Water	waldburford@gmail.com
Brush & Old Well Mutual Water Company	BOWMWC@brushroad.com
Cal Water	cwsrates@calwater.com
City of Campbell	publicworks@cityofcampbell.com
City of Cupertino City Attorney	cityattorney@cupertino.org
City of Cupertino Director of Public Works	rogerl@cupertino.org
City of Milpitas	tndah@ci.milpitas.ca.gov
City of Milpitas	smachida@ci.milpitas.ca.gov
City of Monte Sereno	steve@cityofmontesereno.org
City of Monte Sereno	bmekechuk@cityofmontesereno.org
City of Santa Clara	water@santaclaraca.gov
City of San Jose	jeffrey.provenzano@sanjoseca.gov
City of Saratoga	jcherbone@saratoga.ca.us
County of Santa Clara	county.counsel@cco.sccgov.org
DB Davis	dbdavis@rockwellcollins.com
Dept. of Water Resources, Safe Drinking Water Office	sdwo@water.ca.gov
Valley Water	dtaylor@valleywater.org
Gillette Mutual Water Company	gapowerz@gmail.com
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