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Decision No. 14429.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN JOSE WATER WORKS,)
a corporation, for permission to sell)
stock and pay outstanding notes, and) Application Number 10689
also for permission to renew outstand-)
ing notes.)

Jos. R. Ryland and H.S. Kittredge,
for Applicant.

BY THE COMMISSION:

ORIGINAL

O P I N I O N

In this application the Railroad Commission is asked to make an order authorizing San Jose Water Works-

1. To issue and sell 5,891 shares of its capital stock, of the aggregate par value of \$589,100.00, at not less than \$105.00 a share for the purpose of refunding outstanding notes, and

2. To issue notes in renewal of such of the outstanding notes as are not paid within a reasonable time with proceeds obtained from the sale of the stock.

San Jose Water Works was organized on or about February 21, 1916. The company has an authorized capital stock of \$5,000,000 divided into 50,000 shares of the par value of \$100.00 each, all common. Heretofore, pursuant to authority granted by the Commission, the company has issued \$2,644,900.00 of stock to pay indebtedness and to finance the cost of extensions, additions and betterments.

As of November 30, 1924, applicant reports its assets and liabilities as follows:-

ASSETS:

Fixed capital	\$3,503,713.80	
Cash and deposits	19,822.86	
Accounts receivable	25,545.94	
Materials and supplies	62,301.42	
Prepayments	475.17	
Suspense	31,322.32	
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Total assets		<u>\$3,643,181.51</u>

LIABILITIES:

Capital stock	\$2,644,900.00	
Premium on stock	54,805.00	
Notes payable	618,460.00	
Accounts payable	7,446.20	
Consumers advances for construction	13,507.46	
Service billed in advance	321.19	
Taxes accrued	15,637.81	
Reserve for depreciation	273,194.22	
Other reserves	1,375.00	
Appreciation of fixed capital	931.86	
Corporate surplus	12,602.77	
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Total liabilities		<u>\$3,643,181.51</u>

By Decision Number 14213, dated October 28, 1924, in Application Number 9579, the Commission adjusted the rates charged by applicant. In the decision reference is made to a report, submitted by M. R. Mackall and M. I. Reed of the Commission's Engineering Department, which set forth the estimated original cost of the operative properties, exclusive of lands, rights of way and water rights, as of December 31, 1923, as \$2,814,991.00; a depreciation annuity, calculated by the sinking fund method at six percent. of \$33,449.00; and the estimated amount which would have accumulated in the sinking fund, had the depreciation annuity been compounded

annually, of \$445,154.00. The present market value of the lands and rights of way as of December 31, 1923 was estimated at \$533,836.

Since its organization, applicant has paid dividends at the rate of six percent. per annum on its outstanding stock. In this connection Jos. R. Ryland, applicant's president, testified that in his opinion, under the rates allowed by the Commission by Decision Number 14213, the company should be able to maintain the dividend rate. The company has filed, in Application Number 9579, a copy of a resolution passed by its Board of Directors agreeing not to increase the dividend rate on the outstanding stock until a reserve for accrued depreciation has been established in accordance with the principles contained in Decision Number 14213, and further agreeing to create such reserve as soon as practical.

By Decision Number 12178, dated June 5, 1923, the company was authorized to issue and sell \$255,200.00 of stock to reimburse its treasury, pay indebtedness and finance the cost of additions and betterments installed prior to April 30, 1923. In making this application to issue additional stock amounting to \$589,100. the company reports fixed capital installed from April 30, 1923 to November 30, 1924 of \$672,922.34, which amount is segregated as follows:-

Intangible capital		\$22.25
Land and buildings:		
Land devoted to water operations . . .	\$5,861.34	
Buildings, structures and grounds . . .	<u>28,772.78</u>	
Total land and buildings		34,634.12
Source of water supply:		
Impounding dams and reservoirs . . .	38,375.80	
Intake and suction mains	4,001.62	
Wells	<u>23,512.70</u>	
Total source of water supply		65,890.12
Pumping station and equipment		44,697.71
Transmission and distribution capital:		
Distribution mains and canals	375,030.27	
Hydrants, fire cisterns, etc.	3,266.87	
Services	33,256.76	
Meters, measuring devices	<u>100,298.37</u>	
Total transmission and distribution		511,852.27
General equipment:		
General office equipment	846.70	
General shop equipment	5,952.12	
General stable and garage equipment	<u>9,027.05</u>	
Total general equipment		15,825.87
Total		<u>\$672,922.34</u>

The application shows that these expenditures have been financed in part through the issue of notes, which, as of November 30, 1924, as shown in the foregoing balance sheet, aggregate \$618,460.00. These notes it is now proposed to pay with proceeds to be received from the sale of the stock now applied for. The company asks, however, in the event it finds it impossible to dispose of its stock readily, to issue notes to renew the notes now outstanding, in whole or in part, such renewal notes to bear interest at not to exceed six percent. per annum and to be given for a period of one year or less.

O R D E R

San Jose Water Works having applied to the Railroad Commission for permission to issue stock and notes, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for through such issue of stock and notes is reasonably required for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that San Jose Water Works be, and it is hereby, authorized to issue and sell at not less than \$105.00 a share, 5,891 shares of its capital stock, of the aggregate par value of \$589,100.00, and to use the proceeds to pay the outstanding notes to which reference is made in the foregoing opinion, and through such payment to finance the cost of additions and betterments to its plants and properties.

IT IS HEREBY FURTHER ORDERED that San Jose Water Works be, and it is hereby, authorized to issue its notes in the aggregate

amount of \$618,460.00, payable on or before one year after date, with interest at not to exceed six percent per annum, for the purpose of renewing the notes to which reference is made in the foregoing opinion.

The authority herein granted is subject to the following conditions:-

1. Applicant may, if it so desires, issue its notes for a period of one year or less and may renew such notes from time to time, provided that the combined term of the notes originally issued under the authority herein granted and of those given in renewal do not exceed one year from the date of the notes originally issued under the authority herein granted.
2. Only such expenditures may be financed with proceeds from the sale of the stock herein authorized as are properly chargeable to fixed capital accounts as those accounts are defined in the Uniform Classification of Accounts prescribed by the Railroad Commission.
3. Applicant shall keep such record of the issue, sale and delivery of the stock and notes herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order in so far as applicable, is made a part of this order.
4. The authority herein granted to issue stock will become effective upon the date hereof. The authority herein granted to issue notes shall become

effective only when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$619.00.

5. Under the authority herein granted, no stock or notes may be issued after one year from the date of this order.

DATED at San Francisco, California, this 5th day of January, 1925.

W. L. Berry
H. T. Brundage

Ererton Shore

Commissioners.

