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Decision No. 43037

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
)
 SAN JOSE WATER WORKS,)
 a corporation,)
)
 for an order authorizing it to issue)
 an additional amount of its preferred)
 and common stocks.)
 -----)

Application
 No. 30370

O P I N I O N

In this application as amended, San Jose Water Works asks permission to issue and sell, for the purposes hereafter stated, at \$25.32 per share, not to exceed 39,000 shares of its cumulative preferred stock, Series B, convertible into common stock on or before June 30, 1959. Applicant also asks permission from time to time to issue shares of its common stock of the par value of \$25 per share, to persons who shall surrender in exchange therefor shares of applicant's cumulative preferred stock, Series B, such exchange to be upon the basis of the conversion price from time to time established by the Certificate of Determination of Preferences of Series B preferred shares of applicant.

San Jose Water Works is a corporation organized and existing under and by virtue of the laws of California. It is engaged in the business of supplying water to domestic, commercial and industrial consumers in the City of San Jose, Town of Los Gatos, Village of Saratoga, and adjacent territory in the County of Santa Clara, California. For 1948, applicant reports operating revenues of \$1,485,244 and gross income, that is, the amount it had available

for the payment of interest, other fixed charges, dividends and for surplus, of \$487,324.

As of April 30, 1949, applicant in Exhibit "E" reports assets and liabilities as follows:

Assets

Plant, property and equipment		\$10,835,484.01
Special cash deposits--sinking fund		213.60
Current assets		592,923.28
Cash on hand and in banks	\$149,807.52	
Accounts receivable consumers--net of reserve	88,625.64	
Accounts receivable--miscellaneous	8,602.36	
Unbilled revenue	51,956.49	
Materials and supplies--net of reserve	<u>293,931.27</u>	
Prepaid expenses		49,965.77
Deferred charges		<u>12,016.89</u>
Total assets		<u>\$11,490,603.55</u>

Liabilities

Common stock		\$ 3,150,000.00
Preferred stock, 4-3/4% cumulative		750,000.00
First mortgage 3% bonds, Series B due November 1, 1975		3,902,000.00
Current liabilities		289,171.50
Accounts payable	\$ 78,914.57	
Interest-miscellaneous	1,783.97	
General taxes	9,090.56	
Federal income tax	173,059.57	
Miscellaneous	20,385.33	
Dividends accrued on preferred stock	<u>5,937.50</u>	
Consumers' meter deposits		3,865.72
Consumers' line extension deposits		502,394.79
Contributions for extensions		65,368.58
Reserve for depreciation		1,342,422.89
Unamortized bond premium, discount and expense		69,042.46
Surplus		1,416,337.61
Capital	131,993.96	
Paid in	548,407.32	
Earned	<u>735,936.33</u>	
Total liabilities		<u>\$11,490,603.55</u>

Pursuant to the authority granted by Decision No. 42897, dated May 24, 1949, applicant issued, subsequent to the date of its

balance sheet, \$500,000 of bonds.

Applicant proposes and desires to use the proceeds from the sale of the not exceeding 39,000 shares of cumulative preferred stock, Series B, for the following purposes:

(a)	To reimburse its treasury because of capital expenditures	\$ 75,000.00
(b)	To pay expenses incident to the issue of said not exceeding 39,000 shares of stock	16,000.00
(c)	To defray in part the following items of expenditures:	
(1)	Refund of amounts deposited pursuant to line extension agreements from May 1 to December 31, 1949, estimated	100,000.00
(2)	Cost of completing construction, work in progress on April 30, 1949, estimated (see Exhibit "B")	625,912.75
(3)	Balance of 1949 construction budget not specifically authorized at April 30, 1949, estimated (see Exhibit "C")	781,932.76
(4)	1950 construction budget, preliminarily estimated (see Exhibit "D")	<u>1,700,000.00</u>
	Total	<u>\$3,293,845.51</u>

Applicant alleges that it is necessary for it to proceed with the above mentioned construction so that it can meet the demand for water service.

The said shares of Series B preferred stock will have a par value of \$25 per share. They will bear dividends at the rate of 4-3/4% per annum of the par value thereof. They are convertible at the option of the holders thereof at any time on or before June 30, 1959, unless previously redeemed, into common shares at the

conversion price in effect at the time of conversion. For purposes of such conversion, each of said Series B preferred shares shall be deemed to have a value of \$26.375 per share, and the prices at which common shares shall be deliverable from time to time upon conversion shall be \$30 per share (or at the rate of 0.8792 common shares for each of said Series B preferred shares) if converted on or prior to June 30, 1954, and shall be \$33 (or at the rate of 0.7992 common shares for each of said Series B preferred shares) if converted after June 30, 1954, and on or prior to June 30, 1959, provided, however, that such conversion prices and the basic conversion rates founded thereon shall be subject to adjustment from time to time, as provided in the Certificate of Determination of Preferences of Series B preferred shares. The Series B preferred shares are redeemable at the option of applicant at \$27.50 per share from date of issuance to and including June 1, 1954, at \$27 per share from June 2, 1954, to and including June 1, 1959, at \$26.50 per share from June 2, 1959, to and including June 1, 1964, and at \$26.25 per share thereafter, plus in each case dividends accrued thereon to the date fixed for redemption.

Applicant asks permission to sell the not exceeding 39,000 shares of cumulative preferred stock, Series B, at \$25.32 per share, or on about a 4.69% basis. At \$26.375 per share, the value assigned to the shares for conversion purposes, the yield is about 4.5%. Applicant further asks permission to issue from time to time shares of its common stock of the par value of \$25 per share, to persons who shall surrender in exchange therefor shares of applicant's cumulative preferred stock, Series B, such exchange to be upon the basis of the conversion price in effect at the time of conversion.

O R D E R

The Commission having considered this application and being of the opinion that a hearing thereon is not necessary, that the money, property or labor to be procured or paid for through the issue and sale of the stock herein authorized is reasonably required by San Jose Water Works for the purposes herein stated, which purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted; therefore,

IT IS HEREBY ORDERED as follows:

1. San Jose Water Works, after the date hereof and on or before September 1, 1949, may issue and sell, at not less than \$25.32 per share, not exceeding 39,000 shares of its cumulative preferred stock, Series B, with a dividend rate of 4-3/4% per annum of the par value thereof.

2. San Jose Water Works, after the date hereof and from time to time, may issue shares of its common stock to persons who shall surrender in exchange therefor shares of its cumulative preferred stock, Series B, such exchange to be upon the basis of the conversion price established by the Certificate of Determination of Preferences of Series B preferred shares, on file in this application as Exhibit "F".

3. San Jose Water Works shall use the proceeds obtained through the issue and sale of said not exceeding 39,000 shares of cumulative preferred stock, Series B, to reimburse its treasury for moneys expended from income or other moneys in said treasury not secured by or obtained from the issue of securities, and so expended

for the construction, completion, extension or improvement of its facilities; to pay expenses incident to the issue and sale of said shares of preferred stock; to refund amounts deposited pursuant to line extension agreements, and to finance in part its construction expenditures during 1949 and 1950, all as more specifically set forth in this application.

4. San Jose Water Works shall file with the Commission, on or before September 30, 1949, a report showing the number of shares of stock issued and sold under the authority herein granted, the consideration received for said shares of stock, and the person or persons to whom said shares of stock were sold. Applicant shall file with the Commission, until it has expended all of said stock proceeds, monthly reports showing in some detail its construction expenditures and the amount of stock proceeds used to pay for the same.

Dated at San Francisco, California, this 28th day of June, 1949.

R. E. Anderson
Arthur F. Coleman
Robert H. Hill
Harold A. Kida
Franklin P. Potter
Commissioners