

ORIGINAL

Decision No. 45810

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 bonds.

Application
No. 32427

McCutchen, Thomas, Matthew, Griffiths & Greene,
by Robert M. Brown, for applicant.

O P I N I O N

San Jose Water Works, applicant herein, is a California corporation engaged in the business of supplying water to domestic, commercial and industrial consumers in and about San Jose, Los Gatos and Saratoga. In this application it seeks authorization to execute an indenture, supplemental to its trust indenture of December 1, 1936, creating a new series of bonds to be known as First Mortgage 3½% Bonds, Series C, and to issue and sell \$900,000 principal amount of said bonds at not less than their face value, plus accrued interest, for the purpose of paying outstanding bank loans.

Applicant's balance sheet of March 31, 1951, shows its investment in property, plant and equipment, less its reserve for depreciation, at \$12,983,133.36. Applicant reports that its unfinanced expenditures, as of that date, aggregated \$1,563,940.62 and that this amount has been provided, temporarily, through the issue of short-term notes to Crocker First National Bank of San Francisco and the use of earnings from operations. Its total loans from the bank

amount to \$900,000 at present. The growth in applicant's operations and plants during the last three years is indicated by the following data from its annual reports:

	<u>1948</u>	<u>1949</u>	<u>1950</u>
Increase in fixed capital and construction work in progress	\$1,235,546	\$1,239,049	\$2,347,719
Operating revenues	\$1,485,244	\$1,642,442	\$1,823,776
Net income	\$ 387,679	\$ 418,631	\$ 471,677
Service connections	<u>39,516</u>	<u>42,535</u>	<u>45,891</u>

The bonds applicant now proposes to issue to liquidate its bank loans will be dated as of May 1, 1951, will bear interest at the rate of $3\frac{1}{2}\%$ per annum, will mature May 1, 1976, and will be redeemable at the option of the company at the principal amount plus a premium equal to the following percentages of said principal amount:

During Twelve Mos. Beginning May 1	During Twelve Mos. Beginning May 1
1951 and 1952 - $3-1/2\%$	1965 and 1966 - $1-3/4\%$
1953 and 1954 - $3-1/4\%$	1967 and 1968 - $1-1/2\%$
1955 and 1956 - 3%	1969 and 1970 - $1-1/4\%$
1957 and 1958 - $2-3/4\%$	1971 and 1972 - 1%
1959 and 1960 - $2-1/2\%$	1973 - $1/2\%$
1961 and 1962 - $2-1/4\%$	1974 - $1/4\%$
1963 and 1964 - 2%	1975 - None

together with interest accrued thereon to the date fixed for redemption.

The record shows that applicant is making arrangements to sell the \$900,000 of bonds at a private sale to a single investor for investment purposes and not for resale. It proposes to pay a fee or commission not in excess of one-quarter of one percent of the principal amount of said bonds for services in negotiating the sale.

A review of applicant's financial reports shows that in financing permanently its construction costs it has been its practice to issue bonds, preferred and common stock. Its capital structure, as of March 31, 1951, and after giving effect to the proposed issue

of bonds, is as follows:

	<u>Mar. 31, 1951</u>	<u>Pro Forma</u>
Bonds	45%	49%
Preferred stock	13	12
Equity capital	<u>42</u>	<u>39</u>
	<u>100%</u>	<u>100%</u>

It clearly appears that applicant will have need for funds from external sources to meet its outstanding short-term loans and that the issue and sale of bonds, as proposed, is desirable. Accordingly, an order will be entered granting applicant's request.

ORDER

A public hearing having been held in this application, and the Commission having considered the matter and being of the opinion that the application should be granted, as herein provided; that the money, property or labor to be procured or paid for through the issue and sale of the bonds herein authorized is reasonably required by applicant for the purpose specified herein; and that the expenditures for such purpose, other than accrued interest, are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. San Jose Water Works, after the effective date hereof and on or before July 31, 1951, may execute a Supplemental Mortgage of Chattels and Trust Indenture, in, or substantially in, the same form as that filed in this proceeding as Exhibit 2, and may issue and sell \$900,000 in principal amount of its First Mortgage $3\frac{1}{2}\%$ Bonds, Series C, at not less than the principal amount and accrued interest.

2. San Jose Water Works shall use the proceeds from the sale of said bonds, exclusive of accrued interest, to pay outstanding bank loans. The accrued interest may be used for general corporate purposes.

3. San Jose Water Works shall file with the Commission, within thirty (30) days after the issue of said bonds, two (2) copies of the supplemental indenture herein authorized to be executed and a statement showing to whom said bonds were sold, the price at which sold and the purposes for which the proceeds were used.

4. The authority herein granted will become effective when San Jose Water Works has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is nine hundred (\$900.00) dollars.

Dated at San Francisco, California, this 12th day of June, 1951.

R. E. Johnson
Harold A. Hulse
John E. McLaughlin

Commissioners

