

**ORIGINAL**

Decision No. 52122

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of	)	
WATER WORKS OF MONTA VISTA, LTD.	)	
for authority to borrow money and to	)	Application
issue secured note pursuant to the	)	No. 37341
requirements of Section 52 (b) of the	)	
Public Utilities Act.	)	

O P I N I O N

In this application Water Works of Monta Vista, Ltd., requests authorization to enter into a loan agreement with Bank of America National Trust and Savings Association and to issue a note in the principal amount of \$40,000 for the purpose of paying outstanding indebtedness and of financing the cost of additional facilities.

The company also requests the Commission: (1) to authorize it to borrow sums in excess of \$40,000 and to encumber its properties if requested to do so by the lender of the funds, and (2) to ratify the issuance of an \$18,000 demand note in favor of Primo Lippi and Cecile Lippi.

Applicant is a California corporation organized in January of 1930. It now is, and since its organization has been, engaged in the business of selling and distributing water for domestic and industrial uses to the inhabitants and industries in and about the unincorporated area known as Monta Vista located some ten miles west of San Jose in the County of Santa Clara. It reports that it has invested \$255,160 in its plants and properties and that it has financed itself, in part, by the issue, during 1952, of a \$61,000 note to Reconstruction Finance Corporation, which note has been reduced to approximately \$18,500.

The RFC loan, by its terms, is repayable in amounts equivalent to 50% of the net earnings each year. Applicant reports that such terms have become burdensome and that during 1954 it made monthly payments of \$750 toward satisfaction of the loan and an additional payment of \$4,342.22 at the conclusion of the year. It now desires to refinance its indebtedness, so as to reduce the monthly cash outlay, and at the same time to increase its borrowing to \$40,000 in order to provide the cost of developing additional sources of water supply within its service area. It asserts, in this connection, that the present and anticipated housing expansion in its territory require it to embark forthwith on such a program and it hopes to bring in a new well producing from 300 to 500 gallons per minute.

The application shows that the utility has made, or is making, arrangements to borrow the required \$40,000 from the Bank of America. The new loan will be represented by a note payable in 60 monthly installments of \$666.67 each, with interest at the rate of 5% per annum. Presently, it is contemplated that the loan will be unsecured although the bank, under the terms of the loan agreement, may request the company to encumber its properties to secure the payment of the note.

According to financial statements filed with the Commission, applicant supplies water to approximately 1,100 consumers. For the last 5-1/2 years it has reported operating revenues and net income, after payment of interest and other income charges, as follows:

	<u>Operating Revenues</u>	<u>Net Income</u>
1950	\$27,716	\$ 3,466
1951	32,859	6,957
1952	37,403	6,506
1953	46,463	8,902
1954	60,602	17,203
1955 (6 mos.)	31,376	6,875

Upon reviewing this matter it clearly appears that the proposed financing will improve applicant's cash position by reducing its annual installments and thereby releasing internal moneys for plant expansion and other corporate purposes. The earnings from operation should be ample to service the new loan.

However, with respect to the additional requests made in this matter, applicant has not filed a copy of the deed of trust or mortgage which it may be called upon to execute nor has it made any showing of capital requirements in excess of the initial \$40,000. Accordingly, we will not pass on these features in this decision.

As to the \$18,000 note held by Primo Lippi and Cecile Lippi it appears that it is payable on demand with interest at the rate of 5% per annum and was issued to provide funds to pay a portion of the RFC indebtedness. The Commission cannot ratify an existing obligation after its issue has been accomplished and therefore we will authorize the utility to issue a new note in lieu of the one issued without authorization.

#### O R D E R

The Commission having considered the above-entitled application and being of the opinion that a public hearing is not necessary, that the application should be granted, as provided herein, that the money, property or labor to be procured or paid for by the issue of the notes herein authorized is reasonably required for the purposes specified and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:

1. Water Works of Monta Vista, Ltd., may execute a loan agreement with Bank of America National Trust and Savings Association

and may issue a note in the principal amount of not exceeding \$40,000 for the purposes set forth in this application, said agreement and note to be in, or substantially in, the same form as those filed in this proceeding as Exhibit A.

2. Water Works of Monta Vista, Ltd., may issue a note to Primo Lippi and Cecile Lippi in the principal amount of not exceeding \$18,000, payable on demand, in lieu of the note of like amount now outstanding.

3. Water Works of Monta Vista, Ltd., shall file a report, or reports, as required by General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

4. The authority herein granted will become effective when Water Works of Monta Vista, Ltd., has paid the fee prescribed by Section 1904 (b) of the Public Utilities Code. If not exercised, such authority will expire on January 31, 1956.

Dated at San Francisco, California, this 25<sup>th</sup> day of October, 1955.

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President  
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Commissioners

