

Decision No. 54021

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 :
 SAN JOSE WATER WORKS,)
 a corporation,) Application No. 38501
 :
 for an order authorizing it to issue:
 an additional amount of its bonds.)
 -----)
 :

O P I N I O N

San Jose Water Works has filed this application for authorization (1) to execute a supplemental indenture defining the terms of a new series of First Mortgage 4-1/2% Bonds, Series F, and (2) to sell \$1,000,000 of said bonds by negotiated arrangements at not less than the principal amount plus accrued interest.

Applicant is undertaking the financing in order to liquidate short-term notes, which represent temporary borrowings for construction purposes, and to reimburse its treasury for monies expended from income prior to August 31, 1956, for capital purposes. It reports that on August 31, 1956, its short-term notes aggregated \$400,000 and that its unfinanced capital expenditures amounted to \$1,406,912, as shown in some detail in Exhibit A. In addition, it estimates that it will be required to spend \$540,794 to complete construction jobs now in progress.

Information filed with the Commission shows that the company has been engaged in conducting an extensive construction program and that its investment in its plant and its volume of business have been increasing rapidly from year to year. A summary statement indicating its growth experience during the last five years is as follows:

	<u>Operating Revenues</u>	<u>Net Income</u>	<u>Service Connections</u>	<u>Gross Plant Additions</u>
1951	\$1,932,735	\$413,727	49,797	\$3,087,908
1952	2,109,915	461,240	53,101	1,044,765
1953	2,371,868	465,834	56,879	2,102,521
1954	3,029,711	661,234	60,417	1,890,127
1955	3,462,893	768,153	64,739	1,680,434

The company's financial reports show that its recorded investment in utility plant as of August 31, 1956, less related reserves, amounted to \$20,885,710 and that it has been its practice to meet its capital requirements in part by short-term borrowings and thereafter, from time to time, to replace such temporary borrowings with permanent financing in the form of long-term debt or shares of stock. Applicant's capital ratios, as of August 31, 1956, exclusive of short-term loans, and as adjusted to give effect to the proposed financing, are as follows:

	<u>August 31, 1956</u>	<u>Pro Forma</u>
Bonds	50%	52%
Preferred stock	6	6
Common stock equity	<u>44</u>	<u>42</u>
Total	<u>100%</u>	<u>100%</u>

According to the financial statements the company's gross income after depreciation charges has been in excess of three times its interest charges. During the last five years the company, after meeting its fixed charges, has paid annual dividends on its outstanding \$25 par value common stock at the rate of \$2 a share during 1951-1954 and a portion of 1955 and thereafter at the rate of \$2.40. The company's balance sheet shows current assets of \$2,127,386 and current liabilities of \$1,679,241 including the short-term notes applicant now proposes to liquidate.

From a review of the application, it is clear that the company will have need for funds from the sale of bonds to liquidate

its short-term borrowings and to reimburse its treasury and thereby provide cash for future capital additions. In view of its financial condition, as reflected by its verified application and by its reported results of operation, we are of the opinion that we are warranted in entering an order granting its application. The approval indicated herein is for the issue and sale of bonds and is not to be construed as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, that the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes, except as otherwise authorized, 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 may execute a supplemental mortgage of chattels and trust indenture dated as of November 1, 1956, in, or substantially in, the same form as that filed in this proceeding as Exhibit D.
2. San Jose Water Works may issue and sell not to exceed \$1,000,000 of its First Mortgage 4-1/2% Bonds, Series F, on or before December 31, 1956, at not less than the principal amount plus accrued interest.
3. San Jose Water Works shall use the proceeds from the sale of its bonds, other than accrued interest, for the purpose of

paying outstanding indebtedness and of reimbursing its treasury and financing the cost of additions and betterments. The accrued interest may be used for such purposes or for general corporate purposes.

4. San Jose Water Works shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,000.

Dated at San Francisco, California, this 5th day of NOVEMBER, 1956.

John E. Mitchell
President

Paul Wintermeyer

Matthew Doolan

P. Gandy
Commissioners

Commissioner C. Lyn Fox did not participate in the disposition of this proceeding.

