

ORIGINAL

Decision No. 58838

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 bonds

Application No. 41265

McCutchen, Doyle, Brown & Enersen, by
Robert Minge Brown, for applicant.

O P I N I O N

San Jose Water Works, a corporation, has filed this application for authorization to execute a supplemental indenture creating and defining the terms of a new series of bonds to be known as First Mortgage 5-1/4% Bonds, Series H, and to issue and sell \$1,500,000 in principal amount of such bonds.

The application was filed on June 29, 1959. A public hearing was held before Examiner Coleman in San Francisco on July 17, 1959, at which time the matter was taken under submission. The Commission has received no protests in this proceeding.

The new bonds will bear interest at the rate of 5-1/4% per annum, will mature May 1, 1989, and will be subject to redemption at the option of the company at a premium of 5.25% during the twelve months ending May 1, 1960, and thereafter at annually reducing premiums, provided that during the five-year period ending May 1, 1964, said bonds shall not be subject to redemption as part of any

refunding from the proceeds of the issuance of any bonds, notes or other evidences of indebtedness having an effective net interest cost of less than 5-1/4%.

Applicant proposes to sell \$1,500,000 of the Series H bonds to John Hancock Mutual Life Insurance Company and Occidental Life Insurance Company of California at their face value, plus accrued interest, and to use the proceeds to defray expenses incident to the issue and to reimburse the treasury for moneys expended from income and other sources prior to May 31, 1959, for the acquisition of property and for the construction, completion, addition or improvement of facilities. Applicant reports expenditures of \$1,664,460 as of May 31, 1959, which had been financed with treasury cash for which it had not been reimbursed through the issue of permanent securities. It asserts that it will have need for reimbursement of the treasury at this time in order that it might have available funds to proceed with its construction activities.

The testimony at the hearing shows that applicant has been engaged in a continuous program of expansion and that it will be called upon to make further expenditures in the future. During the last three years, applicant's average annual gross additions to plant have amounted to \$2,885,000 while its budget for 1959 is \$4,200,000. The number of new service connections averaged 4,937 for each of the last three calendar years and amounted to 7,884 for the twelve months ended June 30, 1959.

It has been applicant's practice to finance its needs annually. It has concluded that at this time it is preferable for it to issue bonds to take care of its capital needs in 1959 rather than to increase its common stock equity. Its capital ratios as of May 31, 1959, and as adjusted to give effect to the proposed bond issue, are as follows:

	<u>May 31, 1959</u>	<u>Pro Forma</u>
Bonds	50.3%	53.4%
Preferred stock	7.9	7.4
Common stock equity	<u>41.8</u>	<u>39.2</u>
Total	<u>100.0%</u>	<u>100.0%</u>

It appears that applicant has conducted negotiations for the sale of its bonds. Its financial officer offered testimony indicating that the terms of the proposed issue are similar to those required of other utilities in the country and that the interest rate is the lowest one applicant could obtain at this time.

Based upon the evidence, we find that applicant will be required to pay a lower interest rate on the bonds than it would if the five-year restricted redemption feature were to be deleted and that the ensuing lower financial requirements would inure to the benefit of the consumers. We will enter an order granting the application.

The authorization herein granted is for the issue and sale of bonds only 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

A public hearing having been held in the above-entitled matter and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of the bonds herein authorized is reasonably required 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, on and after the effective date hereof and on or before September 30, 1959, may execute a supplemental indenture in, or substantially in, the form filed as Exhibit D in this proceeding and may issue and sell not to exceed \$1,500,000 in principal amount of First Mortgage 5-1/4% Bonds, Series H, at not less than the principal amount thereof, plus accrued interest.

2. San Jose Water Works may use the proceeds from the sale of said bonds to defray the expenses incident to the issue and to reimburse its treasury. The accrued interest may be used for such purposes or for general corporate purposes.

3. 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.

4. The authority herein granted will become effective when San Jose Water Works has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,250.

Dated at San Francisco, California,
this 4th day of August, 1959.

Everett R. Page
President
Peter E. Mitchell
L. J. Fox
Theodore J. Jenner
Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

