

**ORIGINAL**

Decision No. 62646

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. 43757  
} Filed September 14, 1961

O P I N I O N

In this application the Commission is asked to enter an order authorizing San Jose Water Works, a corporation, (1) to execute and deliver a supplemental mortgage of chattels and trust indenture creating and defining the terms of a new series of bonds to be known as San Jose Water Works First Mortgage 5% Bonds, Series J, and (2) to issue and sell \$1,500,000 of said bonds by negotiated arrangements at not less than the principal amount, plus accrued interest.

The new bonds will bear interest at the rate of 5% per annum, will mature May 1, 1991, and will be subject to redemption at the option of the company at a premium of 5% during the twelve months ending May 1, 1962, and thereafter at annually reducing premiums, provided that during the five-year period ending May 1, 1966, 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%.

Applicant reports it has made tentative arrangements to sell the \$1,500,000 of the Series J bonds to American United Life Insurance Company, Aid Association for Lutherans and Franklin Life Insurance Company at their face value, plus accrued interest. It proposes to use the proceeds, exclusive of accrued interest, to defray expenses incident to the issue and sale of the bonds and to liquidate outstanding bank loans which it had incurred for construction purposes.

A review of the financial statement filed in this proceeding as Exhibit C shows that applicant has financed itself with bonds, notes, preferred stock and common stock and retained earnings. Its capital ratios as of June 30, 1961, and as adjusted to give effect to the proposed financing, are as follows:

	<u>June 30, 1961</u>	<u>Pro Forma</u>
Bonds	52%	57%
Notes	7	2
Preferred stock	5	5
Common stock equity	<u>36</u>	<u>36</u>
Total	<u>100%</u>	<u>100%</u>

Following the proposed bond issue, the company reports it will undertake to sell additional preferred stock which, of course, will improve its capital ratios.

We have considered this application and based upon the information before us, we find and conclude (1) that applicant will have need for externally generated funds to meet its current obligations; (2) that the proposed issue of bonds is

for proper purposes; (3) that applicant will be required to pay a lower interest rate on the bonds it now proposes to issue than it would if the five-year redemption feature were to be deleted and that the ensuing lower financial requirements should inure to the benefit of the consumers; and (4) 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. On the basis of these findings, we will enter our order granting the application.

The authorization herein given is for the 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.

ORDER

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, therefore,

IT IS ORDERED as follows:

1. San Jose Water Works, a corporation, on or after the effective date hereof and on or before December 31, 1961, may execute and deliver a supplemental mortgage of chattels and trust indenture in, or substantially in, the same form as those filed as Exhibit D in this proceeding, and may issue and sell not to exceed \$1,500,000 in principal amount of its First Mortgage 5% Bonds, Series J, at not less than the principal amount thereof, plus accrued interest.

2. San Jose Water Works, a corporation, shall use the proceeds to be received from the issue and sale of said Series J bonds for the purposes set forth in this application. The accrued interest to be received may be used for said purposes or for general corporate purposes.

3. San Jose Water Works, a corporation, 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. This order shall become effective when San Jose Water Works, a corporation, has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$1,250.

Dated at San Francisco, California,  
10th day of OCTOBER, 1961.

*Robert H. [Signature]*  
President

*[Signature]*

*George J. Grover*

*Frederick B. Holdhoff*

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Commissioners

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

