

Decision No. 42840

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 :
SUBURBAN WATER COMPANY)
 :
 for an order authorizing it to)
 (a) execute a loan agreement with)
 Pacific Mutual Life Insurance Company)
 for a loan of \$400,000, and (b))
 pursuant to said agreement, to issue)
 its promissory note in the amount of)
 \$400,000, and (c) to execute a)
 mortgage of chattels and real property)
 securing said promissory note.)
 -----)
 :

ORIGINAL

Application
No. 30265

O P I N I O N

In this application, Suburban Water Company, a corporation, asks permission to execute a loan agreement with Pacific Mutual Life Insurance Company for a loan of \$400,000, to issue its promissory note in that amount, and to execute a mortgage of chattels and real property to secure the payment of the note. A copy of the loan agreement is on file in this application as Exhibit "B", a copy of the note as Exhibit "C", and a copy of the mortgage of chattels and real property as Exhibit "D".

Applicant is engaged as a public utility in the distribution of water in unincorporated territory in Santa Clara County, adjacent to Sunnyvale and Mountain View and in and about the vicinity of Loyola. Its financial statements on file with the Commission, among other things, show the following:

<u>Year</u>	<u>Operating Revenues</u>	<u>Profit For Year</u>	<u>Service Connections</u>	<u>Increase In Plant</u>
1944	\$ 65,348	\$10,851	1132	\$ 6,080
1945	72,083	17,671	1257	13,183
1946	84,328	30,070	1507	65,760
1947	108,455	32,922	1834	55,857
1948	135,228	35,884	2356	221,010

Applicant's balance sheet as of February 28, 1949, shows assets and liabilities as follows:

Assets

Plant and property	\$770,503.16
Nonoperating property-building	1,900.04
Cash	17,335.14-
Accounts receivable-net	12,723.76-
Materials and supplies	51,431.71
Prepaid expenses	<u>448.01</u>
Total assets	<u>\$854,341.82</u>

Liabilities

Capital stock	\$107,687.23
Long-term notes payable	225,000.00
Short-term notes payable	60,000.00
Accounts payable	12,470.77
Accrued taxes	25,781.87
Interest accrued	228.90
Consumers' deposits	1,375.00
Consumers' extension deposits	102,626.99
Reserve for depreciation	77,056.08
Donations in aid of construction	92,185.52
Earned surplus	<u>149,929.46</u>
Total liabilities	<u>\$854,341.82</u>

Pursuant to the authority granted by Decisions No. 38654 and No. 40990, applicant issued to American Trust Company its notes in the aggregate face amount of \$275,000. The balance due on the notes is reported at \$ 235,000. To pay in part its construction expenses, applicant has borrowed from Henry Cartan \$60,000, evidenced by 4% unsecured demand notes. It has also incurred other indebtedness in the amount of approximately \$45,000. For the purpose of

paying said indebtedness aggregating about \$340,000, and providing itself with funds to enlarge and improve its water properties, applicant asks permission to execute a loan agreement with the Pacific Mutual Life Insurance Company for a \$400,000 loan. The loan will be evidenced by a promissory note and will be secured by the execution of a mortgage of chattels and real property. The note will bear interest at the rate of 4% per annum, payable semi-annually. The final maturity of the note is April 1, 1974. Beginning April 1, 1950, and on or before April 1 of each year, applicant must pay the Insurance Company \$10,000 on account of the principal of said note. At its option, applicant may pay up to an additional \$10,000 annually on account of the principal of the note without being obligated to pay any premium. In addition to the fixed and optional payments, applicant may pay, at its option by giving the notice and paying the premiums mentioned in the loan agreement, the entire principal.

The mortgage of chattels and real property will be a lien on all of applicant's properties, except those expressly excluded, whether now owned or hereafter acquired. The following properties are excluded from the lien of the mortgage:

- (1) Bills, notes and accounts receivable, cash on hand and in bank;
- (2) Shares of stock, bonds, notes and other evidences of indebtedness;
- (3) Fuel, materials, equipment and supplies consumable in the operations of the company;
- (4) Automobiles and automotive equipment; and
- (5) Office supplies, office furniture and the like.

In the loan agreement and the mortgage, applicant covenants that it will keep or cause to be kept at all times, books and records of account in which full, true and correct entries will be made of all its income, dealings and business affairs, in accordance with good accounting practice. The permission granted by the following order should not by applicant be construed as permitting it to keep its accounting records in any manner other than as directed by the Commission.

Applicant in the loan agreement and in the mortgage, agrees that it will not declare any dividends on its shares of stock (excepting dividends payable in shares of its stock of the same kind and character), except out of net earnings accumulated subsequent to December 31, 1948, after deduction therefrom of the greater of the following, i.e., twenty-five per cent of the mortgagor's net earnings for the twelve months' period immediately preceding the date of payment of such dividends or the amount required to be paid in such twelve months' period on account of the principal and interest of the note.

ORDER

The Commission has considered this application and is of the opinion that a public hearing thereon is not necessary, that the money, property or labor to be procured or paid for through the execution of said loan agreement and said mortgage and the issue of said \$400,000 note is reasonably required by Suburban Water Company for the purposes herein stated, that such purposes, except the payment of expenses incident to the negotiation and

consummation of said loan of \$400,000, are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Suburban Water Company may execute, after the effective date hereof and on or before June 30, 1949, a loan agreement in, or substantially in, the same form as the loan agreement on file in this application as Exhibit "B".

2. Suburban Water Company may issue, after the effective date hereof, to Pacific Mutual Life Insurance Company, its 4% promissory note for the principal sum of \$400,000, under and pursuant to the provisions of said loan agreement, and use approximately \$340,000 of the proceeds of said note to pay the indebtedness referred to in the foregoing opinion and use the remainder of the note proceeds to finance the cost of additions and betterments to its public utility water properties.

3. Suburban Water Company may execute, after the effective date hereof and on or before June 30, 1949, a mortgage of chattels and real property in, or substantially in, the same form as the mortgage of chattels and real property on file in this application as Exhibit "D".

4. Notwithstanding any provisions of said loan agreement and mortgage of chattels and real property, Suburban Water Company shall keep its books and records of account in the manner directed by the Public Utilities Commission of the State of California.

5. Suburban Water Company shall file with the Commission, from time to time, monthly statements showing the purposes for which it expended the proceeds obtained through the issue of said \$400,000 note. It shall also file with the Commission, within thirty (30) days after the issue of said note, a true and correct copy of the note issued under the authority herein granted, and a true and correct copy of the mortgage of chattels and real property executed under said authority.

6. The authority herein granted will become effective when Suburban Water Company has paid the fee prescribed by Section 57 of the Public Utilities Act.

Dated at San Francisco, California, this 10th day of May, 1949.

R. J. [Signature]
Justice J. [Signature]
[Signature]
[Signature]
[Signature]
Commissioners

