

ORIGINAL

Decision No. 48469

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of)
BEN ALI WATER COMPANY,)
a corporation, for a permit to)
issue debentures.)
-----)

Application
No. 33940

Bacigalupi, Elkus & Salinger, by Charles DeY. Elkus, Jr., for applicant; John F. Donovan, for the staff of the Commission.

O P I N I O N

Ben Ali Water Company, applicant herein, is a California corporation engaged as a public utility water company in an unincorporated area in the County of Sacramento north and east of the City of Sacramento. At this time it seeks authorization to execute an indenture and to issue \$564,799.70 in principal amount of its 5% debentures due 1973 in exchange for outstanding indebtedness and for consumers' advances for construction of extensions to its facilities.

A public hearing was held on this application in San Francisco on January 5, 1953. No protest has been received by the Commission in this matter.

Applicant was organized on September 1, 1951, and in the early part of 1952 acquired the properties it now operates from Jere Strizek and Jessie Dow Strizek, who previously had acquired them during 1950 from B. F. Strock. Financial reports filed by the several owners indicate the increase in the investment in the properties and in the business during the last five years as follows:

	<u>Fixed Capital End of Period</u>	<u>Operating Revenues</u>	<u>Net Income</u>	<u>Service Connections End of Period</u>
1948	\$189,837.62	\$ 37,662.01	\$22,210.68	1,285
1949	257,229.70	50,247.57	22,315.42	1,620
1950	359,407.05	73,097.35	29,968.11	2,590
1951	725,307.87	102,267.60	24,870.48	4,350
1952*	848,815.32	81,087.09	10,760.28	5,000

* Seven months ended October 31

A review of the record shows that applicant and its predecessors have met a substantial part of the capital requirements with moneys advanced by subdividers and by affiliated interests. Applicant's financial position as of October 31, 1952, is indicated by its balance sheet of that date, a summary of which is as follows:

Assets

Fixed capital -		
Land	\$ 6,746.86	
Plant and equipment	842,068.46	
Less-depreciation	<u>49,854.22</u>	
Net fixed capital		\$798,961.10
Current assets -		
Cash	1,531.55	
Accounts receivable	2,914.48	
Materials and supplies	<u>7,454.66</u>	
Total current assets		11,900.69
Deferred charges		<u>1,307.70</u>
	Total	<u>\$812,169.49</u>

Liabilities

Accounts payable		\$ 23,869.30
Consumers' advances for construction		431,102.73
Due affiliated corporations and stockholder -		
Jere Strizek	\$ 65,297.94	
Town & Country Village, Inc.	61,097.26	
Jere Strizek Incorporated	<u>17,221.14</u>	
Total		143,616.34
Equity capital -		
Common stock	200,000.00	
Surplus	<u>13,581.12</u>	
Total equity capital		<u>213,581.12</u>
	Total	<u>\$812,169.49</u>

For the seven months ended October 31, 1952, applicant reports its revenues at \$81,087.09 and its net income at \$10,760.28, after making provision for depreciation in the amount of \$17,930.03.

While twelve months' figures were not made available in the record, a witness for applicant testified that in his opinion the net revenues would amount to approximately \$25,000.

As to the moneys advanced for construction, it appears that under applicant's rules and regulations, refunds of these sums shall be made upon the basis of 35% of the gross revenues received from service through the pipe lines installed with the amounts thus advanced, provided that no payments shall be made after a period of ten years from the completion of the installation and provided further that in no case shall refunds exceed the amount of the original advance. The record shows that virtually each subdivision in which applicant has extended its lines has experienced rapid development which, in turn, has necessitated substantial investment by applicant in service lines and other equipment and will, in applicant's opinion, result in the refund of the entire advance in full within the ten-year period specified and in many instances within a shorter period. It clearly appears from the record that due to the rapidity with which the subdivisions are being occupied, applicant may be faced with such a substantial outlay of cash to refund advances as to impair its cash position and its ability to maintain its facilities and to finance the cost of additions and betterments. The testimony given in this proceeding shows that during 1953 applicant will be called upon to refund approximately \$33,000 of presently outstanding advances.

As to the amounts received from applicant's stockholder, Mr. Jere Strizek, and from affiliated corporations, the record shows that these sums were used by applicant in its operations and that they consist of obligations payable on demand.

In order to improve its cash position applicant now proposes to offer its debentures to subdividers and to Jere Strizek and

its affiliated corporations in satisfaction of the principal amount of the indebtedness due or to become due to them. Accordingly, it proposes to execute an indenture and to create an issue of 5% debentures due January 2, 1973, such debentures to be in an initial authorized amount of \$650,000, although presently it is proposed to issue not exceeding \$564,799.70. The instrument will be an open-end one, permitting the issue of additional debentures from time to time under the conditions set forth in the instrument. It was stated at the hearing that the form of indenture filed with the application would be modified so as to permit the issue of debentures with a face value of \$100 and to limit the initial issue to \$650,000.

Applicant's proposal to issue debentures, if accepted by the subdividers and carried to completion, will result in a rather high debt position. However, the record clearly shows that the transaction as proposed will improve applicant's financial position to the extent of funding presently outstanding obligations subject to settlement on demand and of reducing the annual requirements on its treasury for outlays of cash. We are of the opinion, however, that applicant should give consideration to financing its future requirements, whether initially made with subdividers' advances for construction or otherwise, through the issue of some form of equity capital, rather than through the enlargement of its debt capital.

ORDER

A public hearing having been held on the above entitled matter, and the Commission having considered the evidence and being of the opinion that the application should be granted, as herein provided; that the money, property or labor to be procured or paid for by the issue of the debentures herein authorized is reasonably

required by applicant for the purposes specified herein; 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. Ben Ali Water Company, on and after the effective date hereof and on or before September 30, 1953, may execute an indenture substantially in the same form as that filed in this proceeding as Exhibit F, modified as indicated at the hearing held in this proceeding, and may issue not exceeding \$564,799.70 in principal amount of its 5% debentures due 1973 in payment of outstanding indebtedness and advances for construction.

2. Ben Ali Water Company shall file with the Commission monthly reports as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted will become effective when Ben Ali Water Company has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is five hundred sixty-five (\$565.00) dollars.

Dated at San Francisco, California, this 13th day of January, 1953.

Commissioner Justus E. Crocker... being necessarily absent. did not participate in the disposition of this proceeding.

R. J. [Signature]
President

Harold A. Hale

[Signature]
[Signature]

Commissioners

