

ORIGINAL

Decision No. 50656

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application )

of )

SUBURBAN WATER SYSTEMS, a California corporation, for permission to borrow money and in connection therewith to issue and sell First Mortgage Series B 4-1/8% Bonds under a First Supplemental Trust Indenture to be dated as of October 1, 1954, and for permission to sell and issue Class A Preferred Stock.

) Application No. 35832 )

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O P I N I O N

In this application Suburban Water Systems requests that the Commission grant it authority to execute a supplemental trust indenture, to issue \$750,000 in principal amount of first mortgage bonds, and to issue and sell 4,000 shares of its Class A 5-1/4% preferred stock of the aggregate par value of \$200,000, in order to provide additional working capital and to finance in part the cost of constructing additional facilities.

Applicant, formerly named Whittier Water Company, is a California corporation engaged in the public utility business of distributing water in Los Angeles County. Annual reports filed with the Commission show that its water systems served 17,401 consumers as of December 31, 1953, whereas Exhibit 4 attached to the application shows that the number of consumers had increased to 20,347 as of July 31, 1954, an increase of approximately 17% in a seven-months period.<sup>1/</sup> In the balance sheet attached to the application as

<sup>1/</sup> Including detail recorded in annual report filed by San Jose Hills Water Co., which company was acquired by applicant in December 1953 under authorization contained in this Commission's Decision No. 49423, dated December 15, 1953, in Application No. 34873.

Exhibit 3, applicant reports assets and liabilities as of July 31, 1954, as follows:

Assets

Fixed capital -		
Tangible capital	\$6,104,956.19	
Less-Depreciation reserve	<u>641,141.98</u>	
Net tangible capital	5,463,814.21	
Intangible capital-Net	<u>544,783.49</u>	
Total fixed capital		\$6,008,597.70
Current assets		295,362.16
Deferred charges and other assets		<u>149,278.48</u>
	Total assets	<u>\$6,453,238.34</u>

Liabilities

Capital stock and surplus -		
Class A 5-1/4% preferred	\$ 321,200.00	
Class B 3% preferred	627,650.00	
Common stock	433,550.00	
Capital surplus	543,260.48	
Paid in surplus	247,343.57	
Earned surplus	<u>96,299.39</u>	
Total capital stock and surplus		\$2,269,303.44
First mortgage 4-7/8% bonds		2,000,000.00
Current liabilities		410,300.12
Reserve for deposit		93,850.00
Donations in aid of construction		196,443.72
Consumers' advances for construction		<u>1,483,341.06</u>
	Total liabilities	<u>\$6,453,238.34</u>

In the income statement filed as Exhibit 4 applicant reports gross operating revenues of \$463,294.11 for the seven months ended July 31, 1954, and net profit before income taxes of \$39,876.92 for the same period.

Included in the amount reported in the July 31, 1954, balance sheet as current liabilities are short-term bank loans in the amount of \$130,000. Applicant proposes to refinance these loans and to make other expenditures, in the total amount of \$944,000, as shown in Exhibit 8 attached to the application and as summarized in the following tabulation:

To repay bank loans	\$130,000
To pay cost of issuing Series B bonds	10,000
To make improvements to water system	703,000
To purchase office equipment	11,000
To acquire stock in mutual water companies as additional water supply	<u>90,000</u>
Total	<u>\$944,000</u>

To finance these expenditures applicant proposes to issue and sell \$750,000 in principal amount of its first mortgage Series B 4-1/8% bonds and 4,000 shares of its Class A 5-1/4% cumulative preferred stock of the aggregate par value of \$200,000. The bonds are to be dated October 1, 1954, are due October 1, 1974, and are to be sold at par plus accrued interest to The Lincoln National Life Insurance Company, Bankers Life Insurance Company of Nebraska, and Pacific Mutual Life Insurance Company, under the terms and conditions set forth in a proposed purchase agreement between applicant and purchasers, a copy of which agreement is attached to the application as Exhibit 1. The bonds to be issued will be secured by a deed of trust and will be redeemable at par plus accrued interest plus a premium of 4% if redeemed prior to October 1, 1958, and thereafter reducing one-quarter percent each year to the twentieth year. The deed of trust will be an open-end indenture in the form of a first supplemental to the trust indenture dated October 1, 1953, which applicant executed under authority granted by the Commission's Decision No. 49423, dated December 15, 1953, in Application No. 34873.

The preferred stock which applicant proposes to issue is a part of its authorized Class A 5-1/4% cumulative preferred issue, of which 6,424 shares were outstanding on July 31, 1954. This stock has a par value of \$50 a share, is cumulative, nonparticipating, redeemable and preferred as to dividends over the common stock. The Class A preferred stock is to be sold for cash at par.

From the detail contained in applicant's balance sheet it appears that the combined investment in tangible and intangible capital totals \$6,008,598 after deducting the related reserves for depreciation and amortization, that there are \$1,483,341 of advances for construction outstanding, and that the capital structure consisting of bonds, notes, stock and surplus totals \$4,399,303. A tabulation showing the capital ratios as of July 31, 1954, and after giving effect to the proposed financing on a pro forma basis follows:

	<u>July 31, 1954</u>	<u>Pro Forma</u>
Bonds	47%	53%
Preferred stock	22	22
Common stock equity	<u>31</u>	<u>25</u>
Totals	<u>100%</u>	<u>100%</u>

A review of the application indicates, and we so find, that applicant has need for the funds to be procured from the proposed issue of its securities, that the money, property or labor to be procured or paid for by the issue of the bonds and shares of stock herein authorized is reasonably required by Suburban Water Systems 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. Accordingly, we will enter an order granting the application.

#### 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 and that the application should be granted, as herein provided; therefore,

IT IS HEREBY ORDERED as follows:

1. Suburban Water Systems, on and after the effective date hereof and on or before November 1, 1955, may issue and sell not

exceeding \$750,000 in principal amount of its First Mortgage Series B 4-1/8% Bonds, at par plus accrued interest, and 4,000 shares of its Class A 5-1/4% Cumulative Preferred Stock of the aggregate par value of \$200,000, at par, and use the proceeds for the purposes set forth in this application. The accrued interest from the sale of the bonds may be used for such purposes or for general corporate purposes.

2. Suburban Water Systems may execute a purchase agreement and a supplemental trust indenture in substantially the same form as those filed in this proceeding as Exhibit 1 and Exhibit 2, respectively.

3. Applicant 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.

4. 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 \$750.00.

Dated at San Francisco, California, this 17<sup>th</sup> day of October, 1954.

Richard E. Mitchell  
President

Justus F. Adams

Frederick Potter

George Deegans

Raymond H. ...  
Commissioners

