

Decision No. 52240**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)

OF)

SUBURBAN WATER SYSTEMS, a)
 California corporation, for per-)
 mission to borrow money and in)
 connection therewith to issue and)
 sell First Mortgage Series C)
 4-1/4% Bonds under a Second)
 Supplemental Trust Indenture to)
 be dated as of October 1, 1955.)

Application
No. 37401O P I N I O N

In this application, Suburban Water Systems requests that the Commission grant it authority to execute a purchase agreement and a second supplemental trust indenture, and to issue \$1,000,000 in principal amount of its First Mortgage Bonds in order to refinance existing short-term loans and to finance, in part, the cost of constructing additional facilities. Applicant also requests that the Commission authorize an extension of time within which it may issue and sell shares of its Class A, 5-1/4% preferred stock. PH

Applicant, heretofore known as Whittier Water Company, is a California corporation engaged in the public utility business of distributing water in Los Angeles County. Annual reports on file with the Commission show that the number of consumers served by applicant has increased from 17,401 as of December 31, 1953 to 23,822 as of December 31, 1954, and to 26,389 as of August 31, 1955, an increase of 37% during the year 1954, and an increase of 11% during the first eight months of 1955. During the same period of time, or from December 31, 1953, to August 31, 1955, its investment in fixed capital, after deducting

applicable reserves for depreciation and amortization, has increased from \$5,166,281 to \$8,541,140, an increase of 65%. In the balance sheet attached to the application as Exhibit 3, applicant reports assets and liabilities as of August 31, 1955, as follows:

Assets

Fixed capital			
Tangible capital		\$8,590,797	
Less: Depreciation reserve		807,164	
Net tangible capital		<u>7,783,633</u>	
Intangible capital - Net		757,507	
Total fixed capital			\$8,541,140
Current assets			143,869
Deferred charges and other assets			161,053
Total assets			<u>\$9,146,062</u>

Liabilities

Capital stock and surplus			
Preferred stock			
Class A 5 $\frac{1}{2}$ % cumulative	\$ 425,500		
Class B 3% cumulative	<u>1,196,210</u>	\$1,621,710	
Common stock		433,550	
Capital surplus		543,260	
Paid in surplus		247,344	
Earned surplus		<u>168,224</u>	
Total capital stock and surplus			\$3,014,088
First Mortgage bonds			
Series A 4-7/8%		2,000,000	
Series B 4-1/8%		<u>750,000</u>	
Total first mortgage bonds			2,750,000
Current liabilities			531,388
Reserve for deposit - U.S. Army			93,850
Donations in aid of construction			246,448
Consumers advances for construction			2,510,288
Total liabilities			<u>\$9,146,062</u>

In the income statement attached to the application as Exhibit 4, applicant reports gross operating revenues of \$720,841 for the eight months ended August 31, 1955, and net profit before income taxes of \$128,712 for the same period. In Exhibit 6, covering operations for the calendar year 1954, applicant reports gross revenues of \$904,884, and net profit before income taxes of \$131,830.

Included in the amount reported in the August 31, 1955 balance sheet as current liabilities are short-term bank loans in the amount of

etc \$300,000. These short-term bank loans had increased in amount to
etc \$500,000 as of the date of filing this application. Applicant pro-
 poses to refinance these loans and to make other expenditures in the
 total amount of \$1,188,500, as shown in Exhibit 8 attached to the
 application and as summarized in the following tabulation:

To repay bank loans	\$500,000
To pay cost of issuing Series C bonds	10,000
To make improvements to water system	578,500
To acquire stock from mutual water companies as additional water supply	100,000

Total	\$1,188,500
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etc To finance these expenditures, applicant proposes to issue
 and sell \$1,000,000 in principal amount of its First Mortgage
 Series C, 4-1/4% Bonds. The bonds are to be dated October 1, 1955,
 are due October 1, 1975, and are to be sold at par, plus accrued in-
 terest, to The Northwestern Mutual Life Insurance Company, The Lincoln
 National Life Insurance Company, the Bankers Life Insurance Company
 of Nebraska, and Pacific Mutual Life Insurance Company, under the
 terms and conditions set forth in a proposed purchase agreement be-
 tween 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 ac-
 crued interest, plus a premium of 4-1/4% if redeemed prior to October
 1, 1958, and thereafter reducing 1/4% each year to October 1, 1974,
 and thereafter at par. The deed of trust will be an open-end inden-
 ture in the form of a second supplemental to the trust indenture
 dated October 1, 1953, which trust indenture applicant executed under
 authority granted by the Commission's Decision No. 49423, dated Decem-
 ber 15, 1953, in Application No. 34873. From the detail contained
 in applicant's August 31, 1955, balance sheet, it appears that
 the combined investment of tangible and intangible capital totals
etc \$8,541,140 after deducting the related reserves for depreciation

and amortization, that there are \$2,510,288 of advances for construction outstanding, and that the balance of the capital structure consists of bonds, stock and surplus totalling \$5,764,088. A tabulation showing the capital ratios existing as of August 31, 1955, and after giving effect to the proposed financing on a pro forma basis follows:

	<u>August 31, 1955</u>	<u>Pro Forma</u>
Bonds	33%	40%
Advances for construction	<u>30</u>	<u>27</u>
Subtotals	63	67
Preferred stock	20	18
Common stock equity	<u>17</u>	<u>15</u>
	<u>100%</u>	<u>100%</u>

The capital ratios shown in the above tabulation indicate that the company's capital structure is becoming unbalanced due to its construction having been primarily financed through issues of long term debt and by consumers' advances. Even if consumers' advances for construction are eliminated from the computation the capital ratios as of August 31, 1955, and on a pro forma basis including the proposed issue of \$1,000,000 of bonds, the long term debt represents 48% and 55% respectively of the company's capital structure. It is the Commission's opinion that applicant should give prompt consideration to the issuance of equity securities as the means of financing its future construction requirements.

A review of the application indicates that applicant has need for the funds to be procured from the ~~proposed~~ issue of its securities ^{herein authorized.} The Commission will, however, limit its authorization at this time to the initial issue of bonds which applicant proposes to sell on or before November 30, 1955. Applicant may seek authority to issue additional amounts of its Series C First Mortgage

Bonds by filing a supplemental application and attaching thereto later financial statements than those attached to its application in this proceeding.

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The Commission heretofore, by Decision No. 50656, in Application No. 35832, granted applicant authority to issue and sell on or before November 1, 1955, \$200,000 par value of its Class A, 5-1/4% cumulative preferred stock. Applicant now advises that it has sold shares of such stock in the aggregate amount of \$60,900 and that there remains unissued stock in the aggregate amount of \$139,100. It requests authority that it be granted an additional period of 12 months within which to sell the balance of this stock. The Commission by the order herein will grant applicant an additional period of time to May 31, 1956, within which to sell its stock.

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It is the Commission's finding in this proceeding that the funds to be procured from the ^{herein authorized} ~~proposed~~ issue of securities are required by the company for the ^{purposes} ~~purposes~~ indicated herein, and that the money, property or labor to be procured or paid for by the issue of the bonds 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.

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 March 31, 1956, may issue and sell not exceeding \$500,000 in principal amount of its First Mortgage Series C 4-1/4% Bonds at par, plus accrued interest, and may use the proceeds for the purposes set forth in its 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 second supplemental trust indenture in substantially the same form as those filed in this proceeding as Exhibit 1 and Exhibit 2, respectively.

3. The foregoing authorization is without prejudice to the authority of this Commission with respect to rates, service, accounts, valuation, estimates, or determinations of cost which may come before this Commission.

4. The period within which applicant may sell the \$200,000 ^{com} par value of Class A 5-1/4% cumulative preferred stock authorized by Decision No. 50656 in Application No. 35832 is extended to May 31, 1956. In all other respects, the provisions contained in Decision No. 50656 shall remain unchanged.

5. 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.

6. 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 \$500.

Dated at Los Angeles, California,
this 14th day of November, 1955.

[Signature]
President
[Signature]
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Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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BY [Signature]