

ORIGINAL

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Decision No. _____

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 \$650,000 of its First Mortgage Series C 4-1/4% Bonds under a Second Supplemental Trust Indenture dated as of October 1, 1955.

Application No. 38529

O P I N I O N

In this application, Suburban Water Systems, a corporation, seeks authorization to issue and sell \$650,000 in principal amount of First Mortgage Series C 4-1/4% Bonds for the purposes of paying unsecured bank obligations which had been incurred for the following purposes:

1. To pay refunds to subdividers under refund contracts	\$ 69,546
2. To pay for capital additions	<u>580,454</u>
 Total	 <u>\$ 650,000</u>

In 1955 applicant entered into an agreement to sell \$1,750,000 of its Series C First Mortgage Bonds to a group of insurance companies and, thereafter, pursuant to authorization granted by the Commission by Decision No. 52240, dated November 14, 1955 and Decision No. 52729, dated March 6, 1956, issued and sold \$1,100,000 of said bonds. The present application involves the

sale of the remaining \$650,000 of bonds covered by the purchase agreement.

Reference to said Decision No. 52729 indicates that the Commission gave consideration to the financial position of the company as of December 31, 1955, and authorized it to sell the Series C bonds to liquidate then outstanding bank loans and to finance the cost of improvements. The Commission commented on applicant's capital structure and, while authorizing the issue of bonds, expressed the opinion that stock financing should be undertaken.

It now appears that since December 31, 1955, the company has made additional capital expenditures and has refunded obligations and has financed its costs temporarily with current liabilities consisting of short-term bank borrowings. A summary comparative statement of its financial position as of December 31, 1955 and August 31, 1956 is as follows:

	<u>Dec. 31, 1955</u>	<u>Aug. 31, 1956</u>	<u>Increase</u>
<u>Assets</u>			
Utility plant less reserves	\$8,871,339	\$10,248,443	\$1,377,104
Other tangible assets	781,032	838,174	57,142
Deferred charges	185,623	195,616	9,993
Total	<u>\$9,837,994</u>	<u>\$11,282,233</u>	<u>\$1,444,239</u>
<u>Liabilities and Capital</u>			
Current liabilities	\$ 704,991	\$ 1,089,657	\$ 384,666
Deduct current assets	280,074	563,258	283,184
Net current liabilities	424,917	526,399	101,482
Bonds	3,250,000	3,850,000	600,000
Advances for construction	2,678,280	2,652,635	(25,645)
Deferred credits	357,973	472,242	114,269
Class A preferred	460,100	565,450	105,350
Class B preferred	1,274,950	1,773,950	499,000
Common stock equity	1,391,774	1,441,557	49,783
Total	<u>\$9,837,994</u>	<u>\$11,282,233</u>	<u>\$1,444,239</u>

The comparative statement shows that applicant has increased its net investment in plant by the sum of \$1,377,104, that it has issued \$600,000 of bonds and that it has increased its equity capital by the sum of \$654,133. The statement further shows that applicant has an unfavorable cash position with current liabilities, including its bank borrowings, exceeding current assets by almost two to one and being in excess of one million dollars. An exhibit attached to the application shows its cash in bank as of August 31, 1956, at \$215,575.

Applicant's capital ratios as of August 31, 1956, and as adjusted to give effect to the proposed bond issue and including consumers' advances are as follows:

	<u>August 31, 1956</u>	<u>Pro forma</u>
Bonds	37%	41%
Advances for construction	<u>26</u>	<u>24</u>
Subtotal	63	65
Preferred stock	23	21
Common stock and surplus	<u>14</u>	<u>14</u>
Total	<u>100%</u>	<u>100%</u>

Excluding the advances for construction from the calculation, the debt component amounts to 50% as of August 31, 1956, and to 54% on the pro forma basis.

From a review of the application and of the financial statement, it is clear that applicant will have need for external funds to liquidate its current obligations and to improve its cash position, and we are of the opinion that, under the circumstances set forth in this proceeding, we should enter an order approving the application. In making our order we are in no way approving applicant's capital structure and we reiterate our opinion that the

company should undertake to obtain funds from equity securities in order to improve its debt position. It should be noted, moreover, that the approval given in this decision is for the issue of the securities 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, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue and sale 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; therefore,

IT IS HEREBY ORDERED as follows:

1. Suburban Water Systems, a corporation, may issue and sell not to exceed \$650,000 of its First Mortgage Series C 4-1/4% Bonds on or before February 28, 1957, at not less than the principal amount plus accrued interest and use the proceeds for the purposes set forth in this application.

2. Suburban Water Systems 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 Suburban Water Systems has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$650.

Dated at San Francisco, California, this 19th day of November, 1956.

[Signature] President
[Signature]
[Signature]
[Signature]
[Signature] Commissioners

