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ORIGINAL

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 \$500,000 of its First Mortgage Series D 5½% Bonds under a Third Supplemental Trust Indenture as of May 15, 1957.

Application No. 40628  
First Supplemental

In the matter of the application of SUBURBAN WATER SYSTEMS, a California corporation, for authority to issue and sell \$290,000 of its Class A 5½% Preferred Stock.

Application No. 40954

Arthur D. Guy, Jr., and John C. Luthin, for applicant.  
Richard R. Entwistle and Walter J. Cavagnaro, for the  
Commission staff.

O P I N I O N

Public hearings in these matters were held before Commissioner C. Lyn Fox and Examiner Grant E. Syphers on May 13, 1959, at Los Angeles, on which date evidence was adduced and the matters were submitted subject to the filing of a late-filed exhibit. This now has been filed and the matters are ready for decision.

By Decision No. 57782, dated December 30, 1958, in Application No. 40628, the applicant herein was authorized to sell \$500,000 of its Series D 5½% Bonds with the restriction that prior to the issuance thereof it should "file with this Commission a certified copy of a resolution of its Board of Directors to the effect that it will not engage in any borrowing in excess of \$200,000 in any calendar year whether it be short term or otherwise, for the purpose of financing future construction requirements, without first securing the approval of this Commission." In compliance with this order the

Suburban Water Systems did, on December 31, 1958, file a certified copy of a resolution of its Board of Directors agreeing to the above condition.

On March 19, 1959, this company filed an application requesting modification of the condition of Decision No. 57782 and authority to incur an indebtedness on an interim basis of not to exceed \$500,000 during the year 1959.

In support of this Application No. 40628, a witness for applicant testified that \$500,000 of interim financing was necessary in order to enable it to meet its public utility obligations. The company is presently certificated to serve in a designated area. This area is rapidly filling in with new residents and, according to the witness, it is necessary for the company to provide facilities and services for these new customers.

As a result of this rapid expansion the company contends that it is necessary to secure additional capital or to refuse service. The method developed by the company to meet the demands of this rapid expansion has been for it to engage in short-term borrowing from banks, and periodically to retire these short-term notes by the issuing of bonds, which bonds are underwritten by various insurance companies.

An analysis of the record clearly shows that in the normal conduct of applicant's operations it has need for temporary borrowings in excess of \$200,000 and, therefore, we will enter our order granting First Supplemental Application No. 40628 so as to permit the company to engage in not to exceed \$500,000 of short-term financing during the calendar year 1959.

As to the request to issue and sell \$290,000 of Class A 5½% preferred stock, the evidence discloses that applicant is to sell this stock principally to subdividers at par, as well

as to employees and customers. However, the record shows that applicant has, and for some time has had, an unbalanced structure and that this condition would be worsened by the proposed issue of additional preferred stock. The following tabulation shows the company's capital ratios as of December 31, 1958:

| <u>Debt</u>                      | <u>Amount</u>          | <u>Per Cent</u> |
|----------------------------------|------------------------|-----------------|
| Bonds                            | \$ 5,862,000.00        | 46.67           |
| Notes Payable                    | 100,000.00             | .82             |
| Total Debt                       | <u>5,962,000.00</u>    | <u>48.49</u>    |
| <u>Advances for Construction</u> | <u>2,017,868.40</u>    | <u>16.41</u>    |
| <u>Preferred Stock</u>           |                        |                 |
| Class A 5½%                      | 1,259,734.09           | 10.24           |
| Class B 3%                       | 1,890,725.00           | 15.38           |
| Total Preferred                  | <u>3,150,459.09</u>    | <u>25.62</u>    |
| <u>Common Equity</u>             |                        |                 |
| Common Stock                     | 433,550.00             | -               |
| Earned Surplus                   | 386,636.60             | -               |
| Capital Surplus                  | 345,918.57             | -               |
| Total Common Equity              | <u>1,166,105.17</u>    | <u>9.48</u>     |
|                                  | <u>\$12,296,432.66</u> | <u>100.00</u>   |

In our opinion the company should not undertake the issue and sale of additional preferred stock at this time but, instead, should endeavor to dispose of additional common shares to meet its requirements. The request contained in Application No. 40954, therefore, will be denied.

O R D E R

Applications as above entitled having been filed, a public hearing having been held thereon, and the Commission being fully advised in the premises,

IT IS HEREBY ORDERED that:

1. Suburban Water Systems, on and after the effective date hereof, and on or before December 31, 1959, and only after compliance with the following condition and not before, may engage in short-term borrowing not to exceed a total amount of \$500,000 during the calendar year 1959:

Prior to incurring any further indebtedness, Suburban Water Systems shall file with this Commission a certified copy of a resolution of its Board of Directors that it will not engage in any borrowing in excess of \$500,000 in the calendar year of 1959 whether it be short term, or otherwise, without first securing the approval of this Commission.

2. Application No. 40954 hereby is denied.

3. Suburban Water Systems shall not further extend public utility service as a water corporation outside of its presently certificated service area pursuant to Section 1001 of the Public Utilities Code or otherwise without first applying for and receiving authorization so to do from this Commission by appropriate order.

4. Except as otherwise authorized herein, all of the provisions of Decision No. 57782, dated December 30, 1958, in Application No. 40628, shall remain in full force and effect.

The authority herein granted shall become effective on the date hereof.

Dated at San Francisco, California, this 7th day of July, 1959.

Ernest R. Boyd  
 President

John H. ...

Matthew ...

S. ...

Theodore ...  
 Commissioners