

ORIGINAL

Decision No. 59093

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 its) Application No. 41428
First Mortgage Series E, 5-1/2%)
Bonds under a Fourth Supplemental)
Trust Indenture to be dated as of)
July 1, 1959.)

Arthur D. Guy, Jr., and John C. Luthin, for
applicant; R. H. Nicholson, Jr., for
San Gabriel Valley Water Co., interested
party; R. R. Entwistle for the staff of
the Commission.

O P I N I O N

Suburban Water Systems, a corporation, has filed this application for authorization to execute a supplemental trust indenture and to issue and sell \$1,000,000 principal amount of first mortgage bonds.

The application was filed on August 27, 1959, and a public hearing was held before Examiner Coleman in Los Angeles on September 16, 1959, at which time the matter was taken under submission. The Commission has received no protests in the proceeding.

The bonds will constitute a new series. They will be designated as First Mortgage Series E 5-1/2% Bonds, will mature July 1, 1979, will bear interest at the rate of 5-1/2% per annum, and will be issued under and pursuant to the terms of a Fourth Supplemental Trust Indenture which will provide, among other things, that the corporation may not redeem Series E bonds in any event prior to

July 1, 1965, or at any time thereafter unless all bonds of all series at the time outstanding under the indenture are concurrently redeemed in full, if the funds to be used for that purpose shall have been obtained directly or indirectly from the issuance and sale by the corporation of one or more promissory notes, debentures, bonds or other debt securities or obligations bearing an interest rate or having an interest cost of less than five and one-half per cent (5-1/2%) per annum or if the corporation contemplates replacing the funds used for that purpose by other borrowed funds bearing an interest rate or having an interest cost of less than five and one-half per cent (5-1/2%) per annum. The company has had negotiations for the sale of \$500,000 of said bonds on or before September 30, 1959, and \$500,000, on or before December 31, 1959, to four insurance companies at their principal amount plus accrued interest.

The purpose of the proposed financing is to provide applicant with funds to meet, in part, the cost of paying indebtedness and of financing its 1959 construction budget. A summary statement prepared from Exhibit E shows applicant's estimated expenditures for the year as follows:

To pay accounts payable	\$ 200,000
To pay refunds due on contracts	262,532
Sinking fund payments	90,000
To purchase water stock	62,000
To pay bank loans	1,000,000
1959 construction budget	<u>1,155,700</u>
Total	<u>\$2,770,232</u>

The exhibit shows that applicant plans to finance its requirements, to the extent that they are not met with proceeds from the sale of its bonds, with treasury cash and internally generated funds, with advances for construction in the amount of \$166,000, and with bank borrowings and receipts from the sale of preferred stock.

In presenting this matter to the Commission, applicant has filed its earnings statement as Exhibit D. The statement shows, for the first seven months of 1959, gross income available for fixed charges in the amount of \$301,401, after making provision of \$185,578 for depreciation and shows interest and other fixed charges of \$174,558, leaving a balance, for the seven months' period, of \$126,843. A summary statement of the assets, liabilities and capital as of July 31, 1959, prepared from Exhibit E, is as follows:

<u>Assets</u>		
Net utility plant		\$12,966,455
Other investments		473,756
Net deferred items		<u>56,009</u>
Total		<u>\$13,496,220</u>
<u>Liabilities and Capital</u>		
Current -		
Current liabilities	\$840,920	
Current assets	<u>(722,933)</u>	
Net current liabilities		\$ 117,987
Bonds		5,840,000
Advances for construction		1,932,920
Contributions in aid of construction		428,647
Preferred stock		3,321,830
Common stock and surplus		<u>1,854,836</u>
Total		<u>\$13,496,220</u>

Applicant's capital ratios as of July 31, 1959, and as adjusted to give effect to the proposed \$1,000,000 bond issue, are as follows:

	<u>July 31, 1959</u>	<u>Pro Forma</u>
Bonds	53%	57%
Equity capital -		
Preferred stock	30	27
Common stock and surplus	<u>17</u>	<u>16</u>
Total equity capital	<u>47</u>	<u>43</u>
Total	<u>100%</u>	<u>100%</u>

In addition to the bonds and equity capital, the company had outstanding \$500,000 of short-term notes and \$1,932,900 of advances under subdivision contracts and, also, an accumulated depreciation reserve of \$1,811,635 representing moneys invested in the properties for which the company had not been reimbursed.

At the hearing two witnesses testified in support of the application. A financial witness testified that he had negotiated with possible purchasers for the sale of applicant's bonds, as well as for bonds of other water utilities; that in connection with the proposed issue the 5-1/2% interest rate was the lowest one he had been able to obtain; and that the restricted redemption provisions in the proposed Fourth Supplemental Trust Indenture were required by the bond purchasers as a condition to their purchase of these Series E bonds. The witness indicated that it was his experience bond buyers were not interested in bonds such as applicant's, at any price, unless there was some protective provision with respect to their redemption. The witness asserted that applicant's debt ratio, upon completion of the financing, would not be out of line with debt ratios of other large California water utilities.

An engineering witness testified as to the company's construction budget. He stated that the proposed expenditures of \$1,155,700 were for additions and improvements necessary to maintain the existing system and to extend the lines within the company's present service area and that substantially all of them represented revenue-producing facilities, although a small portion would be deferred beyond the end of 1959. There is included in the construction budget the sum of \$383,200 for tract and main extensions and the witness testified, as to this amount, that \$166,000 would be represented by consumers' advances for construction and the remainder would be financed with the company's own funds.

Upon reviewing this matter we are of the opinion, and so find, that the proposed restricted redemption provisions are too onerous and should be modified so as to exclude the requirement that bonds of all series must be redeemed in the event it is concluded to call the Series E bonds for payment. Our order herein will be conditioned on such a modification in the proposed terms of the new bonds.

We find that there are adequate earnings and sufficient expenditures, even excluding those estimated for tract and main extensions, to support the proposed issue and that, with the modification in the indenture which we will require, as stated above, the issue of the bonds is compatible with the public interest and will not impair the company's ability to render service as a public utility.

On the basis of the foregoing findings, we will enter our order granting the application. The authorization herein granted is for the issue of the bonds only and is not to be considered as approval of all the items contained in the company's construction budget nor as indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

A public hearing having been held in the above-entitled matter and the Commission being advised in the premises and being of the opinion that the money, property or labor to be procured or paid for by the issue of the \$1,000,000 of bonds herein authorized is reasonably required 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, on or after the effective date hereof and on or before December 31, 1959, may execute a purchase agreement and Fourth Supplemental Trust Indenture in substantially the same form as the documents filed in this proceeding as Exhibit A and Exhibit B, respectively, provided, however, that said Fourth Supplemental Trust Indenture be modified by deleting from the form of the bond the following language:

" . . . or at any time thereafter unless all Bonds of all series at the time outstanding under the Indenture are concurrently redeemed in full, . . . "

2. Suburban Water Systems, on or after the effective date hereof and on or before December 31, 1959, may issue and sell not to exceed \$1,000,000 in principal amount of First Mortgage Series E 5-1/2% Bonds.

3. Applicant shall use the proceeds from the sale of the bonds for the purpose of paying indebtedness and of financing the cost of additions, betterments and extensions properly chargeable to utility plant accounts and for reimbursement of its treasury. The accrued interest may be used for said purposes or for general corporate purposes.

4. Suburban Water Systems shall file with the Commission a report, or reports, as required by General Order No. 24-A, which order, insofar as applicable, is made a part of this order.

5. 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 \$1,000, and when it has filed with the Commission a copy of its proposed Fourth Supplemental Trust Indenture modified as indicated herein.

Dated at San Francisco, California, this
12th day of October, 1959.

John E. McKeage President
E. L. Fox
Theodore H. Hume
Commissioners

Everett C. McKeage
Commissioner Matthew J. Dooley, being
necessarily absent, did not participate
in the disposition of this proceeding.

