

Decision No. 59906

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 authority to sell and issue \$290,000 of its Series "A" 5-1/4% cumulative preferred shares, and for authority to sell and issue \$290,000 of its Series "B" 3% cumulative preferred stock; or in the alternative to issue said shares pursuant to the terms and conditions of an advisory opinion of the Commission

Application No. 41491
and Amendment

INTERIM OPINION

In the original application in the above-numbered proceeding filed on September 14, 1959, and in an amendment filed on February 29, 1960, Suburban Water Systems requests the Commission to authorize it -

1. To issue and sell \$290,000 of its Series "A" 5-1/4% cumulative preferred stock;
2. To issue and sell \$290,000 of its Series "B" 3% cumulative preferred stock;
3. To engage in interim borrowings up to \$500,000 in 1960; and
4. To issue interest bearing notes in the aggregate amount of not to exceed \$300,000.

A statement, prepared from Exhibit C filed in this proceeding, shows applicant's capital structure, as of July 31, 1959, as follows:

Long-term debt		\$ 5,840,000	43%
Notes payable		500,000	4
Advances for construction		1,932,920	14
Sub-total		<u>8,272,920</u>	<u>61</u>
Preferred stock -			
Series A, 5-1/4%	\$1,424,730		
Series B, 3%	<u>1,897,100</u>		
Total preferred stock		3,321,830	25
Common stock and surplus -			
Common stock	433,550		
Capital surplus	971,489		
Earned surplus	<u>449,797</u>		
Total common stock and surplus		<u>1,854,836</u>	<u>14</u>
Total		<u>\$13,449,586</u>	<u>100%</u>

As of the same date, applicant reported current assets of \$722,933 and current liabilities of \$840,920, including the \$500,000 of notes payable, but excluding cumulative dividends on preferred stock and any amounts which might become payable within one year on construction advances and other long-term debt.

In presenting this matter to the Commission, applicant reports that it has need for funds to pay indebtedness and to meet construction costs and that it proposes to issue stock in order to build up its bondable base to support future debt financing. A statement, prepared from Exhibit C, shows applicant's estimated cash requirements during 1960 as follows:

To meet sinking fund payments	\$ 90,000
To reduce accounts payable	100,000
To repay bank loans	500,000
To purchase mutual water company stock	100,000
To pay 1959-60 refunds	388,000
To meet 1960 construction budget	542,000
To pay for additional construction to improve service	475,000
To construct tract facilities	<u>500,000</u>
Total	<u>\$2,695,000</u>

Applicant reports that it will meet its expenditures, in part, with internally generated funds and, in part, with advances, bank borrowings, long-term debt and preferred and common stock.

As to the presently proposed issues of voting preferred stock of both series, applicant reports that in no case will it sell such stock, in lieu of a refund agreement, to anyone whose water service installation will result from an extension of applicant's mains. Applicant requests approval of a program whereby, in the event a subdivider requests a main extension or requests water service resulting in a main extension, it (the applicant) shall have the option of entering into a refund contract on the 22% of revenue basis or on the proportionate cost basis and to make refunds on either contract basis, by mutual agreement, by cash or by shares of preferred stock. The 5-1/4% voting preferred stock would be utilized for such payments under the percentage of revenue contracts and the 3% preferred stock under the proportionate cost contracts.

We have considered applicant's requests to issue stock and at this time will enter an order authorizing the sale of the Series "A" voting shares for cash, subject to the conditions of the Order herein, but holding in abeyance for further consideration the matter of issuing preferred stock pursuant to agreements with subdividers as to the repayment of amounts as they become due. In addition, at this time we

will authorize it to continue its interim short-term borrowings of \$500,000 during 1960, as it clearly appears, and we so find, that applicant will have need for interim financing during the year as it proceeds with its construction activities and as it is required to pay outstanding indebtedness. We will also authorize it to offer its five-year 6% notes in payment of installments on its refund contracts which may be past due as of the effective date of this Order.

The authorization herein granted is for the issue of securities 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.

INTERIM ORDER

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, that the money, property or labor to be procured or paid for by the issue of the stock and notes herein authorized is reasonably required for the purposes specified herein, and that such purposes 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, on or after the effective date hereof and on or before December 31, 1960, may issue and sell, at not less than par, for cash, not to exceed \$290,000 of its Series "A" 5-1/4% voting cumulative preferred stock for the purposes specified in this proceeding, provided, however, that applicant shall deposit the proceeds from sales of such 5-1/4% voting cumulative preferred stock in a separate bank account and disburse said proceeds for such purpose, or purposes, as the Commission may authorize in a supplemental order, or orders, in this proceeding.

2. Suburban Water Systems, on or after the effective date hereof and on or before December 31, 1960, may engage in short-term borrowings not to exceed a total amount of \$500,000 during the calendar year 1960.

3. Suburban Water Systems, on or after the effective date hereof and on or before December 31, 1960, may issue not to exceed \$300,000 in principal amount of its promissory notes, bearing interest at not to exceed 6% per annum, and payable on or before five years after date of issue, in payment, at dollar for dollar, for installments on refund contracts which may be past due as of the effective date of this Order, provided, however, that applicant shall make its offer to issue such notes to each and every payee of such past due installments, in writing, by a prospectus or letter which shall state (a) that the authorization of the Commission is permissive only and in no way requires the payees of such past due installments

to accept notes in lieu of cash, and (b) that such authorization shall not be construed as obligating the State of California to pay or guarantee a return on the notes in any way whatsoever.

4. On or before the 25th day of each month, in accordance with the terms of General Order No. 24-A, applicant shall file with the Commission a report of the issue of the stock and notes under the authorization herein granted, and a report of said separate bank account showing the balance in cash at the beginning of the preceding month, the deposits during the month, the withdrawals, and the balance at the end of the month. Applicant shall also file with the Commission a copy of the form of each prospectus or letter which it issues in offering its notes within 30 days after its issuance.

5. The authority herein granted to issue notes shall become effective when applicant has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$300. In other respects, this Order shall become effective 20 days after the date hereof.

Dated at San Francisco, California, this 12th day of April, 1960.

[Signature]
President

[Signature]
[Signature]

[Signature]
Commissioners

PUBLIC UTILITIES COMMISSION
STATE OF CALIFORNIA
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