

ORIGINAL

Decision No. 59907

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 reduce the par value of its common shares to \$10.00 per share; for authority, thereafter, to issue 5 common shares for each common share presently outstanding; and for permission to distribute to the common shareholders a stock dividend.

Application No. 41492  
and Amendment

O P I N I O N

In the original application filed in the above-numbered proceeding on September 14, 1959, and in an amendment filed on February 29, 1960, the Commission is asked to make its order authorizing Suburban Water Systems -

1. To issue 43,355 shares of \$10 par value common stock in exchange for presently outstanding \$50 par value common stock on a five for one split;
2. To issue additional shares of its \$10 par value common stock in an aggregate amount of not to exceed \$715,357.50 against its accumulated capital and earned surplus and to distribute such shares as a dividend to the holders of its outstanding common stock;
3. To issue and sell \$290,000 of its \$10 par value common stock to the general public, for cash; and
4. To issue \$350,000 of its \$10 par value common stock in exchange for outstanding shares of 5-1/4% preferred stock.

The following tabulation, prepared from Exhibit B filed in this proceeding, shows applicant's assets, liabilities and net worth as of July 31, 1959, as follows:

<u>Assets</u>		
Utility plant, less reserves		\$12,966,455
Other investments		473,756
Current assets		722,933
Deferred debits		<u>218,838</u>
Total		<u>\$14,381,982</u>
<u>Liabilities and Net Worth</u>		
Long-term debt		\$ 5,840,000
Current liabilities		840,920
Deferred credits		162,829
Advances for construction		1,932,920
Contributions in aid of construction		428,647
Preferred stock		3,321,830
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>
Total		<u>\$14,381,982</u>

The outstanding common stock consists of 8,671 shares of the par value of \$50 each and with a book value, on the basis of the foregoing balance sheet figures, of approximately \$214 each.

Applicant reports that it has entertained the objective of issuing and selling additional common shares and has been advised that such shares would be more marketable and more generally distributed if the par value were to be reduced from \$50 to \$10 a share. Accordingly, applicant has taken steps to

amend its articles of incorporation so as to reduce the par value of its common shares and to issue five of the new \$10 shares in exchange for each \$50 share outstanding. The holders of the new common shares will be entitled to one vote for each share held by them and the holders of the preferred shares, which have a par value of \$50 each, will be entitled to five votes for each share held.

In order to reduce the claimed book value of its common shares to a figure more nearly equal to the par value, prior to selling additional common shares, applicant proposes to issue to the present common shareholders a dividend of \$16.50 a share, payable in the new \$10 common shares, amounting, in the aggregate, to \$715,357.50. It intends to record the transaction on its books by transferring to stated capital the sum of \$345,000 from capital surplus and the sum of \$370,357.50 from earned surplus.

The company further reports that it is desirous of increasing its common stock equity capital and that it intends to offer for sale \$290,000 of its \$10 par value common stock to the general public, for cash, and to use the proceeds to meet, in part, its 1960 capital requirements and, in addition, to offer up to \$350,000 of its \$10 par value common stock to the present holders of its 5-1/4% preferred shares, for exchange, on the basis of 2-1/2 shares of common stock for each share of preferred stock so held.

In connection with applicant's request to capitalize surplus to the extent of \$715,357.50, it is observed that, as of July 31, 1959, the company reported capital surplus of \$971,489 and earned surplus of \$449,797, a total of \$1,421,286. However, an analysis of the surplus accounts, filed in this proceeding as Exhibit B, shows that there is included in the capital surplus account the sum of \$444,000 which was set up to record an appraisal of water rights but which was not approved by the Commission and, so far as can be ascertained, does not represent the capitalization of any consideration passing from the utility to other parties, and that there also is included the sum of \$180,859.91 representing amounts transferred from advances in aid of construction upon satisfaction of the remaining liability under certain advance contracts at less than face value, which amount the Commission has directed the company to transfer to donations in aid of construction.

Moreover, it should be noted that recently the Commission by Decision No. 59631 and Decision No. 59646, both dated February 9, 1960, reviewed certain of applicant's rates and, in so doing, excluded from the rate base sums aggregating \$541,300 representing unreasonable charges and profits by affiliated companies and \$97,200 representing adjustments in mutual stock transactions.

Under the provisions of the Public Utilities Code we can authorize the issue of stock only for certain specified purposes and no others. We can, of course, under certain conditions, authorize the issue of stock against recorded surplus, that is, in reimbursement of moneys actually expended from income, provided that we can make the finding required by the code as to the reasonableness of the issue. In considering the present matter, however, we are of the opinion, and so find, (1) that the \$180,859.91 item and the \$444,000 write-up to reflect an appraisal of water rights do not represent amounts which can be capitalized by the issue of stock and (2) that the balances in the company's accounts include recorded expenditures for plant which we do not consider reasonable or proper and which, for the purpose of this proceeding, must be considered as being offset on the books by equity capital. These items, to which the Commission has taken exception, are included in the book accounts in the aggregate amount of \$1,263,359, as compared with the book surplus accounts of \$1,421,286. The difference between the two amounts is \$157,927 which, in our opinion, is not sufficient to support the application with respect to the stock dividend. Under these circumstances, we cannot make the finding required by the provisions of the code and hence we must deny the company's request to issue \$715,357.50 of stock to capitalize surplus.

We have no objection to the stock split nor to the proposals of the company to offer shares of common stock in exchange for outstanding 5-1/4% voting preferred stock and to sell additional common stock, for cash, as it appears the

company will have need for funds from external sources to meet its 1960 capital requirements, although the estimated expenditures for such requirements are not set forth in the application in such detail as to permit a final order at this time as to the disposition of the proceeds. Accordingly, we will enter an order authorizing the issue of these shares, it being our opinion that the money, property or labor to be procured or paid for by such issues 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, but we will withhold final approval of the expenditures of the proceeds pending the submission of additional information.

The authorization herein granted is for the issue of stock 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.

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 an order should be entered denying the company's application, in part, and granting it, in part, 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 not to exceed 43,355 shares of its common stock of the par value of \$10 each in exchange for presently outstanding shares of common stock of the par value of \$50 each on the basis of five of the \$10 par value shares for each \$50 par value share.

2. The request of Suburban Water Systems to issue not to exceed \$715,357.50 of its common stock against its accumulated capital and earned surplus be, and it hereby is, denied.

3. Suburban Water Systems, on or after the effective date hereof and on or before December 31, 1960, may issue and sell not to exceed \$290,000 par value of its common stock to the general public, for cash, at not less than par, for the purposes set forth in this application, subject to the provisions of this Order, and may issue not to exceed \$350,000 par value of its common stock to the holders of its 5-1/4% preferred shares now outstanding, in exchange, on the basis of 2-1/2 shares of common stock for each share of 5-1/4% preferred stock so offered for exchange, provided, however, that -




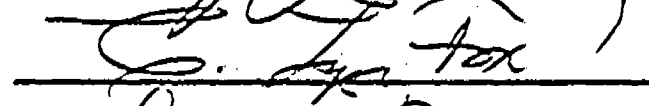
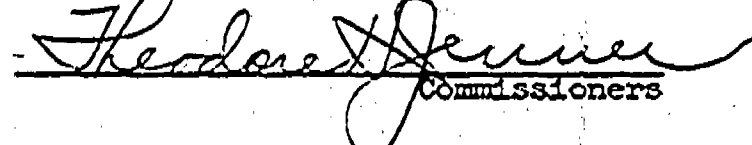
- (a) Applicant shall make its offer to exchange shares of stock to each and every holder of the presently outstanding shares of 5-1/4% preferred stock; and that
- (b) In offering said stock for sale or for exchange, applicant shall deliver to each proposed purchaser or recipient of such stock, a prospectus or letter stating on its face that the authorization of the Commission shall not be construed as obligating the State of California to pay or guarantee a return on the stock in any way whatsoever and further stating that the Commission in fixing rates for applicant has excluded from the rate base, as improper charges, items aggregating \$1,263,359 which the company includes in its asset accounts; and that

(c) Applicant shall deposit the proceeds from the sale of the \$290,000 of common 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.

4. On or before the 25th day of each month, in accordance with the provisions of General Order No. 24-A, applicant shall file with the Commission a report of the issue of the stock 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 stock for sale or exchange within 30 days after its issuance.

5. The effective date of this Opinion and Order shall be 20 days after the date hereof.

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

  
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President  
  
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Commissioners