

Decision No. 60145

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

Petition for Modification
of Order

OPINION ON PETITION FOR MODIFICATION

On May 3, 1960, Suburban Water Systems filed a petition in the above-entitled matter for modification of the order in Decision No. 59906, dated April 12, 1960.

Decision No. 59906, which was an interim decision, authorized Suburban Water Systems, among other things, to issue and sell at not less than par, for cash, not to exceed \$290,000 par value of its Series "A" 5-1/4% cumulative preferred stock subject to the condition that the company deposit the proceeds in a separate bank account and disburse them for such purpose, or purposes, as the Commission might authorize in a supplemental order, or orders. The decision held in abeyance approval of a program suggested by applicant whereby a subdivider in requesting a main extension would have the option of entering into a

refund contract, on either the proportionate cost basis or the percentage of revenue basis, providing for payment in cash or in shares of preferred stock. One plan called for the issue of 5-1/4% cumulative preferred stock and the other, 3% preferred stock.

In its petition for modification the company reports that it has been unable to meet refund contract installments as they have become due. It requests that the Commission modify its former order so as to permit it to disburse the proceeds from the sale of its preferred stock to meet its obligations, including the payment of such past due installments, and to finance its capital costs and provide working capital. It has presented a statement of its estimated capital requirements during 1960 and its probable sources of funds, which statement is summarized as follows:

Requirements

Sinking fund on bonds	\$	90,000
Accounts payable		100,000
Bank loans		500,000
Purchase mutual water company stock		100,000
Pay 1959-60 refunds		388,000
Construct tract facilities		500,000
1960 construction budget		542,000
Additional improvements		475,000
Working cash		130,000
		<u>130,000</u>
Total		<u>\$2,825,000</u>

Sources of funds

Net profit after income tax and preferred dividend	\$	9,000
Depreciation	<u>350,000</u>	\$ 359,000
Bank loans		400,000
Advances for construction		500,000
Series E bonds		486,000
Special deposits		200,000
Notes		300,000
Preferred stock		290,000
Common stock		290,000
		<u>290,000</u>
Total		<u>\$2,825,000</u>

The company has also filed in this proceeding a detailed statement of its proposed construction expenditures during 1960.

From a review of the information of record in this matter it clearly appears that applicant does not have sufficient internal resources to enable it to meet its obligations, including payments on refund contracts as they become due, and to make the necessary improvements and additions to its water works facilities to serve the public. Its ability to provide for its financial and service obligations, as indicated by the preceding tabulation, is conditioned on its success in borrowing short-term moneys and in selling bonds, preferred stock and common stock. It is to be noted that the company does not intend to use the proceeds from the sale of its stock to finance main extensions which are to be provided under the main extension rule.

We are cognizant of applicant's problems. We will not at this time approve the proposed modifications of the refund agreements as suggested by applicant, but we will enter our order authorizing the disposition of the proceeds from the sale of the preferred stock heretofore authorized. It occurs to us that applicant's proposed financing, as herein approved, if successfully carried out, should provide applicant with funds to accomplish its necessary construction work and should minimize future cash refund requirements and at the same time develop additional bondable plant. In the absence of definite information, we will not authorize the use of stock proceeds to pay for mutual water company stock.

We will enter our order in accordance with the foregoing observations and conclusions. In our opinion the money, property or labor to be procured or paid for by the issue of the stock referred to in this proceeding is reasonably required for the purposes specified herein and the expenditures herein authorized are not, in whole or in part, reasonably chargeable to operating expenses or to income. The authorization herein granted is for the purpose of this proceeding only and is not to be construed as an approval of all the items contained in the company's capital budget nor as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates. It appears that there is an ample margin of proposed expenditures over and above the proceeds from the sale of applicant's stock to warrant the action to be taken herein.

ORDER ON PETITION FOR MODIFICATION

The Commission having given further consideration to the above-entitled matter and being of the opinion that a public hearing is not necessary, that the petition for modification should be granted to the extent herein authorized and that a final order should be entered, therefore,

IT IS HEREBY ORDERED as follows:

1. Ordering Paragraph 1 of the order in Decision No. 59906, dated April 12, 1960, be, and it hereby is, modified so as to read as follows:

"1. Suburban Water Systems, on or after the effective date hereof and on or before June 30, 1961, may issue and sell not to exceed \$290,000 par value of its Series "A" 5-1/4% cumulative preferred stock to the general public, for cash, at not less than par, and use the proceeds for the purpose of paying indebtedness and of financing the cost of additions and improvements to its water works facilities, provided, however, that -

"(a) Applicant shall not sell said stock to anyone who otherwise would be entitled to a refund contract in the form now filed with the Commission in exchange for an advance for construction.

"(b) Applicant shall finance only such expenditures as properly are chargeable to utility plant and other investment accounts as defined in the uniform system of accounts which has been prescribed for water utilities.

"(c) Applicant shall not use the proceeds from the sale of said stock to provide the cost of main extensions which must be provided by advances in accordance with the company's filed tariffs or to pay for mutual water company stock."

2. Ordering Paragraph 4 of the order in Decision No. 59906, dated April 12, 1960, be, and it hereby is, modified to read as follows:

"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 of the disposition of the proceeds."

3. Except as modified herein, the provisions of the order in Decision No. 59906, dated April 12, 1960, shall remain in full force and effect.

4. The effective date of this order shall be the date hereof.

Dated at San Francisco, California,
this 24th day of May, 1960.

Carroll W. Page
President
William J. Daley
E. J. Fox
Theodore Jenner
Commissioners