

ORIGINAL

Decision No. 63353

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 sell securities and in connection therewith, to issue and sell its First Mortgage Series "E" 5-3/4% Bonds under the Fourth Supplemental Trust Indenture to issue and sell its debentures under Indenture to be dated January 1, 1962 and to issue and sell Series "A" Preferred Stock.

Application No. 44154
Filed February 5, 1962

O P I N I O N

This is an application for an order of the Commission authorizing Suburban Water Systems, a corporation, applicant herein, (1) to issue and sell \$500,000 principal amount of first mortgage bonds, (2) to issue and sell \$1,000,000 principal amount of debentures, (3) to enter into a purchase agreement and an indenture relating to said debentures, and (4) to issue and sell \$290,000 par value of preferred stock.

Applicant is a California corporation which is engaged, as a public utility, in the business of acquiring, owning and operating wells and other sources of water supply, pipelines and other facilities in certain areas of southern California generally described as the Whittier-Rivera District and the San Jose Hills District. It proposes to sell the bonds and debentures to certain insurance companies as follows:

	<u>Bonds</u>	<u>Debentures</u>
The Lincoln National Life Insurance Company \$ -		\$ 300,000
The Northwestern Mutual Life Insurance Company	166,000	-
Pacific Mutual Life Insurance Company	150,000	300,000
Occidental Life Insurance Company of California	150,000	250,000
Bankers Life Insurance Company of Nebraska	34,000	100,000
Nebraska National Life Insurance Company	-	50,000
Total	<u>\$500,000</u>	<u>\$1,000,000</u>

The \$500,000 of bonds constitute a portion of an existing series consisting of \$1,500,000 of bonds designated as First Mortgage Series "E" 5-3/4% Bonds, which will mature on July 1, 1979, and which were created by a Fourth Supplemental Trust Indenture dated as of July 1, 1959, executed by applicant with Security First National Bank. Applicant has issued and sold \$1,000,000 of such bonds pursuant to a purchase agreement, as amended, previously authorized by this Commission, which, as of June 10, 1961, was amended further to extend to March 31, 1962, the time limit for which said four insurance companies may purchase the additional \$500,000 of bonds which applicant now desires authority from this Commission to issue and sell.

The \$1,000,000 of debentures will constitute a new series designated as 6% Debentures due January 1, 1977, and will be issued pursuant to the terms of a purchase agreement between applicant and the five insurance companies, and of an indenture dated as of January 1, 1962, between applicant and United California Bank, as Trustee. The debentures will bear interest at the rate of 6% per annum, will mature on

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January 1, 1977, will be redeemable on or prior to January 1, 1967, at a premium of 5% and thereafter at annually decreasing premiums, provided, however, that applicant may not redeem any of the debentures prior to January 1, 1967, if the funds to be used for that purpose shall have been obtained directly or indirectly from the issuance and sale by applicant of one or more promissory notes, debentures, bonds, or other debt securities or obligations bearing an interest cost of less than 6% per annum, or if applicant contemplates replacing the funds used for that purpose by other borrowed funds bearing an interest rate or having an interest cost of less than 6% per annum. The company proposes to sell \$500,000 of said debentures on or before March 31, 1962, and \$500,000 on or before December 31, 1962.

The \$290,000 par value of preferred stock which applicant proposes to issue and sell consists of 5,800 shares of its Series "A" 5-1/4% Cumulative Preferred Stock of the par value of \$50 per share. At December 31, 1961, 40,211 of such shares were outstanding.

The purchase agreements provide that applicant issue and sell said \$500,000 of bonds and \$1,000,000 of debentures for the purpose of providing it with a means to retire outstanding bank loans, (2) to pay its operating expenses, its treasury for the cost of additions to its assets, including water producing and pumping plants and purification facilities.

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THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

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The \$290,000 par value of preferred stock which applicant proposes to issue and sell consists of 5,800 shares of its Series "A" 5-1/4% Cumulative Preferred Stock of the par value of \$50 per share. At December 31, 1961, 40,240 of such shares were outstanding.

The purchase agreements provide that applicant shall issue and sell said \$500,000 of bonds and \$1,000,000 of debentures for the purpose of providing it with funds (1) to retire outstanding bank loans, (2) to pay for, or to reimburse its treasury for the cost of additions to its tangible capital assets, including water producing and distributing facilities, pumping plants and purification facilities, (3) to pay expenses

connected with the sale of the bonds and debentures, and (4) to provide additional working capital. The proceeds from the sale of the \$290,000 par value of preferred stock will be used for financing 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 by the Commission for water utilities.

For the year 1962 applicant estimates its requirements for plant additions, for repayment of debt, and for working capital as follows:

Capital improvement budget for 1962	\$ 793,700
Tracts and main extensions	350,000
Meters	60,000
Miscellaneous services	55,000
Telemetering	35,000
Unforeseen work	150,000
Completion of tracts and other work in progress	165,000
Field and office equipment	35,000
Warehouse and shops	170,000
Payment of notes	16,000
Refunds of advances	177,000
Bond retirement	105,000
Purchase of mutual water company stock	20,000
Bank loan repayment	500,000
Increase working capital	<u>199,300</u>
Total	<u>\$2,831,000</u>

In addition to funds to be received from selling bonds, debentures, and preferred stock, applicant proposes to meet its requirements, in part, with internally generated funds and, in part, with advances, bank borrowings, and sales of common stock. The company's capitalization ratios as of December 31, 1961, and as adjusted to include the proposed financing and to exclude

from capital surplus the sum of \$4,125,000 representing water rights appraisals, and \$239,475 properly includable in contributions in aid of construction, are indicated in the following tabulation:

	<u>Dec. 31, 1961</u>	<u>Pro Forma</u>
First mortgage bonds	47%	45%
Debentures	-	7
Notes	2	-
Subtotal	<u>49</u>	<u>52</u>
Advances	12	11
Preferred stock	28	27
Common stock and surplus	<u>11</u>	<u>10</u>
Total	<u>100%</u>	<u>100%</u>

We have considered this application and, based upon the information before us, we find and conclude that (1) applicant will have need for externally generated funds for the purposes authorized in the following order; (2) the terms of the proposed bond, debenture and preferred stock issues are not adverse to the public interest; (3) applicant will be required to pay a lower interest rate on the debentures it now proposes to issue than it would if the five-year redemption feature were to be deleted and the ensuing lower financial requirements should inure to the benefit of the consumers; (4) applicant's recorded and prospective results of operations should be sufficient to service said bonds, debentures, and shares of preferred stock; (5) the money, property or labor to be procured or paid for by the issue of the bonds, debentures, and shares of preferred stock herein authorized is reasonably required by applicant for the purposes specified in the order which follows; and (6) such purposes, except as otherwise

authorized for the bonds and debentures, are not, in whole or in part, reasonably chargeable to operating expenses or to income. On the basis of these findings, we will enter our order granting the application.

The authorization herein granted is for the issue and sale 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.

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 the application should be granted subject to the conditions hereinafter set forth, therefore,

IT IS ORDERED that -

1. Suburban Water Systems, a corporation, on or after the effective date hereof and on or before June 30, 1963, may issue not to exceed \$500,000 principal amount of its First Mortgage Series "E" 5-3/4% Bonds, due July 1, 1979, and not to exceed \$1,000,000 principal amount of its 6% Debentures due January 1, 1977, and may sell said bonds and debentures at not less than their principal amount, plus accrued interest.

2. Suburban Water Systems, a corporation, may enter into a purchase agreement and an indenture relating to said debentures, which instruments shall be in the same form, or substantially in the same form, as those filed in this proceeding as Exhibits F and G, respectively.

3. Suburban Water Systems, a corporation, on or after the effective date hereof and on or before June 30, 1963, may issue not to exceed 5,800 shares of its Series "A" 5-1/4% Cumulative Preferred Stock of the par value of \$50 each, and sell such shares for cash, at not less than par, provided that in offering the stock for sale, applicant shall first notify a prospective purchaser, in writing, that purchase of the stock will not relieve the purchaser of any obligation which may exist to advance costs as required by the utility's filed main extension rule.

4. Suburban Water System, a corporation, shall deposit the proceeds from the sale of the bonds, debentures, and preferred stock herein authorized in one or more separate bank accounts and disburse such proceeds only for the purposes referred to in this decision, provided, however, that the company (1) may use the accrued interest from the sale of said bonds and debentures for such purposes or for general corporate purposes, and (2) shall not use any of the proceeds from the sale of said bonds, debentures, and preferred stock to provide the cost of main extensions which must be provided by advances in accordance with its filed tariffs or to pay for mutual water company stock.

