

Decision No. 78146

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 )  
permission to issue \$500,000 of )  
Debentures and \$250,000 in )  
Common Stock. )

Application No. 52130  
(Filed August 13, 1970)

Arthur D. Guy, Jr., Attorney at Law,  
for applicant.  
J. J. Gibbons and Raymond E. Heytens,  
for the Commission staff.

O P I N I O N

After due notice, a public hearing on the application was held in Los Angeles on September 22, 1970, before Examiner Rogers and, subject to the filing of a cash-flow statement within ten days, submitted. A cash-flow statement was filed. The staff objected to the exhibit and the Commission set aside the submission and ordered a further hearing (Decision No. 77946 dated November 10, 1970). The further hearing was held before Examiner Rogers in Los Angeles on November 17, 1970, additional evidence was presented and the matter was again submitted.

The applicant seeks authority:

- (1) To issue \$500,000 in 10 percent debentures due in 1977 and,
- (2) To issue and sell common stock of an aggregate par value of \$250,000.

Applicant is a California corporation engaged in public utility water corporation operations therein. It has two service areas which it calls, respectively, its Whittier Area which is located in and near the City of Whittier, and its San Jose Hills Area which comprises three separate service areas which, respectively, are near the Cities of (a) Glendora (b) Covina and (c) West Covina, La Puente and Industry.

For six months ended June 30, 1970, applicant's gross revenues from the operations were \$1,615,999.

The applicant's assets and liabilities, as of June 30, 1970, as summarized on Exhibit B attached to the application were as follows:

Assets

Utility Plant less Accumulated Provision for Depreciation	\$17,825,759
Other Assets	3,573,502
Total	<u>\$21,399,261</u>

Liabilities

Common Stock	\$ 468,890
Preferred Stock	4,119,960
Premium on Capital Stock	254,620
Retained Earnings	1,867,983
Long Term Debt	7,064,275
Short Term Notes Payable	983,691
Customer Advances for Construction	3,104,604
Contribution in Aid of Construction	1,299,270
Other Liabilities	2,235,968
Total	<u>\$21,399,261</u>

From the funds to be procured by the sale of stock and debentures, applicant proposes to pay a portion of its heretofore issued short term promissory notes as they become due, pay refunds on main extension contracts, and construct utility plant. Assuming a sales price of \$50 per share <sup>1/</sup> for common stock, aggregating \$250,000, and the issuance of \$500,000 in 10 percent debentures, applicant proposes to apply the funds as follows:

Retire Short Term Notes <sup>2/</sup>	\$350,000
Pay Refunds on Main Extension Contracts	200,000
Increase Working Capital	100,000
Construct Utility Plant	100,000
Total	<u>\$750,000</u>

Adjusted to give effect to the proposed issuance of common stock and \$500,000 face value of debentures, applicant's capitalization ratio, as computed by the staff <sup>3/</sup> is as follows:

	<u>June 30, 1970</u>	
	<u>Recorded</u>	<u>Pro forma</u>
Long Term Debt	38.9%	41.2%
Short Term Debt	5.4	3.4
Advances for Construction	16.8	15.5
Preferred Stock	22.6	22.4
Common Equity	16.3	17.5
Total	<u>100.0</u>	<u>100.0</u>

1/ The stated par value is \$10 per share. The applicant and the staff agreed that as of September 2, 1970, the book value of the common stock was \$63.22 per share and that any authorized sales should be for not less than \$50 per share.

2/ Funds from these notes were used for plant additions, payment on refund contracts, or to retire other notes, proceeds of which were similarly used.

3/ The staff includes \$633,691 in short term notes, not included by applicant.

The staff Financial Examiner hesitantly recommended that the application be granted because, he said, the applicant's need for stop-gap financing appears to be so urgent that the staff is reluctant to deny the application.

The staff (Exhibit No. 4) states that applicant has nearly \$1 million in short term loans from water customers which will fall due within one year. It also states that applicant owes about \$300,000 in past due refunds on advances for construction. The staff states that the applicant has failed to make a convincing showing that it will have sufficient funds, other than from the sale of new securities, to pay the short term notes as they fall due.

The staff recommended that, as conditions to the granting of authority to issue the debentures and stock as requested, the applicant should:

1. Offer the common shares first to existing shareholders on a pro-rata basis.
2. Apply the proceeds from the sale of securities first to retire not less than \$350,000 outstanding short term notes that were issued in original face amounts of \$50,000 or less.
3. Maintain a maximum level of such short term notes at not more than \$650,000, and that the applicant, by this proviso, not be restricted from bank or other institutional short term borrowing.
4. Gradually phase out the use of short term borrowings by substitution of long term and equity financing and sale of properties and continue its short term note program on and after June 30, 1971, only if authority is obtained from the Commission.

5. Provide each prospective purchaser with a copy of the decision herein and receive and maintain for the Commission a receipt therefor.

6. Cease purchases of properties from related interests either directly or indirectly, unless and until authorized by a letter from this Commission.

7. Refrain from payment of dividends in cash if any of its other obligations are in arrears.

The applicant agreed with all recommendations except No. 7. Applicant's counsel pointed out that applicant had never failed to pay its preferred stock dividends and that if it could not pay its general obligations it would necessarily refrain from paying its stock dividends. We agree with the staff that applicant's financial position warrants the inclusion of this requirement.

After consideration the Commission finds that:

1. The proposed stock and debenture issues are for proper purposes.

2. Applicant has need for funds from external sources for the purposes set forth in these proceedings.

3. The terms and conditions pertaining to the proposed stock and debentures are reasonable.

4. The money, property or labor to be procured or paid for by the issue of the stock and debentures herein authorized is reasonably required for the purposes specified herein, which purposes are not in whole or in part, reasonably chargeable to operating expenses or to income.

On the basis of the foregoing findings we conclude that the application should be granted subject to the conditions contained in the order.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein given is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in proceedings for the determination of just and reasonable rates.

O R D E R

IT IS ORDERED that:

1. Suburban Water Systems, a corporation, subject to the terms and conditions set forth in this order, after the effective date hereof and before June 30, 1971.

(a) May issue and sell not exceeding 5,000 shares of its \$10 par value common stock for not less than \$50 per share and for a total sum of not to exceed \$250,000, and

(b) May issue not to exceed \$500,000 face value of 10 percent 7 year maturity debentures in the form attached to the application as Exhibit A.

This authority is subject to the conditions, in addition to others contained in this order that:

(1) Prior to the sale of its common stock as hereby authorized to the general public applicant shall offer said shares to its present shareholders on a pro-rata basis, allowing such shareholders at least 30 days in which to accept or reject such offer, and shall present written proof of such offer to the Commission within 30 days after the expiration of such offer period.

(2) Applicant shall use the first \$350,000 derived from the sales of stock and/or debentures for the retirement of outstanding short term notes having face value amounts of \$50,000 or less.

(3) After the retirement of short term notes as specified in subparagraph 1. (b) (2) above, applicant shall not at any time have outstanding short term notes aggregating \$650,000. This condition shall not restrict or prohibit applicant from bank or institutional short term borrowing. As used in this condition "short term" means any loan payable on or before one calendar year from the time the money or consideration is received by the applicant and all demand obligations.

(4) Applicant shall gradually phase out the use of short term (as defined in subparagraph 1. (b) (3) above) borrowings by substitution of long term and equity financing and sale of properties, and continue its short term note program on and after June 30, 1971, only if written authority is received from the Commission.

(5) Applicant shall provide each prospective purchaser with a copy of the decision herein and receive and maintain for the Commission a receipt therefor.

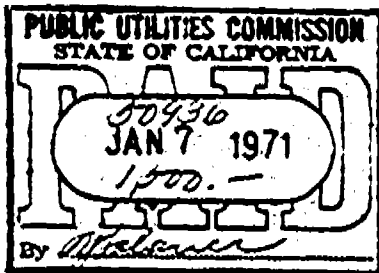
(6) Applicant shall cease purchases of properties from related interests either directly or indirectly, unless and until authorized by a letter from this Commission.

(7) Applicant shall refrain from payment of dividends in cash if any of its other obligations are in arrears.

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

3. This order shall become effective when Suburban Water Systems has paid the fees prescribed by Sections 1904 (b) and 1904.1 of the Public Utilities Code which fees are \$1,000 and \$500, respectively, amounting to a total of \$1,500.

Dated at San Francisco, California, this 5<sup>th</sup> day of JANUARY, 1971.



[Signature] Chairman  
William [Signature]  
[Signature]  
Vernon L. Sturgeon  
Commissioners