

Decision No. 86063

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHWEST WATER COMPANY)
to transfer its utility property to)
SUBURBAN WATER SYSTEMS and for)
Suburban Water Systems to execute a)
Tenth Supplemental Indenture and to)
issue \$4,500,000 of First Mortgage)
Bonds.)

Application No. 56529
(Filed June 7, 1976)

O P I N I O N

Southwest Water Company seeks authority to transfer its utility plant and related assets to Suburban Water Systems as a capital contribution, and the latter seeks authority to assume liabilities, to execute a Tenth Supplemental Trust Indenture, and to issue \$4,500,000 principal amount of First Mortgage Series G 9-3/4% Bonds due June 30, 1996.

Applicants are California corporations providing water service in portions of Los Angeles and Orange Counties, and Southwest Water Company operates also in the Etiwanda area of San Bernardino County. Suburban Water Systems is a wholly owned subsidiary of Southwest Water Company.

Assets and liabilities of Southwest Water Company proposed to be transferred to and assumed by Suburban Water Systems, using March 31, 1976 book values, are summarized from Exhibit E attached to the application, as follows:

Assets -	
Total utility plant	\$8,313,469
Less accumulated depreciation and amortization	<u>2,072,359</u>
Net utility plant	\$6,241,110
Investments in mutual water companies	129,473
Deferred charges	<u>52,327</u>
Total assets	<u>\$6,422,910</u>
Liabilities -	
Advances for construction	\$1,343,549
Refund contracts relating to utility plant sold upon condemnation other than La Sierra	44,669
Deferred income taxes other than La Sierra	47,490
Contributions in aid of construction	<u>534,503</u>
Total liabilities	<u>\$1,970,211</u>
Excess of assets over liabilities (to be contributed capital)	<u>\$4,452,699</u>

By way of explanation a footnote to said Exhibit E reads as follows:

"The values to be used will be those on the books of Southwest as of the Effective Date of the transfer and assumption, and may fluctuate from those set forth herein. In addition, in accordance with the terms of the Agreement of Transfer of Assets, certain current assets will be transferred and certain current liabilities will be assumed. Such items are not shown here due to anticipated fluctuation in the amounts thereof prior to the Effective Date."

Suburban Water Systems proposes to issue and sell to four life insurance companies \$4,500,000 aggregate principal amount of its First Mortgage Series G 9-3/4% Bonds due June 30, 1996. Exhibit F, attached to the application, shows that the company would apply the proceeds as follows:

Refunding -

First Mortgage Bonds, Series D, 5-1/4%, due 6-1-77	\$1,052,000
6% Debentures, due 1-1-77	100,000
10% Debentures, due 9-30-77	500,000
8-1/2% Convertible Junior Bonds, due 9-30-77	367,000
Note payable to bank	<u>1,200,000*</u>
Total refunding	\$3,219,000
Notes payable to bank	1,100,000**
Debt expense of new issue	150,000
Replenish working capital	<u>31,000**</u>
Grand total	<u>\$4,500,000</u>

* Proceeds from this note were utilized to retire Series C, 4-1/4% First Mortgage Bonds, due October 1, 1975.

** Funds from notes were or will be used for the installation of utility plant, for sinking fund payments, for payment of special facility refund contracts or for the reimbursement of working capital for the same. Working capital has been diminished for the same purposes.

The capitalization percentages of Suburban Water Systems at March 31, 1976, and as adjusted to give effect to the transactions proposed in this proceeding, are summarized from page 11 of the application, as follows:

	March 31, 1976	Pro Forma
Common equity	27.2%	39.3%
Preferred stock	27.9	18.8
Long-term debt	<u>44.9</u>	<u>41.9</u>
Total	<u>100.0%</u>	<u>100.0%</u>

Applicants state that "Subsequent to the proposed transactions, Southwest and Suburban will remain as separate corporations but Suburban will operate all public utility systems now operated by Southwest and Suburban as districts of Suburban, with separate records to be maintained for the operations of each district."

After consideration the Commission finds that:

1. The proposed transactions would not be adverse to the public interest.
2. The proposed bonds would be for proper purposes.
3. The money, property or labor to be procured or paid for by the bonds 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.
4. There is no known opposition to the application and there is no reason to delay granting the relief requested.

On the basis of the foregoing findings we conclude that the application should be granted. A public hearing is not necessary. The action taken herein is for the purpose of this proceeding only, and is not to be construed as a finding of the value of the rights and properties authorized to be transferred, 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. On or before December 31, 1976, Southwest Water Company may transfer as a capital contribution the water system and other assets referred to in the application to Suburban Water Systems.
2. As a condition of this grant of authority, Suburban Water Systems shall assume the public utility obligations of Southwest Water Company within the area served by the water system being transferred and shall assume liability for refunds of all existing customer deposits and advances pertaining to the water system being transferred. Suburban Water Systems shall send notice of the assumption of liability for refunds to all customers affected.

3. Within ten days after completion of the transfer Suburban Water Systems shall notify the Commission, in writing, of the date of completion and of the assumption of the obligations set forth in paragraph 2 of this order.

4. Suburban Water Systems shall either file a statement adopting the tariffs of Southwest Water Company now on file with this Commission or refile under its own name those tariffs in accordance with the procedures prescribed by General Order No. 96-A. No increase in rates shall be made unless authorized by this Commission.

5. On or before the date of actual transfer, Southwest Water Company shall deliver to Suburban Water Systems, and the latter shall receive and preserve all records, memoranda, and papers pertaining to the construction and operation of the water system authorized to be transferred.

6. Within sixty days after the consummation of the transfer herein authorized, Suburban Water Systems shall file with the Commission a copy of each journal entry used to record the transfer on its books of account.

7. On or before the end of the third month after the date of actual transfer Suburban Water Systems shall cause to be filed with the Commission, in such form as it may prescribe, an annual report covering the operations of Southwest Water Company for the period commencing with the first day of the current year to and including the effective date of the transfer.

8. Suburban Water Systems may execute a Tenth Supplemental Trust Indenture substantially in the form attached to the application as Exhibit C.

9. Southwest Water Company and Suburban Water Systems may execute a Purchase Agreement substantially in the form attached to the application as Exhibit D.

10. Suburban Water Systems may issue and sell not exceeding \$4,500,000 aggregate principal amount of its First Mortgage Series G 9-3/4% Bonds due June 30, 1996.

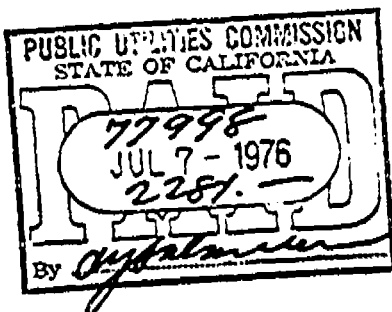
11. Suburban Water Systems shall apply the proceeds from the sale of said bonds to the purposes outlined in Exhibit F attached to the application.

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

13. Upon compliance with all of the terms and conditions of this order, Southwest Water Company shall be relieved of its public utility obligations in connection with the water system transferred.

14. This order shall become effective when Suburban Water Systems has paid the fee prescribed by Section 1904(b) of the Public Utilities Code, which fee is \$2,281.

Dated at San Francisco, California, this 17th day of JULY, 1976.



William J. Agnew Jr. President
Vernon L. Sturges
Leonard Kon
Robert Bateman Commissioners