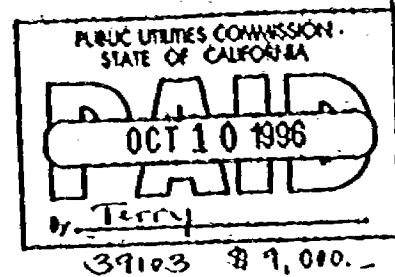


CACD/RHG



Decision 96-10-032 October 9, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SUBURBAN WATER SYSTEMS)
U-339-W, to issue, sell and deliver)
its First Mortgage Bonds not exceeding)
\$8,000,000 principal amount.)

Application 96-08-051
(Filed August 22, 1996)

ORIGINAL

O P I N I O N

Summary of Decision

This decision grants Suburban Water Systems (Suburban) the authority requested in Application (A.) 96-08-051 (Application).

Suburban requests authority, pursuant to §§ 816, 817, 818, and 851 of the Public Utilities (PU) Code for the following:

1. To issue, sell and deliver for cash up to \$8,000,000 aggregate principal amount of its Series C First Mortgage Bonds (Bonds);
2. To execute and deliver a supplemental indenture;
3. To have its proposed Bonds exempted from the requirements of the Commission's Competitive Bidding Rule under Resolution (Res.) No. F-616; and
4. To use the proceeds from the proposed sale to discharge its short-term indebtedness, to discharge a portion of its long-term debt, and to construct, complete, extend and improve Suburban's facilities.

Notice of the filing of the Application appeared on the Commission's Daily Calendar of August 26, 1996. No protests have been received.

Background

Suburban, a California corporation, operates as a water utility under the jurisdiction of this Commission. Suburban provides water service to customers in portions of Los Angeles and Orange Counties.

For the seven months ended July 31, 1996 (unaudited), Suburban reported it generated total operating revenues of \$16,560,373 and net income of \$1,270,157 shown as part of Exhibit A to the Application.

Also shown as part of Exhibit A is Suburban's Balance Sheet for the same period which is summarized below:

<u>Assets</u>	<u>Amount</u>
Net Utility Plant	\$55,080,162
Other Investments	12,891,555
Current Assets	<u>5,111,420</u>
Total Assets	\$73,083,137
<u>Liabilities and Equity</u>	<u>Amount</u>
Equity	\$23,918,479
Long-Term Debt	18,500,000
Current Liabilities, net of current portion of long-term debt	13,900,996
Advances for and Contributions in Aid of Construction	8,826,570
Other Credits	<u>7,937,092</u>
Total Liabilities and Equity	\$73,083,137

Description of Financing and Manner of Issuance

Suburban proposes to issue, sell and deliver its Bonds in the aggregate principal amount not to exceed \$8,000,000 on or before March 1, 1997. The proposed terms and covenants of the Bonds are discussed on pages 5 and 6 of the Application. Suburban has not, at the present time, entered into any contract for the purchase and sale of its Bonds, nor does Suburban have any agreement providing for their issuance. Suburban plans to place the Bonds privately with one or more institutional investors.

Suburban's properties are currently encumbered by first mortgage bonds in the principal amount of \$18,500,000. Those bonds were issued under an Indenture of Mortgage and Deed of Trust dated November 18, 1986, as supplemented and amended by First Amendment and Supplement to Indenture of Mortgage and Deed of Trust dated February 7, 1990 and Second Amendment and Supplement to Indenture of Mortgage and Deed of Trust dated January 24, 1992. If the Supplemental Indenture of Mortgage and Deed of Trust (Third Supplement) is executed and delivered prior to the issuance of the Bonds, then the Bonds will be issued pursuant to the Third Supplement which would be similar to other indentures previously filed by Suburban with the Commission, but with appropriate modifications so that the Third Supplement is consistent with the Indenture. If the Third Supplement is not executed and delivered prior to the issuance of the Bonds, the Bonds will be issued under a supplemental indenture which would be substantially similar to the other indentures previously filed by Suburban with the Commission. The Third Supplement would set forth, among other things, the aggregate amount, interest rate and the maturity date of the Bonds.

Because of the changing market conditions, Suburban does not believe that it is in its best interest, or in the best interests of its ratepayers, to determine the definitive terms of the Bonds at this time. Suburban requests Commission authority to offer, issue and deliver the Bonds with terms and conditions which will provide the following:

1. Interest rates based upon market conditions existing at the time of negotiating the terms.
2. Redemption premiums as described in the Application.
3. Maturity in thirty years.
4. Any other provisions that Suburban shall deem appropriate in connection with the issuance and sale of its Bonds that are not inconsistent with the Indenture.

As soon as available, Suburban will file a preliminary proof of the Third Amendment and Supplement to Indenture of Mortgage and Deed of Trust by Suburban and First Trust of California, as Trustee, for the purpose of creating the Bonds.

Suburban is placed on notice that the Commission may review the reasonableness of the cost of money resulting from its issue of Bonds in conjunction with Suburban's next general rate case.

Exemption from Competitive Bidding

Under the provisions of Res. No. F-616, Suburban's proposed issue and sale of Bonds is exempt from the Commission's Competitive Bidding rule because the principal amount does not exceed \$20,000,000.

Construction Budget

Suburban's estimated construction budgets for 1996 to 1999, included as Exhibit C, Schedule I to the Application, are summarized as follows:

<u>Item</u>	<u>Amount</u> <u>(\$000)</u>			
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
New Wells and Supply	1,030	1,836	0	0
Reservoir Improvements	1,309	624	1,984	2,341
Wells and Equipment	250	395	0	0
Replace Transmission Mains	200	786	957	1,129
Improve Transmission Mains	0	0	676	798
Distribution Main Replacements	340	400	909	1,073
Other	<u>1,386</u>	<u>959</u>	<u>974</u>	<u>1,159</u>
Total Construction Budget	4,515	5,000	5,500	6,500

Suburban's construction budgets for 1996 to 1999 raise no questions that should dissuade us from giving favorable consideration to the financing requested in the Application. We will not, however, make a finding in this decision on the reasonableness of the proposed construction program. Construction expenditures and the resulting plant balances in rate base are

issues which are normally addressed in general rate cases or other ratemaking proceedings.

Capital Ratios

Suburban's capital ratios as of July 31, 1996, shown as Exhibit C, Schedule VIII to the Application, are presented below as recorded and as adjusted to give pro forma effect to the transactions that follow:

	<u>Recorded</u>		<u>Pro Forma</u>	
	<u>Amount</u>	<u>Percentage</u> (\$000)	<u>Amount</u>	<u>Percentage</u>
Long-Term Debt	18,500	37%	22,900	37%
Short-Term Debt	8,000	16%	8,726	14%
Total Debt	26,500	53%	31,626	51%
Preferred Stock	3,982	8%	3,982	7%
Common Stock	19,936	39%	25,477	42%
Total	50,418	100%	61,085	100%

1. The proposed issuance of \$8,000,000 Bonds under the Application.
2. Payment of \$3,600,000 outstanding bonds.
3. Increase in short-term financing.
4. Increase of \$5,541,000 in retained earnings (projected 1996 through 1999).

Capital structures are normally subject to review in general rate case or cost of capital proceedings. We will not, therefore, make a finding in this decision of the reasonableness of the projected capital ratios for ratemaking purposes.

Cash Requirements Forecast

Suburban's cash requirements forecast for 1996 through 1999, shown as Exhibit C, Schedule III to the Application, are summarized as follows:

<u>Components</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
			(\$000)	
Construction Expenditures	4,515	5,000	5,500	6,500
Sinking Fund	900	900	900	900
Total	5,415	5,900	6,400	7,400
Less: Estimated Cash Available from Internal Sources	3,890	4,127	4,276	4,096
Additional Funds Required from Outside Sources	1,525	1,773	2,124	3,304

Suburban plans to finance its 1996 to 1999 additional funds requirement through short-term borrowing.

Use of Proceeds

Suburban proposes to use the proceeds from the issue and sale of Bonds for the payment of its short-term bank debt, which in the interim will be used to pay principal amounts of outstanding bonds (\$3,600,000) and capital expenditures (\$4,400,000).

PU Code § 818 states:

No public utility may issue stocks and stock certificates, or other evidences of indebtedness payable at periods of more than 12 months after the date thereof unless, in addition to the other requirements of law it shall first have secured from the commission an order authorizing the issue, stating the amount thereof and the purposes to which the issue or the proceeds thereof are to be applied, and that, in the opinion of the commission, the money, property or labor to be procured or paid for by the issue is reasonably required for the purposes specified in the order, and that, except as otherwise permitted in the order in the case of bonds, notes, or other evidences of indebtedness, such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

In relevant part, PU Code § 823(d) provides that:

No note payable at a period of not more than 12 months after the date of issuance of such note shall, in whole or in part, be refunded by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the commission.

We have reviewed Suburban's proposed use of proceeds and have determined that it is for proper purposes and is not adverse to the public interest. In accordance with PU Code § 818 and § 823(d), we will approve Suburban's intended use of proceeds (including repayment of short-term debt) from the proposed issue and sale of Bonds.

Suburban is placed on notice by this decision that the proceeds from the financing transaction cannot be charged to operating expenses or income.

Findings of Fact

1. Suburban, a California corporation, is a water utility subject to the jurisdiction of this Commission.
2. Suburban has need for external funds for the purposes set forth in the Application.
3. The money, property, or labor to be procured or paid for by the proposed debt issue is reasonably required for the purposes specified in the Application.
4. Res. No. F-616 specifically exempts debt issues of \$20,000,000 or less from the the Competitive Bidding Rule.
5. PU Code § 818 requires Commission authorization for the issue of stocks, bonds, notes, or other evidences of indebtedness payable at periods of more than 12 months.

6. PU Code § 823(d) provides that no note payable at a period of not more than 12 months after the date of issuance of such note shall be refunded, in whole or in part, by any issue of stocks or stock certificates or other evidence of interest or ownership, or of bonds, notes of any term or character, or any other evidence of indebtedness, without the consent of the Commission.

7. In this decision the Commission does not determine that Suburban's construction budget, capital ratios, and forecasted cash requirements are necessary or reasonable for ratemaking purposes. These issues are normally tested in general rate cases or cost of capital proceedings.

8. There is no known opposition to this Application, and the authority requested should be granted.

Conclusions of Law

1. A public hearing is not necessary.
2. The Application should be granted to the extent set forth in the order which follows.
3. The proposed debt issue is for lawful purposes and the money, property, or labor to be obtained is required for these purposes. Proceeds from the debt issue may not be charged to operating expense or income.
4. Suburban is exempt from the Competitive Bidding Rule because the proposed debt issue does not exceed \$20,000,000.
5. Suburban will pay the fee in accordance with PU Code § 1904.

O R D E R

IT IS ORDERED that:

1. Suburban Water Systems (Suburban), on or after the effective date of this order is authorized to issue, sell, and deliver for cash up to \$8,000,000 aggregate principal amount of its First Mortgage Bonds, Series C (Bonds), at a price equal to the principal thereof, with interest rate based on market conditions at the time of sale, and upon terms and conditions as Suburban may negotiate with an accredited institution in a private placement as set forth in or contemplated in Application 96-08-051 (Application).

2. Suburban may execute and deliver the Supplemental Indenture of Mortgage and Deed of Trust (Third Supplement) either substantially in the form of Exhibit B attached to the Application or if a draft is filed with the Commission prior to its decision, substantially in the form of such draft of the Third Supplement contemplated in the Application, containing among others, the interest rate, maturity and make-whole provisions applicable to the Bonds.

3. Suburban shall file with the Commission Advisory and Compliance Division copies of the agreements for the sale of the Bonds and the final Third Supplemental Indenture within thirty days of the execution of these documents.

4. Suburban shall apply the proceeds of the Bonds authorized for the purposes specified in the Application.

5. Suburban's proposed issuance and sale of Bonds is exempted from the requirements of the Commission's Competitive Bidding Rule.

6. On or before the 25th day of each month, Suburban shall file the reports required by General Order Series 24.

7. The Application is granted as set forth above.

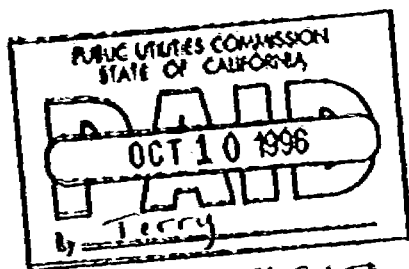
8. The authority granted by this order shall become effective when Suburban pays \$9,000, the fee set forth by Public Utilities Code § 1904.

9. This proceeding is closed.

This order is effective today.

Dated October 9, 1996, at San Francisco, California.

P. GREGORY CONLON
President
DANIEL Wm. FESSLER
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEPPER
Commissioners



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