

Decision No. 16450

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)  
THE MONTEREY COUNTY WATER WORKS ) Application No. 12385  
to issue bonds. )

Bacigalupi and Elkus,  
by Chas. De Y. Elkus, for applicant.

BY THE COMMISSION:

ORIGINAL

OPINION

In this application The Monterey County Water Works asks permission to execute a mortgage or deed of trust and to issue \$700,000.00 of first mortgage six percent thirty year bonds, secured thereby, for the purpose of purchasing from Del Monte Properties Company a sixty-five percent interest in certain structures, lands and reservoir sites, of reimbursing its treasury on account of surplus earnings invested in properties and of providing the cost of financing future additions and betterments.

The Monterey County Water Works is engaged in operating a water distributing system supplying consumers in and about Monterey, Pacific Grove and Carmel. The system was first installed by Pacific Improvement Company primarily for use in connection with the operation of the Del Monte Hotel and as an adjunct to a real estate development in the vicinity. In 1907, however, The Monterey County Water Works, applicant herein, was organized and received from Pacific Improvement Company a diverting dam on the Carmel River, the source of supply, and all pipe lines and appurtenances neces-

sary for the purpose of conveying water from the river and distributing it throughout the service area, together with certain rights of way across the ranches and grounds of the Hotel Del Monte. In this deed of conveyance the improvement company reserved for itself sufficient water for domestic and stock uses of the hotel and the grounds and drives in connection therewith and for certain irrigation uses upon its ranches.

Thereafter it was decided to divide the water system and in 1916 an agreement was entered into between the water company and the improvement company, by the terms of which the water company deeded to the improvement company the diverting dam and damsite and surrounding lands, together with certain pipe lines, it being agreed that the improvement company could take up to 35 percent of the total flow of the river for its own uses and the water company up to 65 percent for public purposes, the total flow of the river, according to the record, being owned and controlled by the two companies.

The effect of the agreement was to provide for each company a substantially independent system except that the water company was dependent upon the other to divert the water and carry it a short distance to its mains, which service the improvement company undertook to do. In this connection it might be stated that the water company was organized and controlled through stock ownership by the improvement company.

The agreement was approved by the Commission by Decision No. 3059, dated January 25, 1916, in Application No. 1657 (Volume 9 Opinions and Orders of the Railroad Commission of California, page 91). Thereafter, in 1919, Del Monte Properties Company succeeded Pacific Improvement Company as one of the parties under the agreement and as the owner of all of applicant's outstanding stock.

In 1920, in order to meet the increasing demands for water and to prevent shortage, Del Monte Properties Company commenced the construction of a storage dam, known as the San Clemente Dam, located about 2,000 feet above the diversion dam, just below the junction of the San Clemente and Carmel rivers. The record herein shows that applicant has been receiving water from this storage free of charge since 1922 and that although it is entitled, by the agreement of 1916, to 65 percent of the flow of the river, it has not paid any portion of the cost of constructing the dam.

The structure is of the constant angle type of concrete arch construction, with a crest length of about 300 feet, and has an impounding capacity of approximately 2,000 acre feet, if filled to the crest, about 85 feet above the stream bed. The spill gates are at an elevation of 75 feet above stream bed and at this point the reservoir impounds 1,425 acre feet. It is reported that it was necessary for the operation of this dam to purchase 1,083.39 acres of land.

Applicant now proposes to purchase a 65 percent interest in the San Clemente Dam for \$297,669.00, this amount, it is said, being 65 percent of the cost to Del Monte Properties Company of the dam and reservoir lands. In addition it proposes to purchase, for \$30,374.00, a sixty-five percent interest in another reservoir site and in riparian lands, known as the Syndicate Camp Reservoir Site. This site and these lands include about 1,722.016 acres, the estimated present value of which, according to applicant's engineers, is \$27.13 an acre, making a total value of about \$46,721. The \$30,374. is approximately 65 percent of the total estimated value of these additional lands and reservoir

sites. The purchase of a sixty-five percent interest in these properties at a cost of \$328,043.00 will, it is thought, insure an adequate supply of water to applicant to take care of present and future consumers.

In order to obtain the moneys necessary to acquire a sixty-five percent interest in the properties and to finance the cost of other additions and betterments, applicant proposes to execute a mortgage and issue and sell \$700,000.00 of first mortgage six percent thirty year bonds. The Del Monte Properties Company has agreed to accept in exchange for its interest in the properties referred to herein such amount (about \$348,000.00) of bonds which at 94 and accrued interest will equal the sum of \$328,043.00. All coupons that have matured before the actual date of delivery of said bonds <sup>will</sup> shall be removed and cancelled, and any fractional amount less than \$1,000.00 shall be adjusted between the parties by a cash settlement. The Del Monte Properties Company further agrees to purchase at 94 and accrued interest \$85,000.00 of \$700,000.00 of bonds as soon as the issue and sale of said bonds is authorized by the Commission, and further agrees to purchase at 94 and accrued interest the remainder of said \$700,000.00 of bonds (about \$267,000.00) within two years from the date of the Commission's order authorizing the issue and sale of said bonds. Applicant asks permission to use \$80,000.00 of the proceeds to reimburse its treasury on account of surplus earnings invested in properties and to use the balance, amounting to about \$250,000.00 to pay for additions and betterments to its water system.

In support of the request to use \$80,000.00 of bond proceeds to reimburse its treasury, applicant reports that during

the last two years it has had surplus earnings of about \$160,000.00 which have been invested in additions to the system, the cost of which has not heretofore been permanently financed. After reimbursement the company proposes to use \$65,000.00 to pay outstanding indebtedness and \$15,000.00 for working capital.

The additions and betterments applicant proposes to install during the next two years aggregate \$340,000.00, and are described in Exhibit D-2, filed with the application as follows:-

24-inch cast iron pipe from Clay Pits Reservoir to Pacific Grove Valve House, approximately 11,000 feet long, also large mains in other parts of system . . . . .	\$129,000.00
New mains and other facilities in Oak Grove . . . . .	20,000.00
New mains and other facilities in Monterey, New Monterey and Pacific Grove . . . . .	106,000.00
New mains and other facilities in Pebble Beach area . . . . .	20,000.00
New mains and other facilities in Carmel . . . . .	20,000.00
Pumping Plant at Pacific Grove Valve House . . . . .	8,000.00
New Meters and Services . . . . .	19,000.00
Discharge line for high pressure system . . . . .	<u>18,000.00</u>
Total estimated cost.....	<u>\$340,000.00</u>

The company is asking permission to use about \$250,000.00 of bond proceeds to finance in part these costs which are said to be necessary for the company to operate satisfactorily its water system and to render adequate service. Some of the construction work, as indicated above, will extend over a period of two years. The record shows that Del Monte Properties Company will purchase applicant's bonds when and as applicant requires money for construction purposes and that the purchaser has no right to demand the delivery of the bonds unless applicant has need for funds

to pay for additions and betterments.  
no bonds or notes outstanding.

Applicant at present has

Its assets and liabilities as of September 30, 1925, are reported as follows:-

A S S E T S

Fixed capital . . . . .	\$1,016,944.86
Cash. . . . .	10,062.79
Special deposits. . . . .	325.00
Accounts receivable . . . . .	92,851.93
Materials and supplies. . . . .	52,984.02
Sinking funds . . . . .	235,452.06
Prepayments . . . . .	1,343.57
Unamortized discount. . . . .	378,044.36
Suspense. . . . .	4,166.10
Construction work in progress . . . . .	<u>50,973.39</u>

Total Assets..... \$1,843,148.08

L I A B I L I T I E S

Capital stock . . . . .	\$1,000,000.00
Accounts payable. . . . .	38,272.91
Consumer's deposits . . . . .	1,228.81
Accruals. . . . .	16,846.23
Service billed in advance . . . . .	605.67
Consumer's advances for construction . . . . .	12,750.00
Reserves . . . . .	283,128.29
Surplus. . . . .	<u>490,316.17</u>

Total Liabilities..... \$1,843,148.08

The mortgage or deed of trust applicant now proposes to execute will secure the payment of an authorized issue of \$2,500,000.00 of bonds, issuable in series, the bonds herein applied for to be designated Series "A". A copy of the proposed mortgage or deed of trust was filed with the Commission in this proceeding on January 19, 1926, and as modified on April 7, 1926. is in satisfactory form.

O R D E R

The Monterey County Water Works having applied to the Railroad Commission for permission to execute a mortgage or deed of trust and to issue bonds, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the application should be granted as herein provided and that the money, property or labor to be procured or paid for through the issue of the bonds is reasonably required by applicant for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that The Monterey County Water Works be, and it is hereby, authorized to execute a mortgage or deed of trust substantially in the same form as that filed in this proceeding and referred to in the opinion which precedes this order and to issue \$700,000.00 of its first mortgage six percent thirty year bonds and sell and deliver said bonds pursuant to the terms of the agreement dated April 2, 1926, between said The Monterey County Water Works and Del Monte Properties Company and filed in this proceeding on April 7, 1926.

IT IS HEREBY FURTHER ORDERED that \$80,000.00 of the proceeds obtained from the sale of said bonds shall be used to reimburse applicant's treasury because of surplus earnings expended for additions and betterments of which \$65,000.00 shall after said reimbursement be used to pay indebtedness and \$15,000.00 for work-

ing capital.

IT IS HEREBY FURTHER ORDERED that approximately \$250,000.00 of the proceeds obtained from the sale of said bonds shall be used to pay in part the cost of acquiring or constructing the additions and betterments referred to on page 5 of the opinion which precedes this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted is subject to the following conditions:-

1. The authority herein granted to execute a mortgage or deed of trust is for the purpose of this proceeding only and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of such mortgage or deed of trust as to such other legal requirements to which said mortgage or deed of trust may be subject.
2. Within thirty days after execution of the mortgage or deed of trust herein authorized to be executed applicant shall file with the Commission two certified copies thereof.
3. The price at which applicant acquires the 65 percent interests in the properties it proposes to purchase from Del Monte Properties Company shall not hereafter be urged before this Commission or any court or public body having jurisdiction as a measure of value for the purpose of fixing rates or for any other purpose.



4. Applicant shall keep such record of the issue and sale of the bonds herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each month: a verified report as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.
5. The authority herein granted shall become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$700.00.

DATED at San Francisco, California, this 9<sup>th</sup>  
day of April, 1926.

H. B. Brundage

C. Seamy

E. M. ...

\_\_\_\_\_  
\_\_\_\_\_

Commissioners.

Fee \$700 <sup>00</sup>/<sub>100</sub>

R. M. ...