

LEM

Decision No. 17890.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 EL PIZMO WATER COMPANY, )  
 a corporation, W. CLYDE HEDDING, JOHN )  
 PLESSAS, J.B. BUTLER, J. R. SIMMONS, )  
 ADAM ULM, E.P. EBNER, ADOLPH UMBEHEND, )  
 HANS P. SKOV, CHARLES E. BELL and G.M. )  
 HEDDING, co-partners doing business )  
 under the firm name and style of )  
 CITIZENS WATER ASSOCIATION, for an )  
 order authorizing the sale of the pro- )  
 perty and water franchise of CITIZENS )  
 WATER ASSOCIATION to EL PIZMO WATER )  
 COMPANY, a corporation. )

ORIGINAL

Application No. 13328

In the Matter of the Application of )  
 EL PIZMO WATER COMPANY, )  
 a corporation, for an order authoriz- )  
 ing it to issue and sell its securi- )  
 ties. )

Application No. 13338

M. R. Van Wormer, for applicants.

BY THE COMMISSION:

OPINION

In Application No. 13328 the Citizens Water Association, a partnership consisting of W. Clyde Hedding, John Plessas, J. B. Butler, J. R. Simmons, Adam Ulm, E. P. Ebner, Adolph Umbehend, Hans P. Skov, Charles E. Bell and G.M. Hedding asked permission to transfer a public utility water system to the El Pizmo Water Company, in exchange for \$30,000.00 of stock of that company, divided into \$15,000.00 par value of common and \$15,000.00 par value of six per cent cumulative preferred stock.

In Application No. 13338 the El Pizmo Water Company asks permission to issue the aforementioned stock in payment for said properties and further issue and sell \$30,000.00 of its six percent cumulative preferred and \$15,000.00 of its common stock at par for the

purpose of qualifying its directors, reconstructing the water system which it intends to acquire, and extend and improve the same.

The water system now owned by the Citizens Water Association was acquired by that association pursuant to the authority granted by the Commission in Decision No. 15947 dated February 6, 1926, as amended.

The water system consists of easements, water pipes, reservoirs, mains, rights of way, franchises, conduits, flumes, pumps and distributing mains operated for the purpose of supplying water to the inhabitants of Pismo Beach and vicinity. Five of the members of the Citizens Water Association desire to withdraw from the association. The other five have agreed to acquire the interests of those who desire to withdraw. They believe, however, that the properties can be operated to better advantage by a corporation and they therefore have caused to be organized the El Pismo Water Company, a corporation. The corporation has been organized under and by virtue of the laws of the State of California. It has an authorized capital stock of \$75,000. divided into \$45,000. of six percent cumulative preferred and \$30,000. of common. The Articles of Incorporation provide that no assessments shall be assessed against or levied upon either the common or preferred stock. In authorizing the issue of the stock referred to herein, this Commission does not determine whether assessments can be levied upon the stock. The Articles of Incorporation/<sup>further</sup> provide that the holders of the preferred stock shall be paid a six percent cumulative dividend, and that such dividend be paid before any dividend shall be paid to the holders of common stock. Neither the Articles of Incorporation nor any action taken by this Commission guarantees the payment of dividends on the preferred stock.

It is of record that the Citizens Water Association paid \$9,000.00 for the properties acquired pursuant to the authority granted by Decision No. 15947. Subsequent to the date of such decision the Commission was called upon to fix the rates to be charged by the Citizens Water Association. In Decision No. 16906 dated June 14, 1926

the Commission used \$30,000.00 as a rate base. This rate base represented the estimated original cost of the water system plus approximately \$10,000.00 for additions, betterments and improvements which had been installed by the Citizens Water Association or were about to be installed by it. In the petitions now before the Commission it is represented that up to October 27, 1926 the Association expended \$10,277.99 for the following purposes:-

New wells . . . . .	\$3,540.42
New distributing mains . . . . .	2,789.09
Motor equipment for wells . . . . .	350.00
Meters . . . . .	1,468.91
Repairs to distribution mains . . . . .	<u>2,129.57</u>
Total.....	<u>\$10,277.99</u>

As said, the Commission's rate base included an estimate of the original cost (\$20,129.00) of the water system purchased by the Citizens Water Association for \$9,000.00. In the rate decision the Commission calculated the depreciation charges by using the sinking fund method which obviated the necessity of determining the present value of the properties. We are now confronted with a request to permit a transfer of said properties, including the aforementioned additions and betterments to October 27, 1926, to a corporation on the alleged value of \$30,000.00 and permit such corporation to issue \$15,000.00 of six percent cumulative preferred stock and \$15,000.00 of common stock in payment for the properties. If the estimated original cost of the properties is used as a basis for the issue of securities, the amount that is or should be in the reserve for accrued depreciation should be considered as part of the capitalization of the properties. Applicants submitted no evidence showing what such amount is or should be. Therefore, for the purpose of this proceeding we will regard the \$9,000.00 paid by the Citizens Water Association for the properties as representing the present value of the properties at that time and add thereto the amount expended by the association to October 27, 1926, for additions, betterments and improvements of the system. The order herein will authorize the issue of \$20,000.00 of stock divided into \$10,000.00 of common and \$10,000.

of six percent cumulative preferred in payment for the properties free and clear of all indebtedness of the Citizens Water Association as the same existed on October 27, 1926.

The company asks permission to issue and sell at par \$30,000. of its six percent cumulative preferred stock and \$15,000.00 of its common stock and use the proceeds for the following purposes:-

\$3,500.	for pump, motor and completion of system
8,500.	for new reservoir, with a capacity of 250,000 gallons
7,500.	for 8 inch mains of an approximate length of 5,000 ft. from the new wells to the reservoir
20,328.	of 6 inch mains of an approximate length of three and one half miles to give service to new subdivisions located north of the town of Pismo Beach
2,000.	for 4 inch mains of an approximate length of 5,000 ft. to furnish fire protection
1,250.	for 2 inch mains approximately 5,000 ft. in length
1,522.	for excavating for 2 in. and 4 in. pipe and re-laying the same.
<u>400.</u>	to cover cost of engineering work.
<u>\$45,000.</u>	

The proposed expenditures include \$20,328.00, which applicant intends to expend for the purpose of laying approximately three and one half miles of six inch mains to supply water to new subdivisions located to the north of the Town of Pismo Beach. No estimate was submitted as to the probable revenue that the company would obtain from such an expenditure. It occurs to us that unless the El Pismo Water Company is assured of a definite and certain income by the subdividers which will represent a reasonable return on the \$20,328.00 that those who request the company to construct the extension should finance the same in accordance with the company's rules and regulations. The order herein will not permit the issue of stock for the purpose of paying for such extension. If after negotiation with the subdividers the company submits satisfactory information showing that it is assured of a reasonable return because of such expenditures, we will give further consideration to the request to issue stock to finance such extensions.

It is of record that the Town of Pismo has no fire protection, and that the insurance rates in the business section of the

town average about \$10.00 per year on the \$100. of insurance. The company proposes to lay adequate mains and install fire plugs for fire protection, provided a fire district is formed. The cost of this work is estimated at \$2,000.00. However, to give adequate fire protection the company will have to enlarge its reservoir, and the mains leading from the wells to the reservoir.

We believe that before the company begins the enlargement of its system it should have a competent engineer make a survey of the same and submit his report to the Commission for approval. The order herein will authorize the issue and sale of \$16,000.00 of preferred and \$9,000.00 of common stock to pay for the additions and betterments and improvements referred to herein, other than the extension to new subdivisions. The proceeds from the sale of said stock, however, may be expended only for the purposes hereafter authorized by the Commission. Before such authority will be granted, the company must submit the aforesaid report of an engineer.

Adolph Umbehnd, secretary of applicant, testified that he believes the corporation can sell its stock at par without paying any commissions to sell the same.

#### ORDER

Applications having been filed by the Citizens Water Association, a co-partnership, and El Pizmo Water Company, for permission to transfer and acquire properties and issue stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the transfer of the properties referred to in the opinion which precedes this order, should be granted and that El Pizmo Water Company should at this time be permitted to issue not exceeding \$26,000.00 of its six percent cumulative preferred stock and \$19,000.00 of its common stock, and that the money, property or labor to be procured or paid for by such issue, is reasonably required by the company and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income.

IT IS HEREBY ORDERED as follows:-

1. Citizens Water Association, W. Clyde Hedding, John Plessas, J. B. Butler, J. R. Simmons, Adam Ulm, E. P. Ebner, Adolph Umbehend, Hans P. Skov, Charles E. Bell and G.M.Hedding be, and they are hereby authorized to sell all of their public utility properties to the El Pizmo Water Company, which is hereby permitted to acquire said properties and issue in payment therefor as the same existed on October 27th, 1926, provided it acquire the same free and clear of all indebtedness, \$10,000.00 of its six percent cumulative preferred stock and \$10,000.00 of its common stock.
2. El Pizmo Water Company is hereby authorized to issue and sell for cash at not less than par on or before October 1, 1927, \$16,000.00 of its six percent cumulative preferred stock and \$8,950.00 of its common stock and expend the proceeds for such purposes as the Commission will authorize by a supplemental order or orders.
3. El Pizmo Water Company may issue and sell for cash at not less than par on or before October 1, 1927 five shares (\$50. par value) of its common capital stock to its incorporators and use the proceeds to pay organization expenses.
4. El Pizmo Water Company shall deposit all proceeds obtained from the sale of the said \$16,000.00 of preferred and said \$8,950.00 of common stock in a bank or banks until such time as the Commission by supplemental order will authorize the expenditure of the said proceeds.
5. The authority herein granted to transfer properties and issue stock will become effective upon the date herein.
6. El Pizmo Water Company shall keep such record of the issue, sale and delivery of the stock 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 Rail-

road Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

7. Application No. 13338, insofar as it involves the issue of \$5,000.00 of six percent cumulative preferred and \$5,000.00 of common stock in payment for the properties which the company intends to acquire from the Citizens Water Association, a co-partnership, be, and the same is hereby, denied without prejudice.

DATED at San Francisco, California, this 12<sup>th</sup> day of January, 1927.

Emmett  
H. B. ...  
C. ...  
Leon ...  
Thos. ...

Commissioners.