

LEM.

Decision No. 17350.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of
L. F. COWAN
for permission to sell certain prop-
erties to Sonoma Water and Irriga-
tion Company.

Application No. 13452

In the Matter of the Application of
BOYES HOT SPRINGS CO.,
a corporation, for permission to
sell its properties.

Application No. 13453

In the Matter of the Application of
AGUA CALIENTE WATER WORKS,
Wm. F. White, Owner, for permission
to sell its properties.

Application No. 13454

Knight, Boland & Christin, by F.J.Kilmartin,
for Sonoma Water and Irrigation Company.

Dudley Sales, for Boyes Hot Springs Co.

Frank Sprague, for W.H.Turner, owner of record
of Agua Caliente Water Works.

R. M. Barrett and A.L. Grinstead, for Water
Consumers' League of Sonoma.

H.A.Postlethwaite, for City of Sonoma.

WHITSELL, Commissioner:

O P I N I O N

In these three proceedings the Railroad Commission is asked to authorize the transfer of two small public utility water systems; one located in the vicinity of Agua Caliente and the other in the vicinity of Boyes Springs, Sonoma County, -to L. F. Cowan, and the transfer in turn of such systems from L. F. Cowan to Sonoma Water and Irrigation Company, a public utility water corporation now supplying water for domestic and commercial purposes in and about Sonoma, Sonoma Vista and El Verano. The Commission also

is asked to authorize Sonoma Water and Irrigation Company to use \$10,000. obtained from the sale of preferred stock heretofore authorized to be issued, to pay for the two properties.

A public hearing was held on these matters in Sonoma on January 14, 1927, at which time they were consolidated for the purpose of receiving evidence and for decision. During the hearing it was stipulated by counsel that the record in Applications Nos. 15381, 15382 and 15383 might be considered as part of the record in these proceedings.

The system located in Agua Caliente, serving about 105 consumers, is known as the Agua Caliente Water Works and is operated by Wm. F. White under a contract to purchase, dated October 11, 1921, from W.E. Turner. He has entered into an agreement, dated December 7, 1926, to transfer the water properties to L.F. Cowan in consideration for \$5,000.00 in cash and \$5,000.00 par value of the common stock of Sonoma Water and Irrigation Company now owned by L. F. Cowan. The system at Boyes Springs, which serves about 46 consumers, is owned by Boyes Hot Springs Co., a corporation, which has agreed to transfer it to L. F. Cowan in consideration for \$1,000 in cash. In both cases transfer will be made free and clear of encumbrances.

Upon acquiring the properties, L. F. Cowan proposes to transfer them to Sonoma Water and Irrigation Company for \$10,000. in cash. In support of this request applicants have submitted two appraisals of the physical properties; one prepared by R. C. Specht, a consulting engineer, and the other by Walter H. Davis, a consulting engineer employed by The American Appraisal Company. In addition, there is in the record an appraisal prepared by H. A. Noble, one of the Commission's assistant hydraulic engineers. These

appraisals show the following:-

	Agua Caliente Water Works .	Boyes Hot Springs Co.	Total
<u>R.C.Specht</u>			
Reproduction cost	\$10,947.91	\$2,984.14	\$13,932.05
Depreciation	900.00	500.00	1,400.00
Present value	10,047.91	2,484.14	12,532.05
<u>Walter E. Davis</u>			
Reproduction cost	10,471.00	4,119.00	14,590.00
Depreciation	5,266.00	1,423.00	4,689.00
Present value	7,205.00	2,696.00	9,901.00
<u>H.A.Noble</u>			
Reproduction cost	10,259.00	3,727.00	13,986.00
Depreciation	3,164.00	1,261.00	4,425.00
Present value	7,095.00	2,466.00	9,561.00

The testimony herein indicates that the amounts used by R. C. Specht for depreciation are arbitrary figures, while those used by Walter E. Davis and H. A. Noble represent estimated depreciation accrued on the straight line method based on the estimated useful lives of the various items making up the water systems. The difference of \$340.00 between the present values found by Walter H. Davis and H.A.Noble is accounted for chiefly by differences in general overhead and minor differences in unit prices.

I believe, however, that in passing on these proposed transfers we should give consideration to the earnings of the properties, as well as to the physical value. Both operators have filed with the Commission a financial statement showing revenues and expenses for the calendar year 1926. These statements show the following:-

	Agua Caliente Water Works	Boyes Hot Springs Co.	Total
Revenue	\$1,498.50	\$ 688.87	\$2,177.37
Expenses	774.23	294.00	1,068.23
Net income.....	\$ 714.27	\$ 394.87	\$1,109.14

It appears, however, that the reported operating expenses include no allowances for depreciation and that had such allowances been made, during 1926, the net income would have been substantially less than \$1,109.14. There is nothing in the record to show to

what extent, if any, operating expenses, can be reduced by Sonoma Water and Irrigation Company.

Sonoma Water and Irrigation Company proposes to pay for the two properties the sum of \$10,000.00 which was obtained from the sale of the eight percent cumulative preferred stock issued under authority granted by the Commission by Decision No. 9683, dated October 31, 1921, in Application No. 6557. That decision permitted the corporation to use for commissions or brokerage fees and organization expenses, an amount equal to twenty percent of the par value of the stock sold, if sold at par or more. If sold at less than par it permitted the use for these purposes of an amount equal to the difference between such selling price and 80. It appears that the stock was sold so as to net the corporation 80, so that the \$10,000.00 now proposed to be used represents the net proceeds from the sale of \$12,500.00 of stock.

After having given consideration to the valuation of the properties, to the earnings of the properties, to the price which L. F. Cowan has agreed to pay for the properties, to the price at which he proposes to sell them to the Sonoma Water and Irrigation Company, to the financial condition and earnings of that company and other facts pertinent to the transfer of the properties, it is my opinion that Sonoma Water and Irrigation Company should not pay more than \$9,000.00 for the properties which Wm. F. White and Boyes Hot Springs Company have agreed to sell to L. F. Cowan and he in turn to the company.

At the hearing, counsel for the City of Sonoma and for the Water Consumers League, protested the granting of the requests unless the corporation would agree, upon acquiring the two plants, to treat them as separate units from the present system. Counsel for the company stated that while it was proposed to link up the two plants with the plants now operated, it was not planned to include such new properties in the rate proceeding, Application No. 12946, now pending before the Commission. I do not believe

the rights of the consumers in the City of Sonoma will be prejudiced by the proposed transfer. The record shows that the corporation proposes to continue in effect the same rates now charged in Boyes Springs and in Agua Caliente and that it is not asking any adjustment in the rates charged on its present systems in and about the City of Sonoma as a result of the proposed consolidation. In the event the company at some future time files a petition involving rates of its entire business, objection can be made at that time to considering the entire property and business of the corporation as one entity for rate making purposes. The question of rates is not involved in these applications.

I believe that public convenience and necessity will be served by the transfer of the two water plants to Sonoma Water and Irrigation Company under the terms and conditions indicated in this opinion and accordingly submit the following form of order:-

O R D E R

Applications having been filed with the Railroad Commission for permission to sell and transfer the public utility water plants referred to in the opinion which precedes this order, a public hearing having been held and the Commission being of the opinion that the applications should be granted, as herein provided,

IT IS HEREBY ORDERED as follows:-

1. W. H. Turner and/or Wm. F. White may transfer the public utility water system known as the Agua Caliente Water Works to L. F. Cowan, such transfer to be made free and clear of liens and encumbrances.
2. Boyes Hot Springs Co. may transfer its public utility water system, referred to in the foregoing opinion, to L.F. Cowan, such transfer to be made free and clear of liens and encumbrances.

3. L. F. Cowan, upon acquiring the two public utility water systems herein authorized to be transferred to him may thereafter transfer all of said properties to Sonoma Water and Irrigation Company, a corporation, and Sonoma Water and Irrigation Company may acquire and operate such public utility water plants, provided it obtains the said properties free and clear of all liens, charges and encumbrances.
4. Sonoma Water and Irrigation Company may use \$9,000. obtained from the sale of the preferred stock authorized to be issued by Decision No. 9683, dated October 31, 1921, in Application No. 6637, to pay in full for the two water systems it is herein authorized to acquire from L.F.Cowan, provided it acquire said systems free and clear of all liens, charges and encumbrances.
5. Wm. F. White and Boyes Hot Springs Co. shall file with the Commission certified statements indicating the exact days upon which they relinquished possession of the water systems they are herein authorized to transfer to L.F.Cowan, such statements to be filed within ten days after possession is so relinquished.
6. Within thirty days after acquiring the properties, as herein authorized, Sonoma Water and Irrigation Company shall file with the Commission a certified copy of the deed, or deeds, under which it acquires such properties, and shall also file in its own name the schedule of rates now charged on the Agua Caliente Water Works System and the Boyes Hot Springs Co. system.

7. The authority herein granted is subject to the following conditions:-

- a. The prices at which the water properties are herein authorized to be transferred shall not hereafter be urged before this Commission or other court or public body as a measure of value of such properties for the purpose of fixing rates or for any purpose other than these transfers.
- b. The order in Decision No. 9683, dated October 31, 1921, as amended, shall remain in full force and effect, except as modified in this order.
- c. The authority herein granted shall become effective twenty days after the date hereof.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

DATED at San Francisco, California, this 2^d day of February, 1927.

Ernest W. Scott
H. B. Brundage
Chas. J. Smith
Leon Whittell
Thos. J. Howard

Commissioners.