

Decision No. 18084

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 CALIFORNIA WATER SERVICE COMPANY, )  
 a corporation, for (1) order author- )  
 izing issue of stocks and bonds; (2) )  
 order authorizing mortgage of cer- )  
 tain public utility properties; and )  
 (3) jointly with C. B. Jackson, )  
 Chico Water Supply Company, a corp- )  
 oration, Port Costa Water Company, a )  
 corporation, Fresno City Water Corp- )  
 oration, a corporation, Visalia City )  
 Water Company, a corporation, )  
 Electric Water Company, a corpora- )  
 tion, Bakersfield Water Works, a )  
 corporation, and Hermosa-Redondo )  
 Water Company, a corporation, res- )  
 pectively for an order authorizing )  
 purchase and sale of certain public )  
 utility properties. )

Application No. 13514.

- McCutchen, Olney, Mannon & Greene, for applicants.
- Arthur H. Garland, Deputy Commissioner of Corporations.
- E. F. Brittan, City attorney for City of Bakersfield.
- Loren A. Butts, City attorney for City of Fresno and  
City of Visalia.
- J. L. Johnson, City attorney for City of Stockton.

BRUNDIGE, COMMISSIONER:

O P I N I O N

The Railroad Commission is asked to make an order as follows:-

1. Authorizing California Water Service Company to issue and sell at 90 percent of their face value and accrued interest \$6,600,000.00 of five percent

first mortgage 25 year bonds (Series A); to issue and sell at 87 percent of par value \$2,150,000.00 of six percent cumulative preferred stock; and, to issue and sell at 75 percent of par value \$2,149,300.00 par value of common stock.

2. Authorizing California Water Service Company to use the proceeds (\$9,422,475.00) obtained from the sale of the stocks and bonds for the purposes hereinafter set forth.
3. Authorizing applicant, C. B. Jackson, to sell and convey and California Water Service Company to purchase the properties and business comprising the Chico Vecino Water Company (unincorporated); the properties and business comprising the W. E. White Water Company, (unincorporated); and a lot at Visalia used and usable in connection with the Visalia City Water Company system.
4. Authorizing California Water Service Company to purchase, hold and own the stocks of Chico Water Supply Company, Port Costa Water Company, Fresno City Water Corporation, Visalia City Water Company, Electric Water Company, Bakersfield Water Works and the common stock of Hermosa-Redondo Water Company.
5. Authorizing the Chico Water Supply Company, Port Costa Water Company, Fresno City Water Corporation, Visalia City Water Company, Electric Water Company, Bakersfield Water Works and Hermosa-Redondo Water Company to sell and convey and California Water Service Company to purchase and take over, at a price to be agreed on between said California Water Service

Company and said corporations, all the properties and businesses of said corporations and each of them.

6. Authorizing C. B. Jackson to sell, assign, transfer and set over to the California Water Service Company all his right, title and interest in and to the contract between C. B. Jackson and Pacific Gas and Electric Company dated December 7, 1926, and any amendments and modifications thereof, so that said California Water Service Company may be substituted in the place and stead of C. B. Jackson with respect to said contract; also, authorizing said Pacific Gas and Electric Company to convey, transfer and set over direct to applicant, California Water Service Company, all the properties, businesses, rights and privileges included in said contract.
7. Authorizing California Water Service Company to make, execute and deliver a first mortgage on the public utility properties to be acquired by it as aforesaid, a copy of which mortgage has heretofore been filed with the Commission as applicant's Exhibit 4.
8. Authorizing applicant, C. B. Jackson, (as the owner of the unincorporated water systems known as Chico Vecino Water Company and W. E. White Water Company) and applicants, Chico Water Supply Company, Port Costa Water Company, Fresno City Water Corporation, Visalia City Water Company, Electric Water Company, Bakersfield Water Works and Hermosa-Redondo Water Company, to abandon and discontinue their respective public utility obligations and service and to cease furnishing and supplying water service if, as

and when the transfer of their respective properties to the California Water Service Company shall become effective.

In general, it may be said, that this application involves the transfer of the properties to the Fresno City Water Corporation, Electric Water Company, Visalia City Water Company, Hermosa-Redondo Water Company, Port Costa Water Company, Chico Water Supply Company, Bakersfield Water Works, the water systems of the Pacific Gas and Electric Company located at Dixon, Stockton, Livermore, Willows, Oroville and Redding and the water properties owned and operated by C. B. Jackson under the name of the Chico Vecino Water Company and W. E. White Water Company, to the California Water Service Company. It appears that it is the intention of the California Water Service Company to buy the capital stock of the different corporations, to which reference has been made, (other than Pacific Gas and Electric Company) and thereafter cause each of such corporations to transfer their properties and businesses as a whole, subject to liabilities, to the California Water Service Company. While applicants do not state the price at which the properties will be transferred, it is of record that such price, including the liabilities assumed, will not exceed \$9,422,475.00.

It appears further that it is the intention of the California Water Service Company to redeem all of the bonds (\$2,249,000.00) of the subsidiary companies. The cost of redeeming the bonds is reported at \$2,670,988.75. The bonds to

be redeemed are as follows:-

Name of Corporation	Amount of Bonds Outstanding	Rate	Call Price	Next Redemption Date	Amount Required to Redeem on Next Redemption Date with Interest
Chico Water Supply Company	43,000.	5%	Par	May 2, 1927	44,075.00
Port Costa Water Company	550,000.	6 $\frac{1}{2}$ %	105	July 1, 1927	595,375.00
Fresno City Water Corporation - First Mortgage	157,500.	5%	105	July 1, 1927	169,312.50
Fresno City Water Corporation - First & Refunding Series A	400,000.	6 $\frac{1}{2}$ %	105	Nov. 1, 1936	680,000.00
Fresno City Water Corporation - First & Refunding Series B	150,000.	5 $\frac{1}{2}$ %	105	May 1, 1927	161,625.00
Fresno City Water Corporation - First & Refunding Series C	400,000.	6%	105	Aug. 1, 1927	432,000.00
Visalia City Water Company	68,000.*	6%	102	July 1, 1927	71,320.00
Bakersfield Water Works	88,000.**	6%	102	Sept. 1, 1927	92,400.00
Hermosa-Redondo Water Company	<u>392,500.</u>	6 $\frac{1}{2}$ %	105	June 1, 1927	<u>424,881.25</u>
	\$2,249,000.				\$2,670,988.75

\* Of these \$68,000. of bonds \$4,000. mature by their terms July 1, 1927.

\*\* In addition to these \$88,000. of bonds, \$6,000. mature by their terms March 1, 1927.

Applicants report that it will cost the California Water Service Company \$9,422,475.00 to acquire the properties to which reference has been made. The \$9,422,475.00 is segregated as follows:-

To purchase stocks, properties, privileges and rights . . . . . \$3,630,503.80  
 (This covers purchase of the common capital stock of Chico Water Supply Company, Port

BROUGHT FORWARD . . . . .

\$3,630,503.80

Costa Water Company, Fresno City Water Corporation, Visalia City Water Company, Electric Water Company, Bakersfield Water Works and Hermosa-Redondo Water Company; also, the properties now owned by C.B. Jackson and operated under the name of Chico Vecino Water Company and the W.E. White Water Company; also, a lot at Visalia used and usable in connection with the Visalia City Water Company's system; also, all the rights and privileges of C.B. Jackson in and to that certain contract dated December 7, 1926, between said C.B. Jackson and Pacific Gas & Electric Company for the purchase of the water systems owned by the latter in the cities and towns of Stockton, Oroville, Redding, Willows, Dixon and Livermore.

The estimated expenses of acquiring and consolidating all of the properties including legal, engineering, accounting, title and other expenses . . . . .	285,675.00
The estimated cost of redeeming \$2,249,000.00 of bonds of subsidiary companies . . . . .	2,670,988.75
To pay balance due on contract for the purchase of the certain water systems owned by Pacific Gas & Electric Company . . . . .	2,355,000.00
To pay the cost of redeeming \$85,000.00 par value of preferred stock of Hermosa-Redondo Water Company . . . . .	86,487.50
To pay the current liabilities of the different water systems not covered by current assets. . . . .	91,932.54
To expend for supplies, working capital and to cover the additional cost to be paid to the Pacific Gas & Electric Company for additions and betterments since July 31, 1926 . . . . .	<u>301,887.41</u>
Total.....	<u>\$9,422,475.00</u>

It will be noted that the \$9,422,475.00 includes \$423,476.25 which, it is said, must be expended to redeem outstanding bonds and preferred stock of companies whose properties California Water Service Company intends to acquire. I believe that the \$423,476.25 is a part of the cost of financing the consolidated properties. While I call attention to this one item, it should not be inferred from such reference that I at this time approve the other items of reported expenditures or find the same to be reasonable.

Representatives of the Commission are now engaged in examining the valuations of the properties and financial statements submitted by applicants. C. T. Chenery, President of California Water Service Company, and counsel for applicants urge that the reported valuations are so much in excess of the \$9,422,475.00 that a detailed examination of the valuations is unnecessary. They urge further that it is imperative that the company proceed immediately with the sale of its securities to finance the acquisition of the properties. While it may be desirable that the securities should be sold forthwith, I am not now willing to accept for the purpose of the capitalization of the properties either the valuations submitted by applicants or the reported cost (\$9,422,475.00) of the properties. In my opinion, the Commission cannot accept either until its representatives have concluded their examination of the valuations and financial statements submitted by applicants.

I am willing, however, to recommend to the Commission that it enter a preliminary order in this matter authorizing the transfer of the properties and the issue of not exceeding \$2,000,000.00 of common stock. A final order, authorizing the issue of additional stock (common and/or preferred), bonds and the execution of a mortgage, will be entered by the Commission after its representatives have concluded their examination of the valuations and financial statements.

No protest was entered against the transfer of any of the properties referred to in this application, though the City of Fresno sought to protect its interest in the event it initiate a condemnation proceeding to acquire the properties now owned by Fresno City Water Corporation. In so far as the City of Fresno

is concerned, the company stipulated as follows:

"The applicant, California Water Service Company, is willing to agree that if the Commission makes an order sought by it in the pending application, it will not claim as against the City of Fresno in any future condemnation proceeding brought within a year from date by said City, that the valuation of the Fresno properties recently acquired in the name of Mr. Jackson has been increased by the making of such order; and it further agrees that if said condemnation proceedings are brought within the period of one year from date it will not claim in such proceeding it has been or will be damaged upon the ground that all the property now owned by the Fresno City Water Corporation will be severed from the other non-adjacent properties which the California Water Service Company seeks to acquire. The representatives of Fresno wanted a stipulation of that sort, and we are willing to give it."

I herewith submit the following form of order.

#### ORDER

The Railroad Commission having been asked to enter its order as indicated in the foregoing opinion, a public hearing having been held and the Railroad Commission being of the opinion that it should at this time grant this application only to the extent affirmatively indicated in this order; that it should authorize the issue of not exceeding \$2,000,000.00 par value of its common capital stock; that the money, property or labor to be procured or paid for by such issue of stock is reasonably required by applicant, California Water Service Company, and that the purposes for which the company is authorized to expend the proceeds from the sale of said stock are not in whole or in part reasonably chargeable to operating expense or to income,



IT IS HEREBY ORDERED as follows:-

1. Applicant, C. B. Jackson, is hereby authorized to sell and convey to the California Water Service Company and said California Water Service Company is hereby authorized to purchase the properties and business comprising the Chico Vecino Water Company (unincorporated); the properties and business comprising the W. E. White Water Company (unincorporated), and a lot in the City of Visalia used and usable in connection with the Visalia Water Company system.
2. Applicant, C. B. Jackson, is hereby authorized to sell, assign, transfer and set over to California Water Service Company all his right, title and interest in and to the contract between said C. B. Jackson and Pacific Gas and Electric Company, dated December 7, 1926, and any amendments and modifications thereof so that <sup>said</sup> California Water Service Company may be substituted in the place and stead of C. B. Jackson with respect to said contract.
3. Applicant, Pacific Gas and Electric Company, is hereby authorized to convey, transfer and set over direct to applicant, California Water Service Company, all the properties, businesses, rights and privileges included in said contract dated December 7, 1926, and any amendments or modifications thereof.
4. Applicant, California Water Service Company is hereby authorized to purchase, hold and own the common stock of Chico Water Supply Company, Port Costa Water Company, Fresno City Water Corporation, Visalia City Water Company, Electric Water Company,

Bakersfield Water Works and Hermosa-Redondo Water Company.

5. Applicants, Chico Water Supply Company, Port Costa Water Company, Fresno City Water Corporation, Visalia City Water Company, Electric Water Company, Bakersfield Water Works, Hermosa-Redondo Water Company, are hereby authorized to sell and convey to California Water Service Company, and said California Water Service Company to purchase and take over the properties and business of said corporations and each of them.
6. The purchase price of the properties which the California Water Service Company is hereby authorized to acquire shall not exceed \$9,422,475.00.
7. Applicant, California Water Service Company, is hereby authorized to issue \$2,000,000.00 par value of common stock <sup>and sell said \$2,000,000.00 of common stock</sup> ~~common stock~~/together with such additional stock, (common and/or preferred) and bonds which the Commission may hereafter authorize to be issued for not more than \$9,422,475.00 and use said \$9,422,475.00, or lesser amount, for the purposes set forth in the foregoing opinion, provided that the Commission is under no obligation to authorize the issue of securities equal in par value to the \$9,422,475.00, or lesser amount, and, provided further, that only such part of the \$9,422,475.00, or lesser amount, as may hereafter be determined by the Commission, shall be charged to fixed capital account.
8. Applicant, C. B. Jackson, as the owner of the unincorporated water systems known as Chico Vecino Water Company, W. E. White Water Company, and applicants,

