

Decision No. 18418

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

SWEETWATER WATER CORPORATION)

for authority to sell its prop-)
erties and to discontinue public)
utility service, and The Sweetwater)
Water Corporation to purchase the)
said properties and to assume the)
said public utility service, and to)
issue bonds, preferred stock and)
common stock in payment for said)
properties.)

ORIGINAL

Application No. 13580.

Charles De Y. Elms,
for The Sweetwater Water Corporation,

Philip Storer Thacher,
for Sweetwater Water Corporation.

BY THE COMMISSION:

O P I N I O N

The Railroad Commission is asked to enter an order authorizing Sweetwater Water Corporation to transfer all of its properties to The Sweetwater Water Corporation and to discontinue public utility service; authorizing The Sweetwater Water Corporation to purchase the properties of Sweetwater Water Corporation, and to issue \$1,200,000.00 of six percent twenty-five year first mortgage bonds, \$150,000.00 of seven percent cumulative preferred stock and

\$750,000.00 of common stock and sell such bonds at not less than 93-1/2 percent of their face value and accrued interest and use the proceeds realized from the sale of said bonds or said bonds together with the preferred and common stock to pay for the properties of the Sweetwater Water Corporation.

Sweetwater Water Corporation was organized in 1920. By Decision No. 7202, dated March 2, 1920, the Commission authorized the company to issue \$1,000,000.00 of common stock and \$450,000.00 of six percent serial bonds, 1921 - 1940, at not less than ninety-five and accrued interest. By Decision No. 15697, dated November 30, 1925, the Commission authorized the company to issue \$100,000.00 of six percent bonds due January 1, 1940, at not less than ninety-eight and accrued interest. As of December 31, 1926, the company reports outstanding \$1,000,000.00 of stock and \$445,000.00 of bonds. The assets and liabilities of the company as of the same date are reported as follows:-

ASSETS:

Fixed Capital Installed Prior to January 1, 1913 . . .	\$1,177,907.49
Fixed Capital Installed Since December 31, 1912. . .	482,277.46
Construction Work In Progress	1,042.48
Cash.	5,198.82
Notes Receivable.	10,000.00
Due from Consumers and Agents	7,758.18
Miscellaneous Accounts Receivable	1,845.23
Material and Supplies	31,779.26
Prepaid Taxes.	281.34
Prepaid Insurance	268.04
Other Prepayments	114.00
Unamortized Discount on Securities and Expense. . .	3,169.66
Other Suspense.	1,310.91
Total Assets	<u>\$1,722,952.87</u>

LIABILITIES:

Capital Stock	\$1,000,000.00
Funded Debt	445,000.00
Notes Payable	12,000.00
Audited Vouchers and Wages Unpaid	20,284.85
Consumers' Deposits	1,114.62
Miscellaneous Accounts Payable.	15.25
Taxes Accrued	-
Interest Accrued.	8.00
Consumers Advances for Construction	38,246.16
Donations in Aid of Construction.	8,984.88
Reserve for Accrued Depreciation.	36,413.62
Other Reserves.	236.97
Corporate Surplus	160,648.52
Total Liabilities	<u>\$1,722,952.87</u>

Sweetwater Water Corporation serves a territory located in San Diego County, which territory comprises a small portion of the City of San Diego, all of the cities of National City and Chula Vista and a large unincorporated area in the vicinity. The territory served by the Sweetwater Water Corporation is reported to have a population of approximately 20,000.

The Sweetwater Water system secures its entire supply through the impounding of the discharge of the Sweetwater River and its tributaries and storing these waters in a reservoir of 31,000 acre feet, or 10,000,000,000 gallons, capacity. This reservoir is formed by a concrete and rubble masonry dam of the arched gravity type, 700 ft. long and 110 ft. high from the lowest point of foundations to the siphon spillway lip, which corresponds to gauge height 90 ft. The dam is located in a gorge of the Sweetwater River approximately four miles east of the easterly limits of the cities of National City and Chula Vista. From the dam two transmission pipe lines of 24 inch and 30 inch diameter located respectively on the north and south sides of Sweetwater Valley lead in a westerly direction to National City and Chula Vista, and at the easterly limits of these cities merge into the distribution system which consists of 510,000 feet or 96 miles of pipe lines ranging from 30 inches to 3/4 inch in diameter. It is reported that 4,550 services ranging in diameter from 3/4 inch to six inches are connected to the distribution system of which practically all are metered.

To insure against drought or other conditions tending to interrupt service, the corporation has drilled two wells on Quarter Section 109 of Rancho De La Nacion which can be equipped with pumps

and connected to the pipe system without delay should the need arise. In addition to these wells, the corporation owns in fee fourteen tracts of land which it is claimed are of proven water producing quality located in the Sweetwater Valley below the dam upon which wells can be drilled and pumps installed when required. The gross area supplied with water for all purposes is reported at approximately 6,000 acres. The total water deliveries from 1922 to 1926 inclusive are reported as follows:-

Y E A R	Total Deliveries In Acre Feet	Equivalent in million gallons per day
1922	4,615	4.12
1923	5,339	4.77
1924	6,280	5.61
1925	5,774	5.16
1926	5,640	5.04
TOTALS	<u>27,648</u>	<u>-</u>
AVERAGES	<u>5,530</u>	<u>4.94</u>

There has been filed in this proceeding as applicants' Exhibit "D" a report prepared by The Loveland Engineers, Inc. In Exhibit "D" the estimated reproduction cost new, the estimated reproduction cost new less depreciation (straight line basis) and the estimated original cost of the properties of the Sweetwater

Water Corporation are reported as follows:-

Account Items	Estimated reproduction Cost		Estimated Original Cost
	New	(Depreciated)	
Organization & preliminary expenses	\$10,000.	\$10,000.	\$10,000.
Franchises or operative rights	5,000.	5,000.	500.
Water rights	250,000.	250,000.	250,000.
Lands and rights of way.	433,737.	433,737.	433,737.
Buildings, structures & grounds	97,887.	81,605.	57,368.
Sweetwater reservoir	1,202,188.	1,007,998.	664,272.
Wells	1,425.	1,181.	1,375.
Pumping equipment.	1,175.	1,116.	1,124.
Purification system.	3,074.	2,869.	2,942.
Transmission mains	407,433.	192,024.	283,758.
Distribution mains	877,104.	460,141.	696,762.
Tanks	3,793.	3,698.	3,631.
Hydrants.	13,484.	9,881.	9,296.
Services.	65,638.	39,412.	56,562.
Meters.	102,094.	74,176.	84,552.
Misc. distribution equipment ..	1,025.	1,025.	1,025.
Office equipment, maps & records.	8,024.	8,024.	8,024.
Shop equipment.	3,195.	3,195.	3,195.
Automotive equipment.	10,157.	4,182.	10,157.
Materials and supplies.	32,732.	32,732.	32,732.
Sub-total.	\$3,529,165.	\$2,621,996.	\$2,611,012.
Going Concern Value.	200,000.	200,000.	200,000.
Grand Total	<u>\$3,729,165.</u>	<u>\$2,821,996.</u>	<u>\$2,811,012.</u>

The Loveland Engineers, Inc. have also calculated depreciation on a six percent sinking fund basis. On this basis they would deduct \$535,046.00 from the estimated reproduction cost new and \$335,740.00 from the estimated original cost.

In connection with Application No. 6715 (rate proceeding) the Commission's Engineering Department as of December 31, 1920, estimated the then original cost of the properties of Sweetwater Water Corporation at \$1,704,752.00. That appraisal included no allowance for water rights, no allowance for going concern value, no allowance for materials and supplies and included land at a value of \$228,894.00. The net cost of additions from December 31, 1920 to December 31, 1926, are reported at \$266,702.00 which, added to the estimated original cost, as reported on December 31, 1920, makes a total of \$1,971,454.00. The estimated original cost of the properties as now reported by The Loveland Engineers,

Inc. is \$839,548.00 more than the estimated original cost reported on December 31, 1920 plus net additions. The principal reason for the differences is that the estimated original cost as of December 31, 1926 includes an allowance of \$250,000.00 for water rights, the present value of the lands, which is \$198,796.00 in excess of the value of land included in the 1920 appraisal, an allowance of \$200,000.00 for going concern value and an increase of \$143,685.00 in the estimated cost of the transmission and distribution mains.

For the years from 1922 to 1926 inclusive the revenues and expenses of Sweetwater Water Corporation are reported by The Loveland Engineers, Inc. as follows:-

DESCRIPTION	1922	1923	1924	1925	1926
<u>INCOME ACCOUNT:</u>					
Operating Revenues	\$165,621.50	\$180,110.85	\$210,643.69	\$197,758.65	\$202,908.95
Non-Oper. "	6,975.67	8,157.13	8,505.92	6,719.20	9,092.22
Total Revenues. . .	<u>172,597.17</u>	<u>188,267.98</u>	<u>219,149.61</u>	<u>204,477.85</u>	<u>212,001.17</u>
Operating Expenses before Depreciation	63,797.46	69,533.30	71,930.97	71,198.27	63,061.97
Non-operating expenses and deductions	3,066.46	2,418.75	2,463.46	2,558.47	2,158.70
Total Expenses. . .	<u>66,863.92</u>	<u>71,952.05</u>	<u>74,394.43</u>	<u>73,756.74</u>	<u>65,220.67</u>
Net Revenue Before Depreciation. . .	105,733.25	116,315.95	144,755.18	130,721.11	146,780.50
Depreciation calculated 6% sinking fund basis	<u>11,366.57</u>	<u>11,749.72</u>	<u>11,877.43</u>	<u>12,260.57</u>	<u>12,771.43</u>
Net Revenue After Depreciation but Before Federal Income Tax	<u>94,366.68</u>	<u>104,566.23</u>	<u>132,877.75</u>	<u>118,460.54</u>	<u>134,009.07</u>

Sweetwater Water Corporation in its reports filed with the Railroad Commission included in operating expenses the following amounts for depreciation, 1922 - \$20,000.00; 1923 - \$26,359.10; 1924 - \$30,000.00; 1925 - \$30,000.00; and 1926 - \$30,000.00.

On the basis of original cost The Loveland Engineers, Inc. estimate depreciation accrued on the sinking fund method at \$335,740.00. Interest at the rate of six percent on this amount is \$20,144.40. In this connection it should be said that no depreciation was calculated on water rights, lands, going concern value, general miscellaneous construction expenses and materials and supplies.

To acquire the properties of Sweetwater Water Corporation, The Sweetwater Water Corporation asks permission to issue \$1,200,000.00 of six percent 25-year bonds, \$150,000.00 of seven per cent cumulative preferred stock and \$750,000.00 of common stock.

Two reasons have been advanced for the transfer of the properties of the Sweetwater Water Corporation to The Sweetwater Water Corporation. It is alleged that the stockholders of Sweetwater Water Corporation do not desire to invest any additional moneys in the properties, in order to extend the same, and further, that the present mortgage of Sweetwater Water Corporation provides only for a \$600,000.00 bond issue, of which \$550,000.00 have been issued. It is felt that the cost of extensions, additions and betterments of the water system can be financed more readily if the properties are transferred to a new corporation and that corporation permitted to execute a new mortgage. While such may be the case, we do not believe that it is in the public interest that the bond issue on these properties be increased from \$550,000.00 (now \$445,000.00 outstanding) to \$1,200,000.00 and that the stock issue be decreased from \$1,000,000.00 to \$900,000.00.

It is reported that the net revenue before depreciation for 1926 was 2.04 times the interest on \$1,200,000.00 and that the net revenue after depreciation for 1926 was 1.86 times bond interest. The projected net revenue for 1927 is reported at 2.22 times bond

interest before depreciation and 2.04 after depreciation. It occurs to us that in proceedings of this kind too much emphasis is given to the number of times net earnings may exceed bond interest. While the estimated net revenue for 1927 is over twice times the amount of interest on the proposed bond issue, the balance remaining after providing for depreciation and dividend on the proposed issue of preferred stock, will, if realized, be sufficient to pay a dividend of only 4.9 percent on the proposed common stock; a condition which in our opinion is not conducive to securing a proper price for the bonds or a ready market for preferred and common stock.

We have considered the request of The Sweetwater Water Corporation for permission to issue stocks and bonds and believe that such request in so far as it involves the issue and sale of \$1,200,000.00 six percent 25-year bonds at 93-1/2 and the issue of \$150,000.00 of seven percent cumulative preferred stock should not be granted. In our opinion the company should not issue more than \$1,000,000.00 of bonds, such bonds to bear interest at 5-1/2 percent per annum and be sold for not less than 93-1/2 and accrued interest. The preferred stock should bear cumulative dividends at not exceeding six percent per annum. The proceeds from the bonds or the bonds themselves and the stock (\$150,000.00 preferred and \$750,000.00 of common) shall, subject to the redemption of the bonds of the old company, be delivered to the Sweetwater Water Corporation in payment for its properties, such properties to be free and clear of all liens and encumbrances. If the new

company decides to assume the payment of the bonds of the old company, only \$555,000.00 of the bonds herein authorized to be issued may be sold and delivered. Upon the cancellation of the \$445,000.00 of bonds of Sweetwater Water Corporation, and the release of the mortgage of that company securing the payment of such bonds the remaining \$445,000.00 of bonds may be issued, sold and delivered.

The Sweetwater Water Corporation has submitted a copy of its proposed mortgage and/or deed of trust. The instrument is in satisfactory form except in the following particulars: first, The Series A bonds should be limited to \$1,000,000.00 (now \$1,200,000.00); second, the remainder of the bonds (\$4,000,000.00) may be authenticated by the trustee in amounts equal to not exceeding sixty percent (now seventy-five percent) of the cash cost or fair value, whichever is less, of property acquired or constructed; and third, the provisions of the mortgage, such as may be modified, should not be modified except with the consent of the holders of at least eighty percent (now seventy-five percent) of the outstanding bonds.

O R D E R

Sweetwater Water Corporation having applied for permission to sell its properties to The Sweetwater Water Corporation and thereafter to discontinue public utility service and The Sweetwater Water Corporation having asked permission to purchase said properties and issue \$1,200,000.00 of first mortgage six

percent 25-year bonds, \$150,000.00 of seven percent cumulative preferred stock, \$750,000.00 of common stock and execute a mortgage and/or deed of trust to secure the payment of an authorized bond issue of \$5,000,000.00, a public hearing having been held before Examiner Fankhauser and the Commission having considered applicant's requests and being of the opinion that the Sweetwater Water Corporation should be permitted to transfer its properties and The Sweetwater Water Corporation should be permitted to issue \$1,000,000.00 of first mortgage five and one half percent 25-year bonds, \$150,000.00 of six percent cumulative preferred stock and \$750,000.00 of common stock and execute a mortgage and/or deed of trust as provided in this order; that this application insofar as it involves the issue of six percent bonds and seven percent preferred stock should be denied without prejudice; that the money, property or labor to be procured or paid for by the issue of such stock and bonds is reasonably required by The Sweetwater Water Corporation and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, therefore

IT IS HEREBY ORDERED as follows:-

1. Sweetwater Water Corporation may transfer on or before October 1, 1927, all of its properties (Exhibit H) to The Sweetwater Water Corporation and thereafter discontinue public utility service, provided that within thirty (30) days after the transfer of such properties it file with the Commission a report covering its operations from January 1, 1927, to the date of the transfer of its properties.

2. The Sweetwater Water Corporation may execute a mortgage and/or deed of trust substantially in the same form as the mortgage and/or deed of trust filed with the Commission on May 16, 1927, provided said mortgage and/or deed of trust is modified, as indicated in the opinion which precedes this order, and provided further that the authority herein granted to execute a mortgage and/or deed of trust is for the purpose of this proceeding only and is granted insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of such mortgage and/or deed of trust as to such other legal requirements to which said mortgage and/or deed of trust may be subject.
3. The Sweetwater Water Corporation may issue and sell on or before October 1, 1927 at not less than 93-1/2 percent of their face value and accrued interest \$1,000,000. of first mortgage five and one half percent 25-year sinking fund gold bonds and deliver the proceeds received from the sale of such bonds or the bonds themselves, together with not exceeding \$150,000. par value of six percent cumulative preferred stock and \$750,000. par value of common stock to the Sweetwater Water Corporation in payment for its properties free and clear of all encumbrances, provided that if The Sweetwater Water Corporation assumes the payment of the outstanding bonds of Sweetwater Water Corporation the amount of bonds which The Sweetwater Water Corporation may deliver in payment for the properties of the Sweetwater Water Corporation shall be reduced by an amount equal to the face amount of bonds assumed. Upon the payment of the bonds of Sweetwater Water Corporation by The Sweetwater Water Corporation, the latter may issue bonds in lieu of those assumed by it.

4. This application insofar as it involves the issue of six percent bonds and the issue of seven percent preferred stock and the issue of \$200,000.00 of bonds is hereby denied without prejudice.
5. Within thirty (30) days after the execution of the mortgage and/or deed of trust referred to herein The Sweetwater Water Corporation shall file with the Commission two certified copies of such instrument.
6. Within thirty (30) days after the transfer of the properties herein authorized, Sweetwater Water Corporation shall file with the Railroad Commission a statement showing the date on which it sold and transferred its properties and the date on which it delivered possession of its properties to The Sweetwater Water Corporation.
7. The Sweetwater Water Corporation shall within thirty (30) days after acquiring title to the properties of Sweetwater Water Corporation file with the Railroad Commission a copy of the deed under which it acquires and holds such title.
8. The authority herein granted to transfer properties and issue stock will become effective upon the date hereof. The authority to issue bonds will become effective when The Sweetwater Water Corporation has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Thousand (\$1,000.00) Dollars.

9. The Sweetwater Water Corporation shall keep such record of the issue, sale and delivery of the stock and bonds herein authorized to be issued 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.

DATED at San Francisco, California, this 1st
day of June, 1927.

H. B. Rudiger
C. Severy
Thos. R. Rutter

Commissioners.

Fee \$100 ^{no}/₁₀₀
RAILROAD COMMISSION
STATE OF CALIFORNIA
1927
H. M. ...
Fee # 21175