

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of )  
 PACIFIC WATER COMPANY, )  
 a corporation, for authority to )  
 issue and sell its first mortgage )  
 bonds of the par value of )  
 \$1,000,000. and its common stock of )  
 the par value of \$600,000. and for )  
 authority to acquire public utility )  
 properties in the State of California. )  
 Application No. 13799

In the matter of the Application of )  
 WILLIAM H. HOWARD ESTATE COMPANY, )  
 a corporation, for authority to sell )  
 and convey certain properties to the )  
 Pacific Water Company. )  
 Application No. 13800

In the matter of the Application of )  
 PENINSULA WATER COMPANY )  
 for authority to transfer and convey )  
 all of its business assets and proper- )  
 ties to Pacific Water Company. )  
 Application No. 13801

In the matter of the Application of )  
 SOUTH SAN FRANCISCO WATER COMPANY, )  
 a corporation, for authority to )  
 transfer and convey all of its busi- )  
 ness assets and properties to Pacific )  
 Water Company. )  
 Application No. 13814

Chickering and Gregory, by Allen L. Chickering  
 and W. C. Ross, for Pacific Water Company  
 and South San Francisco Water Company;  
 Leon E. Morris, by Edwin W. Jaffa, for William  
 H. Howard Estate Company;  
 W. C. Ross, for Peninsula Water Company.

BY THE COMMISSION:

OPINION

In the above entitled matters the Railroad Commission is asked to make an order authorizing Peninsula Water Company, South San Francisco Water Company and William H. Howard Estate Company to transfer and convey certain properties to the Pacific Water Company, a new corporation, and authorizing Pacific Water Company to acquire such properties, to execute a mortgage and/or deed of trust and to

issue \$1,000,000.00 of five and one half percent first mortgage bonds and \$600,000.00 of common stock for the purpose of acquiring the properties and constructing additions and betterments, to which reference will be made hereafter.

The South San Francisco Water Company is engaged in the business of supplying water for domestic, municipal and other useful purposes in South San Francisco and vicinity thereto as a public utility.

As of December 31, 1926 the company reports its assets and liabilities as follows:-

A S S E T S

Fixed capital installed prior to Jan.1,1913....	\$150,489.41	
Fixed capital installed since Dec.31,1912....	<u>336,607.26</u>	\$487,096.67
Cash . . . . .		24,090.48
Due from consumers and agents . . . . .	8,944.02	
Miscellaneous accounts receivable . . . . .	<u>70.76</u>	9,014.78
Materials and supplies . . . . .		1,588.22
Prepaid taxes . . . . .	899.49	
Prepaid insurance . . . . .	<u>89.22</u>	988.71
Construction work in progress . . . . .		1,015.86
Total.....		<u>\$523,794.72</u>

L I A B I L I T I E S

Capital stock . . . . .		\$150,000.00
Accounts with system corporations . . . . .	\$117,515.41	
Consumers deposits . . . . .	1,202.00	
Miscellaneous accounts payable . . . . .	<u>728.55</u>	119,445.96
Reserve for accrued depreciation . . . . .		203,371.96
Federal income tax . . . . .		3,246.31
Reserve for earthquake insurance . . . . .		1,700.00
Corporate surplus unappropriated . . . . .		46,030.49
Total.....		<u>\$523,794.72</u>

In Exhibit No. 6 introduced by F.C. Herrmann, and prepared by him and B. A. Stcheverry, consulting engineers, the taps in service during 1924 are reported at 1093; during 1925 at 1286; and for 1926 at 1341. In the same exhibit the operating revenues for 1924 are reported at \$69,936.02; for 1925 at \$67,882.73; and for 1926 at \$93,856.23. The operating expenses before depreciation for the same years are reported at \$44,583.88; \$41,452.54; and \$42,721.87 respectively. In Exhibit No. 6 depreciation was calculated on a five percent sinking fund basis; the annuity for 1924 being reported at \$2,897.; for 1925 at \$3,246.; for 1926 at \$3,595. The net revenue

after the depreciation annuity for 1924 amounted to \$22,455.14; for 1925 to \$23,184.19; and 1926 to \$47,539.56.

The Peninsula Water Company is engaged in the business of supplying water for domestic, municipal and other useful purposes in San Mateo and the vicinity thereof as a public utility.

As of December 31, 1926 the company reports its assets and liabilities as follows:-

#### A S S E T S

##### CAPITAL ASSETS:

Real estate, structures and other properties, Jan. 1, 1926.....	\$434,975.86	
Addition for year ended Dec. 31, 1926	<u>10,778.61</u>	\$445,654.47
<b>CONSUMERS ACCOUNTS RECEIVABLE:</b>		
General . . . . .	8,779.96	
San Mateo Park . . . . .	<u>1,987.47</u>	10,767.43
Miscellaneous accounts receivable . . .		393.00
Cash in bank and on hand . . . . .		7,449.08
Unamortized discount on stock . . . . .		450,000.00
Total.....		<u>\$914,263.98</u>

#### L I A B I L I T I E S

Capital stock (authorized \$500,000.) . . . . .		\$500,000.00
First mortgage bonds . . . . .		207,000.00
Notes payable . . . . .		35,000.00
Accounts payable . . . . .		7,203.67
Taxes (accrued) . . . . .		3,000.00
Consumers advances for construction . . . . .		8,132.26
Depreciation reserve . . . . .		35,115.65
Uncollectable accounts reserve . . . . .		782.74
Capital surplus (arising from revaluation of plant acquired) . . . . .		3,840.61
Corporate surplus (App. for invest. in plant) . .		25,563.10
Corporate surplus:		
Balance Jan. 1, 1926 . . . . .	71,840.58	
Net income for year ended Dec. 31, 1926	<u>20,785.37</u>	
Dividends . . . . .	<u>4,000.00</u>	88,625.95
Total.....		<u>\$914,263.98</u>

For 1924 it reports 2465 taps in service; for 1925, 2675; and 2904 for 1926. Its operating revenues for 1924 are reported at \$81,057.68; for 1925 at \$83,389.17; for 1926 at \$102,350.93. The net revenue of the company after depreciation annuity calculated on a five percent sinking fund basis is reported at \$35,111.19; for 1924; at \$31,183.34 for 1925; and at \$37,854.10 for 1926.

The William H. Howard Estate Company, according to the record, has for many years past been engaged in the distribution of water on lands owned or heretofore sold by it. The company's operating revenues from the sale of water for 1924 are reported at \$4,624.66; for 1925 at \$3,911.09; and for 1926 at \$5,612.15. The net revenue of this system, after depreciation annuity, calculated on a five percent sinking fund basis, is reported at \$1,270.19; at \$630.47 for 1925; and at \$1,449.08 for 1926.

The consolidated operating revenues of the three systems for 1926 are reported at \$201,819.41 and the consolidated operating expenses before depreciation at \$106,908.97, leaving net revenue before depreciation of \$94,910.44. The depreciation annuity on a five percent sinking fund basis is reported at \$8,067.80 and Federal Income Tax at \$6,166.17. Deducting the depreciation annuity and the Federal Income Tax from the net revenue before depreciation leaves a balance of \$80,676.47. F. C. Merrmann in Exhibit No. 6 estimates the operating revenues for 1927 at \$232,715. and the net revenue after operating expenses, depreciation and Federal Income Tax at \$101,121.00.

The engineers, to whom reference has been made, estimate the as of December 31, 1926 historical cost/of the consolidated properties at \$1,384,520.00, the reproduction cost new at \$1,561,214.00 and the reproduction cost new less depreciation at \$1,380,855.00. The following tabulation shows a summary of the two appraisals.

ITEMS	Estimated historical	Reproduction Cost new plus overhead	Depreciated Reproduction Cost
Lands . . . . .	\$101,161.	\$101,161.	\$101,161.
Developed water supply . . . . .	310,000.	310,000.	310,000.
Water contract . . . . .	146,700.	146,700.	146,700.
Buildings and structures . . . . .	42,262.	56,635.	41,925.
intake and suction mains . . . . .		3,187.	2,746.
Wells . . . . .	68,349.	78,774.	68,534.
pumping plant equipment . . . . .	57,654.	64,388.	59,199.
Purification system . . . . .	3,614.	4,883.	4,813.
Transmission mains . . . . .	42,166.	31,849.	31,261.
Distribution mains . . . . .	402,556.	533,880.	417,667.
"    reservoir . . . . .	70,291.	93,899.	85,972.
hydrants . . . . .	9,387.	8,859.	6,562.
Services . . . . .	47,154.	38,189.	28,926.
meters and services . . . . .	72,948.	77,719.	66,673.
Miscell. distribution equipment . . . . .	6,754.	7,767.	5,592.
materials on hand . . . . .	4,324.	4,324.	4,324.
4- Totals . . . . .	\$ 1,384,520.	\$1,561,214.	\$1,380,855.

The estimated historical cost of the properties excluding the value assigned to developed water supply and water contract is substantially the same as estimated by the Commission's engineers in rate proceedings involving the properties of Peninsula Water Company and South San Francisco Water Company. Additions and betterments installed since the rate proceedings have been included at cost.

It will be noted that the estimated historical cost and the reproduction cost of the properties include an item of \$310,000.00 said to represent the value of a developed water supply and a further item of \$146,700. assigned as the value of water contracts.

It is of record(Exhibit No. 7) that by deed of October 3, 1883, the San Mateo Water Works deeded to the Spring Valley Water Works, predecessor of Spring Valley Water Company, the property and works of the former lying within the present Crystal Springs reservoir and water shed, and received in payment therefor \$395,000. and the right to the perpetual delivery of 300,000 gallons of water per day free of all costs, the delivery to be made into the reservoir of the San Mateo Water Works on the edge of the city of San Mateo at an elevation of 125 feet above sea level. This right has been acquired by the Peninsula Water Company and a value of \$310,000. has been assigned to this developed water supply. It is also of record (Exhibit No. 7) that William H. Howard, his heirs and assigns, under a contract dated May 15, 1884, with the Spring Valley Water Works, are entitled to receive 250,000 gallons of water per day at 15 cents per thousand gallons and under a contract of December 14, 1886, 75,000<sup>gallons</sup>/of water per day at five cents per thousand gallons. The value assigned to the two contracts is \$146,700.00.

At the hearing F.C.Herrmann testified that in determining such value he assumed that the contracts were not burdened with other contracts and that the William H. Howard Estate Company, successor of William H. Howard, was permitted to use the water as indicated in the contract with Spring Valley Water Works. Since preparing Exhibit No. 6, F. C. Herrmann, however, learned of a contract between William H. Howard and Charles F. Crocker, filed as Exhibit No. 10, which obli-

gates William H. Howard, his successors and assigns, to deliver to Charles F. Crocker, his successors and assigns, not exceeding 60,000 gallons of water in any one day at thirteen cents per 1000 gallons. In view of the Crocker contract, F. C. Herrmann testified that his value of \$146,700. should be somewhat reduced. He did not, however, submit a figure showing the extent of the reduction. Though we have referred to the several contracts we do not feel that we are called upon in this proceeding to determine to what extent such contracts are subject to the jurisdiction of the Commission or whether the values assigned should be modified.

To acquire the properties of the Peninsula Water Company, of the South San Francisco Water Company and William H. Howard Estate Company, the Pacific Water Company asks permission to issue and sell at ninety four and accrued interest \$900,000. of five and one half percent first mortgage bonds due May 1, 1957, and issue \$600,000. of common stock. As of December 31, 1926 the aggregate indebtedness, other than current liabilities, against the properties was reported at approximately \$360,000. Against the same properties applicant Pacific Water Company request a bond issue of \$900,000. Had the \$900,000. of bonds and \$600,000. of stock been outstanding during 1926, the company would have earned about four and one fourth percent on the common stock.

To recapitalize the properties of operating public utilities on the basis outlined is, we believe, not in the public interest. Having in mind the valuation placed on the properties in these proceedings and also in recent rate cases and their earnings, we believe that the Pacific Water Company should not issue more than \$650,000. of bonds and not more than \$500,000. of stock to acquire, free and clear of all indebtedness, the properties of Peninsula Water Company, South San Francisco Water Company and William H. Howard Estate Company, referred to in the above entitled proceedings as they existed on December 31, 1926, and pay expenses incident to their acquisition.

Exhibits No. 6 and No. 7 show that from December 31, 1926 to April 30, 1927 the sum of \$48,263.00 was expended for additions and betterments on the several systems. During the remainder of the year F. C. Herrmann estimates (Exhibits No. 6 and No. 7) that \$62,243.00 additional expenditures should be incurred for additions and betterments. To finance construction expenditures incurred since December 31, 1926 and prior to December 31, 1927, referred to by F.C. Herrmann, the order herein will authorize the issue of \$100,000. of bonds.

Pacific Water Company has submitted a copy of its proposed mortgage and/or deed of trust (Exhibit No. 19). We have reviewed the proposed trust indenture and find that it should be modified in the following particulars:-

a. Sections eleven and twelve of article one, shall be amended by substituting \$800,000. for \$1,000,000. wherever said \$1,000,000. appears.

b. Section thirteen of article one shall be amended by substituting sixty percent for seventy-five percent wherever said seventy-five percent appears.

c. Section fifteen of article two shall be amended by striking out the following sentence:-

"Any such investigation, made in pursuance of the provisions of this section, had at a time when a necessity arises therefor due to the financial difficulties of the company, shall be at the expense of the company."

d. Section seven of article eight shall be amended so as to provide that every successor trustee shall be a bank or trust company created, organized and existing under and by virtue of the laws of the State of California and having its principal place of business in said State of California.

#### ORDER

Peninsula Water Company, South San Francisco Water Company and William H. Howard Estate Company, having asked permission to sell and transfer certain properties to the Pacific Water Company, and Pacific Water Company, having asked permission to acquire said properties and issue \$1,000,000. of five and one half percent first mortgage bonds due May 1, 1957 and \$600,000. of common stock, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the Pacific Water Company should

be permitted to issue not exceeding \$750,000.00 of said bonds and not exceeding \$500,000.00 of said stock and that the money, property or labor to be procured or paid for by such issue is reasonably required by applicant, Pacific Water Company, and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income and that Application No. 13799, insofar as it involves the issue of \$250,000.00 of bonds and \$100,000.00 of stock, should be dismissed without prejudice, therefore

IT IS HEREBY ORDERED as follows:

1. Peninsula Water Company may transfer and convey all of its business, assets, rights, franchises and properties, more particularly described in Exhibit No. 20, to Pacific Water Company.
2. South San Francisco Water Company may transfer and convey all of its business, assets, rights, franchises and properties, more particularly described in Exhibit No. 5, to Pacific Water Company.
3. William E. Howard Estate Company may sell, transfer and convey to the Pacific Water Company the properties described in Exhibits No. 1, No. 2 and No. 18.
4. Pacific Water Company may acquire the aforesaid properties and issue on or before December 1, 1927, in payment therefore including costs of acquiring said properties not exceeding \$650,000.00 of its first mortgage 5-1/2 percent bonds due May 1, 1957, and not exceeding \$500,000.00 of common stock provided said properties are acquired free and clear of all



liens and incumbrances and provided further that said Pacific Water Company in lieu of delivering the bonds as part payment for the properties may sell the same at not less than 94 percent of their face value and accrued interest and use said proceeds to pay in part for the properties and the cost incurred to acquire said properties.

5. Pacific Water Company may issue and sell on or before December 1, 1927, at not less than 94 percent of their face value and accrued interest \$100,000.00 5-1/2 percent first mortgage bonds due May 1, 1957, and use the proceeds to finance the cost of additions and betterments installed subsequent to December 31, 1926, said additions and betterments to be those described in Exhibits No. 6 and No. 7.
6. Pacific Water Company may execute a mortgage and/or deed of trust substantially in the same form as the mortgage or deed of trust filed in these proceedings on June 20, 1927, provided said mortgage and/or deed of trust be amended as indicated in the foregoing opinion, and provided further that the authority herein granted to execute said mortgage and/or deed of trust is for the purpose of this proceeding only and is granted only insofar as this Commission has jurisdiction under the provisions of the Public Utilities Act and is not intended as an approval of said mortgage and/or deed of trust as to such other legal requirements to which said mortgage and/or deed of trust may be subject.
7. Pacific Water Company shall file with the Railroad Commission within thirty (30) days after the execu-

tion of the mortgage and/or deed of trust referred to herein, two certified copies of said mortgage and/or deed of trust.

8. The authority herein granted to transfer properties and to issue stock will become effective upon the date hereof.
9. The authority herein granted to issue bonds will become effective when applicant, Pacific Water Company, has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Seven Hundred and Fifty (\$750.00) Dollars and when it has filed with the Railroad Commission two certified copies of its mortgage and/or deed of trust which it is herein authorized to execute.
10. Pacific Water Company shall keep such record of the issue, sale and delivery of the stock and 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.
11. Application No. 13799, insofar as it involves the issue of \$250,000.00 of bonds and \$100,000.00 of stock,

be and the same is hereby dismissed without prejudice.

DATED at San Francisco, California, this 13<sup>th</sup> day of July, 1927.

Emmerts

Chase

Leon Whelan

Commissioners.

*Supplemental*

FEE PAID ON ORIGINAL APPLICATION  
13799  
No. ~~13800~~ <sup>13814</sup> Decision No. 18647  
Dated 19 day of July 1927

A. M. Morrison  
Secretary Railroad Commission,  
State of California.