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Decision No. 19215.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SANTA CRUZ COUNTY UTILITIES,)
(a corporation), for authority to)
sell its electric and water systems)
and properties to Public Utilities)
California Corporation(a corporation),)
and for authority for Public Utilities)
California Corporation to buy said)
systems and properties and to issue)
shares of its capital stock of the par)
value of \$140,000. and its first mort-)
gage gold bonds of the face amount of)
\$140,000., and a promissory note for)
the amount of capital additions made)
between April 6, 1927 and the date of)
the transfer of the properties.)

Application No. 14024.

Bells and Orrick, by T. W. Dahlquist and Hillyer Brown,
for Public Utilities California Corporation and
Santa Cruz County Utilities;
Bert E. Snyder, for San Lorenzo Valley Chamber of Commerce;
Wm. J. Locke, for The Brookdale Club, a corporation.

BY THE COMMISSION:

O P I N I O N

Santa Cruz County Utilities asks permission to sell its public utility business and properties to the Public Utilities California Corporation, and sell its nonoperative real property described in the indenture filed December 9th, to H. E. McGinty. The Public Utilities California Corporation asks permission to purchase said public utility properties and issue in payment therefor \$140,000.00 of stock and \$140,000.00 of first mortgage six percent bonds. It also asks permission to issue a one year six percent note equal in face amount to the cost of additions and betterments installed by the Santa Cruz County Utilities from April 6, 1927 to the date of the transfer of the properties, and to execute a mortgage to secure the payment of

an authorized bond issue of \$1,000,000.00.

The Santa Cruz County Utilities is the owner of and operates an electric light and power plant in the towns of Boulder Creek and Brookdale and a water works system in the towns of Boulder Creek, Ben Lomond, Brookdale and in the vicinities thereof.

The company as of May 31, 1927 had outstanding \$75,000.00 of stock divided into \$25,000.00 of preferred and \$50,000.00 of common, and \$37,500.00 of serial bonds. As of the same date it reports \$15,000.00 of notes and \$8,743.03 of accounts payable. Substantially all of the stock is owned by J.C. Hughes, and his wife, Jessie F. Hughes.

It appears that on April 6, 1927 the Santa Cruz County Utilities granted to W.B. Foshay Company a sixty day option to purchase its business, together with all its franchises and physical properties, both real and mixed, for the total purchase price of \$125,000.00, and the assumption by W. B. Foshay Company of the payment of \$37,500.00 of bonds. W. B. Foshay Company has concluded to acquire the properties for the consideration mentioned and has assigned its agreement to the Public Utilities Consolidated Corporation. They have caused to be organized under and by virtue of the laws of this state the Public Utilities California Corporation which has an authorized stock issue of \$300,000.00 divided into 3000 shares of the par value of \$100. per share. All of the stock is common.

The Santa Cruz County Utilities proposes to sell all of its properties except approximately 185 acres of nonoperative land, to Public Utilities California Corporation. The 185 acres of land will be transferred to H. E. McGinty in order that the proposed mortgage of the Public Utilities California Corporation will not become a lien on such properties.

Testimony was submitted by The Loveland Engineers, Inc. and by the Commission's engineers showing their estimates of the cost to reproduce new the operative and nonoperative properties of Santa Cruz County Utilities. The Loveland Engineers also submitted

testimony showing their estimate of the historical cost of the properties including present value of land and their estimate of the sound value of such properties. They submitted the following estimates, which are as of April 30, 1927;-

Cost to reproduce the properties new	\$356,112.00
Cost to reproduce the properties new less depreciation calculated on six percent sinking fund basis	312,079.00
Estimated historical cost new of the properties including present value of land	292,376.00
Estimated historical cost new less depreciation calculated on a six percent sinking fund basis	266,352.00
Estimated sound value of properties	297,000.00

The Commission's engineers estimated the reproduction cost new of the operative and nonoperative physical properties exclusive of materials and supplies at \$295,751.00. For the same items of property covered by the Commission's engineers The Loveland Engineers submitted an estimate of \$304,365.00. The reproduction cost new less depreciation calculated on a five percent sinking fund basis is reported by the Commission's engineers at \$251,684.00 and on a straight line basis at \$225,152.00. In this connection it should be said that the Commission's engineers included in their figures no allowance for intangible items of property such as development expense, water rights or going concern value. The Loveland Engineers included in their estimates a total of \$46,818.00 for such purposes.

It was stipulated at the hearing that the Commission might consider in evidence the annual reports filed by the Santa Cruz County Utilities. An estimate of the revenues and expenses for 1928 was submitted by F. J. Keys who will be the operating manager of the Public Utilities California Corporation. His testimony, however, shows that his estimate is not based upon a careful survey of the territory or on a familiarity ^{with} the properties. We do

not believe that the properties for 1928 will show \$17,970.00, the amount estimated by F.J.Keys, available for depreciation, interest, Federal income tax, dividends and surplus. His estimate for state taxes is obviously too low.

We are here concerned with the transfer and/^{re}capitalization of public utility properties whose capitalization and rates have been fixed by former orders of the Commission. True, since the issue of the stock and bonds authorized by the Commission the company has acquired additional properties through the issue of short term notes, through accounts payable and through the investment of reserves and surplus. But even giving consideration to such additional investments, the cost of the property which we feel should form the basis for the capitalization thereof, giving due regard to earnings, is much less than any of the valuations submitted. The valuations submitted, considered in connection with the earnings of the properties, are such that in our opinion they cannot be used as a basis for the capitalization of the properties. This being the case, there is no need to make further comment on them.

Public Utilities California Corporation asks, as said, permission to issue \$140,000.00 of stock and \$140,000.00 of bonds for the properties of Santa Cruz County Utilities as the same existed on April 6, 1927, and to issue a one year six percent note equal in amount to the cost of the additions and betterments from said date to the date of the transfer of the properties. After considering the record in this proceeding we are of the opinion that the Santa Cruz County Utilities should be permitted to sell its public utility properties to the Public Utilities California Corporation, which corporation should be permitted to acquire said properties and issue in payment for the properties, as the same existed on April 6, 1927, free and clear of all liens and encumbrances, not exceeding \$90,000.00 of first mortgage six percent 20-year bonds and not exceeding \$60,000.00

of common stock. The said bonds and stock represent the total consideration which the Public Utilities California Corporation may pay for said properties.

Some of the consumers of Santa Cruz County Utilities were represented at the hearings and took exception to certain of the valuation figures submitted, particularly the reported present value of lands. In our opinion it is not necessary that the Commission, for the purpose of this proceeding, determine the present value of the lands of Santa Cruz County Utilities, and therefore no specific finding need be made as to said value.

There was filed with the Commission on November 17th a copy of the proposed mortgage of Public Utilities California Corporation. This mortgage was reviewed by the Commission and certain changes suggested. The changes were made by representatives of the company and a revised copy filed on December 30th. The revised copy is in satisfactory form and its execution, we believe, should be authorized.

When Public Utilities California Corporation has filed a statement showing the cost of additions and betterments for the properties of Santa Cruz County Utilities from April 6, 1927 to the date of the transfer of such properties, consideration will be given to authorizing the issue of the one year note referred to in this application.

ORDER

Santa Cruz County Utilities having asked permission to sell its public utility properties to Public Utilities California Corporation and to sell its non public utility real property described in this application to H.E.McGinty, and said Public Utilities California Corporation having asked permission to purchase the public utility properties of Santa Cruz County Utilities and to issue in payment therefor \$140,000.00 of common stock and

\$140,000.00 of bonds and a promissory note, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion that the Public Utilities California Corporation should be permitted to issue \$90,000.00 of bonds and \$60,000.00 of stock and that the money, property or labor to be procured or paid for by such issue is reasonably required by said applicant, Public Utilities California Corporation, and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expense or to income, and that this application insofar as it involves the issue of \$50,000.00 of bonds and \$80,000.00 of stock, should be dismissed without prejudice; therefore,

IT IS HEREBY ORDERED as follows:-

1. Santa Cruz County Utilities may sell and transfer the properties described in Exhibit "C" and in the indenture filed on December 9, 1927, to the Public Utilities California Corporation and may if, as and when said Public Utilities California Corporation acquires said properties, discontinue its public utility service. Santa Cruz County Utilities may also sell the nonoperative real property described in the indenture filed December 9, 1927 to E. E. McGinty.

2. Public Utilities California Corporation may acquire said public utility properties and issue in payment for said public utility properties, as the same existed on April 6, 1927, provided said properties are acquired free and clear of all liens and encumbrances, not exceeding \$90,000.00 of first mortgage six percent 20-year bonds and not exceeding \$60,000.00 of common stock, the issue of said bonds and stock being the only consideration that may be paid for said properties.

3. This application insofar as it involves the issue of \$50,000.00 of bonds and \$60,000.00 of common stock be, and the same is hereby, dismissed without prejudice.

4. Public Utilities California Corporation may execute a mortgage substantially in the same form as the mortgage filed in this proceeding on December 30, 1927, provided that the authority herein granted to execute said mortgage 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 said mortgage as to such other legal requirements to which said mortgage may be subject.

5. The authority herein granted to issue bonds will become effective when applicant, Public Utilities California Corporation, has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$90.00, and when said applicant has executed the mortgage referred to herein.

6. Within ten days after the transfer of the properties herein authorized, the Santa Cruz County Utilities shall file with the Commission a statement showing the date on which the properties were transferred and the date on which it relinquished possession of the same.

7. Within sixty days after the transfer of the properties herein authorized, Public Utilities California Corporation shall file with the Commission a certified copy of the deed and any other instruments of conveyance under which it acquires and holds title to said properties, and also two certified copies of the mortgage which it is herein authorized to execute.

8. Public Utilities California Corporation 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.

DATED at San Francisco, California, this 5th day of January, 1928.

C. Seaver

W. O. Ricketts

M. J. Lane
Commissioners.

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RAILROAD COMMISSION
STATE OF CALIFORNIA
JAN 6 1928
By [Signature]
SECRETARY
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