

LEM

Decision No. 19562.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the
WILLITS WATER COMPANY
for an order authorizing the issue of
stocks.

ORIGINAL

) Application No. 14403

In the Matter of the Application of
CENTRAL MENDOCINO COUNTY POWER COMPANY,
(a corporation) and of Edward Morris
for authority to sell the water systems
and properties of said Central Mendocino
County Power Company and for Amy Requa Long
to buy said systems and properties.

) Application No. 14404

Orrick, Palmer and Dahlquist,
by Hillyer Brown, for Central
Mendocino County Power Company.

Edward Morris, for Willits Water Company.

BY THE COMMISSION:

O P I N I O N

In Application No. 14404 the Railroad Commission is asked to make an order authorizing Central Mendocino County Power Company to sell its public utility water system to Amy Requa Long, in accordance with the terms and conditions of an agreement, dated July 11, 1927, a copy of which is filed as Exhibit "B".

In Application No. 14403, as amended, the Commission is asked to authorize Willits Water Company to issue \$165,000.00 of stock.

It appears that Central Mendocino County Power Company for several years has been engaged in the business of furnishing and selling electricity for light and power and of distributing water in and about Willits, Mendocino County. It seems that

those in control of the affairs of the corporation desire to dispose of the water business and properties and to that end have made arrangements to sell them to Amy Requa Long and Edward Morris by the agreement dated July 11, 1927. Subsequently Edward Morris assigned all of his right, title and interest in and to the agreement to Amy Requa Long.

It appears that Amy Requa Long intends to assign her interest in the agreement with Central Mendocino County Power Company to a corporation which will acquire and operate the water system. To this end there was incorporated on or about December 20, 1927 the Willits Water Company, one of the applicants herein which asks permission to issue at par \$165,000.00 of its stock to finance the purchase of the water properties, delivery of the stock to be made as payments are made under the agreement.

The agreed purchase price to be paid for the water properties is \$165,000.00 payable as follows;- \$16,500. on or before May 12, 1928 and \$16,500. on or before each successive year thereafter for nine years with interest at the rate of 6.4 percent per annum. The purchasers at their option in lieu of making such payments, or any thereof, or any part thereof, in cash, may deliver to the company (Central Mendocino County Power Company) either (a) first mortgage bonds of the vendor with all unmatured coupons thereon; or (b) second mortgage notes of the vendor; or (c) may pay any other indebtedness of the vendor and deposit receipts or discharges therefor with the vendor; all of which bonds, notes or receipts shall be received by the vendor upon account of such purchase price of the par value of such bonds or notes and accrued interest thereon, or at the face of such indebtedness as the case may be, in lieu of cash and shall be credited to such extent in the reduction of the purchase price hereinabove mentioned.

The agreement provides that the purchasers shall be given the immediate possession of the water works and water system and may remain in possession thereof and operate the same so long as they are not in default under the agreement. Upon the payment of the full purchase price and upon due and faithful performance of the covenants and agreements by the purchasers, the Central Mendocino County Power Company will execute and deliver to the purchasers or their nominee or their nominees a good and sufficient deed conveying title to said water works and water system free and clear of all mortgage liens now existing on the properties or any that may hereafter be placed on the properties by the vendor, but subject to any liens and encumbrances suffered or created by the purchasers while in possession of the water properties. It will thus be observed that the purchasers cannot obtain clear title to the properties until they have paid the \$165,000.00 or its equivalent, nor until the Central Mendocino County Power Company has paid its outstanding first mortgage bonds amounting to \$141,000. and its outstanding second mortgage notes amounting to \$30,000.00. In view of this situation we do not feel that we are warranted in authorizing the Willits Water Company at this time to issue its stock as payments are made under the agreement. We believe that an application for permission to issue stock against the properties should be filed with the Commission after the Willits Water Company has actually acquired title to the properties. The order herein will permit the Willits Water Company to issue three shares of stock to qualify its directors and to execute the agreement filed as Exhibit "B" in Application No. 14404.

As shown in Exhibit "1" in Application No. 14403 the cost of the water properties which the Willits Water Company proposes to purchase was \$236,779.69. The accrued depreciation on these properties is reported at \$10,139.71. Central Mendocino County

Power Company has agreed to sell the properties, as stated above, to Amy Requa Long or her nominee or nominees for \$165,000.00. The testimony indicates that the Willits Water Company proposes to credit the difference between the historical cost of the properties, less depreciation reserve, and the purchase price, to its surplus account. We believe that, in cases such as this, it is better accounting practice if such difference as may exist between the historical cost of the properties and the purchase price be credited to a sub-account under account number twenty-nine, reserve for accrued depreciation.

ORDER

Applications having been made to the Railroad Commission for permission to transfer properties and to issue stock, a public hearing having been held before Examiner Fankhauser, and the Railroad Commission being of the opinion that the applications should be granted only as herein provided, and that the money, property or labor to be procured or paid for through the issue of \$300.00 of stock is reasonably required for the purpose specified herein, which purpose is not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that Central Mendocino County Power Company and Amy Requa Long and/or Willits Water Company be, and they are hereby, authorized to execute an agreement substantially in the same form as the agreement filed in Application No. 14404 as Exhibit "B".

IT IS HEREBY FURTHER ORDERED that Willits Water Company be, and it hereby is, authorized to issue and sell, at par, for cash, three shares of its capital stock of the aggregate par value of \$300.00 and to use the proceeds to pay organization and incorporation expenses.

IT IS HEREBY FURTHER ORDERED that Application No. 14403 insofar as it involves the issue of \$164,700.00 of stock and Application No. 14404 insofar as it involves the transfer of properties, be, and they are hereby, denied without prejudice.

The authority herein granted is subject to the following conditions;-

1. The authority herein granted to execute an agreement is for the purpose of this proceeding only, and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of said agreement as to such other legal requirements to which said agreement may be subject.

2. Willits Water Company shall advise the Commission of the exact date upon which it acquires possession of the water properties and commences operating them.

3. Willits Water Company shall keep such record of the issue of the stock herein authorized as will enable it to file, within thirty days thereafter, 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.

4. The authority herein granted to execute an agreement will not become effective until Amy Requa Long and/or Willits Water Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$165.00.

5. The authority herein granted to issue stock shall become effective upon the written acceptance of such authority by Willits

Water Company.

DATED at San Francisco, California, this 2^d day of ~~March~~ ^{April}, 1928.

Leon Whitell

C. Seary

Thos. S. Rountree

M. J. C.

Commissioners.

Fee \$165 ⁰⁰/₁₀₀
MAY 12 1928
Walter R. Bishop
Seal