

LRM

Decision No. 20032

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ORANGE COUNTY WATER COMPANY,)
a corporation, for authority to issue)
stock.)

Application No. 14782

In the Matter of the Application of)
ORANGE COUNTY WATER COMPANY,)
a corporation, to purchase and hold)
the capital stock of La Habra Domes-)
tic Water Company, a public utility.)

Application No. 14783

In the Matter of the Application of)
ORANGE COUNTY WATER COMPANY,)
and of each of the persons and cor-)
porations hereinafter named, for an)
order authorizing said Orange County)
Water Company to buy and each of the)
persons and corporations herein)
named to sell certain public utility)
properties.)

Application No. 14784

O'Melveny, Tuller and Myers, by W.W.Clary and Kent Allen,
for Orange County Water Company.

BY THE COMMISSION:

O P I N I O N

In the above entitled matters the Railroad Commission is asked to authorize Orange County Water Company to acquire and hold the capital stock of La Habra Domestic Water Company, to purchase the water properties of El Modena Water Company, Olive Investment Company and Stanton City Improvement Company, corporations, and the unincorporated water systems known as the Bloomington Domestic Water Company, Los Alamitos Water Company, Cypress Water System, and Simmons Water System, and to issue and sell at par for cash, \$267,300.00 of its common capital stock.

The record shows that Orange County Water Company was organized on or about May 3, 1928 under the laws of the State of California for the purpose, primarily, of owning and operating public utility water plants and properties. It now reports that it has made arrangements to purchase the stock or properties of seven water systems located in Orange County and one, the Bloomington Domestic Water Company, located in San Bernardino County, and through such purchase to consolidate under one management and control eight water properties now separately and independently owned and operated. The applications show that about 1970 consumers are served by the present operators and that the combined revenues and expenses for the twelve months ending March 31, 1928 were as follows:-

Operating revenues	\$43,000.72
Nonoperating revenues	820.77
Total revenues	<u>43,821.49</u>
Operating expenses	21,517.23
Net income	<u>22,304.26</u>
Deduct-Depreciation	5,509.74
Income tax	530.06
Balance for year	<u><u>\$16,264.46</u></u>

It appears that the purchasing company will acquire the various properties and stock at a cost of \$226,281.77. In this connection John C. Rath, president of Orange County Water Company, and an engineer by profession, testified that he had made an examination of each of the properties and had arrived at an estimate of the historical costs, less depreciation. The figures given by him aggregate \$257,000. In addition, there is in the record herein a report prepared by Haskins and Sells, certified public accountants, based upon an examination of the available books of account, showing among other things, the assets and liabilities as of March 31, 1928. The amounts agreed to be paid for the properties and stock compare with the reported book figures of the properties, including water stocks held as sources of supply, as follows:-

follows;-

Property	Purchase Prices	Book Figures	
		Total	Less Reserve for depreciation
Bloomington Dom. Water Company	\$12,500.00	\$19,647.84	\$15,434.36
Cypress Water System	7,750.00	14,262.30	12,140.35
El Modena Water Company	6,000.00	7,458.01	6,708.01
Los Alamitos Water Company	12,000.00	16,679.00	13,139.05
Olive Investment Company	21,355.41	24,865.89	22,851.04
Simmons Water System	7,000.00	10,500.00	9,060.00
Stanton Water System	6,000.00	15,881.72	15,351.68
La Habra Dom. Water Co.:			
Common stock, 1100 shares at \$82.	\$96,800.		
Preferred stock 44,000.			
Notes	12,876.36		
	153,676.36	146,578.41*	129,649.45*
Total	\$226,281.77	\$255,873.17	\$224,334.24

*Includes current and other accounts.

La Habra Domestic Water Company has outstanding or subscribed for, 1100 shares of common stock and 800 shares of seven per cent. cumulative preferred stock of the par value of \$50.00 a share. Orange County Water Company has agreed to pay \$88.00 a share for the common stock and it reports that it will be able to acquire the entire 1100 shares at this price. Upon acquiring the common stock, the purchaser proposes to call the preferred stock for payment, the premium being ten percent. of the par value, and to pay outstanding indebtedness of \$12,876.36. Eventually it plans to cause the transfer of the physical properties.

To obtain the \$226,281.77 reported necessary to acquire the various properties referred to and the stock of La Habra Domestic Water Company and to pay and redeem preferred stock and notes, and for other purposes, Orange County Water Company plans to issue and sell at par for cash, \$267,300.00 of common stock. The purposes for which it proposes to use the proceeds are reported as follows;-

To pay for properties referred to	\$72,605.41
To pay for common stock of La Habra Domestic Water Company	96,800.00
To retire preferred stock and debts of La Habra Do- mestic Water Company	56,876.36
To pay for improvements and betterments	15,000.00
To provide working capital	5,000.00
To pay commissions	10,500.00
To pay organization expenses	10,000.00
For directors shares	500.00

Total.....\$ 267,281.77

As yet the Commission has not been furnished with sufficient information upon which it can base an order at this time, authorizing the issue of all of the stock. The order herein will permit Orange County Water Company to issue at this time \$231,800.00 of stock to pay for the various properties and stock, to retire the outstanding preferred stock and indebtedness, to provide working capital and to qualify its directors. The request insofar as it involves the issue of the remaining stock and the use of the proceeds will be further considered when the information requested at the hearing has been filed.

O R D E R

Applications having been filed with the Railroad Commission, as set forth in the foregoing opinion, a public hearing having been held before Examiner Fankhauser, and the Railroad Commission being of the opinion that the applications should be granted, as herein provided, and that the issue of \$231,800.00 of stock is reasonably required by Orange County Water Company at this time, and that the money, property or labor to be procured or paid for through such issue is reasonably required for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably

chargeable to operating expense or to income--

IT IS HEREBY ORDERED--

1. E. B. Learned, as trustee, and/or H. C. Parker, Edwin C. Hart and the Estate of R.G.Burge may transfer to Orange County Water Company for \$12,500.00, the water properties referred to as the Bloomington Domestic Water Company and described in the agreement dated May 9, 1928 filed as ^{Exhibit} "J" in Application No. 14784, transfer to be made subject to the terms and conditions of said agreement.
2. G. C. Priddy and H. La Rue may transfer to Orange County Water Company for \$7,750.00 the properties referred to as the Cypress Water System and described in the agreement dated April 11, 1928 filed as Exhibit "K" in Application No. 14784, transfer to be made subject to the terms and conditions of said agreement.
3. Stanton City Improvement Company may transfer to Orange County Water Company, for \$6,000.00, the water properties referred to as the Stanton Water System and described in the agreement dated May 2, 1928 filed as Exhibit "L" in Application No. 14784, transfer to be made subject to the terms and conditions of said agreement.
4. El Modena Domestic Water Company may transfer to Orange County Water Company, for \$6,000.00, the water properties described in the agreement dated May 5, 1928 filed as Exhibit "M" in Application No. 14784, transfer to be made subject to the terms and conditions of said agreement.
5. R. C. Bloomquist, Jennie W. Bloomquist and Irene Nolan, as trustees, may transfer to Orange County Water Company, for \$12,000.00, the properties referred to as the Los Alamitos Water Company, and described in the agreement dated May 5, 1928 filed as Exhibit "N" in Application No. 14784, transfer to be made subject to the terms and conditions of said agreement.

6. F. C. Krause and Carl Simmons may transfer to Orange County Water Company for \$7,000.00, the properties referred to as the Simmons Water System and described in the agreement dated March 26, 1928 filed as Exhibit "O" in Application No. 14784, transfer to be made subject to the terms and conditions of said agreement.

7. Olive Investment Company may transfer to Orange County Water Company for \$20,000.00 subject to a certain indebtedness of \$1,355.41, the properties described in the agreement dated April 2, 1928 filed as Exhibit "P" in Application No. 14784, transfer to be made subject to the terms and conditions of said agreement.

8. Orange County Water Company may purchase the aforesaid properties for the considerations indicated, subject to the terms of the agreements referred to in the preceding paragraphs.

9. Orange County Water Company may acquire and hold the outstanding stock of La Habra Domestic Water Company at the price set forth in the foregoing opinion subject to the terms and conditions of the agreement dated April 24, 1928 filed as Exhibit "B" in Application No. 14783.

10. Orange County Water Company may issue and sell, for cash, at not less than par, on or before December 31, 1928, \$231,300.00 of its common capital stock and use the proceeds as follows:-

To pay for the various water properties referred to in the foregoing opinion	\$72,605.41
To pay for outstanding stock of La Habra Domestic Water Company	36,800.00
To pay and redeem outstanding preferred stock and indebtedness of La Habra Domestic Water Company	56,876.36
To provide working capital	5,000.00
Total.....	<u>\$231,281.77</u>

The remaining proceeds and such portion of the \$231,281.77 not needed for the above purposes may be expended only for such purposes as the Commission might hereafter authorize in supplemental orders.

11. Orange County Water Company may issue and sell for cash at not less than par, on or before December 31, 1928, \$500.00 of its common capital stock to the persons named in its Articles of Incorporation and use the proceeds for organization and incorporation purposes.

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

a. The prices at which Orange County Water Company is herein authorized to acquire stocks and properties shall not hereafter be urged before this Commission or other public body or court as a measure of the value of said stocks and properties for rate fixing or other purposes.

b. Orange County Water Company shall file with the Commission a copy of the entries by which it records on its books of account the cost of acquisition of the aforesaid stock and properties and thereafter distributes such cost.

c. El Modena Domestic Water Company, Olive Investment Company, Bloomington Domestic Water Company, Los Alamitos Water Company, within sixty days after the transfer of their properties to Orange County Water Company, shall file financial reports with the Commission covering the period from January 1, 1928 to the date of transfer, such reports to be prepared on the regular annual report forms prescribed and provided by this Commission.

d. Within thirty days after acquiring the various properties as herein authorized, Orange County Water Company shall file certified copies of the deeds of conveyance by which it receives title to the properties and shall at the same time advise the Commission of the exact date upon which it acquires possession and control of such properties.

e. Orange County Water Company shall keep such record of the issue of the stock 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.

f. The authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 11th day of July, 1928.

C. J. Deane

Emmanuel

John S. Deane

W. J. Deane
Commissioners.