

Decision No. 20201

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 UNION WATER COMPANY,)
 a corporation, for authority to)
 sell the water systems and proper-)
 ties operated by Union Water Company)
 to Public Utilities California Cor-)
 poration, a corporation, and for)
 authority of Public Utilities Calif-)
 ornia Corporation to buy said sys-)
 tems and properties and to issue)
 shares of its capital stock of the)
 par value of One hundred seventeen)
 thousand (117,000) dollars.)

ORIGINAL

Application No. 14916.

Orrick, Palmer & Dahlquist, by Hillyer Brown
for Public Utilities California Corporation.

James W. Henderson, for Union Water Company.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to enter its order authorizing the Union Water Company to sell its business and properties to the Public Utilities California Corporation and authorizing the Public Utilities California Corporation to acquire said business and properties and to issue in payment for such business and properties \$117,000.00 par value of its common capital stock.

The Union Water Company is a corporation engaged in the business of distributing water to the inhabitants of Arcata and vicinity thereof in Humboldt County. The population of the territory served is estimated at 3,000. It is reported that the company's water system consists of three reservoirs for the

collection and storage of water which have a capacity of 1,500,000 gallons, 172,220 feet of transmission mains ranging from 3" to 7" in diameter, a standby or emergency pumping plant, and a distribution system of 78,000 feet of iron pipe ranging from 7" to 3/4" in diameter. There are now, according to the testimony submitted, 787 connected services of which 550 are metered. For 1925 the Union Water Company has reported operating revenues at \$14,944.56; for 1926, \$15,348.86 and for 1927, \$16,160.44. The revenues of the company for 1928 are estimated at \$16,800.00.

There has been filed as Exhibit "C" in this proceeding a report and analysis in re appraisal of the properties of the Union Water Company as of January 31, 1928, such report and analysis having been prepared by the Loveland Engineers, Inc. In the report the Loveland Engineers, Inc. submit their estimate of the reproduction cost new of the properties; of the reproduction cost new less depreciation; of the original cost of the properties and the sinking fund accumulation applicable to the estimated original cost.

The estimated original cost of the properties is reported by them at \$117,013.00 and the sinking fund accumulation applicable to such cost at \$22,457.00. The estimated original cost less depreciation is reported at \$94,556.00. In this connection it should be said that the \$117,013 and the \$94,556.00 includes \$20,750.00 to cover intangible items of property as follows:-

Original and preliminary expense	\$1,500.00
Cost of acquisition of franchises.	500.00
Value of water rights.	8,000.00
Cost of acquisition of lands	750.00
Going concern value.	10,000.00
Total	<u>\$20,750.00</u>

It also appears that there is included in ^{the} estimated original cost an item of \$5,088.00 for paving over mains which has not actually been incurred by the company.

The estimated reproduction cost new of the properties as of January 31, 1928, is reported in Exhibit "C", at \$155,624.00 and the reproduction cost new less depreciation at \$117,707.00. Both of these figures include an allowance of \$25,000.00 for intangible property items. The \$25,000.00 consists of \$2,750.00 for organization and preliminary expense, \$1,500.00 for the acquisition of franchises, \$10,000.00 for the value of water rights, \$750.00 for the cost of the acquisition of lands and \$10,000.00 for going concern value.

It is submitted that the sound value of the properties of the Union Water Company is \$117,000.00. It will be observed that this alleged sound value is approximately the same as the reproduction cost new less depreciation and includes an allowance of \$25,000.00 for intangible property items.

The testimony shows that W. B. Foshay Company have entered into a contract to pay \$82,000.00 for the properties of the Union Water Company and that there has been incurred an expense of \$3,833.82 in connection with the purchase of the properties, which added to the purchase price would result in a total cost to the W. B. Foshay Company of \$85,833.82. It appears that W. B. Foshay Company have agreed to sell their interest in the properties to the Public Utilities California Corporation in exchange for \$117,000.00 par value of stock in the Public Utilities California Corporation. The agreement between W. B. Foshay Company and Public Utilities California Corporation, filed as Exhibit Six, provides that in case

the Commission authorizes the transfer of the properties, but only upon payment by the Public Utilities California Corporation of an amount less than \$117,000.00 and the issuance of a lesser amount of stock W. B. Foshay Company may reduce the purchase price in accordance with the authorization of the Commission and may purchase from the Public Utilities California Corporation such lesser amount of stock as may be authorized by the Commission.

We have considered the testimony submitted in this proceeding and are of the opinion that the Union Water Company should be permitted to sell its properties to the Public Utilities California Corporation but that the Public Utilities California Corporation should not be permitted to issue more than \$79,000.00 of its common stock in payment for such properties. It is our opinion that the Public Utilities California Corporation, if it acquires the properties of Union Water Company, should not charge to its fixed capital accounts more than \$101,425.00. The difference between the \$101,425.00 and the \$79,000.00 should be credited to its reserve for accrued depreciation. If the Public Utilities California Corporation pays more than \$79,000.00 for the properties of Union Water Company, the difference between such purchase price and the \$79,000.00 must be charged to a suspense account and amortized by charges to its surplus account or be charged directly to its surplus account.

ORDER

Union Water Company having asked permission to sell its properties and business to the Public Utilities California Corporation and Public Utilities California Corporation having asked permission to acquire such properties and issue in payment therefor \$117,000.00 par value of its common capital stock, a public hearing

having been held before Examiner Fankhauser and the Commission being of the opinion that the transfer of the properties is in the public interest but that Public Utilities California Corporation should be permitted to issue in payment for such properties not exceeding \$79,000.00 par value of its common capital stock; that the money, property or labor to be procured or paid for by the issue of such stock is reasonably required for the purposes specified herein and that the expenditures are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application insofar as it involves the issue of \$38,000.00 of stock should be dismissed without prejudice, therefore,

IT IS HEREBY ORDERED as follows:-

1. Union Water Company may sell on or before December 15, 1928, to the Public Utilities California Corporation its properties and business more particularly described in Exhibit "C" filed in this proceeding.
2. Public Utilities California Corporation may acquire the aforesaid properties and business on or before December 15, 1928, and issue at par in payment therefor not exceeding \$79,000.00 of its common capital stock.
3. This application insofar as it involves the issue of \$38,000.00 of common stock be, and the same is hereby, dismissed without prejudice.
4. Public Utilities California Corporation, if it acquires the aforesaid properties may not charge to its fixed capital accounts more than \$101,425.00. If it pays for the properties more than \$79,000.00 represented by a like amount of common stock, it must

charge the difference between said \$79,000.00 and the price paid to a suspense account and amortize the same by charges to its surplus account within five years after the date of this order, or charge such difference at once to its surplus account.

5. Public Utilities California Corporation shall file with the Railroad Commission a report such as is required by the Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.
6. Within thirty (30) days after the acquisition of the properties herein referred to, Public Utilities California Corporation shall file with the Railroad Commission a certified copy of the deed under which it acquires and holds title to said properties. It shall also file with the Commission a statement showing the date on which it acquired the properties and the date on which it took possession of the same.
7. The authority herein granted will become effective within twenty (20) days after the date hereof.

DATED at San Francisco, California, this 16th
day of September, 1928.

Leon Overhill

Albeny

Emmett

W. J. ...

Commissioners.