

LRA

Decision No. 20243

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
RUSSIAN RIVER WATER COMPANY,)
a corporation, for authority to sell)
the water systems and properties)
operated by Russian River Water)
Company to Public Utilities Califor-)
nia 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 \$236,500.00.)

ORIGINAL

Application No. 14893.

A. F. Lamberger, for Russian River Water Company.

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

BY THE COMMISSION:

OPINION

In the above entitled matter the Railroad Commission is asked to make its order as follows:-

1. Authorizing Russian River Water Company to transfer its properties, franchises and business to Public Utilities California Corporation and authorizing the latter to acquire said properties, franchises and business, and
2. Authorizing Public Utilities California Corporation to issue and sell at par \$236,500.00 of its common capital stock to pay for the properties, franchises and business of Russian River Water Company.

The application shows that Russian River Water Company is engaged in the business of distributing water in and about the towns of Guerneville, Monte Rio and Rionido. The company obtains its supply from small mountain streams and from three wells located along the river. Water is diverted at a number of points, the flow being accumulated usually in local tanks, of which there are in service thirtyeight of a total capacity of 572,000 gallons. The transmission and distribution system include 245,498 feet of mains ranging from one half of an inch to six inches in diameter. The number of service connections are reported at 1,329.

The assets and liabilities of Russian River Water Company, as of April 30, 1928, are reported as follows:-

ASSETS:

Fixed capital	\$228,115.88	
Cash	1,631.91	
Accounts receivable	3,324.25	
Merchandise and supplies	1,719.92	
Unamortized discount	3,035.20	
Total		\$237,827.16

LIABILITIES:

Capital stock	\$178,500.00	
Notes payable	20,000.00	
Accounts payable	1,166.02	
Consumers' advances	1,543.23	
Accruals	299.87	
Reserve for depreciation	24,988.60	
Surplus	11,329.44	
Total		\$237,827.16

Public Utilities California Corporation is engaged in the business, among others, of acquiring and operating public utility water systems in various parts of the state of California. It reports that it has entered into an agreement to buy all the assets of

Russian River Water Company, except cash on hand and accounts receivable at the date of transfer, free and clear of all liens and encumbrances for the sum of \$236,500.00. It proposes to issue and sell at par, \$236,500.00 of its common stock to finance the purchase price.

In support of the request, applicants allege that Russian River Water Company heretofore has been authorized to issue \$179,800.00 of stock and has issued such stock, that up to April 30, 1928, its net expenditures for additions to capital, against which no stock has been issued, have aggregated \$56,685.68, and that the securities now proposed to be issued by Public Utilities California Corporation are no greater in amount than those which the Russian River Water Company has outstanding and which it would be entitled to issue in reimbursement of its treasury for capital expenditures made. In addition, applicants have filed as Exhibit "D" an estimate as of December 31, 1927, of the original cost and the reproduction cost of the properties of Russian River Water Company, prepared by The Loveland Engineers, Inc. A summary of the estimates follows:-

Original cost	\$267,000.
Sinking fund accumulation	<u>21,457.</u>
Original cost less sinking fund accumulation.	\$245,543.
Reproduction cost	\$297,579.
Accrued depreciation.	<u>34,009.</u>
Reproduction cost less accrued depreciation	\$263,570.

The estimated valuations include allowances for intangible items as follows:-

<u>ITEM</u>	<u>ORIGINAL COST</u>	<u>REPRODUCTION COST</u>
Organization	\$2,500.00	\$2,500.00
Water rights	2,500.00	6,600.00
Rights of way.	7,750.00	7,750.00
Cost of acquiring lands and rights of way	4,214.00	4,214.00
Interest during construction	-	3,636.00
Going concern.	<u>25,000.00</u>	<u>25,000.00</u>
Total	<u>\$41,964.00</u>	<u>\$49,700.00</u>

The Loveland Engineers, Inc. included in their report a value of \$68,868.00 for land and \$6,250.00 for rights of way.

H. R. Robbins, one of the Commission's assistant engineers, introduced into the record as the Commission's Exhibit "I" an appraisal of the lands and the rights of way of Russian River Water Company, in which he estimates the present value of the lands at \$65,656.00 and the rights of way at \$2,045.00.

In reviewing the record in this matter we do not believe that the evidence submitted supports the allegation that the Russian River Water Company would be entitled to issue an additional \$56,700.00 of stock to reimburse its treasury for capital expenditures heretofore made. In proceedings of this nature the Commission heretofore has held that the security issue by the purchasing company should be based upon the estimated original cost of the properties, consideration being given to the depreciation accrued on such properties and the earnings realized from their operation.

As shown in Exhibit "D" the original cost of the properties of Russian River Water Company is estimated at \$267,000.00 and the accrued depreciation at \$21,457.00, leaving a net figure of \$245,543.00. This amount, however, includes \$25,000.00 for going concern value which we believe should be excluded in arriving at the amount of stock to be authorized to be issued against the properties. Deducting this sum and also the excess of the companies' engineers' appraisal for lands and rights of way over the appraisal of the Commission's engineer leaves a balance of \$213,126.00 which we believe might properly be used as a basis for an order authorizing the issue of stock.

Considering the earnings of the properties of Russian River Water Company we find, from its annual financial reports on file with the Commission, that in 1926 its gross revenues were reported at

\$27,706.13 and in 1927 at \$29,028.86, and its net profit, after deducting operating expenses, taxes and depreciation at \$8,303.77 in 1926 and at \$8,420.96 in 1927. For 1928, F. J. Keyes, vice-president and manager of Public Utilities California Corporation, estimated the gross revenues at \$31,500.00 and net profit, after deducting operating expenses, taxes and depreciation and taking into consideration adjustments in operating methods and other factors, at \$14,072.00. Upon analysis, however, it appears that Mr. Keyes includes in operating expenses for depreciation an amount arrived at by taking 12-1/2 per cent of the gross revenue and deducting therefrom the charges for maintenance, the balance being the amount of the charge for depreciation. We do not concur with this method of determining the annual charges for depreciation.

Taking into consideration all the circumstances and conditions surrounding the matters set forth in this application, we believe that the transfer of the properties should be authorized but that Public Utilities California Corporation should be permitted to issue in payment not exceeding \$213,200.00 of stock. Such an order, accordingly, will be entered.

ORDER

Application having been made for an order authorizing the transfer of the properties of Russian River Water Company and the issue of \$236,500.00 of stock by Public Utilities California Corporation, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the transfer of the properties should be authorized but that the issue of only \$213,200.00 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 and that this application in so far as it involves the issue of \$23,300.00 of stock should be denied without prejudice, therefore,

IT IS HEREBY ORDERED as follows:

1. Russian River Water Company may sell and transfer to Public Utilities California Corporation its properties, franchises and business, more particularly described in applicant's Exhibit "D".
2. Public Utilities California Corporation may acquire said properties, franchises and business and may issue and sell at par \$213,200.00 of its common capital stock to pay for such properties, franchises and business.
3. Public Utilities California Corporation shall charge to its fixed capital accounts in recording the purchase of the properties of Russian River Water Company the sum of not exceeding \$234,657.00. If it pays for the properties more than \$213,200.00, represented by a like amount of common stock, it must charge the difference between said \$213,200.00 and the price paid to a suspense account and amortize the same by charges to its surplus account within five (5) years after the date of this order, or charge such difference at once to its surplus account.
4. Public Utilities California Corporation shall file with the Railroad Commission within thirty (30) days after the execution of the deeds under which it acquires title to the properties of Russian River Water Company, a certified copy thereof; also a certified statement showing the exact date on which it acquired the properties and on which it took possession and began to

operate the same, and also a report showing the issue of the stock, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

5. Russian River Water Company within sixty (60) days after the transfer of its properties as herein authorized, shall file with the Commission a financial report covering the period from January 1, 1928, down to the date of transfer, such report to be made on the regular annual report form prescribed by this Commission.
6. This application insofar as it involves the issue of \$23,300.00 of stock is denied without prejudice.
7. The authority herein granted will become effective ten (10) days after the date hereof.

DATED at San Francisco, California, this 21st
day of September, 1928.

Leon C. White
Ch. J. ...
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Commissioners.