

LEM

Decision No. 20276 .

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 ROSEVILLE WATER COMPANY,)
 a corporation, for authority to)
 transfer its water properties and)
 business to Public Utilities Cali-)
 fornia Corporation, and for authority)
 of Public Utilities California Cor-)
 poration to acquire said water pro-)
 perties and business, and to issue)
 in consideration thereof shares of)
 its common capital stock of the ag-)
 gregate par value of \$300,000.00.)

Application No. 14859

Orrick, Palmer & Dahlquist, by Hillyer Brown,
for applicants.

J. B. Gibson, for City of Roseville.

BY THE COMMISSION:

O P I N I O N

The Railroad Commission has been asked to make its order authorizing Roseville Water Company to transfer its properties, franchises and business to Public Utilities California Corporation, and authorizing Public Utilities California Corporation to acquire said properties, franchises and business and, in payment, to issue \$300,000.00 of its common stock and to assume and agree to pay all of the liabilities and obligations of Roseville Water Company at the date of transfer.

The application shows that Roseville Water Company is a corporation engaged in distributing water to the inhabitants of Roseville and vicinity. The chief source of supply is obtained by purchase from the Pacific Gas and Electric Company at its Boardman Canal, the waters being diverted at a point about two miles east

of Roseville and conducted through approximately 1500 feet of ditches to the main reservoir, a shallow earthen basin of 17,000,000 gallons capacity. From this point a welded steel transmission line varying from thirty inches to twenty-two inches leads to the city.

The distribution system consists of 121,030 feet of pipe ranging in size from three-fourths to eleven inches in diameter, of which the smaller sizes are screw pipe or casing, the four to ten inch mains largely cast iron and the eleven inch main riveted steel. The consumers number 2109 and are supplied through 1940 services.

In addition to the supply obtained from the Boardman Canal the company owns three wells, two of which are equipped with electrically driven centrifugal pumps having a tested output of 1850 gallons per minute. These wells, according to the testimony herein, are used for stand-by purposes.

Roseville Water Company has outstanding \$100,300.00 of stock which, it appears, was issued prior to the effective date of the Public Utilities Act. The 1927 annual financial report filed by the company with the Commission shows unamortized discount on the outstanding stock of \$80,000.00.

The record herein shows that on November 23, 1927 an agreement was made and entered into by and between W. G. Hemphill and Elvia Hemphill, on the one hand, and W. B. Foshay Co., on the other, by the terms of which W. B. Foshay Co. agreed to purchase all of the outstanding stock for \$100,000.00. It was further agreed that the then owners of the stock would pay or cause to be paid all the liabilities of the company, except the outstanding bonds which aggregated \$180,000.00. It was also further agreed that if at the time of the final payment of the purchase price of the stock there should be outstanding less than \$120,000.00 of bonds, the purchase price

should be increased by the difference between the amount actually outstanding and the \$180,000.00.

It is represented that the control of the stock was transferred in February, 1928, at which time \$178,000.00 of bonds were outstanding, so that the price paid for the stock was increased to \$102,000.00. Thereafter the outstanding bonds were called for payment at 103 percent of their face value. The moneys thus expended by W. B. Foshay Company in acquiring the stock of Roseville Water Company and in discharging its bonded indebtedness aggregate the sum of \$285,340.00.

The application now shows that Roseville Water Company has entered into an agreement whereby it has agreed to transfer all of its properties, franchises and business to Public Utilities California Corporation in consideration of the issuance and delivery to it of \$300,000.00 of the common capital stock of Public Utilities California Corporation and the assumption by that corporation of all of its obligations and liabilities at the date of transfer. The Commission's approval of the transaction is here requested.

In support of their requests applicants have filed as Exhibit "C" an estimate as of November 30, 1927, of the original cost and the reproduction cost of the properties of Roseville Water Company, prepared by The Loveland Engineers, Inc. A summary is as follows;-

REPRODUCTION COST:

Lands and physical properties	\$294,813.00
Organization and preliminary expense and other items	47,670.00
Total.....	<u>\$342,483.00</u>
Depreciation, including franchises	40,630.00
Reproduction cost less accrued depreciation	<u>\$301,853.00</u>

ORIGINAL COST:

Lands and physical properties	\$226,195.00
Organization and preliminary expense and other items	46,670.00
Total.....	<u>\$272,865.00</u>
Sinking fund accumulation	24,146.00
Original cost less sinking fund accumulation	<u>\$248,719.00</u>

The organization and preliminary expense and other items included in the foregoing tabulation consist of the following;-

ITEM	Reproduction Cost	Original Cost
Organization and preliminary expense	\$5,000.00	\$5,000.00
Franchises	1,500.00	500.00
Water rights	1,000.00	1,000.00
Cost of title searches and of acquisition of lands	170.00	170.00
Going concern	40,000.00	40,000.00
Totals.....	<u>\$47,670.00</u>	<u>\$46,670.00</u>

Applicants submit that the sound value of the properties is \$300,000.00. This amount, it will be observed, is approximately equal to the estimated reproduction cost less accrued depreciation and is equal to the par value of the stock proposed to be issued.

We do not believe, however, that the reproduction cost less accrued depreciation is the proper basis to be used in determining the capitalization of these properties, nor do we believe that we should recognize the alleged value of \$40,000.00 for going concern. Following our usual practice in matters of this nature we will authorize the issue of stock by Public Utilities California Corporation in an amount based upon the estimated original cost of the properties, less accrued depreciation, excluding going concern value and such other of the alleged intangible values as do not seem to us to be reasonable, and taking into consideration current assets, of about \$10,000.00, which also will be transferred. Accordingly, we will authorize the issue of \$218,000.00 of stock.

While Public Utilities California Corporation also asks permission to assume and agree to pay the outstanding liabilities of Roseville Water Company, it appears that such liabilities were incurred since February, 1928, to pay for additions and betterments. The estimated property values given herein are as of November 30, 1927 and apparently subsequent expenditures were not taken into consideration in making the request to issue \$300,000.00 of stock.

The order herein authorizing the issue of stock is based upon the properties as they existed on November 30, 1927, as shown in Exhibit "C", so that the purchasing company may, if it so desires, at some future date file an application for permission to issue stock against expenditures made for capital purposes after that date.

J. B. Gibson, representing the City of Roseville, requested the Commission to include in its order in this matter a reservation to the effect that any evidence introduced into the record or any findings made by the Commission herein should not be used in any rate fixing or other proceeding in which the valuation of the properties hereafter might be involved. Counsel for applicants stipulated that they would not be urged for such purposes.

ORDER

Roseville Water Company having applied to the Railroad Commission for permission to sell its properties, franchises and business to Public Utilities California Corporation, and Public Utilities California Corporation having applied for permission to issue \$300,000.00 of stock, a public hearing having been held before Examiner Satterwhite, and the Railroad Commission being of the opinion that the transfer should be authorized, but that Public Utilities California Corporation should be permitted to issue not exceeding \$218,000.00 of stock, and that the money, property or labor to be procured or paid for through such issue is reasonably required for the purpose specified herein, which purpose is not in whole or in part reasonably chargeable to operating expenses

or to income, and that the application insofar as it involves the issue of \$82,000.00 of stock, should be denied without prejudice,

IT IS HEREBY ORDERED that--

(1) Roseville Water Company may transfer to Public Utilities California Corporation all of its properties, assets, franchises and business referred to in this application.

(2) Public Utilities California Corporation may acquire said properties, assets, franchises and business and, in payment, issue and deliver not exceeding \$218,000.00 of stock and assume and agree to pay all the liabilities and obligation, not exceeding \$10,000.00, of Roseville Water Company at the time of transfer.

(3) This application insofar as it involves the issue of \$82,000.00 of stock be, and it hereby is, denied without prejudice.

(4) Public Utilities California Corporation, if it acquires the aforesaid properties, may charge to its fixed capital accounts not more than \$232,000.00 plus the actual cost of additions and betterments made after November 30, 1927. If it pays more for the properties than the par value of the stock, it is herein authorized to issue, and the liabilities it is herein authorized to assume, it must charge such excess 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 within thirty days after the execution of the deed, or deeds, under which it acquires title to the properties of Roseville Water Company, a certified copy thereof, and, at the same time, a certified statement showing the exact date on which it took possession of the properties and began to operate the same, and a report of 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. In addition to the above information, the company shall file for approval a copy of the entry, or entries, by which it records on its books of account the purchase of such properties.

(6) Roseville Water Company within sixty days after the transfer of its properties as herein authorized, shall file with the Commission a report covering its operations during 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.

(7) The authority herein granted shall become effective ten days from the date hereof.

DATED at San Francisco, California, this 29th day of September, 1928.

Leon Whitall

C. S. ...

Thas E. ...

W. J. ...

Commissioners.