

LRA

Decision No. 20292

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 FRANK P. CADY and L. R. CADY )  
 for authority to sell the water )  
 systems and properties operated )  
 under the name of the Susanville )  
 Water Company to Public Utilities )  
 California Corporation, a corpora- )  
 tion, and for authority of the )  
 latter to buy said systems and pro- )  
 perties and to issue shares of its )  
 capital stock of the par value of )  
 Two Hundred Thousand (200,000) )  
 Dollars. )

ORIGINAL

Application No. 14894.

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

Frank P. Cady, in propria persona.

R. W. Van Norden, for the City of Susanville.

BY THE COMMISSION:

O P I N I O N

In this application the Railroad Commission is asked to enter its order as follows:-

1. Authorizing Frank P. Cady and L. R. Cady to transfer the business and properties of the Susanville Water Company to Public Utilities California Corporation.
2. Authorizing Public Utilities California Corporation to acquire said business and properties; and

3. Authorizing Public Utilities California Corporation to issue and sell \$200,000.00 par value of its capital stock at par in order to raise sufficient moneys to pay the purchase price of said business and properties.

The application shows that Frank P. Cady and L. R. Cady are engaged in the business of distributing water to the inhabitants of Susanville and vicinity, operating under the firm name and style of Susanville Water Company. The source of supply of water is a group of about fifteen springs located about three miles west of Susanville and approximately three hundred feet higher in elevation than the service area. Water is led by a series of ditches and pipe lines to a set of tanks west of the city whence it is distributed through 87,125 feet of pipe, ranging in size from 1/2 to 14 inches in diameter, to 937 services, of which 804 are metered.

The revenues and expenses from the operation of the water system during the last three years have been reported as follows:-

<u>Item</u>	<u>1925</u>	<u>1926</u>	<u>1927</u>
Operating revenue. . . . .	\$22,420.55	\$25,482.80	\$27,798.71
Operating expense. . . . .	11,181.47	11,769.20	15,551.93
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Net operating revenue ..	\$11,239.08	\$13,713.60	\$12,246.78
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It appears that Frank P. Cady and L. R. Cady have entered into an agreement with W. B. Foshay Company whereby they agree to transfer their properties and business to W. B. Foshay Company for the sum of \$200,000.00. W. B. Foshay Company proposes to assign all of its rights in and to the said agreement and to cause

all of the properties comprising the Susanville Water Company to be transferred to Public Utilities California Corporation free and clear of all liens and encumbrances and to purchase from Public Utilities California Corporation, at par, the \$200,000.00 of stock, if authorized by this Commission.

In support of the proposed transfer price applicants have filed, as Exhibit "B", a report and appraisal of the properties, prepared by The Loveland Engineers, Inc., in which the sound value of the properties is alleged to be \$200,000.00 and the reproduction cost as of October 31, 1927, is estimated at \$235,779.00, the reproduction cost less accrued depreciation at \$202,050.00, the original cost at \$151,499.00 and the accrual in the depreciation reserve at \$20,748.00. Included in the valuation are the following items:-

Item	Reproduction Cost	Original Cost
Organization and preliminary . . . . .	\$3,000.	\$3,000.
Franchises . . . . .	2,000.	—
Water rights . . . . .	35,000.	5,000.
Cost of acquiring land . . . . .	110.	110.
Going concern . . . . .	20,000.	20,000.
Total .....	\$60,110.	\$28,110.

It will be observed that the proposed transfer price and stock issue is equal to the alleged sound value of the properties which in turn is approximately equivalent to the reproduction cost new less depreciation. As we have indicated in former decisions we do not believe that this is the proper basis for an order authorizing the issue of stock. The order herein will authorize Public Utilities California Corporation to issue \$135,000.00 of stock in acquiring the properties of the Susanville Water Company. If it pays more than \$135,000.00 for such properties, it must charge the difference between the purchase price and the \$135,000.00 to a suspense account and amortize it by charges to its surplus account, or

charge such difference directly to its surplus account.

The City of Susanville was represented at the hearing by R. W. Van Norden, a consulting engineer. At his request counsel for Public Utilities California Corporation stipulated on behalf of Public Utilities California Corporation that nothing in the order in this matter would be construed as setting a price or value on the properties comprising the Susanville Water Company for the purpose of condemnation or fixing rates and that in the event of a condemnation proceeding affecting the Susanville water system, Public Utilities California Corporation would not urge any claim for severance damages because of the transfer of the water system to Public Utilities California Corporation.

#### ORDER

Application having been made to the Railroad Commission for an order authorizing the transfer of the properties of Susanville Water Company and the issue of \$200,000.00 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, and that the issue of \$135,000.00 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 insofar as it involves the issue of \$65,000.00 of stock should be denied without prejudice,

IT IS HEREBY ORDERED that:-

1. --Frank P. Cady and L. R. Cady may transfer all the business and properties of the Susanville Water Company to Public Utilities California Corporation.

2. Public Utilities California Corporation may acquire said business and properties and issue and sell at not less than par \$135,000.00 of stock to finance the purchase price thereof.
3. The application insofar as it involves the issue of the remaining \$65,000.00 of stock is denied without prejudice.
4. Public Utilities California Corporation, if it acquires the aforesaid business and properties, may charge to its fixed capital accounts not more than \$155,729.00. If it pays for the business and properties more than the par value of the stock, it is herein authorized to issue, (\$135,000.00), it must charge such excess to a suspense account and amortize the same by charges to its surplus account within ten (10) years after the date of this order, or charge such excess at once to its surplus account.
5. Public Utilities California Corporation shall file with the Commission within thirty (30) days after the execution of the deed, or deeds under which it acquires title to the properties of Susanville 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 verified 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.

6. The authority herein granted shall become effective ten (10) days from the date hereof. Under such authority, however, no properties may be transferred nor any stock issued after December 31, 1928.

DATED at San Francisco, California, this 3rd  
day of October, 1928.

Leon Whittell

W. S. Seaman

Ernest A. ...

Thos. S. ...

M. J. ...

Commissioners.