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Decision No. 20493.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER SERVICE COMPANY,
a corporation, for order authorizing
issue of bonds and stock and mort-
gage of certain public utility pro-
perties, and, jointly with The Han-
ford Water Company, Bay Point Util-
ities Company and E. E. Walthall, for
order authorizing sale and purchase
of certain public utility securities
and properties.

ORIGINAL

Application No. 14731

McCutchen, Olney, Mannon & Greene,
by A. P. Matthew and J. D. Adams,
for applicants.

BY THE COMMISSION:

O P I N I O N

The Railroad Commission is asked, in this application, to make an order authorizing;-

1. The acquisition by California Water Service Company of the outstanding stock of The Hanford Water Company and Bay Point Utilities Company;

2. The sale and transfer by The Hanford Water Company and Bay Point Utilities Company, and the purchase by California Water Service Company of the businesses, franchises and properties of The Hanford Water Company and Bay Point Utilities Company.

3. The execution by California Water Service Company of a supplemental indenture subjecting the said properties to its trust indenture dated April 1, 1928.

4. The discontinuance by The Hanford Water Company and Bay Point Utilities Company of their respective public utility obliga-

tions upon transfer of their properties.

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5. The issuance by California Water Service Company of \$180,000.00 of first mortgage five percent bonds, dated April 1, 1928, \$60,000.00 of six percent cumulative preferred stock and \$60,000.00 of common stock, for the purpose of acquiring the stock and properties of The Hanford Water Company and Bay Point Utilities Company.

California Water Service Company is engaged in the business of supplying water as a public utility in a number of communities throughout the state. It now desires to add to its properties through the acquisition of the water systems in Bay Point, and in Hanford, and to that end has made arrangements to purchase the outstanding stock of the companies now owning those systems and thereafter to cause the transfer to it of the properties comprising said systems.

The Hanford Water Company reports outstanding \$191,000.00 of stock, divided into 19,100 shares of the par value of \$10.00 each, all common. Bay Point Utilities Company reports \$15,000.00 of stock, divided into 150 shares of the par value of \$100. each, all common. The assets and liabilities of the two companies, as of August 30, 1928, are reported in Exhibit "A" as follows:-

ASSETS	The Hanford Water Company	Bay Point Utilities Company
Plant and property	\$238,800.32	\$71,417.57
Current assets;		
Cash and deposits	4,782.58	1,337.07
Accounts receivable	837.93	1,024.03
Materials and supplies	2,566.08	-
Due from affiliated companies	1,788.68	-
Other	1,358.19	-
Total	<u>12,333.46</u>	<u>2,361.10</u>
Deferred charges	138.84	98.20
Unamortized discount on stock	58,250.00	-
Total assets	<u>\$308,522.62</u>	<u>\$73,876.87</u>
<u>LIABILITIES</u>		
Capital stock	\$191,000.00	\$15,000.00
Current liabilities:		
Notes payable	-	281.10
Accounts payable	1,076.72	-
Accruals	2,112.20	92.32
Due affiliated companies	13,500.00	35,328.05
Total	<u>16,688.92</u>	<u>35,701.47</u>
Deferred credits	3,153.92	29.15
Reserves	80,431.09	29,390.22
Surplus	17,248.69	6,243.97(1)
Total liabilities	<u>\$308,522.62</u>	<u>\$73,876.87</u>
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It appears that all of the outstanding stock of both companies, with the exception of director's qualifying shares, is held by E. B. Walthall, vice-president of California Water Service Company, who bought it on account of Federal Water Service Corporation. Mr. Walthall reports that the cost of acquiring the stock and of paying certain obligations of the companies was \$275,565.00 and that he proposes to turn the stocks over to California Water Service Company at the cost to him. After the acquisition of the stock, California Water Service Company proposes to cause the two companies to transfer their properties to it.

To finance the cost of acquiring the stock and properties of The Hanford Water Company and Bay Point Utilities Company, the purchaser, California Water Service Company, asks permission to issue and sell \$180,000.00 of its first mortgage five percent bonds at 92, \$60,000.00 of its six percent preferred stock at 91, and \$60,000.00 of its common stock at 100. These prices will yield it, in the aggregate, \$280,200.00. Transfer of the properties will be made free and clear of liens and encumbrances.

In support of the request to issue stock and bonds in the above amounts, applicants have filed, as Exhibits "1" and "2", copies of inventories and appraisals prepared by H. J. Skinner, in which the reproduction costs new and historical costs of the physical properties as of June 30, 1928, are set forth as follows:-

ITEM	The Hanford Water Company	Bay Point Utilities Company
Reproduction cost new	\$409,449.00	\$94,216.00
Reproduction cost new less depreciation	326,669.00	86,796.00
Historical cost	231,141.00	86,467.00
Historical cost less depreciation	188,293.00	80,445.00

In addition to the above figures applicants estimate the proper allowances for materials and supplies at \$2,092.00 for The Hanford Water Company and at \$800.00 for Bay Point Utilities Company.

Working capital is estimated at \$5,700.00, franchise value at \$500.00 and organization expenses at \$3,000.00. These additional items aggregate \$12,092.00.

Estimates of the original costs of the properties were made by the Commission's engineering department and are set forth in Exhibits "3" and "4" as follows:-

ITEM	The Hanford Water Company	Bay Point Utilities Company
Historical cost	\$219,569.00	\$79,473.00
Historical cost less depreciation	166,832.00	72,658.00

These figures do not include any allowances for materials and supplies, working capital, franchise value or organization expenses.

Heretofore we have indicated that we believe the proper basis for an order authorizing the issue of securities in proceedings of this nature involving the refinancing of public utility properties is the historical cost, including present value of land, of the properties less accrued depreciation. Here, applicants' engineers estimate the total original cost, less depreciation, at \$280,830.00, including the estimated allowances of \$12,092.00 for materials and supplies, working capital, franchise value and organization expenses, an amount substantially equal to the proceeds from the sale of the securities here requested. The Commission's engineers estimate the original cost, less depreciation, and including the above allowances of \$12,092.00, at \$251,582.00.

Analysis of these estimates shows that the differences between the companies' engineer and the Commission's are primarily due, in the case of the Hanford properties, to differences in overhead allowances, and in the case of the Bay Point properties, to differences in overhead allowances and unit costs for labor. The companies' engineer estimates the accrued depreciation on the properties at \$48,870. and the Commission's at \$52,552.00.

We have given full consideration to the record in this matter and have concluded to authorize California Water Service Company, in acquiring the stock and properties involved in this proceeding, to issue at the prices requested, not exceeding \$168,000.00 of bonds, \$55,200.00 of preferred stock and \$55,200.00 of common stock. Such authority, however, is not to be construed as fixing a price or value of the two properties for the purpose of fixing rates, condemnation or any purpose other than the transfer herein authorized.

Sold at the prices indicated the securities authorized to be issued will yield California Water Service Company about \$259,992.00. If the California Water Service Company acquires the aforementioned stock and properties it may not charge to fixed capital accounts more than \$319,544.00. The difference between the \$319,544.00 and \$259,992.00 represents accrued depreciation which should be credited to the reserve for accrued depreciation.

In the event the company pays more for the stock and properties than \$259,992.00 it must charge the difference between the purchase price and the \$259,992.00 to a suspense account and amortize it by charges to its surplus account, or charge such difference directly to its surplus account.

California Water Service Company proposes to execute a supplemental indenture specifically subjecting the properties to be acquired by it from The Hanford Water Company and Bay Point Utilities Company to the lien of its indenture of April 1, 1928, securing the payment of its outstanding bonds. A copy of the proposed supplemental indenture is filed as Exhibit "C" and appears to be in satisfactory form.

ORDER

Application having been made to the Railroad Commission, as set forth in the preceding opinion, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the

opinion that the application should be granted only as herein provided, and that the issue of \$168,000.00 of bonds, \$55,200.00 of preferred stock and \$55,200.00 of common 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 the application insofar as it involves the issue of \$12,000.00 of bonds, \$4,800.00 of preferred stock and \$4,800.00 of common stock should be denied without prejudice,

IT IS HEREBY ORDERED as follows;-

1. California Water Service Company may acquire the outstanding stock of The Hanford Water Company and Bay Point Utilities Company.
2. The Hanford Water Company and Bay Point Utilities Company may sell and transfer all of their businesses, franchises and properties to California Water Service Company, and California Water Service Company may purchase such businesses, franchises and properties.
3. The Hanford Water Company and Bay Point Utilities Company may discontinue their public utility obligation and service if, when and as the transfer of their properties to California Water Service Company becomes effective.
4. California Water Service Company may issue and sell, on or before February 1, 1929, not exceeding \$168,000.00 of its first mortgage five percent bonds at not less than 92 percent of face value plus accrued interest, \$55,200.00 of its preferred stock at not less than 91 percent of par value and \$55,200.00 of its common stock at not less than par, and may use the proceeds to pay for the stock and properties of The Hanford Water Company and Bay Point Utilities Company.

5. California Water Service Company may execute a supplemental indenture substantially in the same form as that filed with the application herein as Exhibit "C".

6. The application insofar as it involves the issue of \$12,000.00 of bonds, \$4,800.00 of preferred stock and \$4,800.00 of common stock is hereby denied without prejudice.

7. The authority herein granted is subject to the following conditions:-

(a) If California Water Service Company pays for the stock and properties of The Hanford Water Company and Bay Point Utilities Company more than \$259,992.00 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 excess at once to its surplus account. In recording the transaction the company may charge not more than \$319,544.00 to its fixed capital accounts,

(b) The authority herein granted to execute a supplemental indenture is for the purpose of this proceeding only, and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said supplemental indenture as to such other legal requirements to which it may be subject.

(c) California Water Service Company shall file with the Commission within sixty days after the execution of the deed, or deeds, conveying to it the properties herein authorized to be transferred, a certified copy thereof, and, at the same time a certified statement showing the exact date upon which it took possession of the properties and commenced to operate them, and a verified report of the issue of the stock and bonds, and disposition of the proceeds, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

(d) The authority herein granted will become effective ten days after the payment of the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Hundred and Sixty-eight (\$168.) Dollars.

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

C. Seaver

Francisco

W. J. ...

W. J. ...
Commissioners.

Fee \$168 ⁰⁰/₁₀₀
RAILROAD COMMISSION
STATE OF CALIFORNIA
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[Signature]
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