

Decision No. 20918.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 FONTANA DOMESTIC WATER COMPANY,)
 a corporation, for (a) a certificate)
 of public convenience and necessity)
 and (b) an order authorizing the issue) Application No. 15278
 of first mortgage six percent sinking)
 fund bonds.)

Howard Surr and George W. Hellyer,
for applicant.

BY THE COMMISSION:

O P I N I O N

In the above numbered and entitled application Fontana Domestic Water Company asks the Railroad Commission to make its order as follows;-

1. Declaring that public convenience and necessity require the exercise by it of the rights and privileges granted it by the County of San Bernardino by Ordinance No. 291;
2. Declaring that present and future public convenience and necessity require or will require the extension of its distributing system throughout the territory known as Fontana Arrow Route Tract referred to in Ordinance No. 291;
3. Authorizing it to execute a trust indenture to secure the payment of an authorized issue of \$400,000.00 of first mortgage six percent bonds dated January 1, 1929 and due January 1, 1954.
4. Authorizing it to issue and sell \$275,000.00 of such bonds for the purpose of obtaining funds to liquidate outstanding indebtedness and to finance the cost of additions and extensions.

It appears that Fontana Domestic Water Company was organized on or about March 8, 1923, for the purpose of acquiring a domestic water system located in the unincorporated town of Fontana

and adjacent territory in San Bernardino County then being operated without charge by Fontana Farms Company. Heretofore the Commission, by Decision No. 13268, dated March 14, 1924, (Vol. 24, Opinions and Orders of the Railroad Commission of California, page 603) made its order declaring that public convenience and necessity required the exercise by applicant of the rights and privileges granted it by the Board of Supervisors of the County of San Bernardino by Ordinance No. 213, and the extension by applicant of the system acquired from Fontana Farms Company, and also authorizing it to issue \$145,400.00 of common stock to pay for the properties referred to.

The present application indicates that applicant has issued to Fontana Farms Company the \$145,400.00 of stock authorized by the former decision and has acquired the water system from Fontana Farms Company, and since such acquisition has made extensions, additions and betterments thereto, financing the cost thereof largely with moneys obtained from Fontana Farms Company. The additional construction work, it appears, was done by Fontana Farms Company and billed to applicant at the actual direct cost.

As of December 31, 1928, the company reports its assets and liabilities as follows:-

ASSETS:

Fixed capital	\$420,436.63	
Cash	3,795.15	
Notes receivable	39.33	
Accounts receivable	1,596.80	
Total assets.....		<u>\$425,867.91</u>

LIABILITIES:

Capital stock	\$145,400.00	
Notes payable-due Fontana Farms Company	185,000.00	
Accounts payable:		
Due system corporations	3,183.12	
Consumers' deposits	53,814.20	
Miscellaneous	45.00	
Interest accrued	11,007.50	
Donations for construction	858.00	
Reserve for depreciation	13,683.06	
Corporate surplus	12,877.03	
Total liabilities.....		<u>\$425,867.91</u>

The revenues and expenses of the company for three years ending December 31st, and the number of consumers, have been reported as follows;-

<u>ITEM</u>	<u>1926</u>	<u>1927</u>	<u>1928</u>
Operating revenues	\$23,999.40	\$34,475.51	\$46,977.10
Operating expenses	<u>17,362.68</u>	<u>23,105.45</u>	<u>26,475.89</u>
Net operating revenues	6,636.72	11,370.06	20,501.21
Less: depreciation	<u>2,991.41</u>	<u>8,860.14</u>	<u>4,828.87</u>
Balance.....	<u>\$3,645.31</u>	<u>\$2,509.92</u>	<u>\$15,672.34</u>
Number of consumers.....	1106	1238	1390

It now is reported that Ordinance No. 213, the rights and privileges of which the Commission in its former decision authorized the company to execute, granted the company the franchise for supplying with water for domestic purposes the inhabitants in the twenty-four sections of land commonly known as Fontana. This application shows that subsequent to the granting of that franchise certain lands adjoining the territory above referred to and known as Fontana Arrow Route Tract, Tract No. 2102, were subdivided and placed on the market and sold to numerous persons who desire from applicant the service of water for domestic purposes. Applicant accordingly has applied for and received from the Board of Supervisors a franchise permitting it to supply this new area. This franchise, it is reported, was granted by Ordinance No. 291, passed on October 31, 1927. A copy of the ordinance is filed herein as Exhibit "A".

The Fontana Arrow Route Tract, it appears, includes some 1300 acres of lands not covered by the original franchise. The application shows that the company has constructed mains and extensions into this area, at a cost aggregating \$36,999.73 up to December 31, 1928, and now is supplying about 150 connections with water. It is estimated that additional consumers will be acquired at the rate of approximately seventy a year. It seems that there is no other source of supply available for inhabitants in the region under discussion and we believe that applicant should be granted certificates of public convenience

and necessity, as applied for in this proceeding. It might be noted, in this connection, that no protest has been made to the Commission to the granting of the application. Counsel for applicant has stipulated that applicant will not in the future claim a value for rate making purposes for the franchise obtained from the County of San Bernardino in excess of the actual cost thereof.

To finance the cost of the extensions and additions and to pay outstanding indebtedness, applicant proposes to execute a mortgage to secure the payment of a total authorized issue of \$400,000.00 of first mortgage six percent bonds due January 1, 1954 and to issue and sell, at this time, \$275,000.00 of such bonds. It is reported that arrangements have been made to dispose of \$185,000.00 thereof at par in exchange for the \$185,000.00 note now outstanding, as shown in the foregoing balance sheet and to sell the remaining \$90,000.00 at 95 percent of face value. Permission is sought to use the proceeds from the sale of the \$90,000.00 of bonds for the following purposes;-

To pay accounts due Fontana Farms Company	\$6,433.51
To pay accrued and accruing interest on the	
\$185,000.00 note	7,816.49
To finance in part 1929 and 1930 construction ex-	
penditures (proceeds from sale of \$75,000. of	
bonds)	71,250.00
Total.....	<u>\$85,500.00</u>

It appears that the company proposes to sell at this time only \$15,000.00 of bonds to pay the first two amounts in the above tabulation and to dispose of the remaining \$75,000.00 from time to time as it proceeds with its construction work.

The company reports that the amounts due Fontana Farms Company were incurred for new construction and extensions, additions and betterments, including those made into the Fontana Arrow Route Tract. The financial statement covering the company's business and properties for the calendar year 1928 shows its investment in fixed capital at the close of 1928 at \$420,436.63, against which there is outstanding

only the \$145,400.00 of stock authorized by the Commission in its former decision indicating that the additions made since the acquisition by applicant of its water system, amounting to \$275,036.63, were financed through current liabilities and consumers' deposits and moneys represented by its reserve for depreciation and corporate surplus. While it is true that applicant is asking permission to use \$7,816.49 of proceeds to be received from the sale of its bonds to pay interest on amounts due Fontana Farms Company, yet it clearly appears that applicant's surplus earnings have been invested in its properties, and it occurs to us that applicant properly may use these proceeds to reimburse its treasury and thereafter to pay, in part, its accrued interest.

Applicant has filed with its petition a report and valuation prepared by J.B. Lippencott showing in detail the properties originally acquired by applicant and subsequent additions up to July 1, 1928. In the report the estimated reproduction cost of the properties is reported at \$446,339.00 and the present value, after deducting depreciation computed on the six percent sinking fund basis at \$434,104.87. It is alleged that the reproduction cost is substantially the same as the historical cost, because most of the construction work has been done in the last five years.

The estimated construction expenditures during 1929 and 1930 are reported at \$107,136.75, consisting of the following:-

<u>PIPE LINES:</u>		
119,760	feet of two inch pipe	\$35,928.00
57,780	" " four " "	26,001.00
2,640	" " six " "	1,716.00
9,240	" " eight " "	7,854.00
1,320	" " ten " "	1,452.00
	Sub-total.....	\$72,951.00
	Connections for 690 new consumers	5,983.25
	Meters for new consumers	7,202.50
	New reservoir	21,000.00
	Total.....	<u>\$107,136.75</u>

The proposed trust indenture to secure the payment of the bonds will provide for a total issue of \$400,000.00 of bonds, of which \$200,000.00 may be issued forthwith by the company, and \$200,000.00 may be issued in amounts not exceeding seventy percent of the money actually expended by the company for improvements, acquisitions and betterments, when the net earnings of the company applicable to the payment of bond interest for any twelve consecutive months during the fourteen calendar months next prior thereto, equal at least one and one half times the annual interest charges on the bonds then outstanding and on those to be then issued. The \$75,000.00 of bonds proposed to be issued to finance 1929 and 1930 construction costs are a part of the remaining \$200,000.00 of bonds whose issue is subject to the property and earnings restrictions referred to herein.

We believe that applicant's properties and earnings are ample to support a bond issue of \$200,000.00. Some doubt, however, might be raised as to its ability to meet interest charges on \$275,000.00 and, further, it is not clear if it is in a position to request the trustee under its proposed trust indenture to certify the additional \$75,000.00 of bonds. The request to issue these bonds, therefore, will not be granted at this time. If in the future the company finds it can make the showing required in its trust indenture it can at that time file a new application.

The order herein accordingly will authorize the issue of \$200,000.00 of bonds. Such authority, however, will not become effective until the Commission by a supplemental order herein has authorized the execution of a trust indenture to secure the payment of the bonds. The instrument as now filed contains certain features which we believe should be changed. Counsel for applicant has been

advised of these matters.

O R D E R

Fontana Domestic Water Company, having applied to the Railroad Commission for certificates of public convenience and necessity, and for permission to execute a trust indenture and to issue and sell bonds, a public hearing having been held before Examiner Rowell and the Commission being of the opinion that the application should be granted, to the extent indicated in this order, and that the issue of \$200,000. of bonds is reasonably required by applicant for the purposes specified herein, and that the expenditures for such purposes are not reasonably chargeable to operating expenses or to income,

THE RAILROAD COMMISSION HEREBY DECLARES that present and future public convenience require, and will require, the exercise by Fontana Domestic Water Company of the rights and privileges granted it by the Board of Supervisors of the County of San Bernardino by Ordinance No. 291, adopted October 31, 1927, and the extension by Fontana Domestic Water Company of its present distributing system throughout the territory known as Fontana Arrow Route Tract, Tract 2102, referred to in said Ordinance No. 291.

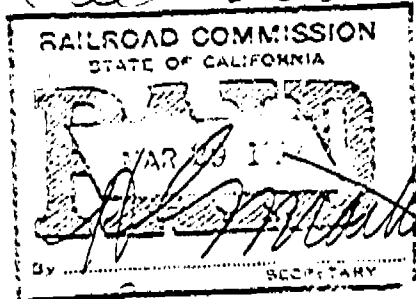
IT IS HEREBY ORDERED that Fontana Domestic Water Company be, and it hereby is, authorized to issue not exceeding \$200,000.00 of first mortgage six percent bonds due January 1, 1954, and to sell \$185,000.00 of such bonds at par, plus accrued interest, or exchange them for a like amount of notes payable, and to sell \$15,000.00 of such bonds at not less than 95 percent of face value plus accrued interest, and to use the proceeds to be received from the sale of its bonds to pay outstanding indebtedness and to reimburse its treasury, as indicated in the foregoing opinion.

IT IS HEREBY FURTHER ORDERED that the application insofar as it involves the issue of \$75,000.00 of bonds be, and it hereby is, dismissed without prejudice.

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

1. Applicant shall place into effect in the Fontana Arrow Route Tract the same rates, rules and regulations now provided for its present operations.
2. Applicant shall keep such record of the issue of the bonds herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, shall be made a part of this order.
3. The authority herein granted to issue bonds will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Two Hundred(\$200.) Dollars, and when the Commission by supplemental order has authorized the execution of a trust indenture to secure the payment of said bonds.

DATED at San Francisco, California, this 29th day of March, 1929.



Thos D. Lott
Albany
Egmont
Leon Whitney
M. J. Carr
Commissioners.