

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
ANER M. HENDERSON)
to sell the water system known as)
Granite Rock Water Company, to)
Public Utilities California Corp-)
oration, and of Public Utilities)
California Corporation to acquire)
and operate said system and to)
issue twenty-eight thousand four)
hundred (28,400) dollars par value)
of its capital stock in connection)
with the acquisition thereof.)

ORIGINAL

Application No. 15464

In the Matter of the Application of)
HORACE NELSON)
to sell the water system known as)
HALF MOON BAY WATER COMPANY)
to Public Utilities California)
Corporation, a corporation, and of)
Public Utilities California Corpor-)
ation to acquire and operate said)
system and to issue fifty-eight)
thousand five hundred (58,500))
dollars par value of its capital)
stock in connection with the acqui-)
sition thereof.)

Application No. 15465

In the Matter of the Application of)
A. R. WAGNER)
to sell the water system known as)
the Montara Water Company, to Public)
Utilities California Corporation, a)
corporation, and of Public)
Utilities California Corporation to)
acquire and operate said system, and)
to issue twenty thousand two hundred)
(20,200) dollars par value of its)
capital stock in connection with the)
acquisition thereof.)

Application No. 15466

Orrick, Palmer & Dahlquist, by T. W. Dahlquist,
for Public Utilities California Corporation.

C. B. Smith, for Aner M. Henderson.

Horace Nelson, in propria persona.

C. R. Wagner, in propria persona.

BY THE COMMISSION:

O P I N I O N

In these three proceedings the Railroad Commission is asked to authorize the transfer to Public Utilities California Corporation of three small water systems located in San Mateo County and known as the Granite Rock Water Company, the Half Moon Bay Water Company and the Montara Water Company, and the issue by Public Utilities California Corporation in payment therefor of its common capital stock in the aggregate amount of \$107,100.00.

The applications show Aner M. Henderson, doing business under the firm name and style of Granite Rock Water Company, is engaged in supplying water to approximately 130 consumers in and about the unincorporated towns of Moss Beach and Granada, that he has agreed to sell his public utility water properties to W. B. Foshay Company for \$10,000.00 cash; that Horace Nelson, doing business under the firm name and style of Half Moon Bay Water Company, is engaged in supplying water to approximately 220 consumers in and about the unincorporated town of Half Moon Bay, that he has agreed to sell his public utility water properties to W. B. Foshay Company for \$28,000.00; that A. R. Wagner, doing business under the firm name and style of Montara Water Company, is engaged in supplying water to approximately 80 consumers in and about the unincorporated towns of Montara and Farrallone City and that he has agreed to sell his public utility water properties to W. B. Foshay Company for \$10,000.00.

W. B. Foshay Company has assigned its rights under the agreements to sell and purchase to Public Utilities California

Corporation. The latter corporation upon acquiring the three properties, which are located in adjacent areas, proposes to consolidate them under one management, alleging that as a result of the transfer and consolidation it can operate the properties more effectively, more readily furnish the necessary capital for additions and betterments and better serve the public. For the ensuing twelve months it estimates gross revenues from the combined systems at \$11,100.00, operating expenses at \$6,146.50 and net income at \$4,953.50. The operating revenue for 1928 is reported by the three utilities at \$9,812.13.

The purchasing company proposes to issue \$28,400.00 of common stock in acquiring the Granite Rock Water Company, \$58,500.00 of common stock in acquiring the Half Moon Bay Water Company and \$20,200.00 in acquiring the Montara Water Company, a total proposed stock issue of \$107,100.00. In support of its request to issue stock, it has filed in these proceedings appraisals of the properties, as of July 31, 1928, prepared by The Loveland Engineers, Inc. in which the total reproduction costs are estimated at \$153,973.00, the reproduction costs less accrued depreciation at \$113,213.00, the original costs at \$113,249.00 and the original costs less sinking fund accumulations at \$89,131.00.

Appraisals of the properties were made also by Mr. W. M. McKay of the Commission's Engineering Department, and reports were introduced by him into the record showing the estimated historical costs and estimated historical costs less depreciation, as of July 31, 1928.

The Commission heretofore has taken the position that in proceedings of such a nature as these now before it, the estimated reproduction cost of property is not the proper basis to be used in

determining what amount of securities should be authorized to be issued against such property. It has adopted the policy of using as a basis for its order authorizing the issue of securities, the original or historical costs less depreciation. Accordingly, we will at this time give consideration to these figures.

Summarized, the appraisals of The Loveland Engineers, Inc. and Mr. McKay showing the original or historical costs, are as follows:-

	THE LOVELAND ENGINEERS:		W. M. MCKAY	
	Original	Less	Histori-	Less
	Cost	Depre-	cal	Depre-
		ciation	Cost	ciation
<u>Tangible Capital:</u>				
:Granite Rock Water Co.	\$ 19,538.	\$15,199.	\$18,860.	\$14,229.
:Half Moon Bay Water Co.	56,488.	41,727.	50,500.	36,652.
:Montara Water Co.	17,923.	12,955.	17,973.	12,659.
: Total	\$ 93,999.	\$69,881.	\$87,333.	\$63,540.
<u>Intangible Capital:</u>				
:Granite Rock Water Co.	4,150.	4,150.	650.	650.
:Half Moon Bay Water Co.	10,500.	10,500.	500.	500.
:Montara Water Co.	4,600.	4,600.	600.	600.
: Total	\$ 19,250.	\$19,250.	\$1,750.	\$1,750.
<u>All Properties:</u>				
:Granite Rock Water Co.	23,738.	19,349.	19,510.	14,879.
:Half Moon Bay Water Co.	66,988.	52,227.	51,000.	37,152.
:Montara Water Co.	22,523.	17,555.	18,573.	13,259.
: Total	\$113,249.	\$89,131.	\$89,083.	\$65,290.

The record herein indicates that the differences in the appraisals of the tangible capital are due, in the case of the Granite Rock Water Company and the Montara Water Company, to overhead allowances, and in the case of the Half Moon Bay Water Company to overhead allowances and to some extent, unit costs, the inventories being the same in all cases. The largest differences occur in the items comprising the intangible capital. Mr. McKay has assigned nominal amounts for organization expense and cost of acquiring lands, the total for the three systems, as shown in the foregoing tabulation, aggregating \$1,750.00.

The allowances made by The Loveland Engineers, Inc. for intangible items aggregate \$19,250.00 and include the following:-

Organization and preliminary expense	\$1,500.00
Cost of acquisition of lands.	250.00
Water rights.	8,000.00
Going concern	9,500.00
Total	<u>\$19,250.00</u>

It does not appear that these figures were based on records of actual expenditures by the present owners. In our opinion the evidence offered in support of these allowances is not so conclusive that we can use them in determining the amount of stock to be authorized to be issued by the purchasing company. Giving consideration to all the circumstances surrounding these transactions, we believe that Public Utilities California Corporation should be permitted at this time to issue, in acquiring the three water systems, not exceeding \$67,000.00 of stock, and to deliver \$15,000.00 thereof in payment for the properties comprising the Granite Rock Water Company, \$38,000.00 for the properties comprising the Half Moon Bay Water Company and \$14,000.00 for the properties comprising the Montara Water Company. Such allowances, of course, are not to be considered as binding upon the Commission hereafter as a measure of value for such properties for the purpose of fixing rates or for any other purpose.

ORDER

Applications having been filed with the Railroad Commission for authority to transfer properties and to issue stock, a public hearing having been held before Examiner Fankhauser, and the

Railroad Commission being of the opinion that the applications should be granted, as herein provided, and that the money, property or labor to be procured or paid for through the issue of \$67,000.00 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,

IT IS HEREBY ORDERED that

1. Aner M. Henderson, doing business under the firm name and style of Granite Rock Water Company; Horace Nelson, doing business under the firm name and style of Half Moon Bay Water Company; and A. R. Wagner, doing business under the firm name and style of Montara Water Company may transfer to Public Utilities California Corporation their properties and business referred to in the foregoing opinion and more particularly described in the exhibits filed in this proceeding.
2. Public Utilities California Corporation may acquire said properties and business and may issue, provided it acquire the same free and clear of all liens and indebtedness, not exceeding \$67,000.00 of its common stock and deliver \$15,000.00 thereof in payment for the properties comprising the Granite Rock Water Company, \$38,000.00 thereof in payment for the properties comprising the Half Moon Bay Water Company and \$14,000.00 thereof in payment for the properties comprising the Montara Water Company.
3. These applications, insofar as they involve the issue of

the remaining \$40,100.00 of stock, be, and they are hereby denied without prejudice.

4. Public Utilities California Corporation, in recording on its books of account the purchase of the water properties herein authorized to be transferred, may charge to its fixed capital accounts not more than \$20,000.00 for the Granite Reek Water Company properties, \$51,000.00 for the Half Moon Bay Water Company properties, and \$19,000.00 for the Montara Water Company properties, plus the actual cost of additions and betterments made between July 31, 1928 and the date such properties are transferred.
5. Public Utilities California Corporation shall file with the Commission within sixty (60) days after the transfer of the properties herein authorized, certified copies of the deeds of conveyance, a certified statement showing the exact date upon 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.
6. Auer M. Henderson, Horace Nelson and A. R. Wagner, within sixty (60) days after the transfer of their properties, as herein authorized, shall file with the Commission reports covering their operations during the period from January 1, 1929, down to the date of transfer, such reports to be made on the regular annual report forms prescribed by this Commission.

7. The authority herein granted shall become effective upon the date hereof.

DATED at San Francisco, California, this 15th day of April, 1929.

Wm. D. Lott
Edmund
Leon Whitely
W. J. Lee
Commissioners.