

Decision No. 21138.

**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 CITIZEN'S WATER COMPANY OF NILES to  
 sell its Water System to PUBLIC  
UTILITIES CALIFORNIA CORPORATION, a  
 corporation, and of PUBLIC UTILITIES  
CALIFORNIA CORPORATION to acquire  
 and operate said System, and to  
 issue ONE HUNDRED FORTY-SIX THOUSAND  
 (146,000) DOLLARS par value of its  
 capital stock in connection with the  
 acquisition of said water system, and  
 of the acquisition of the Pumping  
 Plant and Properties formerly owned  
 by J.C. SHINN and FLORENCE M. SHINN.

Application No. 15442

Orrick, Palmer & Dahlquist, by R.W. Palmer,  
for applicants.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to make its order approving the transfer of the properties of J.C. Shinn and Florence M. Shinn and of Citizens' Water Company of Niles to Public Utilities California Corporation, and approving the acquisition and operation of said properties by Public Utilities California Corporation, and authorizing Public Utilities California Corporation to issue \$146,000.00 of common stock in connection with such acquisition.

Citizens' Water Company of Niles is a corporation organized during 1907 under the laws of the State of California and is engaged in the business of supplying water for domestic and other uses in and about the Towns of Niles and Decoto, Alameda County.

Prior to this year the company purchased nearly all of the water it distributed from wells located on property belonging to J. C. Shinn and Florence M. Shinn. During the early part of 1929, however, the company purchased the Shinn properties so that its water system at present includes four parcels of land, consisting of two pumping plant sites, 30' by 154', and 50' by 150', respectively, located in the Town of Niles, and two tank sites of approximately two-thirds of an acre located on the Hayward-Niles state highway. There are three twelve inch drilled wells; two, one hundred feet deep; and one, ninety-two feet deep. The pumping equipment consists of a deep well turbine pump with a capacity of 400 gallons per minute, a two inch centrifugal booster pump, an eight by twelve inch triplex pump, a two and one-half inch centrifugal pump and a two by twelve inch two stage centrifugal pump. The two storage tanks are used to maintain pressure. They are constructed of redwood staves, are set on concrete foundations and have a capacity of 100,000 gallons each.

Water is distributed through about twenty-two miles of distribution mains, ranging in size from one inch to eight inches in diameter, to 768 connected services, 748 of which are metered. The gross revenues from the distribution of water were reported at \$18,420.45 in 1926; at \$18,274.70 in 1927; and at \$18,581.67 in 1928. Net operating revenues, after deducting operating expenses, taxes and depreciation, were reported at \$6,491.26 in 1926; at \$6,122.48 in 1927; and at \$6,496.45 in 1928.

It appears that the corporation, as of December 31, 1928, had outstanding \$26,510.00 of stock, all common, and approximately \$15,000.00 of indebtedness, consisting of notes and accounts payable. The record shows that recently W. B. Foshey Co. acquired the outstanding stock of Citizens' Water Company of Niles for \$81,000.00 and that it now proposes to cause the transfer of the properties, except cash

and bills and accounts receivable, to Public Utilities California Corporation in consideration for the issuance by Public Utilities California Corporation of \$146,000.00 of its common capital stock. It is reported that the transfer will be made free and clear of indebtedness, W. B. Foshay Co. proposing to pay the present outstanding obligation of the Citizens' Water Company of Niles.

On numerous occasions the Commission has been asked to authorize the re-financing of public utility properties in applications of the nature of this proceeding, filed by the present as well as other applicants. It has adopted the policy, in such proceedings, of using as the basis in determining the amount of securities it will authorize to be issued, the original or historical cost of the properties, including lands at present value, less the estimated accrued depreciation, consideration being given to the earnings of the properties and other circumstances and conditions surrounding them. In this proceeding there is of record reports prepared by The Loveland Engineers, Inc. and by Mr. W. M. McKay of the Commission's Engineering Department, showing the estimated original or historical cost less depreciation as of September 30, 1928, as follows:-

ITEM	The Loveland Engineers, Inc.	W.M. McKay
Land . . . . .	\$ 2,400.00	\$ 2,400.00
Buildings, structures, grounds . . . . .	1,301.00	1,007.00
Wells . . . . .	1,659.00	1,642.00
Pumping equipment . . . . .	3,541.00	2,897.00
Distribution mains . . . . .	77,249.00	65,424.00
Distribution tanks . . . . .	3,955.00	3,851.00
Services . . . . .	6,738.00	6,577.00
Meters . . . . .	15,462.00	15,165.00
Miscellaneous distribution equipment . . . . .	159.00	156.00
General office . . . . .	95.00	95.00
Materials and supplies . . . . .	2,740.00	2,740.00
Nonoperative properties . . . . .	-	599.00
Total physical properties . . . . .	\$ 115,299.00	\$ 102,553.00
Organization and preliminary . . . . .	3,000.00	2,000.00
Cost of acquiring lands . . . . .	130.00	-
Water rights . . . . .	15,000.00	-
Going concern value . . . . .	15,000.00	-
Total all properties . . . . .	\$ 148,429.00	\$ 104,553.00

Analysis of the figures indicates that the difference between the two is accounted for, chiefly, by differences in overhead allowances and rates of depreciation on the distribution mains, the inventories and unit costs being substantially in agreement, and differences in the intangible items. Mr. McKay has included only the nominal sum of \$2,000. for intangible capital, whereas The Loveland Engineers, Inc. have set forth items aggregating \$33,130.00, including \$15,000.00 for going concern value and \$15,000.00 for water rights.

We have held repeatedly that we do not consider alleged going concern value as proper for capitalization purposes and therefore we will exclude the \$15,000.00 claimed for this item in giving consideration to this proceeding. In connection with the item of water rights The Loveland Engineers, Inc. in Exhibit "A" report the following;-

"About three years ago the company drilled a twelve inch well in the town of Niles and a pumping plant was installed to be used mainly for standby purposes during dry seasons. Up to the present time this plant has been used very little and under such circumstances it is apparent that any rights which may have been acquired by virtue of such pumping will have only a nominal value.

The water rights pertaining to the Shinn wells are based upon the actual use of water since 1912 and probably sometime prior thereto. It is quite evident that valid rights to pump an average of 252,000 gallons per day from the Niles Cone have a substantial value and the sum of \$15,000 was considered a fair allowance for such rights. No attempt was made to establish the validity of such rights."

The testimony at the hearing was equally general in its nature and we do not believe that we can accept the mere allegation of water right value presented in this proceeding, unsupported by positive evidence, in determining the amount of stock we will authorize to be issued. This item, therefore, will likewise be excluded.

Giving consideration to the remaining items in the valuation, the earnings of the water system and other circumstances surrounding the transaction, we believe that Public Utilities California Corpora-

tion should be authorized to issue not exceeding \$105,000.00 of stock in acquiring the properties of Citizens' Water Company of Niles, free and clear of indebtedness. If Public Utilities California Corporation acquires such properties it may charge to its plant and equipment accounts not exceeding \$130,923.00. The difference between such amount and the par value of the stock herein authorized to be issued should be credited to reserve for accrued depreciation.

### O R D E R

Application having been made to the Railroad Commission for an order authorizing the transfer of properties and the issue of \$146,000.00 of stock, 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 granted, as herein provided, and that the issue of \$105,000.00 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) Citizens' Water Company of Niles may, on or before August 15, 1929, transfer its properties, including those recently acquired from J. C. Shinn and Florence M. Shinn, free and clear of indebtedness, to Public Utilities California Corporation.

(2) Public Utilities California Corporation may acquire and operate such properties and may issue at not less than par, on or before August 15, 1929, <sup>in payment for said properties</sup> /not exceeding \$105,000.00 of its common capital stock, provided that transfer is made free and clear of indebtedness.

(3) The application insofar as it involves the issue of the remaining \$41,000.00 of stock is denied without prejudice.

(4) The transfer of the properties of J.C. Shinn and Florence M. Shinn to Citizens' Water Company of Niles, is hereby approved.

(5) Public Utilities California Corporation in recording on its books of account the purchase of the properties herein authorized transferred, may charge to its fixed capital accounts not exceeding \$130,823.00, plus the cost of additions and betterments since September 30, 1928. If it pays for such properties more than \$105,000.00 it must charge such excess to its corporate surplus account.

(6) Public Utilities California Corporation shall file with the Commission within thirty days after the transfer of the said properties, a certified copy of the deed, or deeds of conveyance, a statement showing the exact date upon which it acquired such properties, and a verified report of the issue of stock, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.

(7) Citizens' Water Company of Niles shall file with the Commission within sixty days after the transfer of its properties, a report covering its operations from January 1, 1929 to the date of such transfer, such report to be filed on the regular annual report form prescribed by this Commission.

(8) The stock herein authorized to be issued shall hereafter not be urged before this Commission or other public body or court as a measure of value of the aforesaid properties for any purpose, except the transfer herein authorized.

(9) The authority herein granted shall become effective ten days after the date hereof.

DATED at San Francisco, California, this 16 day of May, 1929.

Paul D. Lott  
Clarence  
Wm. H. ...  
Leon ...  
...

Commissioners.