

LBM

Decision No. 21317.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
THE HOLLISTER WATER COMPANY,  
a corporation, for permission to sell  
its water system to Public Utilities  
California Corporation, a corporation,  
and of said Public Utilities California  
Corporation to acquire and operate said  
system and to issue \$442,700.00 par  
value of its capital stock in connection  
with the acquisition thereof.

**ORIGINAL**

) Application No. 15625

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

A. N. Runnels, for The Hollister Water Company.

BY THE COMMISSION:

OPINION

In this proceeding the Railroad Commission is asked to approve the transfer of the properties of The Hollister Water Company to Public Utilities California Corporation, and the acquisition and operation of said properties by said Public Utilities California Corporation. It is also asked to authorize Public Utilities California Corporation to issue \$442,700.00 par value of its common capital stock, in connection with the acquisition of the aforesaid properties.

The Hollister Water Company was organized on or about June 6, 1885. The company is engaged in the distribution of water to the inhabitants of Hollister and vicinity. As of December 31,

1928 it reports its assets and liabilities as follows:-

ASSETS:

Fixed capital . . . . .	\$387,706.33
Cash and deposits . . . . .	1,749.81
Accounts receivable . . . . .	2,857.70
Materials and supplies . . . . .	8,335.39
Prepayments . . . . .	150.94
Discount on stock . . . . .	37,151.34

Total..... \$437,951.51

LIABILITIES:

Capital stock . . . . .	\$100,000.00
Notes payable . . . . .	36,000.00
Accounts payable . . . . .	1,337.52
Reserve for depreciation . . . . .	94,650.92
Other reserves . . . . .	873.04
Surplus . . . . .	205,090.03

Total..... \$437,951.51

The operating revenues and expenses and other income and uncollectible bills and the amount available for interest, dividends and surplus, as well as the number of consumers of The Hollister Water Company, for the three years ending December 31, 1928, have been reported as follows:-

ITEM	1926	1927	1928
Operating revenues . . .	\$36,983.39	\$35,226.25	\$35,638.07
Operating expenses . . .	20,055.35	21,473.87	22,834.41
Net operating revenue . .	16,928.04	13,752.38	12,803.66
Nonoperating revenue . .	58.70	64.43	21.03
Gross corporate income	16,986.74	13,816.81	12,824.69
LESS uncollectible bills	95.10	131.30	169.45
Amount available for interest, dividends and surplus.....	\$16,891.64	\$13,685.51	\$12,655.24
Number of consumers.....	1,196	1,242	1,257

Exhibit "A" shows that The Hollister Water Company has agreed to sell its properties as of December 31, 1927 to W. B. Foshay Company, its successors or assigns, for \$295,000.00 plus the cost of additions and betterments installed from December 31, 1927 to the date of the transfer of the properties. The Hollister Water Company has agreed to sell all of its properties, business and rights, including

all real property or any interest therein, distribution systems, plants, machinery, equipment, materials, merchandise, rights, privileges, contracts, easements, business and good will, and all other property, tangible or intangible, forming a part of, or used in connection with, such water works and system, including accounts and bills receivable at the date of transfer. The properties are to be transferred free and clear of all liens, encumbrances, debts or liabilities.

W. B. Foshay Company in turn has agreed, according to Exhibit "B", to sell all of the aforesaid properties, except cash, bills and accounts receivable, to the Public Utilities California Corporation, for \$442,700.00 par value of common capital stock. The latter company is to pay the former for all materials and supplies at cost or market, whichever is less.

The Public Utilities California Corporation has also agreed to pay W. B. Foshay Company a further amount which will be equal to the actual amount expended for additions and betterments to such properties from December 31, 1927, to the date of the transfer of the properties, except the cost of such additions and betterments installed since December 31, 1927, which have been included in the appraisal of The Loveland Engineers, Inc., dated October 31, 1928. The Public Utilities California Corporation has agreed to assume all the obligations of The Hollister Water Company for the furnishing of water service.

We believe that all the properties which The Hollister Water Company has agreed to sell to W.B.Foshay Company, its successors and assigns, should, if sold at all, be sold to Public Utilities California Corporation. The W. B. Foshay Company is a foreign corporation and we are therefore precluded from authorizing the transfer of any public utility properties to that corporation.

In Exhibit "C" The Loveland Engineers, Inc. report the estimated reproduction cost new of the properties of The Hollister Water Company as of October 31, 1928; the estimated reproduction cost new less depreciation, as well as the estimated original cost new and sinking fund accumulation of the properties as of the same date, as follows;-

ITEM	:Reprod- :uction :Cost	: Reprod- : uction : Cost Less : Deprecia- : tion	: Original : Cost	:Sinking :Fund Ac- :cumula- :tion
Physical properties, including materials and supplies.....	:\$452,612.	:\$381,676.	:\$336,629.	:\$ 45,790.
Organization and pre- liminary expense.....	: 2,500.	: 2,500.	: 2,500.	: --
Acquisition of lands	: 615.	: 615.	: 615.	: --
Water rights . . . . .	: 30,000.	: 30,000.	: 30,000.	: --
Going concern value...	: 38,000.	: 38,000.	: 38,000.	: --
TOTAL.....	:\$523,727.	:\$452,791.	:\$407,744.	:\$ 45,790.

W. M. McKay, H. R. Robbins and P. E. Harroun, assistant engineers for the Commission, submitted testimony in which they report the estimated original cost of the properties as of October 31, 1928 and such cost depreciated on a five percent sinking fund basis, as follows;-

ITEMS OF PROPERTY	:ESTIMATED ORIGINAL : COST	:ESTIMATED ORIGINAL : COST DEPRECIATED
Tangible capital including ma- terials and supplies.....	: \$310,086.	: \$249,574.
Intangible capital-organization	: 2,500.	: 2,500.
-water rights	: 5,850.	: 5,850.
Sub-total.....	: \$318,436.	: \$257,924.
Nonoperative property.....	: 4,737.	: 3,218.
Total.....	: \$323,173.	: \$261,142.

As stated above, both of the appraisals are as of October 31, 1928. The Hollister Water Company, however, is to receive for its properties \$295,000.00 as the same existed on December 31, 1927.

Subsequent to the hearing applicants filed a statement showing that The Loveland Engineers, Inc. in their Exhibit "C" included \$21,970. as representing the cost of additions and betterments installed from January 1, 1928 to October 31, 1928. In considering the value of the properties to be transferred, we will consider such properties as of October 31, 1928. If hereafter the Public Utilities California Corporation files an application to finance the cost of additions and betterments, we will consider only the cost of additions and betterments installed subsequent to October 31, 1928.

The Commission believes that it should adhere to its policy of basing the amount of stock which Public Utilities California Corporation might issue on the historical cost of the properties depreciated, including present value of land. The evidence shows that the report of The Loveland Engineers, Inc. is incorrect in that the cost of two wells has been omitted, in that one parcel of land is reported as containing 11.12 acres, whereas it contains but one acre, in that it assumes full ownership of a telephone line, whereas The Hollister Water Company has only a half interest, and further, it assumes that all meters are enclosed in concrete meter boxes, which is not a fact. There is also some difference between the overhead costs used by The Loveland Engineers, Inc. and the Commission engineers.

Coming to the matter of going concern value and value of water rights. The Loveland Engineers, Inc. alleged a going concern value of \$38,000.00. The Commission's engineers submitted no estimate of going concern. The Commission has repeatedly held that it will not permit the capitalization of an alleged going concern value. There is nothing in the record which causes the Commission to depart from its announced and well established policy in this regard.

For water rights, The Loveland Engineers, Inc. report a value of \$30,000.00, which seems to rest primarily upon the fact that during 1927 approximately eighty-four million gallons of water were produced at the Grass Valley production works of The Hollister Water Company. This is equivalent to 235,000 gallons a day. The testimony of P. E. Harroun shows that such rights as the company may have to take water at Grass Valley are conditional rights. Moreover, it has not been established that the quantity of water drawn from that source in 1927 is a safe yield. The water level at Grass Valley has been falling. At one time the wells flowed by gravity, while now they have to be pumped. The supply from that source is such that during 1928 the company drilled a well in Hollister and is now obtaining a substantial supply of water from such well. Whether it is economical to maintain the transmission line to Grass Valley is a question that should have been, but was not, considered in this connection. The evidence does not support a \$30,000.00 value for water rights. We will, for the purpose of this proceeding, allow \$5,850.00 which, according to the testimony of P. E. Harroun, represents the cost of acquiring such rights as The Hollister Water Company may have, to take water at Grass Valley and other places.

The order herein will authorize the transfer of the properties upon the condition that all the properties which The Hollister Water Company has agreed to sell to W. B. Foshay Company, its successors and assigns, are sold to Public Utilities California Corporation. In connection with the purchase of such properties, as they existed on October 31, 1928, the order herein will authorize the issue of \$265,000. of stock. If the company pays more than \$265,000.00 for the properties, it must charge the difference between the \$265,000.00 and the price paid to its corporate surplus accounts.

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If Public Utilities California Corporation acquires the properties of The Hollister Water Company it may charge to fixed capital accounts and Account No. 9- Materials and Supplies, the sum of not exceeding \$327,031.00, which charges shall be offset by the ~~\$262,500.00~~ <sup>\$265,000.00</sup> of stock and a credit to the reserve for accrued depreciation of \$62,031.00.

ORDER

The Hollister Water Company having applied to the Railroad Commission for permission to sell its properties to Public Utilities California Corporation, and Public Utilities California Corporation having asked permission to acquire and operate said properties and issue \$442,700.00 par value of its common capital stock, in connection with the acquisition of said properties, a public hearing having been held before Examiner Fankhauser, and the Commission being of the opinion that the transfer of the properties should be authorized, subject to the provisions of this order, and that Public Utilities California Corporation should be permitted to issue in connection with the acquisition of such properties \$265,000.00 par value of its common capital stock, that the money, property or labor to be procured or paid for by the issue of such stock is reasonably required and that the expenditures herein authorized are not in whole or in part reasonable chargeable to operating expenses or to income, and that this application, insofar as it involves the issue of \$177,700.00 of stock should be denied, therefore,

IT IS HEREBY ORDERED as follows;-

1. The Hollister Water Company may transfer, on or before November 1, 1929, to Public Utilities California Corporation, all of its properties, more particularly described in Exhibit "A" filed in this proceeding.

2. Public Utilities California Corporation may acquire such properties and operate same, and issue in connection with the purchase of said properties, not exceeding \$265,000.00 par value of its common capital stock.

3. This application insofar as it involves the issue of \$177,700.00 of stock is denied without prejudice.

4. Public Utilities California Corporation, if it acquires the properties of The Hollister Water Company, may charge to its fixed capital accounts and to Account No. 9-Materials and supplies, the sum of not exceeding \$327,031.00, which charges shall be offset by the \$265,000.00 of stock herein authorized to be issued, and a credit to the reserve for accrued depreciation of \$62,031.00. If Public Utilities California Corporation pays for the properties of The Hollister Water Company more than \$265,000.00, it must charge the difference between the price paid and the \$265,000., to its corporate surplus account.

5. Public Utilities California Corporation shall file with the Commission, within sixty days after acquiring the properties referred to herein, a certified copy of the deed of conveyance under which it acquires and holds title to said properties, a statement showing the exact date that it acquired the properties, and a report or reports, as required by the Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

6. Public Utilities California Corporation, within sixty days after acquiring the properties of The Hollister Water Company, shall submit to this Commission a copy of the book entries recording the purchase of said properties and the distribution of the purchase price to primary accounts.



7. The authority herein granted shall become effective ten days after the date herein.

DATED at San Francisco, California, this 1<sup>st</sup> day of July, 1929.

Paul L. Latta  
CS Secretary  
Wm. J. Latta  
W. J. Latta  
Commissioners.