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Decision No. 21453.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
HIGHLAND DOMESTIC WATER COMPANY  
for a certificate of public convenience  
and necessity; for authority to issue  
stock; and for an order authorizing  
Highland Domestic Water Company to buy  
and for W. H. Cull to sell certain  
public utility property.

**ORIGINAL**

Application No. 15674

W. C. Kennedy, for applicants.

W. Babel, for residents of  
Cull Subdivision, protestants.

BY THE COMMISSION:

O P I N I O N

In the above numbered and entitled proceeding, the Railroad Commission has been asked to issue a certificate declaring that public convenience and necessity require the operation of a water system by Highland Domestic Water Company in certain territory near the Town of Highland, known as the Cull Subdivision, and to make an order authorizing W. H. Cull to sell certain water properties located in the Cull Subdivision to Highland Domestic Water Company, and permitting Highland Domestic Water Company to purchase said properties and to issue and sell at par \$15,000.00 of its common capital stock to finance the cost thereof.

The application shows that Highland Domestic Water Company is a corporation organized under the laws of the State of California on or about September 14, 1898 and engaged as a public utility in the business of supplying water for domestic, irrigation

and commercial purposes in and about Highland, San Bernardino County. The corporation has an authorized capital stock of \$50,000.00, divided into 5,000 shares of the par value of \$10.00 each, all common, of which 4,599 shares, of the total par value of \$45,990.00, are now outstanding. All of the outstanding stock is owned by American States Public Service Company.

In financial statements filed with the Commission, the company has reported its gross revenues for the year 1927 at \$11,200.47, for the year 1928 at \$11,965.67 and for the four months ending April 30, 1929 at \$3,620.53. After deducting operating expenses, taxes, depreciation and interest, it has reported net profits for the year 1927 at \$4,289.74, for the year 1928 at \$3,891.92 and for the first four months of 1929 at \$1,182.82. Its assets and liabilities, as of April 30, 1929, are shown as follows:-

ASSETS:

Fixed capital . . . . .	\$80,336.69
Cash and deposits . . . . .	167.17
Accounts receivable . . . . .	1,073.38
Materials and supplies . . . . .	763.00
Prepayments . . . . .	111.46
Suspense : . . . . .	11.92
Construction work in progress . . . . .	36.07

Total assets..... \$82,499.69

LIABILITIES:

Capital stock . . . . .	\$45,990.00
Accounts with system corporations . . . . .	10,417.60
Consumers' deposits . . . . .	128.95
Accounts payable . . . . .	7.35
Consumers' advances for construction . . . . .	2,504.18
Donations for construction . . . . .	294.42
Reserves . . . . .	13,483.30
Corporate surplus . . . . .	9,673.89

Total liabilities \$82,499.69

Service is given to approximately 420 consumers.

It appears that in territory adjacent to that now served by Highland Domestic Water Company, in what is known as the Cull

Subdivision, is a small water system, owned and operated by one W. H. Cull, supplying approximately 58 consumers with water for domestic purposes and one consumer for irrigation purposes. The system consists of the following;-

- One 12-inch well, 286 feet deep;
- One Byron-Jackson No. 6 pump, equipped with a 20 h.p. motor, automatic control;
- One 5000 gallon galvanized iron tank with a 25-foot tower;
- 3835 feet of 4-inch riveted steel pipe;
- 1110 feet of 2-inch standard screw pipe, dipped;
- 700 feet of 10-inch vitrified clay pipe;
- 1000 feet of 8 and 10-inch cement pipe;
- One 6 room house and lot;
- Two lots, 51' x 192'.

It seems that the water system was installed during the last four years in the development of the subdivision. The consumers have paid for their own services and have received water for domestic use at the flat rate of \$1.50 a month, and for irrigation use at the flat rate of \$.75 an hour. The record shows that W. H. Cull has never received any franchise from the County of San Bernardino, nor any certificate from this Commission, nor has he filed any schedule of rates nor rules and regulations with the Commission. It clearly appears, however, that his failure to comply with these various requirements was through inadvertence and with no intent to evade the provisions of any statute.

The application shows that on March 4, 1929, W. H. Cull and Highland Domestic Water Company entered into an agreement providing for the sale by W.H.Cull of his water system to Highland Domestic Water Company, free and clear of all liabilities and encumbrances, for the sum of \$15,000.00. In this connection, Mr. C. P. Harnish, an engineer for the American States Public Service Company,

who was called as a witness, has advised the Commission that in his opinion the reproduction cost of the property is \$15,340.00, and the reproduction cost less accrued depreciation, \$13,483.00. Mr. Harnish submitted no estimates of the historical or original costs.

At the hearing held in this matter, W. Babel entered a protest to the granting of the application on behalf of the consumers of the Cull water system. Mr. Babel objected to the transfer of the system if, as a result, the rates now charged would be increased and if the water now obtained from the well included in the Cull water system would be diverted by the purchaser to its present system in Highland. In this connection, however, we might say that the question of rates is not here involved and that Highland Domestic Water Company, in acquiring the properties comprising the Cull water system must continue in effect the rates now charged for water supplied by that system, unless hereafter permitted to change them. If at any future time it is proposed to change the rates now charged, Mr. Babel and other consumers will have the right at that time to protest such action and to make such showing in opposition thereto as they may desire. As to the diversion of water from the Cull well, it appears that due to a difference in elevation between the territory served by the Cull system and the present system of Highland Domestic Water Company, water cannot be turned into the present Highland system from the Cull system, unless pumping facilities are installed and the testimony herein indicates that it is not the intention of the purchaser, for the present at least, to make such installation. It might be said at this point that whether or not the purchaser at any future time decides in the operation of its business to use the waters from the Cull well for distribution over all its properties or to mingle such waters with the water from its present sources of supply, it will be incumbent upon it, as a public

utility water company, to deliver an adequate supply of potable water at all times to all its consumers.

It seems to us then, considering the record in this matter, that under certain conditions we might permit the transfer of the properties as here proposed and the operation of them by Highland Domestic Water Company. In taking over the properties and **conducting the operations, the purchaser should continue in effect** the rates now charged by the vendor, and should immediately acquire the service connections now owned by consumers on the Cull water system, in accordance with the Commission's rules and regulations.

Highland Domestic Water Company has applied to the Board of Supervisors of the County of San Bernardino for a franchise to operate in the Cull Subdivision. At the time of hearing of this application, such franchise had not been finally passed, nor has the Commission, since the hearing, been advised of final passage. Pending the acquisition of the franchise, the order herein will grant the corporation permission to operate the Cull water system.

Coming now to the request to issue \$15,000.00 of stock to finance the cost of the properties, it will be observed, as set forth hereinabove, that Mr. Harnish has estimated the reproduction cost of the properties at \$15,340.00, and the reproduction cost less depreciation at \$13,483.00. It has been the Commission's policy in matters involving the transfer and refinancing of public utility properties, to allow the issue of securities by the purchasing company, in an amount not exceeding the estimated historical, or the original cost, less depreciation, including lands at present value. In the present case, it occurs to us that because of the recent installation

of the water system here proposed to be transferred, we might properly, for the purpose of this proceeding, use the figures submitted by Mr. Harnish in determining the amount of stock to be issued. We will accordingly authorize Highland Domestic Water Company to issue \$13,500.00 of stock to acquire the Cull water system. If it pays more than \$13,500.00 for such system, it must obtain the balance from some source other than the issue of securities and must charge such excess to its corporate surplus account. In recording the transfer on its books of account, the purchaser may charge to Account No. 1 "Fixed capital" not exceeding \$6,540.00; and to Account No. 8-c "Miscellaneous investments", not exceeding \$8,800.00, the estimated value of the two lots and the dwelling house and lot, these items, in our opinion, being of a non-operative nature.

It will be observed that Highland Domestic Water Company at present has an authorized capital stock of \$50,000.00, of which \$45,990.00 is outstanding. We have been advised that steps are being taken to increase the authorized stock issue. The authority herein granted to issue stock will not become effective until applicant has filed a certified copy of its Articles of Incorporation amended so as to provide for an increased capital stock.

#### O R D E R

Application having been made to the Commission for an order granting a certificate of public convenience and necessity, authorizing the transfer of properties and permitting the issue of \$15,000.00 of stock, a public hearing having been held before

Examiner Williams, and the Railroad Commission being of the opinion that the application should be granted, as herein provided, but that the issue of only \$13,500.00 of stock should be authorized 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 \$1,500.00 of stock should be denied without prejudice, therefore,

IT IS HEREBY ORDERED that W. H. Cull be, and he hereby is, authorized to sell, on or before December 31, 1929, to Highland Domestic Water Company, free and clear of encumbrances and liabilities, the water properties referred to in the foregoing opinion and described in Exhibit "E" attached to the application herein.

IT IS HEREBY FURTHER ORDERED that Highland Domestic Water Company be, and it hereby is, authorized to buy the properties W. H. Cull is herein authorized to sell, and to issue and sell, on or before December 31, 1929, at par for cash, not exceeding \$13,500.00 of common stock, for the purpose of financing, in part, the cost of such properties.

IT IS HEREBY FURTHER ORDERED that the application insofar as it involves the issue of \$1,500.00 of stock be, and it hereby is, denied without prejudice.

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

1. Highland Domestic Water Company, if it acquires the properties of the Cull water system, may not charge to its fixed capital accounts more than \$6,540.00 and to its miscellaneous investment account more than \$8,800.00 in recording the purchase. If it pays for such properties more than \$13,500.00 represented by a like amount of stock, it must charge the excess to its corporate

surplus account. The difference between the \$15,340.00 to be charged to fixed capital and miscellaneous investments and the \$15,500.00 stock issue shall be credited by the purchaser to its reserve for accrued depreciation.

2. Neither the price at which Highland Domestic Water Company proposes to purchase the Cull water system, nor the amount of stock herein authorized to be issued, nor the amount which the purchaser is herein permitted to charge to its fixed capital account shall hereafter be urged before this Commission, or other public body or court, as a measure of value of the water system for the purpose of fixing rates or for any other purpose.

3. Highland Domestic Water Company, in acquiring the Cull water system, shall continue in effect on such system the same schedule of rates now charged by W. H. Cull, namely, a flat rate of \$1.50 per month for domestic consumers and a flat rate of \$0.75 an hour for irrigation consumers, such rates to be continued until a change is permitted or directed by the Commission.

4. The authority herein granted to transfer properties will become effective upon the date hereof, but the authority herein granted to issue stock will become effective only upon the filing with the Commission of a certified copy of the articles of incorporation of Highland Domestic Water Company amended so as to permit the issue of additional stock, or a certified copy of a certificate of increase of capital stock.

5. Within thirty days after the transfer herein authorized, Highland Domestic Water Company shall file with the Commission a copy of the deed or other instrument of conveyance, a state-



ment indicating the exact date upon which it acquired such properties, and a schedule of rates for service from the properties purchased, said rates to be identical with those now being charged on such properties.

6. Within thirty days after the issue of the stock herein authorized, Highland Domestic Water Company shall file with the Commission a verified report, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

7. Within one year after acquiring control and possession of the Cull water system herein authorized to be transferred, Highland Domestic Water Company shall acquire title by purchase or otherwise, to all service connections from the mains to the property or curb line.

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA HEREBY DECLARES that public convenience and necessity require, and will require, that Highland Domestic Water Company acquire and operate the water system located in the Cull Subdivision, known as the Cull water system, and it further declares that hereafter upon the filing of a certified copy of an ordinance of the County of San Bernardino granting to Highland Domestic Water Company a franchise, and a stipulation in which the corporation agrees that it, its successors and assigns will never claim a value for said franchise in excess of the amount actually paid to said county for said franchise, which amount shall be stated, it will declare that public convenience and necessity require and will require the exercise by Highland Domestic Water Company of the rights and privileges granted

by said franchise, subject to such terms and conditions as the Railroad Commission may prescribe.

DATED at San Francisco, California, this 13<sup>th</sup> day of August, 1929.

Thos D. Lott  
C. S. King  
Edmund G. ...  
Leon Whitell  
W. A. ...

Commissioners.