

LEM

Decision No. 22284.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER SERVICE COMPANY,
a corporation, for order authorizing
issue of bonds and stock and mortgage
of certain public utility properties,
and, jointly with The Marysville Water
Company and Raymond Beeny, for order
authorizing sale and purchase of cer-
tain public utility securities and
properties.

ORIGINAL

Application No. 16226

McCutchen, Olney, Mannon and Greene,
by James D. Adams and Henry D. Costigan,
for applicants.

BY THE COMMISSION:

FIRST SUPPLEMENTAL OPINION

In the above entitled application the request was made to the Railroad Commission for an order authorizing the transfer of the stock and properties of The Marysville Water Company to California Water Service Company, and the issue by the latter of \$289,000.00 of its first mortgage bonds, \$96,400.00 of its preferred stock and \$96,400.00 of its common stock.

When the proceeding originally came up for hearing, on February 5, 1930, no valuations had been prepared in support of the request and the matter was continued so as to permit the study of the cost and/or value of the properties to be transferred. A preliminary order was made following the original hearing, Decision No. 22131, dated February 15, 1930, permitting, among other

things, the transfer of the properties to California Water Service Company and the issue of \$150,000.00 of bonds and \$50,000.00 of common stock.

A further hearing was held on March 19, 1930, engineering studies were introduced into the record and the matter was submitted for final determination.

Estimates of the reproduction cost, the reproduction cost less depreciation and the original cost of the properties of The Marysville Water Company were made for applicants by The Loveland Engineers, Inc. In addition, an estimate of the historical cost, new, and depreciated, was made by L. E. Torrey, of the Commission's Engineering Department. The report of The Loveland Engineers, Inc. was submitted as Exhibit No. 2 and that of Mr. Torrey as Exhibit No. 3.

As stated on numerous occasions, our policy in proceedings of this nature has been to use as a basis for our order authorizing the issue of securities, the original or historical costs of the properties, including lands at present value, less the estimated accrued depreciation. Here we have two estimates as follows:-

ITEM	: The Loveland : Engineers, Inc.:	: L. E. Torrey
LANDS AND PHYSICAL PROPERTIES:		
Landed capital	:\$ 75,250.00	:\$ 71,700.00
Buildings, structures and grounds:	81,026.00	77,546.00
Intake and suction mains	5,500.00	5,500.00
Wells	44,347.00	38,543.00
Pumping equipment	38,339.00	38,798.00
Purification system	680.00	680.00
Transmission mains	3,300.00	3,300.00
Distribution mains	136,221.00	135,618.00
Distribution tanks	15,500.00	15,509.00
Services	63,766.00	47,875.00
Meters	9,198.00	10,043.00
General equipment	7,500.00	6,797.00
Materials and supplies	8,356.00	8,356.00
Total	:\$489,043.00	:\$460,265.00
INTANGIBLE CAPITAL:		
Organization expense	:\$ 5,000.00	:\$ 2,000.00
Cost of acquiring lands	4,139.00	-
Water rights	1,000.00	-
Going concern	45,000.00	-
Franchise and operating rights	1,500.00	-
Total	:\$ 56,639.00	:\$ 2,000.00
Total all elements	:\$545,682.00	:\$462,265.00

The Loveland Engineers, Inc. estimate the proper reserve for accrued depreciation, based upon the six percent sinking fund method, at \$72,884.00, and L. E. Torrey at \$89,906.00.

A comparison of the two estimates indicates that of the difference of \$28,778.00 between the values assigned to lands and physical properties, substantially all is accounted for by differences in services, The Loveland Engineers, Inc. placing a value for this class of property at \$63,766.00 and L. E. Torrey at \$47,875.00. From a review of the oral testimony in support of the appraisal it appears to us that Mr. Torrey is low in his historical cost estimate of services and that The Loveland Engineers, Inc., on the other hand are high in the values assigned to them to lands. Further, we do not agree with the allowances made for intangible capital. In our opinion \$5,000.00 is a reasonable sum to include for intangible items for the purpose of this proceeding.

In addition to the foregoing items, it appears from the record that net current assets of \$3,671.29 will be transferred to the purchaser. Considering all these items it appears to us that for this proceeding the sum of \$421,530.00 is a reasonable basis to be used in ascertaining the amount of securities to be permitted to be issued by California Water Service Company. This sum was determined as follows:-

Physical properties, as shown in Exhibit 2	\$414,043.
Lands, as shown in Exhibit 3	71,700.
Total.....	\$485,743.
LESS: Accrued depreciation	72,884.
Balance	\$412,859.
ADD: Allowance for intangibles	5,000.
Net current assets	3,671.
Total.....	\$421,530.

It appears to us, therefore, reasonable to authorize California Water Service Company in acquiring the properties of The Marysville Water Company to issue and sell \$275,000.00 of bonds at not less than 92 percent of face value, \$88,200.00 of preferred stock at not less than \$91.00 a share, and \$38,300.00 of common stock at not less than par. The preliminary order having permitted the issue of \$150,000.00 of bonds and \$50,000.00 of common stock, this order will authorize the issue of \$125,000.00 of bonds, \$88,200.00 of preferred stock and \$38,300.00 of common stock.

FIRST SUPPLEMENTAL ORDER

A further hearing in the above entitled matter having been held before Examiner Fankhauser and the Commission being of the opinion that the issue of additional stock and bonds, as herein set forth, is reasonably required by California Water Service Company for the purpose of acquiring and paying for the stock and properties of The Marysville Water Company, and that the expenditures for such purpose are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that California Water Service Company be, and it hereby is, authorized to issue and sell, in addition to the stock and bonds heretofore authorized by Decision No. 22131, dated February 15, 1930, \$125,000.00 of its first mortgage five per cent bonds at not less than 92 percent of face value plus accrued interest, \$88,200.00 of preferred stock at not less than 91 percent of its par value, and \$38,300.00 of common stock at not less than par, for the purpose of paying for the stock and properties of The Marysville Water Company.

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

1. If California Water Service Company pays for the stock and properties of The Marysville Water Company more than \$421,530.00, it must charge such excess to a suspense account and amortize the same by charges to its surplus account within five years from the date of this order, or charge such excess at once to its surplus account.

2. Applicant shall keep such record of the issue and sale authorized of the stock and bonds herein/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 Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

3. The authority herein granted to issue stock will become effective upon the date hereof. The authority 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 One Hundred and ~~Twenty five~~ ^(125.00) ~~(100.00)~~ Dollars.

NGM

IT IS HEREBY FURTHER ORDERED that the application insofar as it involves the issue of \$14,000.00 of bonds, \$8,200.00 of preferred stock and \$2,100.00 of common stock, be, and it hereby, is denied without prejudice.

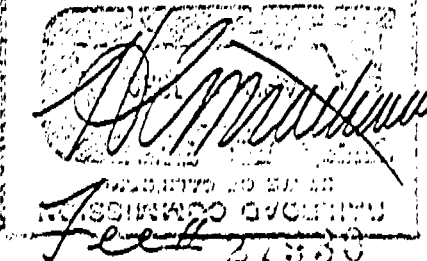
DATED at San Francisco, California, this 2nd day of April, 1930.

Cl. Seaver

Thos. S. Lewis

W. J. Lewis

Commissioners.

NGM
Fee \$125.00
100

Fee 21333