

Decision No. 22472

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 FRANK P. CADY and L. R. CADY)
 for authority to sell the water system)
 operated under the name of Susanville)
 Water Company, to California Utilities)
 Company, a corporation, and for author-)
 ity for the latter to buy said System)
 and to issue its note for One Hundred)
 Thousand(100,000) Dollars, and to)
 mortgage said water system to secure)
 said note, and to issue shares of its)
 capital stock of the par value of)
 Eighty-two Thousand Five Hundred)
 (82,500) Dollars.)

Application No. 16503

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

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to make its order authorizing Frank P. Cady and L. R. Cady to sell and California Utilities Company to purchase the properties of the Susanville Water Company, and authorizing California Utilities Company to execute a mortgage, to issue its five year six percent promissory note for \$100,000.00, and to issue and sell at par \$82,500.00 of its common capital stock.

It appears that Frank P. Cady and Rilla E. Cady for many years were engaged in the business of selling water in Susanville and vicinity, operating under the name of Susanville Water Company, and that upon the death of Rilla E. Cady, applicants Frank P. Cady and L. R. Cady succeeded to her interest in the Susanville Water Company. The revenues and expenses from the operation of the Susan-

Susanville Water Company for the last three years have been reported as follows:-

<u>ITEM</u>	<u>1927</u>	<u>1928</u>	<u>1929</u>
Operating revenues	\$27,798.71	\$ 29,195.90	\$ 29,631.29
Operating expenses	13,999.37	12,784.21	13,809.75
Net operating revenues	\$13,799.34	\$ 16,411.69	\$ 15,821.54
Uncollectible bills	57.65	134.50	106.70
Depreciation	1,552.56	1,600.00	1,652.16
Balance.....	\$12,189.13	\$ 14,676.51	\$ 14,062.68

The record shows that under date of March 8, 1930, Frank P. Cady and L. R. Cady, individually and as heirs and devisees under the will of Rilla E. Cady, and Frank P. Cady, as executor of the will of Rilla E. Cady, entered into an agreement to sell the Susanville Water Company to Sherritt and Company, Inc. for the sum of \$182,500.00. Under the agreement, \$82,500.00 will be paid in cash and the balance, \$100,000.00, by a five year six percent note secured by mortgage, on the properties operated under the name of Susanville Water Company. This agreement has been assigned to California Utilities Company by Sherritt and Company, Inc., which has agreed to purchase from California Utilities Company for \$82,500.00 an equal amount of its capital stock, or such other amount of stock as the Commission may authorize to be issued.

In making the application herein, applicants have filed as Exhibit "E" an appraisal of the properties prepared by The Loveland Engineers, Inc. in which the reproduction cost new as of March 31, 1930 was estimated at \$240,805.00 and the reproduction cost new less depreciation at \$196,238.00, including in each case \$60,500.00 for intangible items. No estimates were presented based on the original or historical cost bases.

The matter of the value of the properties of the Susanville Water Company was recently considered by the Commission in its Decision No. 20293, dated October 3, 1928, in Application No. 14894.

In that proceeding the request was made for an order authorizing the sale of the Susanville Water Company to Public Utilities California Corporation. In support of the request, appraisals of the properties were submitted based on the reproduction cost new and original cost basis, new and depreciated, together with oral testimony. The evidence presented at that time was thoroughly reviewed and considered by the Commission and its decision entered accordingly authorizing the purchaser at that time to issue in payment for the properties of the Susanville Water Company \$135,000.00 of stock, provided that if it paid for the properties more than \$135,000.00 it must charge such excess to a suspense account and amortize the same by charges to its surplus account within ten years after the date of the order, or charge the excess at once to its surplus. The order permitted the company to charge to its fixed capital accounts in acquiring the properties, not more than \$155,729.00.

The authority granted by Decision No. 20293 was not exercised. There has not been presented in this matter anything that causes us to change our views and conclusions, as set forth in that decision. It appears to us that in passing on this present application, we should authorize the purchaser to issue not more than \$135,000.00 of stock and notes, plus the cost of additions and betterments since the date of the appraisal submitted in the former matter. These additions and betterments, according to Exhibit "1", aggregate \$11,315.33. The testimony of Frank P. Cady, however, indicates that there exists certain duplications in the labor charges in connection with such additions and betterments, and, after making allowances for such duplications, it appears to us that we should authorize the issue by the purchaser at this time of not more than \$142,500.00 of securities in payment for the properties of

Susanville Water Company. If the purchaser pays more than \$142,500. for the properties, it must charge such excess to a suspense account and amortize it by charges to surplus within ten years from the date hereof, or charge the entire difference forthwith to surplus.

O R D E R

Application having been made to the Railroad Commission for an order authorizing the transfer of the properties of Susanville Water Company and the issue of stock and notes by California Utilities Company, a public hearing having been held before Examiner Fankhauser, and the Railroad Commission being of the opinion that the transfer should be authorized and that California Utilities Company should be permitted to issue \$100,000.00 of notes secured by a mortgage and not exceeding \$42,500.00 of its common stock 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 issue of \$40,000.00 of stock should be denied without prejudice, therefore,

IT IS HEREBY ORDERED that Frank P. Cady and L. R. Cady be, and they hereby are, authorized to sell and transfer the water system and business operated under the name of Susanville Water Company, to California Utilities Company, which is hereby authorized to acquire and operate the same.

IT IS HEREBY FURTHER ORDERED that California Utilities Company be, and it hereby is, authorized to execute a mortgage substantially in the same form as the mortgage filed with this application as Exhibit "D" and to issue its promissory note secured thereby in the principal amount of \$100,000.00, payable on or before five years after date of issue, with interest at not exceeding six percent

per annum, and to issue and sell, at not less than par for cash, \$42,500.00 of its common capital stock and to use the proceeds to be received from the issue and sale of its stock and the note to pay for the aforementioned water system and business operated under the name of the Susanville Water Company.

IT IS HEREBY FURTHER ORDERED that the application, insofar as it involves the issue of the remaining \$40,000.00 of stock be, and it hereby is, denied without prejudice.

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

(1) California Utilities Company, if it acquires the aforesaid business and properties, may charge to its fixed capital accounts not more than \$163,200.00. If it pays for the business and properties more than \$142,500.00, 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 this excess at once to its surplus account.

(2) California Utilities Company shall file with the Commission within thirty days after acquiring the water system and business operated under the name of the Susanville Water Company, a copy of the deed or deeds under which it acquires title thereto, a statement showing the exact date upon which it took possession of the properties and began to operate them, and 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.

(3) The authority herein granted will become effective when California Utilities Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Hundred (\$100.00) Dollars. Under said authority no properties may be

transferred, no stock or notes issued and no mortgage executed after September 1, 1930.

DATED at San Francisco, California, this 23^d day of May, 1930.

C. J. Seaver
Ernest J. [unclear]
[unclear]
[unclear]
[unclear]
[unclear]
[unclear]
Commissioners.

Fee \$100.00
RECORD COMMISSION
MAY 23 1930
[Signature]
Fee # 28051