

ORIGINAL

Decision No. 9005A

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
THE CALIFORNIA COMPANY,)
a corporation, for an order author-)
izing the issue of bonds.

Application No. 17913

A. L. Cowell, for applicant.

BY THE COMMISSION:

O P I N I O N

In this proceeding The California Company, a New York corporation organized in 1883, asks permission to issue \$30,000.00 of six percent bonds due February 1, 1962 and secure the payment of such bonds by the execution of a trust indenture to the Stockton Savings and Loan Bank.

It is of record that applicant is engaged in the business of furnishing water for irrigation and mining purposes and watering of livestock from its reservoir known as the Salt Springs Reservoir located in Calaveras County.

The properties of the company are described in the Commission's Decision No. 9939, dated December 29, 1921, in Case No. 5334 (Volume 21, Opinions and Orders of the Commission of California, page 23). It appears from that the water system of applicant consists of Salt Springs Reservoir, capacity 20,000 acre feet; about 12-3/4 miles of main ditch (capacity 1,000 miners' inches); 1,188 lineal feet of branch ditches; and two small earthen reservoirs located at the ends of the ditch. From the testimony of H. A. Noble, an Assistant Engineer for the

CORRECTION

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In this proceeding The California Company, a New York corporation organized in 1883, asks permission to issue \$30,000.00 of six percent bonds due February 1, 1962 and secure the payment of such bonds by the execution of a trust indenture to the Stockton Savings and Loan Bank.

It is of record that applicant is engaged in the business of furnishing water for irrigation and mining purposes and the watering of livestock from its reservoir known as the Salt Springs Valley Reservoir located in Calaveras County.

The properties of the company are described in the Commission's Decision No. 9939, dated December 29, 1921, in Case No. 1302 and Application No. 6334 (Volume 21, Opinions and Orders of the Railroad Commission of California, page 23). It appears from that decision that the water system of applicant consists of Salt Springs Valley impounding reservoir, capacity 20,000 acre feet; about 12-3/4 miles of main ditch (capacity 1,000 miners' inches); 1,188 lineal feet of wooden flume; 2-1/2 miles of branch ditches; and two small earthen regulating reservoirs located at the ends of the ditch. From the decision, it appears that H. A. Noble, an Assistant Engineer for the

Commission, estimated the historical cost of the company's properties at \$146,292.00. The company submitted an estimate through Mr. Burton Smith which showed an estimated reproduction cost of the properties, based on prices of material and labor obtaining in 1919, of \$281,904.00. It appears from the Commission's decision that in view of the business conducted by the applicant it was not possible to fix a rate which would yield the company a reasonable return. The Commission found that it was doubtful if the utility could hope to earn, at least for some time to come, more than enough revenue to cover maintenance and operating expenses, depreciation annuity and perhaps a small return upon its investment. During the past few years the earnings of applicant have not been sufficient to net any return on the money invested in its properties.

All of the capital stock of The California Company was acquired in 1918 by W. L. and R. G. Kann of Pittsburgh, Pennsylvania, who have since exercised control and managed the properties. On account of the distribution of the estate of W. L. Kann, deceased, the stock at the present time is owned by R. G. Kann, Ruth M. Kann and Eda Kann. Applicant's stockholders have since 1918 advanced to applicant \$32,548.48, which includes \$11,250.00 due R. G. Kann for general management and engineering. On account of the distribution of the estate of W. L. Kann, those interested in these properties at this time feel that the indebtedness to the extent of \$30,000.00 should be paid through the issue of bonds and such bonds distributed to the stockholders. They realize that these bonds will not command a ready market and have agreed to guarantee the payment of the interest on the bonds and sinking fund until such time as the earnings of the properties for two consecutive years have been adequate to pay operating expenses, depreciation and interest on the outstanding bonds. They have further agreed that if any of the stockholders should sell their stock, it would be upon the condition that the new stockholders

will assume the aforesaid obligation or ^{that} the bond issue shall be cancelled.

R. G. Kann, president of The California Company, believes that he may be able to sell the properties, either to an irrigation district or to new interests who will develop the same. He feels, however, that such a sale can be negotiated more readily if the company is permitted to issue the \$30,000.00 of bonds and the properties sold subject to this bond issue. However, that if these bonds are retained by him and others, who are interested in the estate, as part of the sale price of the properties, they should have, in his opinion, the right to foreclosure in the event the purchaser is not successful in developing the properties. For this reason, he objects to the company issuing an ordinary income bond.

The company has submitted a copy of its proposed trust indenture which it desires to execute to the Stockton Savings and Loan Bank. This trust indenture contains a form of the proposed bond. We believe that this form of bond should be modified by eliminating therefrom all reference to the fact that the issue of the bonds has been authorized by the Railroad Commission. We have no objection to such a recital being contained in the trust indenture, but we do not believe that it should be incorporated in the form of the bond. We further believe that the trust indenture should be modified by including therein a proviso to the effect that R. G. Kann, Ruth M. Kann and Eda Kann, present stockholders of The California Company, and their successors and assigns, will, until such time as the earnings of the properties of The California Company are sufficient to pay operating expenses, depreciation and bond interest for two consecutive years, guarantee the payment of the interest on such bonds and the payment of the sinking fund provided for in such trust indenture. If the said stockholders sell any or all of their stock, the new stockholders

shall assume the aforementioned obligation, or said bond issue shall be cancelled. The proposed trust indenture should further be modified by reserving to the company the right to redeem the \$30,000.00 of bonds on any interest payment date by paying the principal on said bonds, the accrued interest and a premium of not exceeding five percent. It should be further modified so that the bonds will mature not later than February 1, 1952. The company should submit a revised copy of its proposed trust indenture and execute the same only after its execution is authorized by the Commission.

O R D E R

The California Company having asked permission to issue \$30,000.00 of bonds and execute a trust indenture, the Commission having considered applicant's request and being of the opinion that this is not a matter in which a public hearing is necessary, that the money, property or labor to be procured or paid for by the issue of the aforesaid bonds is reasonably required by applicant for the purposes herein stated, therefore,

IT IS HEREBY ORDERED that on and after the effective date hereof and prior to July 1, 1952, The California Company may issue and sell, at not less than par, \$30,000.00 of its six percent first mortgage bonds, due February 1, 1952, and use the proceeds for the purpose of paying in part the indebtedness referred to in the statement filed in this proceeding on January 21, 1952.

IT IS HEREBY FURTHER ORDERED that the authority herein granted will become effective when The California Company has been authorized to execute a trust indenture to secure the payment of such bonds and when said The California Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is

Thirty (\$30.00) Dollars.

IT IS HEREBY FURTHER ORDERED that the California Company shall keep such record of the issue and sale of the bonds herein authorized and 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 Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 8th day of February, 1932.

CC Jansen

Leon Whidney

W. J. Cline

W. B. Harris

Fred G. Stewart

Commissioners.

Fee \$ 30.00

RAILROAD COMMISSION

Feb 15 1932
[Signature]
Fee # 2355