

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION OF  
BAKERSFIELD WATER COMPANY  
FOR PERMISSION TO ISSUE BONDS OF THE PAR  
VALUE OF \$50,000 and EXECUTE A FIRST  
MORTGAGE TO SECURE THE SAME.

Application No. 86

OPINION

Edgerton, Commissioner.

This is an application of the Bakersfield Water Company for an order authorizing the issue of first mortgage bonds of the par value of \$50,000 and authorizing the mortgaging of the property of said company for the purpose of securing the payment of said bonds.

Applicant is a corporation which is furnishing water to the people in a portion of the City of Bakersfield, Kern County, and within the territory supplied it has no competition. The present company acquired this water system recently from the Sumner Water Company, which latter had operated same for a number of years and allowed the plant to badly deteriorate.

Applicant's authorized capital stock is \$100,000, of which \$60,000 has been issued. There are no bonds outstanding but the property of the company is encumbered with two mortgages; - one for the sum of \$10,000, bearing interest at 7% per annum, the other, for \$5,000, bearing interest at the rate of 12% per annum. The applicant estimates the present value of its plant at \$67,000, in which is included new material put into the plant at a cost of \$18,000 since its acquirement by applicant. The actual net earnings of applicant for the month of January, 1912, was \$2,058.35 and from this

it is estimated that its annual net earnings will be \$24,700, against which it is proposed to charge bond interest at 6% per annum:

Bond interest 6% on \$50,000-----	\$5,000
Annual retirement of bonds	<u>5,000</u>
Total	8,000
Leaving net surplus earning of	16,700

It is proposed to pay off these bonds in annual installments of \$5,000 each and applicant has made a contract for the sale of the total issue of \$50,000 for the sum of \$45,000 cash. It is proposed to use the money derived from this sale for the purpose of paying off the mortgages of \$10,000 and \$5,000 and the balance of \$30,000 is to be invested in the property by way of renewing pipes and other parts of the distributing system.

DETAILED STATEMENT OF PROPOSED INSTALLATION  
BAKERSFIELD WATER COMPANY

2485 Ft. Ten Inch Pipe @ \$1.84 per ft.....	\$ 4572.40
5885 " Eight " " " 1.50 " " .....	7650.50
9555 " Four " " " .60 " " .....	5721.00
9½ ton lead @ \$100 per ton .....	950.00
7 bales hemp .....	60.00
9000# tees, ells, fittings, etc.. @ 4 cents .....	360.00
Valves and large fittings .....	619.00
Pump .....	1300.00
Motor ..... 75 hp.....	785.00
Boring two wells 15 ft. apart .....	934.00
Pit, casing, tunnel, foundation .....	475.00
Corrugated iron house .....	100.00
Installation, wiring, switchboard, etc.....	450.00
Total .....	\$25,976.90
Engineering expense (7½%) .....	<u>1,798.26</u>
	25,775.16
Five percent for emergency.....	2,577.51
Incidental expense for attorneys fees and filing fees in connection with bond issues.	<u>1,647.33</u>
TOTAL.....	\$50,000.00

It appears that the water system of applicant is not in good condition and there has been very much complaint on the part of water users because of the failure to deliver to them a steady and sufficient supply. The proposed investment of \$30,000 will bring this plant up to a proper standard and will enable the company to properly supply its present customers, and in addition take care of any probable increase in demand for service. The paying off of the two mortgages, the one bearing 7% interest and the other 12%, will result in a reduction of interest charges to 6%.

There is some question as to whether some of the purposes for which the bond money is to be used are not properly chargeable to operating expenses or income, such purposes for instance as removals or replacements of pipe, but in view of the fact that applicant has stated its purpose to charge off all pipe and material, replaced by new pipe and material, and as this Commission has not determined its policy as to such charges, this application should not be denied for the above reason. I find that said money is reasonably required for the purposes above specified and that the price proposed to be obtained from the sale of said bonds is, under the circumstances, reasonable and I, therefore, recommend that the application be granted to take effect when the necessary fee is paid and submit herewith the following order:

ORDER.

Application having been made to the Railroad Commission of the State of California by Bakersfield Water Company for an order authorizing the issue by said company of 50 first mortgage gold bonds of the par value of \$1,000 each, bearing interest at the rate of 6% per annum, payable semi-annually on the first day of April and the first day of October of each year, or an aggregate of \$50,000.

And a hearing having been duly held and it appearing to the Commission that the money to be secured by the issue of said bonds is necessary and reasonably required by said company for the discharge of its obligations and acquisition of property and the construction, completion, extension and improvement of its facilities and that in order to obtain said money it will be necessary for said company to mortgage and encumber its property.

IT IS HEREBY ORDERED that the Railroad Commission of the State of California does hereby authorize the issue by Bakersfield Water Company of \$50,000 face value of first mortgage bonds of \$1,000 each and bearing interest at the rate of 6% per annum, said bonds to be numbered from 1 to 50, inclusive and to mature and become payable as follows:

Bonds No. 1 to 5, both inclusive,	upon the 1st day of April,	1913
" " 6 " 10,	" " " " " "	1914
" " 11 " 15	" " " " " "	1915
" " 16 " 20	" " " " " "	1916
" " 21 " 25	" " " " " "	1917
" " 26 " 30	" " " " " "	1918
" " 31 " 35	" " " " " "	1919
" " 36 " 40	" " " " " "	1920
" " 41 " 45	" " " " " "	1921
" " 46 " 50	" " " " " "	1922

Said bonds to be issued under and in pursuance of the terms of a deed of trust or mortgage to be executed in form and terms as provided in a copy of a proposed deed of trust filed with the application herein upon the following conditions, not otherwise:

1. Bakersfield Water Company shall sell the bonds hereby authorized so as to net said company not less than \$45,000 plus

the accrued interest on said bonds at the date of their delivery to the purchaser.

2. The proceeds from the sale of said bonds shall be used for the following purposes only:

(a) For the discharge of obligations as specified in application ..... \$15,000

(b) For the acquisition of property and the construction, completion, extension and improvement of facilities, as specified in application and exhibits attached thereto... \$50,000.

3. Said company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of said bonds hereby authorized to be issued and on or before the 10th day of each month, the company shall make a verified report to the Commission stating the sale or the disposition of such bonds during the preceding month, the terms and conditions of such sale or other disposition, the moneys realized therefrom and the use and application of such moneys.

4. The authority hereby given to issue such bonds shall apply only to bonds issued by said company on or before the 30th day of June, 1915.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 20th day of June, 1912.

John M. Eshleman  
H. D. Loveland  
Max Thelen  
Edwin O. Edgerton