

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of
PACIFIC BUILDING COMPANY for an order
authorizing the sale of its water
system to FAIRMOUNT WATER COMPANY and
of Fairmount Water Company for authority
to issue stock and bonds in payment
therefor to Pacific Building Company.

Application No. 1060.

Haines and Haines for Pacific Building Company.
Lester D. Welch for city of East San Diego.
F.C.Blood for Chamber of Commerce of East San Diego.

THELEN Commissioner.

O P I N I O N.

This is an application on the part of Pacific Building Company to sell to Fairmount Water Company the Pacific Building Company's water system located in the city of East San Diego and in the vicinity thereof, in San Diego county, California, and of Fairmount Water Company to issue its stock of the par value of \$12,158 and its bonds of the face value of \$36,000 in payment therefor.

Pacific Building Company, is primarily, engaged in the land and building business in and about San Diego, California, but as incidental to its operations in East San Diego, owns and operates a water system in and adjacent to said city. Pacific Building Company desires to segregate its water utility business from its other operations and all parties concede the desirability of such action. The Fairmount Water Company is a corporation already in existence, having water utility powers, and controlled by Pacific Building Company. The latter company accordingly asks authority to convey its entire water system to the Fairmount Water Company in exchange for the latter company's stock and bonds as hereinbefore specified.

The city of East San Diego and the Chamber of Commerce of East San Diego appeared at the hearing and urged several objections to the granting of the petition. They represented that there has been considerable agitation in East San Diego in favor of the acquisition of this water system by the municipality and that the Commission's action

on this application might possibly prejudice the city of East San Diego with reference to the price to be paid, if the municipality should later desire to acquire the system. Mr. O. W. Cotton, the president of the Pacific Building Company, replied that this application is made solely for the purpose of segregating the water business of this company from its other operations and not for the purpose of securing any advantage as against the people of East San Diego. He agreed that the order in this proceeding shall contain a condition to the effect that the consideration to be authorized by this Commission in this proceeding for the transfer of the property should not be taken before the Commission or any other public authority to represent for rate fixing, condemnation or any other purpose the real value of the property.

On the suggestion of the Commission that the issue of bonds by the Fairmount Water Company might tend to complicate and embarrass the situation, the Pacific Building Company agreed to transfer its water system for stock alone of the Fairmount Water Company. In this connection the Commission also drew attention to the fact that if the value of the property were being fixed for condemnation or rate fixing purposes and that if anything other than stock were being paid under the circumstances as revealed in this application, it would be necessary to examine closely the history of the relationship between the land company and this water system. It becomes unnecessary, however, on this application, to examine these matters.

Pacific Building Company claims a depreciated reproduction value of \$48,158.30 for its water system as of September, 1913.

~~XXXXXXXXXXXX~~ One of this Commission's hydraulic engineers, made a rough check of the valuation as presented, subtracted one year's depreciation which has accrued subsequent to the company's valuation, and thereupon presented the following estimate of present value:

| | |
|---|-------------|
| System in East San Diego..... | \$44,710.00 |
| System in Sierra Vista Tract..... | 951.00 |
| New meter in re water supply from city of San Diego..... | 250.00 |
| | <hr/> |
| | \$45,911.00 |

I shall recommend that Fairmount Water Company be authorized to issue its capital stock of the par value of \$45,900 in exchange for the entire water system of the Pacific Building Company, but only on the conditions specified in this opinion and order.

This Commission, in its decision rendered on March 11, 1914, in Case No. 446, Brockmeier vs. Pacific Building Company, approved an agreement between the city of East San Diego and Pacific Building Company under which the latter company is to lay additional mains and make other improvements to its water system in East San Diego. Pacific Building Company now estimates that this work will cost \$5518.00. All parties agree that this work shall be completed by Pacific Building Company and that thereupon Fairmount Water Company may issue its capital stock to Pacific Building Company of a par value equal to the actual cost of the work.

The representatives of the city of East San Diego also urged that the establishment of a separate organization for the operation of the water utility might result in increased operating expenses. The applicants thereupon stipulated that the altered conditions resulting from the transfer should never be used as the basis for a request for an increase in rates, and that if ~~xxx~~ application for an increase in rates is ever made, any possible increase in expense resulting from the transfer will not be urged or considered in justification for any such increase.

The only purpose of this application is to segregate the Pacific Building Company's water business from its other operations and the effect of the order in this proceeding must be limited to the end in view.

I submit herewith the following form of order:

O R D E R.

PACIFIC BUILDING COMPANY having filed its petition for an order authorizing it to transfer to FAIRMOUNT WATER COMPANY its entire water system and the property connected therewith in the city of East San Diego and the vicinity thereof, and Fairmount Water Company having applied for an order authorizing it to issue certain capital stock and bonds in payment therefor, and a public hearing having been held on such petition and the matter having been submitted and being now ready for decision,

IT IS HEREBY ORDERED AS FOLLOWS:

1. PACIFIC BUILDING COMPANY is hereby authorized to sell, convey and assign to FAIRMOUNT WATER COMPANY on the conditions specified in this order, its water system and property therewith in the city of East San Diego and in the vicinity thereof, more particularly described as follows:

Lots 37 and 38, in Block 49 of City Heights in the city of East San Diego, county of San Diego, State of California, according to the map of said City Heights on file in the Recorder's office of said county.

Also Lot 2 in Block "D" in Bungalow Park, in the city of East San Diego, county of San Diego, State of California, according to the map thereof on file in the Recorder's office of said county.

Also Lots 21 to 24, both inclusive, in Block 6 $\frac{1}{2}$ in City Heights Annex No. 1 in the city of East San Diego, county of San Diego, State of California, according to the map thereof on file in the Recorder's office of said county.

Also all the main pipe lines, laterals, towers, tanks, valves and fixtures of every kind and nature, together with all rights of way upon which the same are situated, and all easements and servitudes appurtenant thereto constituting the systems owned and operated by the Pacific Building Company for distributing water from

the Cuyamaca Water System and the city of San Diego, said distributing systems being shown on the plate marked Exhibit "B" and Exhibit "C" attached to the petition herein.

Also all the additions and improvements in said water system referred to in this Commission's order rendered on March 11, 1914, in Case No. 446, Brockmeier vs. Pacific Building Company, which additions and improvements Pacific Building Company is to construct and install at its own expense.

Also all the personal property of every kind and character used with and in the operations of said water system, including the items set forth in Exhibit "I", attached to the petition herein.

Also the right of Pacific Building Company to the delivery of water into its distributing systems under the following contracts, to-wit:

A contract entered into between San Diego Flume Company, a corporation, and the Columbian Realty Company, dated July 1, 1909, for the furnishing of water by said San Diego Flume Company to said Columbian Realty Company, a copy whereof is attached to the petition herein and marked Exhibit "D".

A contract entered into between Southern California Mountain Water Company and Pacific Building Company, dated March 24, 1911, for the furnishing of water by the former company to the latter company, a copy whereof is attached to the petition herein and marked Exhibit "F".

2. Fairmount Water Company is hereby authorized to issue in exchange for said property and rights 4590 shares of its capital stock of the total par value of \$45,900, and such further shares as may be equivalent in par value to the actual cost of the additions and improvements to be constructed and installed by Pacific Building Company as hereinbefore specified, but only on the following conditions and not otherwise, to-wit:

(a) Said sum of \$45,900 in stock is not established as the present value of said property and said sum shall not be taken before this Commission or any other public authority as representing

for the purpose of establishing rates or in eminent domain proceedings or for any other purpose, the present value of the property.

(b) The changed conditions resulting from the transfer hereby authorized shall never be urged before this Commission or any other public authority as a justification for or an argument in favor of increasing in any degree the rates to be charged for water by the owner or owners of said water system.

(c) The purpose of this order is simply to authorize the segregation of the Pacific Building Company's water system from its other property and the effect of the order shall not be held as against the consumers of water from this system to extend further than the end thus sought to be attained.

(d) Upon completion of said work to be performed by Pacific Building Company, the applicants herein shall report to this Commission the actual cost of said work, whereupon a supplemental order will be entered authorizing Fairmount Water Company to issue to Pacific Building Company such additional shares of its capital stock as may be proper on the basis of the actual value of the work performed.

(e) The applicants herein shall file with this Commission a certified copy of the deed of Pacific Building Company to Fairmount Water Company, when executed, and Fairmount Water Company shall report the fact of the issue of all stock hereby authorized and the terms of the issue.

(f) This order, in so far as it refers to the issue of stock amounting to \$45,900 by Fairmount Water Company, shall apply only to such stock as may be issued prior to June 30, 1914,

3. Fairmount Water Company, on compliance with the conditions hereinbefore specified, may enter into possession of said water system and operate the same as a public utility, subject to all the existing obligations of the system.

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 15th day of April, 1914.

H. H. Ireland

Ed. Gordon

Edwin O. Edgerton

Max Thelen

Commissioners.