

ORIGINAL

Decision No. 16713

Decision No.

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of)
NAPA CITY WATER COMPANY for an order)
authorizing the issue of bonds of)
the face value of \$20,000.)

Application No. 1211.

In the Matter of the Application of)
NAPA CITY WATER COMPANY for an order)
authorizing the issue of bonds of)
the face value of \$10,000.)

Application No. 1212.

H. L. Johnston for Napa City Water Company.

THELEN, Commissioner.

O P I N I O N .

These are two applications for an order authorizing Napa City Water Company to issue bonds of the face value of \$30,000, for the purposes hereinafter indicated. These proceedings have been consolidated for hearing and decision.

Napa City Water Company is a public utility water company supplying water to the City of Napa and the inhabitants thereof. The Company asks authority to issue, at full face value, its bonds of the face value of \$30,000 as follows:

1. Bonds of the face value of \$10,000 to be issued in lieu of bonds of the same face value issued without this Commission's authority in September and October, 1912.

2. Bonds of the face value of \$10,000, the proceeds thereof to be used in part to pay two certain promissory notes aggregating \$8,250, and in part to liquidate indebtedness of applicant for the purchase of meters.

3. Bonds of the face value of \$10,000, the proceeds thereof to be used in part for the construction of an extension of applicant's water system to Alta Heights in Napa, and in part for the purchase of meters.

In September and October, 1912, applicant issued and sold at full face value \$10,000 of its bonds, and used the proceeds in part payment for the acquisition and construction of its Jefferson Street pumping plant, also known as Plant No. 2. These bonds were issued without any intention to violate the Public Utilities Act and without a knowledge of the provisions thereof. The entire proceeds of the bonds were used for purposes which are properly chargeable to capital account, and I recommend that applicant be authorized to issue its bonds of the face value of \$10,000 in lieu of the bonds illegally issued, which latter bonds must be called in.

The proceeds of the second issue of \$10,000, hereinbefore referred to, are to be used in part to pay note for \$4,250 in favor of E. W. Churchill, dated March 20, 1914, payable one day after date, interest at 7% per annum, and also note for \$4,000 in favor of C. M. Smith, dated March 20, 1914, likewise payable one day after date with interest at the rate of 7% per annum. Notes in these amounts were originally given to represent money borrowed to complete the installation of the Jefferson Street pumping plant, hereinbefore referred to. Their proceeds were thus used for purposes which are properly capitalizable. It is now proposed to substitute bonds bearing interest at the rate of 5% per annum for these notes bearing interest at the rate of 7% per annum. The remaining portion of the proceeds from this issue of bonds of the face value of \$10,000 is to be applied on account of applicant's indebtedness accruing from the purchase of meters. Applicant is metering its water customers in the City of Napa at the rate of about 50 per month, and has now metered about 45% of its customers. The meters used are the Trident 5/8th inch meters, which meters cost \$8.60 each delivered in Napa. Applicant has been paying the sum of \$250 per month on meter account but now owes some \$3,000 on this account, which sum applicant desires to pay, in so far as possible, from the proceeds of this second issue of \$10,000 of bonds.

The proceeds from the third issue of \$10,000 of bonds, hereinbefore referred to, are to be used in part to re-imburse applicant in the matter of its extension to Alta Heights, and the remaining portion of the proceeds are to be used on meter account. For further details in the matter of the Alta Heights Extension, see this Commission's decision No. 1550, rendered on May 28, 1914, in Case No. 575, City of Napa vs. Theodore A. Bell and Napa City Water Company. Applicant asks authority to issue these bonds for the purpose of constructing the extension to Alta Heights, which was ordered in this Commission's said decision No. 1550. One bond of the face value of \$500 is to be issued to Theodore A. Bell in exchange for his distributing system in Alta Heights, and sufficient of the remaining bonds are to be sold so as to re-imburse applicant for the cost of purchasing materials and installing pipe line to Alta Heights. An estimate of cost, attached to the petition in Application No. 1212, would seem to show that this work will cost about \$8,214.23. The estimate may run a little over this amount for the reason that the digging of trenches has proved harder than was anticipated. The remaining portion of the proceeds of this issue of \$10,000 is to be used to pay existing indebtedness for meters and the purchase of meters hereafter.

Napa City Water Company has an authorized issue of capital stock amounting to \$250,000, whereof 8,852 shares of the total par value of \$221,300 have been issued.

The Company has authorized an issue of 5% gold bonds of the face value of \$100,000, secured by deed of trust dated January 1, 1910, to Bank of Napa. Of the bonds so authorized, bonds of the face value of \$47,500 have been issued, whereof bonds of the face value of \$3,000 have been redeemed, leaving a total face value of \$44,500 of bonds now outstanding.

Applicant's other indebtedness consists of about \$3,000 due on the purchase of meters and some \$900 due on open account for current expenses.

Applicant has recently completed an inventory of its property together with an estimate of depreciated reproduction value thereof. The total estimate for tangible property is \$267,450 and for intangible \$47,800, whereof \$30,000 is for water rights and \$17,800 for going concern value.

Without going into the details of this estimate and without reaching a conclusion which will in any way bind this Commission with reference to the true value of this property, I am convinced from the evidence introduced at the hearing that there is ample margin between the true value of the property and the bonds now outstanding together with those which it is now proposed to issue. With reference to the ability of applicant to pay interest and sinking fund obligations in connection with the new bonds, as well as those already outstanding, applicant's secretary testified that the gross revenue for the year ending December 31, 1913, was \$37,013.87 and that the gross operating expenses were \$21,723.15. This would leave a balance of \$15,290.72 for interest on outstanding obligations, depreciation and return on investment. While applicant's trust deed makes no provision for a sinking fund, applicant has of its own accord set aside each month for the purpose of buying in outstanding bonds, one cent for each share of outstanding stock, amounting to \$88.52 per month. Applicant has never set aside a fund for depreciation but is now seeking advice from engineers as to the proper sum to be thus set aside. I am satisfied on the showing made that applicant's net earnings are such as to justify the belief that applicant will be able to meet the interest and sinking fund obligations on all its outstanding bonds in case the order herein asked for is made.

Napa City Water Company expects to sell at full face value the bonds as to which this Commission's authority is now requested. All the Company's outstanding bonds have hitherto been sold at par.

In Application No. 1212, Napa City Water Company asks this Commission to make an order authorizing the Company to charge

a minimum meter rate of \$1.50 per month per consumer in Alta Heights until at least fifty consumers are served from the proposed extension, the rate for water apart from the minimum to be the same as may from time to time apply to other portions of the City of Napa. The authority so requested has already been granted in this Commission's said order of May 28, 1914, in Case No. 575, and it is unnecessary to issue another order covering the same ground. The Company also asks authority to make a charge of \$2.50 per month for three certain fire hydrants to be installed by the City of Napa in Alta Heights, until at least fifty consumers are served from the proposed extension. This is a matter which is not properly a part of a bond application and will be taken up separately with the City of Napa.

I find that the purposes for which the proceeds of the bonds herein applied for are to be used are not in whole or in part reasonably chargeable to operating expenses or to income, and recommend that the applications be granted as specified in the order herein.

I submit herewith the following form of order:

O R D E R .

NAPA CITY WATER COMPANY having applied to the Railroad Commission for an order authorizing the issue of its bonds of the face value of \$30,000 for the purposes hereinafter specified, said bonds to be payable on the 1st day of January, 1930, or at any time after the 1st day of January, 1915, at the option of the Board of Directors of Napa City Water Company, and to bear interest at the rate of 5% per annum, payable semi-annually, and secured by a trust deed or mortgage upon all the property of the Company, and the Commission finding that the purposes for which the proceeds of these bonds are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that the Railroad Commission of the State of California hereby authorizes the issue by Napa City Water Company of \$30,000 face value of bonds of said Company, maturing the first day of January, 1930, or at any time after the first day of January, 1915, at the option of the Board of Directors of Napa City Water Company, and to bear interest at the rate of 5% per annum, payable semi-annually, under and in pursuance of the terms of the trust deed or mortgage heretofore and on the first day of January, 1910, made and executed by said Napa City Water Company to Bank of Napa, as trustee, upon the following conditions, and not otherwise, to-wit:

1. Napa City Water Company shall issue the bonds hereby authorized at their face value together with interest accrued thereon;

2. Napa City Water Company shall issue said bonds for the following purposes, and not otherwise, to-wit:

(a) \$10,000 face value of said bonds may be issued in lieu of bonds of an equivalent face amount heretofore in September and October, 1912, issued by Napa City Water Company without the prior authorization of the Railroad Commission, but only on condition that said bonds so purported to be issued in September and October, 1912, shall first be called in by Napa City Water Company.

(b) \$10,000 face value of said bonds may be issued and the proceeds thereof used as follows:

(1) To pay off note for \$4,250 in favor of E. W. Churchill, dated March 20, 1914, payable one day after date, interest 7% per annum - bonds not to exceed the face value of \$4,250.

(2) To pay off note for \$4,000 in favor of C. M. Smith, dated March 20, 1914, payable one day after date, interest 7% per annum - bonds not to exceed the face value of \$4,000.

(3) To pay indebtedness on meter account - bonds not to exceed the face value of \$1,750.

(c) \$10,000 face value of bonds may be issued and the proceeds thereof applied as follows:

(1) One bond of the face value of \$500.00 may be issued to Theodore A. Bell in payment for his water distributing system in Alta Heights.

(2) The proceeds from the remaining bonds of the face value of \$9,500 may be used, in so far as necessary, to pay for the proposed extension to Alta Heights and the remaining proceeds may be used to purchase meters.

3. Napa City Water Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the bonds hereby authorized to be issued, and on or before the 25th day of each month the Company shall make a verified report to the Railroad Commission stating the sale or sales of said bonds during the previous month, the terms and conditions of sale, the moneys realized therefrom, and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

4. The authority hereby given to issue bonds shall apply only to such bonds as may have been issued on or before July 1, 1915.

5. The authority hereby given to issue bonds shall not become effective until applicant has paid the fee specified in Section 57, as amended, of the Public Utilities Act.

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 16th day
of July, 1914.

Railroad Commission State of California

Fee \$ 30.00

JUL 20 1914

BY A. G. Mathewson
Assistant Secretary.

H. B. Ireland
W. J. Gordon
Max Shelton

Commissioners.