

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 1735

Application of Riverbank Water
Company for authority to issue
stock.

Application No. 1239

Application of Riverbank Water
Company for a certificate of
public convenience and necessi-
ty to operate a water system in
Hughson, Stanislaus County.

Application No. 1239

Application of Hughson Water
Company to sell its water sys-
tem to Riverbank Water Company.

Application No. 1239

GORDON, Commissioner.

W. S. Hobart, for Riverbank Water Co.
C. L. Flack, for Hughson Water Co.

O P I N I O N

This is an application by Riverbank Water Company for authority to issue 80,000 shares of stock of the par value of \$1 per share, for the purpose of paying for additions and betterments to its water system at Riverbank, Stanislaus County, for purchasing the property of the Hughson Water Company at Hughson, Stanislaus County, and for the purpose of enlarging the water plant at Hughson.

Applicant was organized on October 11, 1911 for the purpose of serving water to the unincorporated town of Riverbank. Applicant's petition states that it has an outstanding issue of stock composed of 20,000 shares of the par value of \$1 each. At the hearing it developed, however, that applicant had legally issued 6,002 shares of its stock and had improperly issued, without the approval of this Commission, 13,998 shares. It appears, however, that these 13,998 shares were issued in ignorance of the provisions of the Public Utilities Act and with no wilful intent to violate ^{its} provisions.

The stock of this company is chiefly held by Mr. C. L. Flack, Mr. J. W. Walker and Mr. R. W. Hobart. They control this water company in connection with extensive land enterprises in Riverbank and vicinity.

The applicant states that the 20,000 shares of stock were sold at par, or \$1 per share. The applicant also states that it has a floating indebtedness of \$41,712.68, consisting of notes payable in the sum of \$17,500 and accounts payable in the sum of \$24,212.68.

The petition asks specifically for authority to sell the 80,000 shares of stock at par and to use the proceeds for the following purposes:

Acquisition of water plant at Hughson, Stanislaus County,	\$6,000
For general improvements, additions and betterments to Hughson plant,	15,000
For additions to Riverbank system,	6,500
For general improvements,	12,500
For payment of notes and accounts payable,	<u>40,000</u>
Total,	\$80,000

It appears that the water plant at Hughson is owned by Mr. C. L. Flack, who is also one of the chief stockholders of Riverbank Water Company. The testimony indicates that approximately \$3,000 was expended on the Hughson system. The applicant proposes to pay \$6,000 for this property. It is the intention of Riverbank Water Company to discard nearly all of this property and to put in a new system. The salvage value of the Hughson property is estimated at about \$2,000 and I believe that a stock issue for its purchase would not be justified in greater amount.

It appears that the system to be installed at Hughson is somewhat larger than the size of the town now demands. I shall therefore recommend that instead of \$15,000 as applied for, the sum of \$10,000 be used for this purpose. If this should be found

to be insufficient, or if the growth of Hughson should make an additional sum desirable, this Commission will entertain an application for a further stock issue to enlarge the Hughson system.

The proposed improvements in the sum of \$6,500 at Riverbank are desirable and this is a proper amount to be expended. I shall recommend that a stock issue for this sum be authorized for this purpose.

The general improvements of \$12,500 may wait further presentation when the necessity arises for the expenditures involved.

Applicant's request to issue stock in the sum of \$40,000 to refund obligations requires some detailed consideration. These obligations are made up of notes payable in the sum of \$17,500 and accounts payable in the sum of \$24,212.68.

Of the notes payable, the sum of \$2,500 is due the First National Bank of Riverbank. It is proper that stock be sold to liquidate this indebtedness which was incurred for proper capital purposes. The remaining portion of the notes payable in the sum of \$15,000 represents a note given by Riverbank Water Company to Riverbank Land Company for a parcel of land on which the well and pumping plant belonging to Riverbank Water Company are situated. This land was transferred upon the organization of the water company in 1911, and as the control of the land company and the water company rested in the same hands, the price of \$15,000 was arbitrarily determined. While the records do not establish exactly the value of this parcel of land at the time of the transfer, I shall, for the purposes of the present issue, hold that the transfer of 1,000 shares of stock, or in lieu thereof \$1,000, will satisfy this claim of \$15,000 held by the land company.

This water company was formed by the persons in control of the land company for the purpose of benefiting the land company, and the transfer of this parcel of real estate could properly have been made to the water company at cost. I think it is clear that

it cost the land company less than the sum allotted of \$1,000.

The accounts payable in the sum of \$24,212.68 are due to Mr. R. W. Hobart, Mr. C. L. Flack and Mr. J. W. Walker, the chief stockholders of the applicant, and to the Riverbank Land Company, also controlled by Mr. Hobart, Mr. Flack and Mr. Walker. I find there is included in this sum as accounts payable, \$10,000 representing an estimated value of the franchise; \$5,750, representing one year's salaries to Mr. Hobart, Mr. Flack and Mr. Walker; and \$3,642.47, representing money expended for operating expenses. The franchise cost \$151 and this cost is cared for elsewhere. I find no warrant for the salaries of \$3,750 allowed for Mr. Hobart, Mr. Flack and Mr. Walker, in view of the fact that this company's gross income for the year 1913 was only \$9,346. The sum due for operating expenses should properly be deducted. These deductions, amounting to \$17,392.47, leave a balance as accounts payable of \$6,820.21.

We therefore have as representing properly the cost of the Riverbank system:

Proceeds from sale of 20,000 shares of stock at par,	\$20,000.00
Proceeds from note held by First National Bank of Riverbank,	2,500.00
Approximate cost of land transferred by Riverbank Land Company to Riverbank Water Company for well, pumphouse, etc., not to exceed	1,000.00
Accounts payable incurred for additions and betterments	<u>6,820.21</u>
Total,	\$30,320.21

I desire to call attention to the fact that this determination of approximate cost is but slightly under the appraisement of Mr. C. H. Loveland as made for the Commission, and as offered in testimony at the hearing in the sum of \$31,731. Mr. Loveland estimated the "present value" of this system to be \$28,754.

I recommend that an issue of stock be authorized as against this item, amounting to \$31,500.

We therefore have the following summary:

Stock issue as against approximate cost of Riverbank Water Company system,	\$31,500
Stock for acquisition of Hughson Water Company system,	2,000
Stock for improvements at Hughson,	10,000
Stock for additions and betterments at Riverbank,	<u>6,500</u>
Total,	\$50,000

I recommend, therefore, that the applicant be authorized to issue sufficient stock in addition to the stock heretofore issued for the purposes aforesaid to bring its total issue of stock to \$50,000. As the applicant has already issued \$6,002 of stock, the present authorization will be for \$43,998, represented by 43,998 shares of stock.

Riverbank Water Company has applied to the supervisors of Stanislaus County for a franchise to operate in Hughson. It appears that Hughson Water Company is now operating without a franchise. It is clear that Riverbank Water Company will give improved service and I find, therefore, that public convenience and necessity requires or will require that Riverbank Water Company exercise the rights or privileges which may be conferred by such franchise as may be granted by the supervisors of Stanislaus County when said franchise shall have been approved in a formal order by this Commission.

I find also that public convenience and necessity will be served by the sale of Hughson Water Company's plant at Hughson to Riverbank Water Company.

I have not gone into the question of the applicant's rates. I find that Riverbank Water Company is serving 285,000 gallons of water per day to the Santa Fe Railway and approximately 100,000 gallons per day to other patrons. The Santa Fe Railway

pays 6 cents per thousand gallons and the other consumers are largely on a flat rate basis. The supply of water appears to be ample for all purposes in Riverbank. The improvements at Hughson include a new well designed to give complete and ample service in Hughson.

Affirming my conclusions as above, I find as a fact that public convenience and necessity require or will require the exercise by Riverbank Water Company of rights and privileges conferred by such franchise as may be granted by the County of Stanislaus to sell water at Hughson, Stanislaus County, when said franchise shall have been approved in a supplemental order by this Commission.

I therefore recommend the following form of order:

O R D E R

Riverbank Water Company having applied to this Commission for a certificate that public convenience and necessity require the exercise of such right or privilege as may be granted to Riverbank Water Company by the authorities of Stanislaus County to operate a water system at Hughson, it is hereby found as a fact that public convenience and necessity require and will require the exercise by Riverbank Water Company of such rights or privileges as may be granted by a franchise from Stanislaus County to operate a water system at Hughson, Stanislaus County, when such franchise shall have been approved in a supplemental order by this Commission;

And Hughson Water Company having applied to this Commission for authority to sell its water plant at Hughson, Stanislaus County, to Riverbank Water Company;

IT IS HEREBY ORDERED that Hughson Water Company be given authority and it is hereby given authority to sell all of its property in Hughson to Riverbank Water Company, and

Riverbank Water Company having applied to this Commission for authority to issue 80,000 shares of its capital stock, and a public

hearing having been held and it appearing that the purposes for which the applicant herein proposes to issue 43,998 shares of said stock are not in whole or in part chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that Riverbank Water Company be given authority to issue 43,998 shares of its capital stock of the par value of \$1 per share.

The authority herein given to sell such stock is given upon the following conditions and not otherwise:

(1) Such stock as may be sold for cash shall be sold so as to net the applicant not less than the par value thereof.

(2) 13,998 shares of said stock shall be issued to the following parties in the amounts designated in lieu of stock in similar amounts illegally issued when said stock illegally issued shall have been returned to applicant's treasury and canceled:

A. C. Kohlman,.....	1 share
C. L. Flack	6,665-2/3 shares
J. W. Walker,	3,665-2/3 shares
R. W. Hobart,	<u>3,665-2/3</u> shares

Total,13,998 shares.

The remaining 30,000 shares of stock herein authorized to be issued shall be used for the following purposes and not otherwise:

For the acquisition of all the property of the Hughson Water Company, \$2,000.00

For additions and betterments and improvements of the water property at Hughson in the sum of 10,000.00

For additions and betterments to the properties of Riverbank Water Company at Riverbank, in accordance with details and specifications filed with this Commission in the application herein, 6,500.00

For the complete cancellation of applicant's notes payable in the sum of 17,500.00

For the complete cancellation of applicant's accounts payable in the sum of 24,212.68

(3) None of the shares of stock herein authorized to be issued shall be issued unless all of the shares of stock herein authorized shall be issued for the purposes as specified in this order, it being the intention that such adjustments will be made by the applicant with its chief stockholders and Riverbank Land Company, that the issue of the stock herein authorized will provide for the acquisition of the water plant at Hughson; the expenditure of \$10,000 for additions and betterments and improvements on the water plant at Hughson; the expenditure of \$6,500 for additions and betterments to the water system at Riverbank, and for the complete discharge of applicant's notes payable in the sum of \$17,500 and its accounts payable in the sum of \$24,212.68.

(4) Riverbank Water Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock hereby authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Commission stating the sale or sales of said stock during the preceding month, the terms and conditions of the 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.

(5) The authority herein given shall apply to such stock as shall have been issued on or before December 31, 1914.

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 14th day
of August, 1914.

Max Thelen

Max Thelen

Edwin C. Edgerton

Commissioners.