

Decision No. 178

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of COALINGA CONSOLIDATED WATER COMPANY for an Order Authorizing the Issue of Bonds of the Face Value of \$100,000 and the Execution of Trust Deed to secure the same.

Application No. 151.

Decision No. 178

O P I N I O N.

THELEN, Commissioner.

This is an application of Coalinga Consolidated Water Company for an order of this Commission authorizing an issue of bonds of the face value of \$100,000, which bonds are to be exchanged for an issue of \$100,000, face value, now outstanding.

The applicant was incorporated in 1903 and at that time consolidated the Coalinga Water Company and The Coast Range Water Company, its only rival. It pumps water from seven wells located upon the Northwest 1/4 of the Northeast 1/4 of the Southwest 1/4 of Section 16, Township 20 South, Range 15 East, M.D.B. & M., about three and one half miles north of the city of Coalinga and supplies water to some thirty consumers, mostly oil companies, in the eastern portion of the Coalinga oil fields. It also supplies water to the Pleasant Valley Water Company, which company supplies the city of Coalinga. Applicant receives from the Pleasant Valley Water Company as payment for this water one half of the latter company's gross receipts. Applicant's property consists of nearly thirty miles of water pipe lines in the oil fields, ranging from two to six inches in diameter, ten acres of land on which its steam plant, water wells, and pumping machinery are located, boilers, pumps and machinery, certain water rights and 20,411 shares out of a total of 33,394 1/2 shares of the issued capital stock of the Pleasant Valley Water Company. The latter company owns a distributing system for water in the city of Coalinga, a water main to connect with applicant's plant

in the oil fields and also a distilling plant and a pipe line connected therewith. A verified report filed with this Commission by the Pleasant Valley Water Company as of December 31, 1911, states that the value of the distribution tanks, mains, valves, meters, boxes, real estate and improvements amounts to----- \$70,076.76. with liabilities outstanding amounting to----- 12,652.30. The same report shows a gross operating revenue for thirty months of----- 70,986.79. with operating expense for the same period of----- 52,640.44. leaving a total operating income for the 30 months of \$18,346.35. Adding to this amount the sum of \$270 from stock dividends in other companies and subtracting interest paid during the same period amounting to \$1901.64, and a miscellaneous expense of----- 1729.17, the net income for the 30 months is reported as----- \$14,985.54, all of which was spent for betterments and improvements.

Coalinga Consolidated Water Company also made a report, not verified, showing its condition as of December 31, 1911, but it is impossible to derive from this report an accurate idea of applicant's financial condition. The report shows an item of "Plant---\$250,000," but this item is obviously inserted to balance a corresponding item of "Capital Stock---\$250,000." Mr. J. L. Chaddock, the President of applicant, testified to a value of \$95,000 for the physical plant, exclusive of the Pleasant Valley Water Company's stock and not assigning any value to applicant's water rights. Of this amount \$10,000 is for applicant's real estate and the remaining amount represents an appraised value of the plants of the consolidated companies of \$30,000 on March 5, 1905, then adding the amounts spent for betterments and subtracting an estimated depreciation. Most of the money spent for betterments has come from earnings. The report gives the Pleasant Valley Water Company's stock as having a value of \$23,843.50, this being the actual cost to applicant. It is obvious, however, that if the Pleasant Valley Water Company's report

to this Commission represents accurately its condition, the real value of applicant's interest in that company is larger than the amount stated. Basing my opinion solely on the evidence submitted on this application, I am of the opinion that the value of applicant's physical property plus its interest in the Pleasant Valley Water Company, was on December 31, 1911, somewhere in the neighborhood of \$130,000.

Applicant's total authorized capital stock is \$250,000, consisting of 250,000 shares of the par value of \$1.00 each, all of which shares have been issued. No relation exists between the capital stock and the real value of the property, which is considerably less. Applicant has outstanding 200 bonds of the total face value of \$100,000, issued January 1st, 1911, bearing interest at the rate of six (6) per cent per annum and maturing on January 1st, 1921. By the terms of the trust deed, bonds of the face value of \$12,500 are to be retired on or before January 1st, 1914, and on or before the 1st day of January of each year thereafter up to and including January 1st, 1921, the bonds to be retired to be determined by lot. These bonds were delivered to J. L. Chaddock and W. E. Stenger in return for moneys advanced and services rendered and also as representing accrued income for five years, and the testimony shows that they are supposed to represent the value of the plant and the holdings in the Pleasant Valley Water Company in excess of the sum of \$30,000, which was the appraised value of the property of the Coalinga Water Company and The Coast Range Water Company at the time of their consolidation into the Coalinga Consolidated Water Company. It is now proposed to refund these bonds by a new issue of \$100,000, also bearing interest at six (6) per cent per annum, but becoming due serially in amounts of \$10,000 on July 1st, 1915 and on July 1st of each succeeding year until the final payment shall be made on July 1st, 1924. These bonds are to be secured by trust deed to the Title Insurance and Trust Company of Los Angeles, a copy of which proposed trust deed is attached to the application. The reason for

the proposed refunding is stated to be that it is difficult to dispose of bonds which are to be redeemed by lot and that the new issue will be more favorable to applicant in that the first retirement is to be on July 1st, 1915 instead of January 1st, 1914, and that the annual amount to be paid on principal is to be \$10,000 instead of \$12,500. The bonds now outstanding are held by E. A. Nickerson and the Superior Beet Sugar Corporation, who own over half of the capital stock and each of whom holds one half of the bonds. The bondholders are willing to make the exchange.

Applicant intends to pay the principal and interest of these new bonds, amounting at first to \$16,000 per year, out of earnings. As bearing on the question whether the earnings will be sufficient for that purpose, I wish to refer to the applicant's report to this Commission of its profit and loss account as of December 31, 1911. This report shows that the total income for the year was-----\$57,476.60 and that the total expenditure was----- 42,496.17 leaving a net profit of-----\$14,980.43

Mr. Chaddock, however, testified that the income as stated did not take account of the earnings of the Pleasant Valley Water Company, which were put back into the property in the form of betterments and additions. The expenditure includes an item of ---- \$13,714.48 for salary, the larger portion of which consists of salaries of \$500 per month paid to the president and to the vice-president, beginning June 1st, 1911. It follows that if the income for the succeeding years is to be the same as that for the year ending December 31, 1911, and if no dividend is declared by the Pleasant Valley Water Company, it will be necessary for applicant to make a saving somewhere in order to meet the payment of principal and interest on the bonds, and this saving would probably have to be made out of the salary account. The testimony is, that no salary was paid to the president and vice-president prior to 1911, but that since June 1st, 1911, a salary of \$500 per month has been paid to

the president and to the vice-president of the Company, who are among its principal stockholders, instead of declaring a dividend. The president of the Company testified that in case there were any difficulty as to the payment of the principal and interest of the bonds from the annual earnings, the salaries of the president and vice-president would be reduced in so far as necessary.

I find that it will be of advantage to applicant to substitute the proposed new bond issue for the one outstanding and that the rate paying public will assume no additional burden therefrom, and recommend that the application be granted, both as to the issue of the bonds and the execution of the trust agreement.

I submit herewith the following form of order:

O R D E R.

Application having been made to the Railroad Commission of the State of California by Coalinga Consolidated Water Company for an order authorizing the issue by said company of bonds in the amount of \$100,000, face value, said bonds to become due serially in the amount of \$10,000 each year, the first redemption to be made on July 1st, 1915, and subsequent redemptions in the amount of \$10,000 each to be made on July 1st of each succeeding year, up to and including the first day of July, 1924, and to bear interest at the rate of six (6) per cent per annum, payable semi-annually, and to be secured by a trust deed or mortgage upon all the property of the Company, and a hearing having duly been held upon said application, and it appearing to the Commission that the issue of said bonds and the execution of a trust deed ^{to} secure the same is reasonably required by said Company for the discharge and lawful refunding of its obligations, as hereinafter in greater detail specified, and that the purposes for which said bonds are to be issued are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

1. COALINGA CONSOLIDATED WATER COMPANY is hereby authorized to issue two hundred (200) bonds of the face value of five hundred (\$500) dollars each, bearing the numbers 1 to 200 inclusive, twenty (20) of which said bonds shall be due and payable on the first day of July 1915, and further successive amounts of twenty (20) bonds on the first day of July of each year thereafter up to and including the first day of July, 1924, to bear interest at six (6) per cent per annum, payable semi-annually, under and in pursuance of the terms of trust deed of which a draft is attached to application in this proceeding, and which said Coalinga Consolidated Water Company is hereby authorized to make and execute to Title Insurance and Trust Company, as trustee, subject to the conditions following, and not otherwise, to-wit:

(a) Said bonds shall be issued only in exchange for bonds of applicant's outstanding issue of \$100,000, the exchange to be made bond for bond, and none of the bonds hereby authorized nor said trust deed shall have any validity until all the present outstanding bonds have been exchanged for bonds of the issue hereby authorized and the present trust deed shall have been cancelled of record.

(b) Said bonds hereby authorized shall be applied only for the discharge or lawful refunding of the obligations of the applicant, evidenced by its said present outstanding bond issue in the amount of \$100,000, as hereinbefore specified.

2. Applicant shall keep a true record showing the disposition made of every bond hereby authorized to be issued and showing the receipt of the bonds for which said bonds hereby authorized are to be exchanged, and on or before the 25th day of each month until said exchange shall have been completed applicant shall make a verified report to this Commission, stating the disposition of such bonds during the preceding month and the receipt of bonds of the present outstanding issue in exchange therefor, and in this and all other respects applicant shall comply fully with the

Commission's order General Order No.24, which order, in so far as applicable, is made a part of this order.

3. The authority hereby given to issue bonds shall apply only to bonds issued by applicant prior to the 30th day of June, 1913.

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, 1912.

John M. Eshleman
H. L. ...
...
W. J. ...



Commissioners.