

Decision No. _____

ORIGINAL

Decision No. 2482

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the matter of the Application of
BAKERSFIELD WATER COMPANY
to obtain an order authorizing the is-
suanee of bonds for metering its
system, and taking up certain indebt-
edness.

Application No. 1662.

E.L. Foster for applicant.

LOVELAND, Commissioner.

OPINION.

This is an application as modified by applicant at a hearing held at Bakersfield May 19, 1915, for an order authorizing it to issue and sell its second mortgage 10 year 6 per cent. serial bonds to the face value of \$25,000.00 at not less than 90 and accrued interest.

In the application filed with the Commission, applicant asks for authority to use the proceeds to be obtained from the sale of the bonds to pay a note amounting to \$8,000.00 in favor of First Bank of Kern and to pay the cost incurred by metering its water system. The evidence shows that \$2,940.90 secured through the issuance of the \$8,000.00 note in question was used to pay power bills due to Bakersfield Gas and Electric Company. The amount so paid Bakersfield Gas and Electric Company is an operating expense and therefore not capitalizable. Upon having their attention called to this fact, both Mr. Fairfax Williams, Secretary of Bakersfield Water Company, and Mr. E.L. Foster, counsel for applicant, requested that the company be permitted to use the proceeds to be obtained from the

sale of the bonds for the following purposes:

- 1.- To meter the system estimated cost about. . . \$14,000.00
 - 2.- To pay part of First Bank of Kern's note,
that portion of it for Frolich bills
for cast iron pipe, 5,059.10
 - 3.- To pay balance cost Plant #4, 4,591.29
- Total, \$23,650.39

Applicant estimates the cost of metering its system as follows:

Cost of 1,400 meters at \$7.10
per meter, \$9,940.

Cost of installing 1,400 meters
at \$2.90 per meter, 4,060.

Total Cost, \$14,000.

Bakersfield Water Company also asks for an order from this Commission compelling it to meter its water system. I am of the opinion that the metering of this water system is for the best interests of the water consumers and utility. While in Decision No. 2266 in re Case No. 713, this Commission suggested that this utility meter its system as rapidly as its financial condition permitted it to do so and suggested a means whereby the consumers might cooperate to bring about such result, that decision does not contemplate that the question of meters should be left to the consumers to determine. I am of the opinion that the management of Bakersfield Water Company can meter its system without the order of this Commission, except if such improvement involves the issuance of stocks, bonds or other evidences of indebtedness.

For the foregoing reasons I dismiss this part of the application without prejudice.

Bakersfield Water Company has an authorized bond issue of \$50,000.00 First Mortgage Six Per Cent. Serial Gold Bonds. The bonds are dated July 1, 1912 and mature as follows:

| <u>No. of Bonds</u> | <u>Par Value</u> | <u>Date Due</u> |
|-------------------------|------------------|-----------------|
| 1 to 5 both inclusive | \$5,000 | July 1, 1913 |
| 6 to 10 both inclusive | 5,000 | July 1, 1914 |
| 11 to 15 both inclusive | 5,000 | July 1, 1915 |
| 16 to 20 both inclusive | 5,000 | July 1, 1916 |
| 21 to 25 both inclusive | 5,000 | July 1, 1917 |
| 26 to 30 both inclusive | 5,000 | July 1, 1918 |
| 31 to 35 both inclusive | 5,000 | July 1, 1919 |
| 36 to 40 both inclusive | 5,000 | July 1, 1920 |
| 41 to 45 both inclusive | 5,000 | July 1, 1921 |
| 46 to 50 both inclusive | 5,000 | July 1, 1922 |

The applicant reports that bonds numbered from one to ten inclusive have been redeemed and cancelled. Funds to retire these bonds have been obtained by drawing upon the depreciation reserve.

The annual report for the year ended December 31, 1913, shows \$6,140.11, and the annual report for the year ended December 31, 1914, \$6,311.38 deducted from income and included in operating expenses because of depreciation. Of the \$12,451.49 thus deducted from income, the applicant reports that the sum of \$10,000.00 has been used to retire bonds. While it is to the interest of the utility to reduce its fixed charges, such reduction should be achieved through the appropriation of surplus or through refunding operations rather than through the appropriation of a depreciation reserve.

To date applicant has not submitted for approval a copy of the Deed of Trust securing the payment of the \$25,000.00 face value, ten year, six per cent. serial bonds which it proposes to issue and sell. Without such instrument at hand, the Commission can not at this time issue a final order in this proceeding. In this connection, I call applicant's attention to the fact that if the bonds were sold at 90 it would have to pay interest varying from approximately 7-3/8 per cent. to 16 per cent; depending on the maturity of the bonds. In view of the high interest rate, I shall not determine the minimum price at which the bonds may be sold until after applicant has submitted for ap-

proval its deed of trust; and definite and specific information as to the price at which it can sell its bonds.

Bakersfield Water Company reports as at December 31, 1914, assets and liabilities as follows:

ASSETS:

| | |
|-----------------------------------|-----------------|
| Fixed Capital, | \$129,772.58 |
| Cash and Deposits, | 1,433.70 |
| Accounts Receivable, | 760.68 |
| Interest Receivable, | 72.73 |
| Materials and Supplies, | 2,194.52 |
| Deficit, | <u>1,151.53</u> |
| TOTAL ASSETS, | \$135,385.74 |

LIABILITIES:

| | |
|---------------------------------------------|---------------|
| Capital Stock Outstanding, | \$ 60,000.00 |
| Funded Debt Outstanding, | 40,000.00 |
| Notes Payable, | 8,218.85 |
| Accounts Payable, | 9,964.02 |
| Taxes Accrued, | 302.10 |
| Reserve for Accrued Depreciation, | 16,452.87 |
| Reserves from income or surplus, | <u>467.90</u> |
| TOTAL LIABILITIES, | \$135,385.74 |

Bakersfield Water Company reports for years ended December 31, 1913 and December 31, 1914, earnings and expenses as follows:

| <u>Item</u> | <u>1913</u> | <u>1914</u> |
|----------------------------------------------------------|-------------------|-------------------|
| Operating Revenues, | \$26,338.00 | \$28,622.07 |
| Operating Expenses, | <u>21,813.55</u> | <u>24,911.07</u> |
| Net Operating Revenue, | \$4,524.45 | \$3,711.00 |
| Other Income, | 145.44 | 72.73 |
| Gross Corporate Income, | \$4,669.89 | \$3,783.73 |
| <u>Deductions:</u> | | |
| Interest on Funded Debt, | \$2,850.00 | \$2,550.00 |
| Other Interest Deductions, | -- | 639.51 |
| Rent, | -- | 211.60 |
| Amortization of Debt Discount and Expenses, | -- | <u>253.85</u> |
| Total Deductions, | <u>\$2,850.00</u> | <u>\$3,654.96</u> |
| Surplus for Year, | 1,819.89 | 128.77 |
| <u>Surplus Account:</u> | | |
| Surplus beginning of Year, | \$2,896.44* | \$1,076.58* |
| Additions, | 1,819.89 | 128.77 |
| Deductions, | -- | 203.75 |
| Surplus end of Year, | 1,076.55 | 1,151.53* |

*Deficit

I submit herewith the following form of Order:

O R D E R.

BAKERSFIELD WATER COMPANY having applied to the Railroad Commission of the State of California for an order authorizing it to issue Second Mortgage Ten Year Six Per Cent. Serial bonds to the face value of \$25,000.00 and a public hearing having been held and it appearing to the Commission that the purposes for which applicant desires to expend the proceeds to be obtained from the sale of the bonds are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that BAKERSFIELD WATER COMPANY be given authority and it is hereby given authority to issue and sell its second mortgage bonds to the face value of \$25,000.00.

The authority herein given is given upon the following conditions and not otherwise:

(1).- No bonds shall ^{be} issued until this Commission has issued a supplemental order, fixing the minimum price at which the bonds herein authorized may be sold.

(2).- The proceeds obtained from the sale of the bonds shall be used for the following purposes and not otherwise:

(a). To meter the system estimated cost about, -\$14,000.00

(b). To pay part of First Bank of Kern's note, that portion of it for Frolich bills for cast iron pipe, - 5,059.10

(c). To pay balance cost Plant #4, - 4,591.29

Total, \$23,650.39

(3). No bonds shall be issued by Bakersfield Water Company until this Commission has approved the Deed of Trust securing the payment of the second mortgage bonds herein authorized to be sold.

- (4). No part of the proceeds to be obtained from the sale of the bonds herein authorized shall be used to pay the balance due on Plant Number Four, until applicant shall have submitted to this Commission for approval, a statement showing to whom such payments are to be made and the amount due to each party.
- (5). Bakersfield 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 twenty-fifth day of each month the company shall make verified reports to the Commission stating the sale or sales of said bonds 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.
- (6). The authority herein granted shall apply only to such bonds as may be issued and sold on or before February 1, 1916.
- (7). The authority herein granted is conditioned upon the payment by the applicant of the fee prescribed under the Public Utilities Act.

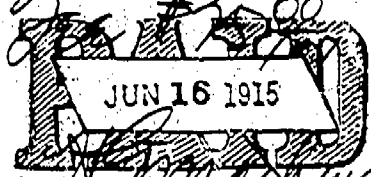
The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 14th day of June, 1915.

Max Thelen
H. Leonard
Edwin C. Edgerton
Frank R. Dyer

Commissioners.

Railroad Commission State of California



JUN 16 1915

Assistant Secretary.