

Decision No. _____

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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Decision No. 2561

In the Matter of the Application)
of AUGUST OIL COMPANY to purchase)
from Californian Amalgamated Oil)
Company, Limited, certain property)
and to secure the purchase price)
thereof with notes and a mortgage.)

Application No. 1585

F. A. Homan, for applicants.

EDGERTON, Commissioner.

O P I N I O N

This is an application of August Oil Company to purchase certain water utility property in Kern County from Californian Amalgamated Oil Company, Limited.

August Oil Company was organized April 2, 1910 for the purpose of producing oil in the West Side Oil Fields of Kern County. To date it has failed to secure oil in paying quantities but has developed considerable water which it sells in the oil fields about Maricopa for boiler purposes.

In December 1914 the Company had forty-two consumers.

The property which the August Oil Company wishes to acquire consists of a transmission main and branches approximately 15 miles in length, located in the Midway Field, and a lease to approximately 80 acres of land on which are located two

wells, a pumping plant, tanks and other equipment. The land covered by the above lease belongs to the Pioneer Midway Oil Company. Under date of April 27, 1910, it was leased for a period of twenty-years to July Consolidated Oil Company, who in turn assigned the lease on June 24, 1911 to Californian Amalgamated Oil Company, Limited. The latter company drilled an oil well on the property to a depth of 1251 feet. No oil was struck and no further drilling for oil was done. A supply of water was developed, however, and the lessees drilled another well, expressly for water, nearby. With the securing of a supply of water the Californian Company erected a pumping plant and tanks, laid mains and entered the field as a purveyor of water for boiler purposes. The pumping station has not been operated since October 1914, owing to decreased consumption of water in the oil fields.

The lease to this property provides in part as follows:-

"The party of the second part agrees to take immediate possession of said land and to commence actual operations thereon of drilling a well on some portion of said land within a period of sixty days from the date hereof and to prosecute the drilling of said well in a reasonably diligent and business-like manner and continuously as is customary until said well has been drilled to a depth of 5,000 feet, unless oil is discovered in paying quantities at a lesser depth.....The lessee further covenants and agrees that it will within 60 days, after the completion of the first well, begin the actual drilling of the second well on said premises, and will within the same period of time, after the completion of the second well, begin the drilling of a third well on said premises and will, within 60 days after the completion of said third well, and each succeeding well, thereafter, actually begin the drilling of additional wells until 16 wells in all have been drilled on said premises."

It is further provided that if the lessee shall fail to do this work or shall under any circumstances suspend operations for a period of thirty days, the lease shall be forfeited and that all casing in wells, and all buildings, machinery, tanks and other improvements on the leased land shall become the

property of the lessors.

In view of these provisions, and the fact that only two wells have been drilled upon the property, the title which Californian Amalgamated Oil Company proposes to pass to August Oil Company ^{appears to be} open to serious question.

The price which August Oil Company proposes to pay for these properties is fixed at \$30,000.00, payable as follows:

\$5,000.00 down.

\$9,000.00 by assignment of a certain contract, payable one-half in six months and one half in twelve months.

\$1,500.00 in six months.

\$1,500.00 in twelve months.

\$1,000.00 per month after the expiration of twelve months until the entire amount of \$30,000.00 is paid.

Deferred payments are to bear interest at 6% per annum and are to be evidenced by notes secured by mortgages upon the property of August Oil Company, including the property which it proposes to purchase. August Oil Company claims that the present value of the property it now owns is \$216,536.00.

A valuation of the water utility properties of Californian Amalgamated Oil Company, Limited, made subsequent to the hearing by the Commission's Engineers discloses the fact that the present value of the plant and wells is approximately \$19,220. and of the pipe line approximately \$15,500 or a total of \$34,720.00. They report that the wells on the leased ground are badly in need of repair and cannot be used until expensive overhauling has taken place. The boilers and pumps are also reported to be in bad condition.

Inasmuch as August Oil Company represents in its application -

".....that it has an abundance of water, and more than it can use in the territory over which its lands now extend, and also has sufficient equipment to handle both its own property, and the property proposed to be bought from the Californian Amalgamated Oil Company; Limited,"

it is difficult to see wherein it will be greatly benefited by acquiring the pumping plant and wells of the Californian Amalgamated Oil Company particularly when the validity of the lease on which this property stands is open to question.

In view of these facts I am of the opinion that before this application can be granted by this Commission it will be necessary for August Oil Company to make a further showing as to the manner in which the public interest will be served by the granting of this application. I accordingly submit the following form of Order:

O R D E R

August Oil Company having applied to this Commission for authority to acquire certain water utility property and to issue notes and mortgage its property in payment therefor and a public hearing having been held and it appearing to this Commission that for the reasons set out in the foregoing Opinion said application should be dismissed without prejudice.

IT IS HEREBY ORDERED that the application herein be and the same is hereby dismissed without prejudice.

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 2nd
day of July 1915.

H. H. Overland
Alex. G. Jordan
Edwin O. Edgerton

Commissioners.