

Decision No. _____

ORIGINAL

Decision No. 3606

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application
of CORCORAN WATER AND GAS COMPANY
for an order authorizing issue of
bonds.

) Application No. 2390.
)
)

Frank E. Kilpatrick for applicant.
K. Van Zante for City of Corcoran.

BY THE COMMISSION:

O P I N I O N.

This is an application by Corcoran Water and Gas Company, a California corporation, engaged in the business of furnishing water to the inhabitants of the City of Corcoran, Kings County, for authority to create a bonded indebtedness of \$15,000 represented by 150 - 6% bonds of the face value of \$100 each and to issue at this time \$10,000 face value of said bonds. These bonds will mature as follows:

<u>No.</u>	<u>Face Value</u>	<u>Maturity</u>
10	\$1,000	1918
10	1,000	1919
10	1,000	1920
10	1,000	1921
20	2,000	1922
20	2,000	1923
20	2,000	1924

A public hearing was held in Corcoran, August 1st, 1916. From the evidence it appears that applicant desires to sell \$10,000 face value of said bonds at a price which will yield the purchasers 8% interest upon their investment. If the first 100 bonds to mature are sold, the average price would be approximately \$91.00 per bond. Applicant desires to use the proceeds of this issue for the purpose of installing a steel tank upon an 80 foot tower in pursuance of the order of this Commission made in Case No. 915, entitled The City of Corcoran v. Corcoran Water & Gas Company (Decision No. 5222, dated April 1st, 1916), and installing certain pipe referred to in said decision, all of which purposes are more particularly set forth in the order following this opinion.

From the evidence it appears that applicant has in good faith endeavored to comply with the Commission's order above mentioned, and has actually contracted for the tank and the tower and has commenced the construction of the concrete foundation for the same, although applicant has not the funds with which to pay for these improvements. Applicant's president, Mr. J. B. Mayer, has endeavored to raise the necessary capital upon the company's note secured by a mortgage of its property, which would in our opinion be a far better way to finance the proposition than by a bond

issue; but he has been unable to obtain such a loan while, according to his testimony, the Bank and Trust Company of Central California has agreed to purchase the entire issue of bonds to be sold at this time.

As set forth in decision No. 3222 (supra) the engineering department of this Commission has estimated the reproduction cost new of applicant's plant at \$17,634 and the cost new less depreciation (computed upon the sinking fund basis) at \$13,822.

Applicant reported revenues and expenses for the last three years as follows:

	<u>1915</u>	<u>1914</u>	<u>1913</u>
Revenues	\$ 3,093.32	\$3,771.74	\$2,961.68
Expenses	<u>3,131.65</u>	<u>3,803.56</u>	<u>2,528.60</u>
Net Gain	38.33*	31.82*	433.08

*Loss

Applicant also submits the following balance sheet as of December 31, 1915.

<u>Assets</u>	
Fixed Capital Installed.....	\$14,573.67
Cash and Deposits.....	137.52
Accounts Receivable.....	<u>22.82</u>
Total Assets.....	\$14,734.01
<u>Liabilities</u>	
Capital Stock Outstanding.....	\$11,208.00
Notes Payable.....	300.00
Accounts Payable.....	332.60
Reserved for Accrued Depreciation..	560.40
Corporate Surplus Unappropriated...	<u>2,333.01</u>
Total Liabilities....	\$14,734.01

From the above statements it will be seen that applicant's expenses are practically equal to its

present revenue and accordingly, under its present rates, it will have practically no net income with which to pay the interest upon its proposed bond issue.

The company has stated that it cannot give good service under the present rates, and during the hearing of Case No. 915, above referred to, the officers of the City of Corcoran stated that their constituents were willing to pay increased rates if the company would give them satisfactory service. In the decision in that case (decision No. 3222) the Commission stated as follows:

"The question of rates was also discussed at the hearing and counsel for complainant stated that the citizens of Corcoran were willing to pay whatever rates might be necessary in order to enable the water company to give adequate service. We can not, of course, authorize applicant to increase its rates when it is not giving even fair service to its consumers, but if, after defendant has installed and put into service the improvements hereinafter ordered, it wishes to make an application for an increase in rates, this Commission would naturally expect to authorize it to charge such rates as might be reasonable, considering the value of its plant and the quality of its service."

If applicant installs its contemplated improvements there is little question in our mind but what its service will be very materially improved. Applicant failed to submit its proposed trust deed for the approval of this Commission and it will, of course, be necessary for it to submit a trust deed in form and substance satisfactory to this Commission before we can finally authorize the bond issue herein requested.

For the reasons above set forth, the application should, in our opinion, be granted subject to certain conditions set forth in the order.

O R D E R.

CORCORAN WATER & GAS COMPANY having applied to the Railroad Commission for authority to create a bonded indebtedness of \$15,000 as evidenced by 150 serial 6% bonds of the face value of \$100 each, and to issue and sell \$10,000 face value of said bonds at a price to yield the purchasers 8% per annum upon the same, and a public hearing having been held and this Commission finding that the purposes for which said bonds or the proceeds thereof are to be used are not in whole or in part reasonably chargeable to operating expenses or to income and that for the reasons set forth in the foregoing opinion the application should be granted subject to the conditions hereinafter set forth.

IT IS HEREBY ORDERED that Corcoran Water & Gas Company be and the same is hereby authorized to execute a mortgage or deed of trust of its properties to secure a bonded indebtedness of \$15,000 face value of serial 6% bonds.

IT IS HEREBY FURTHER ORDERED that Corcoran Water & Gas Company be and the same is hereby authorized to issue and sell \$10,000 face value of said bonds.

The authority herein granted to applicant to execute a mortgage of its properties and to issue \$10,000 face value of its bonds is granted upon the following conditions and not otherwise:

1. Corcoran Water & Gas Company shall issue said bonds so as to net said company not less than 91% of the face value of the principal thereof in addition to

accrued interest thereon.

2. The proceeds of the bonds herein authorized to be issued shall be applied substantially as follows:

Installing 50,000 gal. tank and 80 foot tower	\$3835.00
Foundation for same	300.00
Readjustment of pumping equipment	600.00
Mains (1000/ ^{feet} 8"; 2000 feet 6"; 4000 feet 4")	2533.76
Laying mains	800.00
Fittings	531.24
To be held in applicant's treasury and not to be expended except upon a further order of this Commission	
Total	<hr/> \$9100.00

3. Applicant shall submit to this Commission the proposed mortgage or deed of trust securing said bond issue and shall not execute said instrument or issue any bonds under this order until it shall have obtained a supplemental order of this Commission approving said mortgage or deed of trust.

4. The authority herein granted to execute the mortgage or deed of trust above mentioned and to issue the bonds above set forth shall apply only to such mortgage or deed of trust as shall have been executed and to such bonds as shall have been issued ~~or on~~ before March 31, 1917.

5. Applicant shall not issue any portion of the 100 bonds herein authorized to be issued and sold until it shall have a valid contract or contracts for the sale of all of said bonds.

6. Applicant shall report to this Commission within thirty (30) days after the issue of the bonds herein

authorized the face value of the bonds so issued, the net amounts received therefor and the disposition of the proceeds thereof, 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.

7. This order shall not become effective until applicant has paid the fee specified in Section 57 of the Public Utilities Act.

Dated at San Francisco, California, this *31st* day of *August* 1916.

Max Theben

H. H. Steward

W. G. Gordon

Edwin O. Edgeston

Commissioners.

State of California
SEP 6 1916
H. L. Madison
Assistant Secretary