

GEM

Decision No. _____

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

Decision No. 4358

In the Matter of the Application)
of NOVATO UTILITIES COMPANY for)
an order authorizing issue of)
Stocks.)

Application
No. 2662

In the Matter of the Application)
of J. W. CAIN and ALBERT CAIN.)
Co-Partners doing business under)
the firm name and style of NOVATO)
LIGHT AND POWER COMPANY for an)
Order authorizing the sale and)
assignment by them of the whole)
of their property necessary and)
useful in the performance of their)
duties to the public, and the fran-)
-chises and permits under which)
they operate to the Novato Util-)
ities Company, a corporation.)

Application
No. 2663

Thomas P. Boyd, for Applicant.

BY THE COMMISSION:

OPINION

In Application No. 2663, J. W. Cain and Albert Cain, co-partners doing business under the firm name and style of Novato Light and Power Company, ask for authority to sell or transfer all of their electric, telephone and water utility properties to Novato Utilities Company. In Application No. 2662 Novato Utilities Company asks for authority to issue \$25,000.00 per

value of its capital stock in payment for said property.

At the public hearing which was held before Examiner Encell at Novato on January 19th, 1917, the applications were consolidated with the consent of the applicants.

It appears that the Novato Light and Power Company, hereinafter designated and referred to as the old "Company", engaged in furnishing electric light and power service, telephone service, and fresh water for domestic purposes to the inhabitants of the Town of Novato and surrounding territory in Marin County, is the property of J. W. Cain and Albert Cain, the applicants herein, and that there is no mortgage on any of said property, nor any notes or other indebtedness outstanding against it.

It further appears that Novato Utilities Company, hereinafter designated as the "new Company", is a corporation which has been organized primarily for the purpose of taking over all of the property of the old Company used in its electric light and power, telephone and water business. The articles of incorporation of the new Company provide for a total authorized capital stock of 5000 shares of the par value of \$10.00 per share, 143 of which have been issued for the purpose of incorporation; and it is now proposed to issue 2500 of the remaining shares to the owners of the old Company in payment for said electric, telephone and water properties, which are more particularly described in Exhibit A attached hereto and made a part of this Opinion and Order. A copy of the balance sheet of the old Company as contained in its annual reports to this Commission for the year ending December 31st, 1916, is shown in Table I following:

TABLE I.

BALANCE SHEET DECEMBER 31ST, 1916

Assets

Electric:

Fixed capital	\$16 761.47	
Cash	60.39	
Accounts Receivable	473.87	
Material and Supplies	89.41	
	<u> </u>	
Total Electric Assets		\$17 385.14

Telephone:

Fixed Capital	\$ 3 751.26	
Cash and Deposits	43.22	
Accounts Receivable	257.46	
Material and Supplies	110.50	
	<u> </u>	
Total Telephone Assets		4 162.44
*Total Assets Electric and Telephone		\$21 547.58

Liabilities

Electric:

Capital Investment	\$17 049.40	
Accounts Payable	335.74	
	<u> </u>	
Total Electric Liabilities		\$17 385.14

Telephone:

Capital Investment	\$ 3 625.57	
Bills Payable	536.87	
	<u> </u>	
Total Telephone Liabilities		\$ 4 162.44
*Total Liabilities Electric and Telephone		\$21 547.58

Note:

*No report has been filed in connection with the operations of the water department which hitherto has been more or less of a mutual accomodation nature.

The electric property which the old Company proposes to sell to the new Company was appraised for rate fixing purposes by Mr. J. F. Pollard, one of this Com-

mission's assistant electrical engineers, in connection with the matter of Case No. 940, Samuels et al. vs. Novato Light and Power Company, the evidence in which case is, by stipulation, to be considered as evidence herein.

It was also stipulated that a detailed appraisal of the telephone properties should be prepared by the Commission's Telephone Engineering Department, and that, subject to cross examination by the applicants, the same should be considered in evidence. Such appraisal has been prepared by Mr. T. R. Gray, assistant telephone engineer of the Railroad Commission, and having been submitted to and accepted by counsel for the applicants will be considered in evidence herein.

The water properties have been listed and appraised by the applicants as shown in Exhibit "A", attached to and made a part of Application No. 2663. The testimony of the applicants shows that no records of actual expenditures in this department are available and that this appraisal is based purely on estimated values. The water properties appraisal included in Table II following will be corrected in accordance with this Commission's experience in appraising similar properties constructed about the same time.

Table II includes a summary of each of said appraisements, together with the estimated reproduction cost on the historical basis less depreciation, and the valuation claimed by the applicants as shown in the applications herein.

TABLE II.

VALUATION OF UTILITY PROPERTIES

OWNED AND OPERATED BY J. W. CAIN AND ALBERT CAIN.

	<u>Value as Esti- mated by Applicants</u>	<u>Estimated Historical Reproduc- tion Cost Commissioners Engineers</u>	<u>Estimated Hist- orical Repro- duction Cost Less Accrued Depreciation</u>
<u>Electric:</u>			
Real Estate	\$ 500.00	\$ 400.00	\$ 400.00
Dwelling house and Telephone Office	1 900.00	1 900.00	1 520.00
Physical Electric Distri- bution Lines & Equip't.	14 000.00	13 846.00	10 719.83
Good will of the business of selling Electricity	3 500.00		
Organization, Franchises, and other Intangible Capital		392.19	383.79
<u>Telephone:</u>			
Physical Telephone Lines and Equipment	3 500.00	3 922.86	3 168.69
Good will of Telephone Business	1 500.00		
Organization and Other Intangible Capital		350.00	350.00
<u>Water:</u>			
Physical Water Distribu- tion System and Equip't.	<u>1 025.25</u>	<u>807.79</u>	<u>533.14</u>
GRAND TOTAL	\$25 925.25	\$21 618.84	\$17 075.45

Table III shows a statement of the earnings of the telephone and electric properties during the year 1916, compiled from the annual reports of this utility on file with the Commission.

TABLE III

EARNINGS 1916

Gross Operating Revenue, Electric	\$3 780.53	
Miscellaneous Other Revenues, Electric	57.30	
Gross Operating Revenue, Telephone	<u>2 002.25</u>	
Total Gross Revenue		\$5 840.08
Operating Expenses, Electric	\$2 408.27	
Operating Expenses, Telephone	1 387.57	
Taxes and Uncollectible Bills, Telephone	152.54	
Rents, etc., Telephone	<u>76.10</u>	<u>4 024.48</u>
Net Revenue		\$1 815.60

Inasmuch as the Commission's engineers have estimated the historical reproduction cost of all properties which are to be transferred at \$21,618.84, and said estimated reproduction cost less accrued depreciation at \$17,075.45, without determining the present value of said properties, we are of the opinion that Novato Utilities Company should be permitted to issue \$20,000 par value of its capital stock in exchange for said properties, as described in the aforesaid Exhibit "A", attached hereto. This issue of \$20,000 par value includes the sum of \$1430.00 representing stock subscribed and issued for organization purposes.

It should be clearly understood that authorization of this issue must not be interpreted to mean that the Commission finds such capitalization to be the real value of the property in question upon which a fair return may be expected.

O R D E R

J. W. CAIN and ALBERT CAIN, co-partners having applied to this Commission for an order authorizing the sale of certain properties to Novato Utilities Company, and NOVATO UTILITIES COMPANY having applied to this Commission for an order authorizing the issue of its common stock for the purpose of purchasing said properties, and said applications having been consolidated with the consent of the applicants, and the Commission finding as a fact that Novato Utilities Company should be permitted to issue 2000 shares of said stock of the par value of \$10.00 per share in consideration of the transfer of said properties, and it appearing that the purposes for which said stock is to be issued by Novato Utilities Company 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 for authority to transfer said properties and to issue said stock should be granted, subject to the conditions hereinafter set forth.

IT IS HEREBY ORDERED that J. W. Cain and Albert Cain, co-partners, be and the same are hereby authorized to sell, transfer and convey to Novato Utilities Company all the property described in Exhibit "A" attached hereto, said Exhibit "A" being incorporated into and made a part of this Opinion and Order, and to receive in payment therefor 2000 shares of the capital stock of said corporation.

IT IS HEREBY FURTHER ORDERED that Novato Utilities Company be and the same is hereby authorized to issue to J. W. Cain and Albert Cain 2000 shares of its capital stock of the par value of \$10.00 per share; said 2000 shares shall include the 143 shares of stock subscribed and issued in connection with the organization of Novato Utilities Company.

The authority herein granted to applicants is granted upon the following conditions and not otherwise, to-wit:

1. The stock herein authorized to be issued by Novato Utilities Company shall be issued in payment of or exchange for the property of J. W. Cain and Albert Cain, co-partners, authorized in this order to be transferred.

2. The purchase price for the property herein authorized to be transferred and the action of this Commission in authorizing the transfer, shall not be binding upon this Commission or any other rate-fixing body, as affecting the valuation of said property for rate-fixing purposes, or otherwise.

3. The authority herein granted to transfer said property and to issue said stock is conditioned upon said transfer being made and said stock being issued on or before October 31st, 1917.

4. Novato Utilities Company shall keep a true and accurate record of the issue of said stock, and shall, on or before the twenty-fifth day of the month following the said issue of said stock, make a verified report to this Commission, set-

ting forth the disposition of said stock, the conditions
of such disposition, and for what properties the same
was issued.

Dated at San Francisco, California, this 29th
day of May, 1917.

Max Thelen

H. B. Kneeland

Wm. Gordon

Edwin O. Egerton

Frank R. W. W.

Commissioners.

EXHIBIT "A".

REAL PROPERTY.

Beginning at the point of intersection of the Southerly line of Sweetzer Avenue with the Easterly line of Machin Avenue as said Avenues are laid down, designated and delineated on a certain map entitled and known as Map of the Town of Novato, Marin County, California, filed March 29th 1890 in the office of the County Recorder of said Marin County, in Book One of Maps at page 52; thence Easterly along the Southerly line of Sweetzer Avenue 150 feet; thence at right angles Southerly and parallel with Machin Avenue 70 feet; thence at right angles Westerly and parallel with Sweetzer Avenue 150 feet to the Easterly line of Machin Avenue and thence Northerly along the Easterly line of Machin Avenue 70 feet to the place of beginning, and being the Northerly one half of lots 49, 50, 51, 52, 53 and 54 in Block J as said lots and blocks are laid down and delineated on said map.

Improvements on the property are as follows:

Dwelling house also used as a telephone office.

PERSONAL PROPERTY.

All pole lines, fixtures, overhead system, sub-station building and equipment, line transformer, lines, wires, office equipment, shop tools and equipment, stable and garage equipment, materials and supplies, all as set forth in the Inventory and Appraisal and Report of Operating Revenues, Operating Expenses and Statistics of the Novato Light & Power property by James F. Pollard, Jr., Assistant Engineer, filed with the Board of Railroad Commissioners in case No. 940, July 10th 1916, to which reference is hereby made for a detailed description of said property, the same as if it were fully incorporated herein.

Good will of the business of selling electricity, etc.

Also seventy (70) telephone instruments and equipment, switch-board for a total capacity of sixty (60) lines, manufactured by Western Electric

Company, twenty-four lines of telephone wires and the wires on said lines, of No. 14 galvanized iron, a total of fifty-seven (57) miles in length, and thirteen (13) miles of telephone poles.

Good will of the telephone business.

The following described personal property is used in connection with the water system proposed to be sold by Cain Brothers to the Novato Utilities Company:

One three-horse-power Allis Chalmers electric motor.
One 4 x 5 double acting Deming pump.
Counter shaft and belts.
Two thousand feet of $1\frac{1}{2}$ inch pipe.
Two hundred and sixty feet of $3/4$ inch pipe.
One wooden stave tank of three thousand capacity.
Twenty-six service connections.
Tools and stock.