

ORIGINAL

Decision No. 456

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BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of Domestic Water Company of Santa Maria, a corporation, for an order authorizing issue of stocks and bonds.) Application No. 189.

In the matter of the application of Santa Maria Water Works for an order authorizing the sale of the whole of its plant and system to Domestic Water Company of Santa Maria.) Application No. 228.

F. T. C. Gregory for applicants.

Thomas Preisker for the City of Santa Maria.

W. C. Oakley and A. F. Fugler for the Board of Trustees of the City of Santa Maria.

GORDON, COMMISSIONER.

OPINION

In Application No. 228, Santa Maria Water Works requests permission to sell the whole of its plant and system at Santa Maria to Domestic Water Company of Santa Maria, and the latter company requests permission to purchase this plant and system.

In Application No. 189, the Domestic Water Company of Santa Maria seeks authority to issue stocks and bonds as follows:

- 1. All of its capital stock which consists of 250 shares of the par value of \$25,000, and also 75 first mortgage 20-year, 6 per cent gold bonds of the denomination of \$1,000 each, secured by a deed of trust to the First Federal Trust Company of San Francisco, the proceeds derived from the sale of this stock and these bonds to be used to pay for the plant and system at Santa Maria now owned by

the Santa Maria Water Works.

2. 30 first mortgage 20-year, 6 per cent gold bonds of the denomination of \$1,000 each, the proceeds of which are to be used in making needed extensions and improvements to the water system which is the subject of this contemplated transfer.

I will consider first the question of the transfer of the water system at Santa Maria by the Santa Maria Water Works to the Domestic Water Company of Santa Maria.

This water system supplies the inhabitants of Santa Maria with water, both for domestic and irrigation purposes. The system has been constructed and operated by one Ruben Hart, who has conducted the business under the name of the Santa Maria Water Works. Mr. Hart has kept no accounts of the moneys he has expended from time to time in acquiring and extending this water system so that no inventories are available from which the original cost of the water system can be determined. There was filed, however, with Application No. 189, an inventory of the property as estimated by applicants which inventory placed the value of the property to be transferred at \$110,178. This appraisal included two items of "developed, tried and sufficient water supply" and also "established and going business concern", which together were given a value of \$20,000. Subsequent to the hearing, applicants filed a revised inventory of the property of the Santa Maria Water Works, which placed the value at \$100,906, including \$10,000 for the two items above mentioned. Applicants later made a second revision of the original inventory of this property, placing the value of the same at \$91,088.95, including in this valuation \$10,000 for the same two items of "developed, tried and sufficient water supply" and also "established and going business concern". I have segregated these last two items in each of the valuations submitted for the

reason that at the hearing upon these applications a careful inquiry was made into these two items, and it was found that applicants were unable to introduce evidence which would warrant a consideration of these items in determining the present value of this property. I am of the opinion, therefore, that for this reason, if for no other, these two items of "developed, tried and sufficient water supply" and also "established and going business concern" should be disregarded in ascertaining the present value of the Santa Maria Water Works.

The City of Santa Maria was represented at the hearing and members of the Board of Trustees asked permission to check over the estimates of the value of the property which were submitted by applicants and to file with the Commission an appraisal of the property on behalf of the City. This privilege was accorded the Board of Trustees of Santa Maria and the Board of Trustees subsequent to the hearing, filed with the Commission an appraisal of the property comprising the water system at Santa Maria, which appraisal amounted to \$57,396.80. I am of the opinion that this appraisal is unreasonably low.

The Commission's engineering department made a very careful inspection of the water system at Santa Maria, and after allowing for depreciation of the system since its construction, has estimated the present value of the physical property comprising the water system at Santa Maria to be \$74,968. I am of the opinion that this amount represents with reasonable accuracy, the present value of the physical properties which are to be transferred.

Upon the assumed valuation of \$110,178, as representing the value of the property to be transferred, the Domestic Water Company of Santa Maria requests permission to issue all of its capital stock of the face value of \$25,000 and also 75 of its

first mortgage 20-year, 6 per cent gold bonds of the face value of \$75,000, the proceeds of which it desires to give in exchange for the property acquired. In view of the reduced valuation as found by the Commission, applicant's request cannot be granted in the form in which it was made, though I recommend that it be granted with certain modifications which I shall mention.

The Domestic Water Company of Santa Maria contemplates issuing its stock so as to obtain in proceeds the par value thereof, and I recommend that applicant be permitted to issue all of its capital stock upon these terms and that the proceeds be used to pay in part for the acquisition of the water system at Santa Maria. The balance of the purchase price, according to applicant's intention, is to be procured from the sale of bonds. Applicant stated at the hearing that it expected to dispose of these bonds at a figure which would net at least 90 per cent of the face value thereof, and possibly as high as 95 per cent of the face value. I believe that if applicant is permitted to dispose of 55 of its first mortgage 20-year, 6 per cent gold bonds of the face value of \$55,000, and succeeds in disposing of them at the figure contemplated, applicant will procure the balance of what I believe to be a fair price to be given in exchange for the property of the water system now owned by Santa Maria Water Works, and I recommend that applicant be permitted to issue bonds to this amount for this purpose.

I will consider now the second request of the Domestic Water Company of Santa Maria, namely, that it be permitted to issue 30 of its first mortgage 20-year, 6 per cent gold bonds of the face value of \$30,000, the proceeds of which are to be used in making needed extensions and improvements in the water system at Santa Maria.

At the hearing applicant filed a detailed estimate of the contemplated extensions and improvements, a summary of which estimate

is as follows:

1.	Additional Supply and Storage - - - - -	\$ 9,108.00
2.	Additional Pumping System - - - - -	6,545.00
3.	Additional Distributing and Fire Protection System - - - - -	7,205.00
4.	Additional Irrigating System - - - - -	<u>7,142.00</u>
	Total - - - - -	\$30,000.00

I believe that the estimate submitted by applicant is reasonable and that applicant should be allowed to make these needed extensions and improvements in the system. I made a careful inquiry into the present and prospective gross and net earnings of applicant, and am satisfied that applicant will be readily able to pay the interest charges upon the bonds herein authorized, and also that after the extensions and improvements in plant of applicant have been made, there will be a safe margin of security above the face value of all the bonds outstanding.

I submit herewith the following form of order:

O R D E R

The Santa Maria Water Works having in Application No. 228, requested permission to sell and the Domestic Water Company of Santa Maria, having in the same application requested permission to buy the water system now owned by the Santa Maria Water Works, and the Domestic Water Company of Santa Maria, having in application No. 189, requested permission to issue all of its capital stock consisting of 250 shares of the face value of \$25,000, and also to issue 75 of its first mortgage 20-year, 6 per cent gold bonds of the denomination of \$1,000 each, secured by a trust deed to the First Federal Trust Company of San Francisco, the proceeds of which stock and bonds are to be used to pay for the property purchased from the Santa Maria Water Works, and having requested permission to make a further issue of bonds of the face value of

\$30,000, the proceeds of which are to be used in making certain needed extensions and improvements in the water system purchased, and these two applications having been consolidated for hearing, and the Commission being of the opinion that public convenience and necessity will be subserved by the sale and purchase of said property, and that the purposes for which said stock and bonds are to be issued are not in whole or in part reasonably chargeable to operating expenses or to income, and that the application should be granted, with certain modifications,

IT IS HEREBY ORDERED

1. That Santa Maria Water Works be and it hereby is authorized to sell and that Domestic Water Company of Santa Maria be and the same hereby is authorized to purchase the whole of the plant and system of the Santa Maria Water Works on the terms and conditions hereinafter specified.

2. That Domestic Water Company of Santa Maria be and the same hereby is authorized to issue the whole of its capital stock, consisting of 250 shares of the par value of \$25,000, upon the following condition, and not otherwise, to-wit:

(a) The stock herein authorized shall be issued so as to net the Domestic Water Company of Santa Maria the par value thereof, and the proceeds of the stock so issued shall be used in acquiring the property of the Santa Maria Water Works.

3. That Domestic Water Company of Santa Maria be and the same hereby is authorized to issue 85 of its first mortgage 20-year, 6 per cent gold bonds of the denomination of \$1,000 each, secured by deed of trust to the First Federal Trust Company of San Francisco, upon the following conditions, and not otherwise, to-wit:

(a) The bonds herein authorized to be issued shall be issued so as to net the Domestic Water Company of Santa Maria not less than 90 per cent of the face value thereof.

(b) The proceeds derived from the sale of 55 of the bonds herein authorized shall be used in acquiring the property of the Santa Maria Water Works.

(c) The proceeds of the remaining 30 bonds herein authorized shall be used in paying for the contemplated extensions and improvements to the water plant at Santa Maria, according to the estimates filed at the hearing upon these applications, and marked "Exhibit D to Application No. 189", which exhibit is hereby made a part of this order.

4. The Domestic Water Company of Santa Maria shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of said stock and bonds herein authorized to be issued, and on or before the 25th day of each month the company shall make a verified report to the Commission, in accordance with the Commission's General Order No. 24, stating the sale or disposition of such bonds during the preceding month, the terms and conditions of such sale or other disposition, the moneys realized therefrom and the use and application of such moneys.

5. The amount herein authorized to be paid for the property of the Santa Maria Water Works shall not be taken before this Commission or any other public authority as representing for rate fixing or other purposes the present value of the property of the Santa Maria Water Works.

6. The authority hereby given to issue stock and bonds shall apply only to stock and bonds issued by applicant on or before the 30th day of September, 1913.

7. The payment of the minimum fee prescribed in Section 57 of the Public Utilities Act, shall be a condition precedent to the effectiveness of this order.

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 1
February, 1913.

John W. Mason

Alfred S. Gordon

Marshall T. Hall

Edwin O. Edgerton

Commissioners.

CORRECTION

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**THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY**

of the State of California.

Dated at San Francisco, California, this 11th day of
February, 1913.

John W. Eschleman

Alex Gordon

Max Miller

Edwin C. Edgerton

Commissioners.