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ORIGINAL

Decision No. 4936

Decision No. _____.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

* * * *

In the Matter of the Application of)
RIVER BEND GAS AND WATER COMPANY)
for a certificate of Public Conven-)
ience and Necessity; application of)
ALTA DISTRICT GAS COMPANY to sell)
and RIVER BEND GAS AND WATER COMPANY)
to buy a certain gas plant; appli-)
cation of the Parlier Winery to sell)
and River Bend Gas and Water Company)
to buy certain water works, gas fran-)
chises and lands; application of)
River Bend Gas and Water Company to)
issue and sell capital stock.)

Application
Number
2632

Chaffee E. Hall for applicants.

GORDON, Commissioner.

FIRST SUPPLEMENTAL OPINION.

In a first supplemental application, filed November 7, 1917, River Bend Gas and Water Company, Alta District Gas Company and Parlier Winery ask for an amendment of this Commission's Decision Number 4082, dated February 5, 1917, which will permit River Bend Gas and Water Company to mortgage its property as security for an issue of \$250,000.00 face value of first mortgage 6 per cent fifteen year sinking fund gold bonds and to issue \$75,000.00 face value of said bonds to Parlier Winery in payment for its water system and in liquidation of cash advances.

In Decision Number 4082, above referred to, River Bend

Gas and Water Company was authorized to issue \$194,060.00 par value of common capital stock. Of this stock \$12,300.00 was to have been issued to Parlier Winery in payment for its water system as the same existed on August 1, 1916, and \$59,000.00 was to have been issued to Parlier Winery in liquidation of cash advances to August 1, 1916.

River Bend Gas and Water Company now reports that it has been unable to proceed with the financing of its properties in the manner above outlined, and it now proposes, if permitted by this Commission, to pay Parlier Winery for its water system and cash advances by an issue of \$75,000.00 of bonds in lieu of the \$81,300.00 of stock. To this end it asks for authority to execute a deed of trust to Bank and Trust Company of Central California, trustee, mortgaging all property which it now owns or may hereafter acquire as security for a total authorized issue of \$250,000.00 face value of first mortgage 6 per cent fifteen year sinking fund gold bonds.

Applicant has submitted for the approval of the Commission a copy of its proposed mortgage or deed of trust. (Supplemental Exhibit "A"). This instrument provides that the bonds issued thereunder shall be dated October 1, 1917 and mature October 1, 1932, that they shall be issued in denominations of \$1,000.00, \$500.00 and \$100.00 and that they shall be callable on any interest date after October 1, 1917 at prices varying from 105 to 101 according to approach of maturity. Beginning October 1, 1919, and annually thereafter until all bonds are redeemed, the company will deposit with the trustee for sinking fund purposes, a sum equal to $1\frac{1}{2}$ per cent of all bonds outstanding. It is further provided that \$75,000.00 face value of bonds may be issued immediately and that the balance, amounting to \$175,000.00, may be issued from time to time equal in face amount to 80 per cent of the moneys expended for additions and betterments, provided the net earnings for 12 consecutive months have been $1\frac{1}{2}$ times the interest on bonds outstanding and applied for.

In a valuation made in connection with the original application in this matter, Mr. W. J. Hammond, assistant engineer of the Commission, placed the estimated reproduction cost new of the properties of River Bend Gas and Water Company and Alta District Gas Company as of November 1, 1916 at \$126,538.00. Mr. Hammond placed the reproduction cost new less depreciation of these properties as of the same date at \$115,582.00.

There was also presented at the former hearing a report prepared by Mr. James Armstrong, assistant hydraulic engineer of the Commission, in which he estimated the original cost of the water system of Parlier Winery as of December 31, 1916 at \$11,153.72.

At the hearing of this first supplemental application applicant filed a statement of fixed capital installed for the period from December 31, 1916 to October 31, 1917. (See applicant's supplemental Exhibit "E"). This statement shows a total of additions and betterments for the ten months of \$22,188.07.

Applicant's supplemental Exhibit "E" above referred to also contains a combined balance sheet of River Bend Gas and Water Company, Alta District Gas Company and Parlier Winery as of October 31, 1917 and an income account of the same companies for the ten months ending October 31, 1917. These statements are summarized below. For the purpose of comparison there is also included an income statement of the three companies taken from the annual report of River Bend Gas and Water Company to the Commission for the year ending December 31, 1916.

COMBINED BALANCE SHEET

RIVER BEND GAS & WATER COMPANY; ALTA DISTRICT
GAS COMPANY AND PARLIER WINERY (water
system) as of October 31, 1917

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Assets:

Fixed Capital

Gas	\$128,098.24	
Water	<u>13,556.72</u>	\$141,654.96
Cash and Deposits		20.00
Accounts Receivable		
Gas	\$ 3,805.20	
Water	438.00	
Appliances	4,204.90	
Oil	<u>128.95</u>	8,577.05
Materials and Supplies		<u>5,810.05</u>
Total Assets		\$156,062.06

Liabilities:-

Capital Stock (Alta District Gas Co.)	28,000.00	
Assessments (Alta District Gas Co.)	<u>5,175.00</u>	\$ 33,175.00
Advances by Parlier Winery	90,326.98	
Note advances by Parlier Winery	5,000.00	
Bills Payable (Mortgages)	10,000.00	
Consumers Deposits	138.00	
Contingent Fund Deposit	592.54	
Unamortized premium on debt	<u>14.88</u>	\$106,072.40

Accrued items (not yet on ledgers)

Due Parlier Winery salary R. K. Madsen	1,500.00	
Due Parlier Winery expense ($\frac{1}{2}$)	464.35	
Due Parlier Winery Water purchase	1,500.00	
Taxes 1916 not yet paid	658.47	
Taxes 1917 accrued	1,622.02	
Interest accrued on \$10,000. note	<u>466.67</u>	\$ 6,211.51
Corporate Surplus unappropriated		<u>\$ 10,603.15</u>
		<u>\$156,062.06</u>

COMPARATIVE INCOME STATEMENT

River Bend Gas and Water Company; Alta Dis-
trict Gas Company and Parlier
Winery (water system)

* *

	<u>Year Ending</u> <u>Dec. 31, 1916</u>	<u>10 Months Ending</u> <u>October 31, 1917</u>
<u>Gas Operations:-</u>		
Operating Revenue	\$23,865.90	\$28,417.43
Operating Expense	<u>18,846.14</u>	<u>23,660.51</u>
Net Operating Revenue (Gas)	\$ 5,019.74	\$ 4,756.92
<u>Water Operations:-</u>		
Operating Revenue	\$ 2,914.30	\$ 2,478.21
Operating Expense	<u>1,860.00</u>	<u>1,509.00</u>
Net Operating Revenue (Water)	<u>1,054.30</u>	\$ 969.21
Total Net Operating Revenue	6,074.04	5,726.13
<u>Add -</u>		
Gas bills written off, since collected		<u>1.50</u>
<u>Gross Corporate Income</u>		\$5,727.63
<u>Deduct:-</u>		
Uncollectible Bills	349.00	-
Interest Deductions	<u>800.00</u>	<u>744.19</u>
	\$ <u>1,149.00</u>	\$ <u>744.19</u>
Net Income	\$ <u>4,925.04</u>	<u>\$4,983.44</u>

The operating expenses shown in the foregoing statement include no allowance for depreciation. In as much as River Bend Gas and Water Company in its proposed mortgage agrees to set up an adequate and proper depreciation reserve, the earnings available for bond interest will be correspondingly decreased.

Parlier Winery, as stated in Decision Number 4082, advanced to River Bend Gas and Water Company to August 1, 1916, the sum of \$62,075.86. Since that date it has advanced to it the sum of \$28,251.12, making a total of \$90,326.98. The order in Decision Number 4082 contemplated that the advances to August 1, 1916, be liquidated through the issue of stock. Applicant now desires to similarly liquidate the advances from August 1, 1916 to date. Decision Number 4082 provided that River Bend Gas and Water Company might issue and sell \$56,700.00 common capital stock at not less than 90 per cent of the par value to pay \$1,000.00 of legal expenses and for additions and betterments. If River Bend Gas and Water Company file with the Commission a detailed statement showing that the advances have been used for additions and betterments, I am of the opinion that it should be permitted to issue a sufficient amount of the stock heretofore authorized for additions and betterments to Parlier Winery on a basis of 90 per cent of par to liquidate advances subsequent to August 1, 1916.

If the plan of financing now proposed by River Bend Gas and Water Company were followed, the amount of stock and bonds to be issued immediately would be approximately as follows:-

B O N D S:

To Parlier Winery in payment for water system as of August 1, 1916 and in liquidation of cash advances to August 1, 1916, \$75,000.00 face value

S T O C K: (On basis of 90% of par)

To Parlier Winery for advances from August 1, 1916 to November 1, 1917, \$31,390.00 par value

To Alta District Gas Company in full payment for its properties as of August 1, 1916, 50,000.00 par value

To Parlier Winery in payment for promotion services to August 1, 1916, 5,560.00 par value

To be issued as directors' qualifying shares in lieu of shares heretofore issued, 500.00 par value

For legal expenses, 1,110.00 par value

Total Stock , \$ 88,560.00

Total Bonds , 75,000.00

Total Bonds and Stock, \$163,560.00

It is extremely difficult at this time to estimate the future earnings of River Bend Gas and Water Company. The company has had a healthy growth to date, its consumers having increased approximately as follows:

	<u>December 31, 1916</u>	<u>November 1, 1917</u>
Water,	122	160
Gas,	1,022	1,300

This company, however, like many others, reports that it is confronted by a rise in cost of fuel oil, labor and supplies due to war conditions. At the present time the company has a contract for fuel oil at 55 cents per barrel . With freight added the cost to the company is approximately 80 cents per barrel. This contract will expire in February 1918 and applicant's superintendent stated that he believed the company would be compelled to pay at least \$1.50 per barrel for its oil after the expiration of the present contract.

~~After the company has been authorized to~~ To meet this condition, applicant is contemplating asking this Commission for authority to increase its rates. This matter is not now before the Commission and the decision in this proceeding must be based largely upon the company's present earnings. In view of this fact and the failure of River Bend Gas and Water Company to provide for a reserve for depreciation, I do not believe that applicant should be permitted to issue in excess of \$50,000.00 face value of bonds at this time, and I shall so recommend.

The order in Decision Number 4082 provided among other things that before Parlier Winery should sell and River Bend Gas and Water Company purchase the water system of the former company there should be filed with this Commission a copy of a contract between the two companies for the purchase and sale of water, it being the desire of Parlier Winery to retain title to its well and pumps and to dispose of its distributing system only. Such a contract has now been filed and marked Applicant's Supplemental Exhibit "D". This contract runs for a term of three years from January 1, 1917 and provides for the delivery of water at the rate of \$150.00 per month. In approving the contract it should be distinctly understood that the Commission accepts this contract only for the purpose of filing the rate and that the approval of such contract should not be interpreted as in any way relieving Parlier Winery from any of its public utility obligations.

The Commission's order in Decision Number 4082 further provided that before Parlier Winery should transfer its water system it should secure a franchise from the County of Fresno. Such a franchise has now been secured in the name, however, of River Bend Gas and Water Company. This franchise

is contained in Ordinance Number 173 of the County of Fresno, dated October 2, 1917. It provides that River Bend Gas and Water Company may operate a water distributing system for a term of 50 years in the territory embraced within a radius of two miles from the United States post-office at Parlier. I am of the opinion that River Bend Gas and Water Company may be granted, subject to the conditions hereinafter mentioned, a certificate of public convenience and necessity to operate under this franchise.

River Bend Gas and Water Company has filed with the Commission a stipulation to the effect that it will never claim a value for the rights and privileges granted by Ordinance Number 173 in excess of the actual cost thereof. Neither this stipulation nor the stipulation filed pursuant to condition 3 of the Order in Decision Number 4082 relative to Ordinance Number 158 of the County of Fresno or Ordinance Number 133 of the County of Tulare or Ordinance Number 91 of the City of Kingsburg show the cost of acquiring the franchises. The two stipulations should be amended in that regard.

I herewith submit the following form of Order:-

O R D E R

RIVER BEND GAS AND WATER COMPANY, ALTA DISTRICT GAS COMPANY AND PARLIER WINERY having applied to the Railroad Commission for an amendment of its previous order in this proceeding (Decision Number 4082, dated February 5, 1917) which will permit River Bend Gas and Water Company to execute a mortgage or deed of trust in favor of Bank & Trust Company of Central California, trustee, and to issue stock and bonds for the purposes set forth in the foregoing Opinion; and a public hearing having been held, and it appearing that the purposes for which it is proposed to issue said bonds are not

reasonably chargeable in whole or in part to operating expenses or to income, and that the proceeds to be derived from the sale of said stock and bonds are reasonably required for the purposes specified in the following order.

IT IS HEREBY ORDERED that the order in Decision Number 4082 in so far as it relates to the issue of \$194,060.00 of stock be and the same is hereby vacated and set aside; and that River Bend Gas and Water Company be and it is hereby authorized to issue \$138,467.00 par value of its common capital stock for the following purposes:-

- (a)-Stock in the amount of \$50,000.00 may be issued to Alta District Gas Company in full payment for its properties as of August 1, 1916.
- (b)-Stock in the amount of \$13,417.00 may be issued to Parlier Winery in part payment for advances to August 1, 1916.
- (c)-Stock in the amount of \$12,300.00 may be issued to Parlier Winery in full payment for its water works as of August 1, 1916.
- (d)-Stock in the amount of \$5,560.00 may be issued to Parlier Winery in full payment for promotion services to August 1, 1916.
- (e)-Stock in the amount of \$500.00 may be issued to the directors of River Bend Gas and Water Company in lieu of a like amount of stock heretofore issued to them.
- (f)-Stock in the amount of \$56,690.00 shall be sold for not less than 90 per cent of its par value and \$1,000.00 of the proceeds used to pay legal expenses; the remainder of the proceeds shall be placed in a special trust fund to be expended only upon further orders from the Railroad Commission after River Bend Gas and Water Company has filed with the Railroad Commission a detailed statement of its additions and betterments subsequent to August 1, 1916 or a statement of its proposed additions and betterments.

IT IS HEREBY FURTHER ORDERED that River Bend Gas and Water Company be and it is hereby authorized to execute a mortgage or deed of trust to Bank & Trust Company of Central California, trustee, substantially in the same form as the mortgage or deed of trust filed in this proceeding on November 7, 1917 and marked Exhibit "A".

The approval herein given of said mortgage or deed of trust is for the purpose of this proceeding only and is an approval only in so far as the Railroad Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said mortgage or deed of trust as to such other legal requirements to which said mortgage or deed of trust may be subject.

IT IS HEREBY FURTHER ORDERED that River Bend Gas and Water Company be and it is hereby authorized to issue \$75,000.00 face value of its first mortgage 6 per cent fifteen year sinking fund gold bonds: -- \$50,000.00 of said bonds may be issued forthwith to Parlier Winery in part payment for cash advances to August 1, 1916, the remaining \$25,000.00 of bonds may be issued hereafter for additions and betterments at a price to be fixed by the Commission in a supplemental order.

THE RAILROAD COMMISSION OF CALIFORNIA HEREBY DECLARES that public convenience and necessity require the exercise by River Bend Gas and Water Company of the rights and privileges conferred by Ordinance Number 173 of the County of Fresno adopted on or about October 2, 1917.

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

1.-None of the bonds herein authorized to be issued shall be issued until River Bend Gas and Water Company has acquired full and complete title to the properties of Alta District Gas Company and the water

distributing system of Parlier Winery in accordance with the terms of this order.

2.- Before this order shall become effective River Bend Gas and Water Company shall file with the Railroad Commission a stipulation duly authorized by its Board of Directors declaring that River Bend Gas and Water Company, its successors and assigns, will never claim before the Railroad Commission or any court or other public body a value for any rights or privileges obtained under Ordinance Number 173 of the County of Fresno, adopted on or about October 2, 1917 in excess of the amount actually paid by River Bend Gas and Water Company to the County of Fresno for said franchise, said stipulation to show such amount, and it shall have received from the Railroad Commission a supplemental order declaring that such stipulation in form satisfactory to the Railroad Commission has been filed with the Railroad Commission.

3.- The Railroad Commission of the State of California hereby approves the contract between Parlier Winery and River Bend Gas and Water Company marked "Applicant's Supplemental Exhibit "D" relating to the sale of water provided that the approval herein given of said contract is for the purpose of filing the rate mentioned in said contract and that the approval of said contract in no way operates to relieve Parlier Winery from any of its public utility obligations.

4.- Within 10 days after its execution, River Bend Gas and Water Company shall file with the Railroad Commission a copy of its mortgage or deed of trust, herein authorized to be executed.

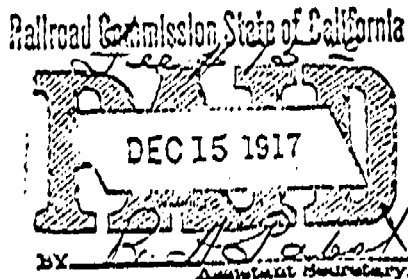
5.-River Bend Gas and Water Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the stock and bonds herein authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Railroad Commission stating the sale or sales of said stock and 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 to issue bonds shall not become effective until River Bend Gas and Water Company has paid the fee prescribed by the Public Utilities Act.

7.-The authority herein granted to transfer property shall apply only to such property as may be transferred on or before January 31, 1918. The authority herein granted to issue stock and bonds shall apply only to such stock and bonds as may be issued on or before June 30, 1918.

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 6th day of December, 1917.



Max Thelen

Alv. Gordon

Edwin O. Edgerton

Commissioners.