

ORIGINAL

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Decision No. _____

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

* * *

In the Matter of the Application of)
 SPRING VALLEY WATER COMPANY,)
 a corporation, for authorization to)
 issue promissory notes, to execute a) Application Number 3509.
 collateral trust agreement and to)
 pledge bonds thereunder to secure)
 said notes.)

John E. Behan for applicant.

LOVELAND, Commissioner.

O P I N I O N.

SPRING VALLEY WATER COMPANY asks authority to issue \$4,000,000.00 face value of 2-year 6 per cent notes due March 1, 1920, and \$5,250,000.00 of its 4 per cent general mortgage bonds payable December 1, 1923. Applicant intends to sell its notes on a 7 per cent basis and use the proceeds for purposes hereinafter specified. The \$5,250,000.00 of bonds it desires to pledge as security for the payment of the \$4,000,000.00 of notes.

Applicant has reported revenues and expenses for 1917, 1916 and 1915 as follows:

I t e m	1 9 1 7	1 9 1 6	1 9 1 5
Operating Revenues	\$3,632,252.40	\$3,509,784.48	\$3,512,795.50
Operating Expenses	1,716,110.53	1,683,270.89	1,633,885.18
Net Operating Revenues	\$1,916,141.87	\$1,826,513.59	\$1,878,910.32
<u>Miscellaneous Income:</u>			
Rents	172,984.74	118,836.13	109,661.82
Interest on impounded moneys, etc.	72,366.33	63,282.44	53,499.30
Miscellaneous	21,587.76	1,645.41	1,441.16
Total Miscellaneous Income	266,938.83	183,763.98	164,602.28
Gross Income	2,183,080.70	2,010,277.57	2,043,512.60
<u>Deductions:</u>			
Interest	790,862.45	792,031.71	776,079.09
Uncollectible Bills	9,230.77	6,505.67	2,336.79
Rent Expenses	-	35,224.53	17,624.59
Non-Operating Taxes	25,460.43	25,029.59	21,404.76
Amortization of debt discount and expense	1,843.36	43,575.44	23,629.20
Contingent Liability	58,204.23	46,737.15	290,323.88
Miscellaneous Non-Operating Expenses	1,618.29	1,895.15	2,363.76
Miscellaneous	2,452.93	-	134.49
Total Deductions	889,672.46	955,999.34	1,133,896.66
Surplus earnings for year	\$1,293,408.24	\$1,054,278.23	\$ 909,615.94

The operating expenses for 1915 include \$260,000.00 for depreciation and \$474,892.77 for taxes; those for 1916 include \$288,000.00 for depreciation and \$494,026.02 for taxes, while those for 1917 include \$288,000.00 for depreciation and \$525,787.19 for taxes. In 1915, the company disbursed in the form of dividends \$840,000.00; in 1916 \$980,000.00 and in 1917 \$1,015,000.00. Applicant's reports show that during the 3-year period, its surplus has been increased from \$448,226.35 to \$863,921.65.

Applicant reports that on December 31, 1917, its assets and liabilities were as follows:

ASSETS:

Fixed Capital,	\$68,517,666.75
Bonds in treasury including 3,897 pledged,	6,262,000.00
Materials and Supplies,	267,156.88
Cash on hand and in banks,	39,914.28
Cash deposited with Union Trust Company because of real estate subject to mortgage,	619,322.65
Consumers accounts receivable,	106,028.88
Other accounts receivable,	34,219.06
Contingent asset -deposits under injunction pro- ceedings,	2,278,074.19
Discount on 5-1/2 per cent notes,	31,351.19
Suspense temporary water system at Camp Fremont,	21,621.52
<u>TOTAL ASSETS,</u>	<u>\$78,177,355.40</u>

LIABILITIES:

Capital Stock Outstanding,	\$28,000,000.00
Surplus capital contributed by shareholders,	840,000.00
Bonds outstanding,	24,121,000.00
In hands of public, . . . \$17,859,000.00	
in treasury,	<u>6,262,000.00</u>
Six months 5-1/2% collateral trust notes,	3,000,000.00
Current liabilities,	689,128.77
Twin peaks tunnel assessment,	736,945.81
Depreciation and obsolescence fund,	3,326,196.20
Contingent liability fund,	2,278,074.19
Employees insurance fund,	44,760.86
Real estate sales suspense,	25,995.35
Capital surplus - appreciation of properties	14,251,332.57
Surplus - net revenue,	<u>863,921.65</u>
<u>TOTAL LIABILITIES,</u>	<u>\$78,177,355.40</u>

Applicant reports its capital expenditures for the six months ending December 31, 1917, as follows:

City Distribution Mains,	\$17,983.64
Service Connections,	9,078.51
Meters installed in San Francisco,	9,981.85
Meters installed outside of San Francisco,	618.80
Calaveras Dam,	281,133.55
Pleasanton Township County Water District, well and pipe,	25,221.00
Pleasanton Improvements, drainage and irrigation,	11,501.23
Sunol Improvements, extending filter gallery, etc.,	5,170.07
San Antonio Dam,	2,070.56
Crystal Springs Reservoir, road work,	157.66
San Andreas Aqueduct,	897.60
San Andreas Transmission Line, trestle,	580.03
San Andreas Reservoir, fences and sewer,	364.91
Ravenswood Pumps, additions to cottage,	218.27
Stone Dam Aqueduct,	178.46
Niles Supply Line,	1,541.84
Street Assessment Work, San Francisco,	10,098.32
Lake Merced Development, subdivision, etc.,	1,127.77
Columbia Heights Water System, pump and tank,	1,594.70
Newcombe Avenue Pump,	1,074.83
Black Point Pump, new oil tank,	1,866.58
New Garage, machine & blacksmith shop, San Francisco,	2,374.43
Telephone Line,	9.90
	<u>\$384,844.51</u>

Credit:

Refund of part of original deposit on purchase of 40 acres Calaveras Reservoir,	25.00
	<u>\$384,819.51</u>

Twin Peaks Ridge Tunnel Assessment No. 5,	<u>202,720.89</u>
	<u>\$587,540.40</u>

Applicant further reports that prior to July 1, 1917, it has expended \$1,065,896.35, against which the Commission has never authorized the issue of any form of security. Its total uncanceled expenditures to December 31, 1917, are reported at \$1,653,436.75.

Applicant has an authorized bond issue of \$28,000,000.00. The bonds mature December 1, 1923 and bear interest at the rate of 4 per cent. per annum, payable semi-annually. Of the bonds authorized, \$17,859,000.00 were outstanding on December 31, 1917. In addition to the bonded indebtedness, applicant reports that pursuant to Decision Number 4560, dated August 21, 1917, it has issued \$3,325,000.00 face value of notes payable March 1, 1918.

Applicant now asks authority to issue \$4,000,000.00 face value of 2-year 6 per cent notes payable March 1, 1920. Of these

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notes, it desires to issue forthwith \$3,300,000.00 and use the proceeds to pay in part the \$3,325,000.00 of notes due March 1, 1918. If the notes are sold on a 7 per cent basis, applicant will realize approximately \$3,239,394.18, or \$85,605.82 less than the face value of the notes to be paid. Applicant will pay the balance due on the notes, approximately \$85,605.82, as well as the expenses incidental to the issue of the \$4,000,000.00 of notes, out of its surplus earnings. The remaining \$700,000.00 of 2-year 6 per cent notes applicant proposes to issue from time to time for the purpose of reimbursing its treasury for capital expenditures prior to December 31, 1917, as its financial needs may demand. In as much as applicant reports an uncapitalized expenditure of \$1,653,436.75 to December 31, 1917, I am of the opinion that it should be authorized to use the proceeds from the issue of the \$700,000.00 of notes to reimburse in part its treasury for capital expenditures prior to December 31, 1917.

Applicant asks authority to execute a collateral trust agreement under the terms of which it desires to issue the \$4,000,000.00 of 2-year 6 per cent notes due March 1, 1920. A copy of the agreement has been filed herein and marked Exhibit No. 1. The agreement, among other things, provides that the notes may be issued in various denominations, ranging from \$1,000.00 to \$100,000.00 each; that the notes may be redeemed at 101-1/2 per cent of the principal sum on the first interest date, at 101 per cent of the principal sum on the second interest date and at 100-1/2 per cent of the principal sum on the third interest date; that \$3,300,000.00 of the notes may be issued forthwith and that as security for the \$3,300,000.00 of notes the company will deposit with the trustee \$4,290,000.00 of its general mortgage 4 per cent

bonds; that the remaining \$700,000.00 of notes may be issued from time to time as the company deems necessary under the same terms and conditions as the \$3,300,000.00 of notes and that the company will always keep on deposit with the trustee as collateral security for the payment of the notes a sufficient amount of its general mortgage 4 per cent bonds as will render the notes available for investments by savings banks under the terms of the California Banking Act. It appears that the \$4,290,000.00 of bonds now to be pledged as collateral security for the \$3,300,000.00 of notes are more than sufficient to meet the requirements at this time. It is advisable, however, to allow some margin to cover a decline in the price of applicant's bonds. If the price of its bonds increase, it may under the trust agreement withdraw part of the collateral. Bearing in mind the various appraisals of applicant's properties, its funded debt and its earnings, I am willing to recommend the approval of the collateral trust agreement. It should, however, be understood that the approval of the agreement in no way commits the Commission to authorizing the issue of more than \$5,250,000.00 of bonds as security for the payment of the \$4,000,000.00 of notes. If it should become necessary to deposit additional collateral, the matter of issuing bonds for that purpose will have to be taken up in a subsequent proceeding.

I herewith submit the following form of Order.

O R D E R.

SPRING VALLEY WATER COMPANY having applied to the Railroad Commission for authority to issue and sell \$4,000,000.00 face value of 2-year 6 per cent notes due March 1, 1920 and issue and pledge \$5,250,000.00 of its general mortgage 4 per cent bonds due December 1, 1923, a hearing having been held and the Commission

being of the opinion that the money, property or labor to be procured or paid for by the issue of said notes and the pledging of said bonds is reasonably required for the purpose or purposes specified in the order and that such purpose or purposes are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED that SPRING VALLEY WATER COMPANY be, and it is hereby, granted authority to execute a collateral trust agreement substantially in the same form as the collateral trust agreement filed with the Railroad Commission in this proceeding and marked Exhibit "Number One".

IT IS HEREBY FURTHER ORDERED that SPRING VALLEY WATER COMPANY be, and it is hereby, granted authority to issue, on a 7 per cent basis or upon more favorable terms, \$4,000,000.00 face value of its 2-year 6 per cent notes payable March 1, 1920.

IT IS HEREBY FURTHER ORDERED that SPRING VALLEY WATER COMPANY be, and it is hereby, authorized to issue and pledge as security for the payment of said \$4,000,000.00 of notes \$5,250,000.00 face value of its general mortgage 4 per cent bonds payable December 1, 1923, said bonds to be pledged in the ratio of approximately \$1,000.00 of bonds to every \$760.00 of notes issued.

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

(1).- The proceeds from the sale of the \$3,300,000.00 of notes herein authorized to be issued shall be used by applicant to pay in whole or in part the \$3,325,000.00 of notes due March 1, 1918 and issued pursuant to the Railroad Commission's Decision Number 4560, dated August 21, 1917.

(2).- The proceeds from the sale of the remaining \$700,000.00 of notes applicant shall use for the purpose of reimbursing its treasury in part for capital expenditures prior to

December 31, 1917.

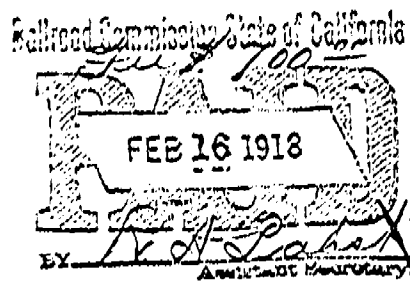
- (3).-- The approval herein given of the collateral trust agreement is for the purpose of this proceeding only and an approval in so far as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said collateral trust agreement as to such other legal requirements to which said collateral trust agreement may be subject.
- (4).-- The authority herein granted to execute a collateral trust agreement substantially in the same form as the collateral trust agreement filed with the Commission and marked Exhibit "Number One" shall not be interpreted as authorizing the issue and deposit of bonds in excess of \$5,250,000.00, it being understood that if it should become necessary to deposit additional bonds under the terms of said collateral trust agreement, the matter of issuing and depositing any additional bonds will be taken up in a subsequent proceeding.
- (5).-- After the notes herein authorized to be issued shall have been paid, the bonds pledged as collateral security for the payment of said notes shall be returned to applicant's treasury and thereafter issued only upon further order of this Commission.
- (6).-- On or before the twenty-fifth day of each month, applicant shall file with the Railroad Commission such statements as are required by the Commission's General Order Number 24, said order, in so far as applicable, being made a part of this order.

(7).- The authority herein granted shall not become effective until applicant has paid the fee prescribed by the Public Utilities Act.

(8).- The authority herein granted shall apply only to such notes and bonds as may be issued or pledged on or before February 28, 1919.

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 14th day of February, 1918.



H. Howard

Edwin D. Edgerton

Frank D. Devin

Commissioners.