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ORIGINAL

Decision No. 6108

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
EAST BAY WATER COMPANY, a corporation,
for an order authorizing the issue
of Class "A" 6 Per Cent Cumulative
Preferred Stock.

} Application No. 3655.

McKee and Tasheira, by A. G. Tasheira, for applicant.

EDGERTON, Commissioner.

O P I N I O N

In its amended petition filed in the above entitled matter on January 15, East Bay Water Company asks authority to issue \$437,351.90 par value of its Class "A" 6 per cent cumulative preferred stock.

In Exhibits attached to the petition, applicant reports expenditures incurred or to be incurred as follows:-

On San Pablo project to December 31, 1917 and on general system to June 30, 1917, used as basis to issue bonds	\$1,014,841.03
Expenditures reported on San Pablo project during 1918 used as basis to issue bonds	701,544.05
Expenditures on San Pablo project to be incurred after January 1, 1919 used as basis to issue bonds	<u>470,276.00</u>
Total	<u>\$2,186,661.08</u>

Because of the \$2,186,661.08 of expenditures, the Railroad Commission has authorized applicant to issue \$1,712,051.62 of bonds. Of the \$1,712,051.62 of bonds, applicant has sold \$49,000.00 and pledged \$1,634,000. to secure the payment of \$1,250,000.

of 5 year 6 per cent notes due August 1, 1923.

Under its deed of trust, East Bay Water Company may issue bonds from time to time "to aid in acquiring and providing for 80 per cent of the cost of betterments, improvements or extensions to the works of the company or acquisition of new property of the company." The \$437,331.90 of stock which applicant intends to issue is equal in par value to 20 per cent of the cost of betterments, improvements and extensions.

In Exhibit Number "1", applicant summarizes its asset and liability accounts, as of December 31, 1918, as follows:-

ASSET ACCOUNTS

<u>Current Assets:</u>			
Cash on hand	\$	13,704.98	
Cash in Banks		50,962.24	
Investments		17,900.00	
Accounts Receivable		108,341.31	
Total Current Assets	\$		190,908.53
Material and Supplies			71,333.64
<u>Plant Equipment Assets:</u>			
Fixed Capital		15,885,347.98	
San Pablo project		1,334,393.62	
Total Plant & Equipment Assets			17,219,741.60
<u>Deferred & Contingent Assets:</u>			
Union Trust Co. Trustee, Rl. Est. Sales		6,896.00	
Treasury Securities		1,669,200.00	
Prepaid Expenses		163,980.00	
Accruing Land Rents on Leases		54,023.18	
Unamortized Discount on Securities		79,295.57	
Stock Discount		1,919,680.00	
Suspense		5,988.25	
Total Deferred & Contingent Assets			3,899,063.00
<u>Total Asset Accounts</u>			<u>\$21,381,046.77</u>

LIABILITY ACCOUNTS

<u>Current Liabilities:</u>			
Notes Payable		101,860.19	
Accounts Payable		68,952.86	
Extension and Guarantee Deposits		80,656.06	
Total Current Liabilities			251,469.11
<u>Deferred Liabilities:</u>			
Land Sales Account		100,467.63	
Land Rents Charged in Advance		69,875.53	
Bonds in Treasury		29,000.00	
Bonds Pledged as Collateral		1,634,000.00	
Interest Accrued		31,250.00	
Total Deferred Liabilities			1,864,593.16
<u>Funded Debt:</u>			
1st Mortgage 5 1/2% Gold Bonds		9,876,900.00	
Six Per Cent Collateral Trust Notes		1,250,000.00	
Mortgages Payable		12,500.00	
Total Funded Debt			11,139,400.00
Reserve for Accrued Depreciation			200,000.00
<u>Capital Liabilities:</u>			
Class "A" 6% Cumulative Pref. Cap. Stock		4,480,800.00	
Class "B" 6% Non- " " " "		2,987,200.00	
Common Capital Stock		100,000.00	
Corporate Surplus		357,584.50	
Total Capital Liabilities			7,925,584.50
<u>Total Liability Accounts</u>			<u>\$21,381,046.77</u>

Mr. W. Creed, President of East Bay Water Company, testified that the company had entered into a firm contract for the sale of 4200 shares of its Class "A" 6 per cent cumulative preferred stock at \$72.00 per share and accrued dividends. He believes that the stock is intrinsically worth more than \$72.00 per share, though after prolonged negotiations he has not been able to secure a more favorable offer. He regards the low price of the stock as representing the cost to the company of establishing a market for the stock. It appears that there has been no general distribution of Class "A" stock of applicant. The record shows that it has remained in the hands, for the most part, of the parties who took it on the reorganization of Peoples Water Company and that many of those people are not a class of people who either wish to or can afford to hold the preferred stock as a permanent investment. The purchasers of the 4200 shares intend to distribute their stock and of necessity will have to find purchasers who are investors.

Ordinarily the Commission would not look with favor upon the issue of stock at a price as low as proposed by applicant. In authorizing the issue of either stock, bonds or other securities, consideration must necessarily be given to the general financial situation of the utility. In this case practically all of applicant's outstanding bonds, \$9,876,900., have been issued at par. In addition it has sold \$1,250,000.00 of 5-year 6 per cent notes at 95-1/4. The total discount on its outstanding bonds and notes and the expenses incident to their issue is reported by applicant on December 31, 1918, at \$79,295.57. While I am willing, under the facts of this case, to recommend the granting of this application, it is with the understanding that the approval by the Commission of such recommendation and the authority to issue the stock, must not be taken as a precedent.

I herewith submit the following form of Order:

O R D E R

EAST BAY WATER COMPANY having applied to the Railroad Commission for authority to issue \$437,331.90 par value of its Class "A" 6 per cent cumulative preferred stock, a public hearing having been held, and the Commission being of the opinion that the money, property or labor to be procured or paid for by such issue 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 East Bay Water Company be, and it is hereby, authorized to issue \$437,331.90 par value of its Class "A" 6 per cent cumulative preferred stock upon the following conditions:-

1.-The stock herein authorized to be issued shall be sold by applicant for cash at not less than \$72.00 per share and accrued dividends.

2.-The proceeds from the sale of \$343,277.00 of stock shall be used for the purpose of reimbursing applicant's treasury.

3.-The proceeds from the sale of \$94,054.90 shall be applied to financing in part the construction expenditures on the so-called San Pablo project referred to in an Exhibit attached to the petition herein.

4.-East Bay Water Company shall keep separate, true and accurate accounts showing the receipt and application in detail of the proceeds from the sale of the stock 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 as required

by the Commission's General Order No. 24, which Order, in so far as applicable, is made a part of this Order.

5.-The authority herein granted shall apply only to such stock as may be issued on or before October 1, 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 13th day
February
of ~~January~~, 1919.

Edwin O. Edgerton

H. J. Loveland

Frank R. Burton

H. W. Brundage

Dwight Martin

Commissioners.