

Decision No. 7107.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

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In the Matter of the Application of)	
FRESNO CITY WATER COMPANY,)	
a corporation, to sell, and)	
FRESNO CITY WATER CORPORATION,)	
a corporation, to purchase the entire)	<u>Application No. 5208.</u>
domestic water system and assets of)	
FRESNO CITY WATER COMPANY.)	

In the Matter of the Application of)	
FRESNO CITY WATER CORPORATION)	
for an order authorizing the issue)	<u>Application No. 5209.</u>
of bonds.)	

Murray Bourne, for applicant.

LOVELAND, Commissioner.

C O P I N I O N.

The above entitled applications were consolidated for hearing and decision.

In Application Number 5208, Fresno City Water Company asks permission to sell all its properties, more particularly described in Exhibit No. 2 attached to the petition, to Fresno City Water Corporation. The purchasing company asks authority to issue \$350,000.00 of its stock in payment for the properties and assume the payment of all the outstanding obligations of Fresno City Water Company.

In Application Number 5209, as amended at the hearing, Fresno City Water Corporation asks permission to execute a mortgage and deed of trust securing the payment of \$2,500,000.00 of 6 per cent 40-year bonds payable September 1, 1959, and issue forthwith \$250,000.00

of said bonds, - \$200,000.00 to secure funds to pay for the construction of extensions, additions and betterments to plant and \$50,000.00 to secure funds to pay current indebtedness of Fresno City Water Company.

Fresno City Water Company has an authorized bond issue of \$350,000.00, of which \$298,000.00 have been issued. Of the bonds issued, \$63,000.00 have been acquired for the sinking fund, leaving \$235,000.00 outstanding. The current liabilities of the company, as of November 30, 1919, are reported at \$46,357.35 and the stock outstanding at \$350,000.00. The books of the Fresno City Water Company, according to the testimony, show an investment of \$635,556.76, whereas the present value of the plant is estimated at \$714,000.00. The record shows that the \$714,000.00 consists of the reproduction cost new of the properties of Fresno City Water Company as found by J.G. White & Company on October 31, 1911, plus the cost of extensions, additions and betterments since that date.

As of November 30, 1919, Fresno City Water Company reports an accumulated surplus of \$178,692.93, the larger part of which represents surplus earnings invested in plant.

According to the record, the main reason for the transfer of the properties of Fresno City Water Company, the organization of Fresno City Water Corporation and the proposed acquisition by it of the properties of Fresno City Water Company, is that the present mortgage of Fresno City Water Company is inadequate to take care of its requirements. Officers of the company believe that better prices can be secured for bonds of a new company than for bonds of Fresno City Water Company issued under a new mortgage executed by it. The transfer of the properties does not contemplate any change in the control of the properties, nor in their management or operation.

Fresno City Water Corporation asks authority to sell \$200,000.00 of bonds and use the proceeds to pay for the construction

of an office building and other additions and betterments described in its Exhibit No. 3. The office building is to be a modern class "A" fireproof structure 80 feet x 100 feet either six or seven stories in height and located at Fresno and "O" streets in the City of Fresno. Such floor space as the water company does not require for its own use, it intends to lease to San Joaquin Light & Power Corporation for the term of ten years, at an annual rental which will net the water company an 8 per cent return on the money invested in that portion of the building leased to the power company. The record shows that about five-sixths of the floor space in the new building will be occupied by the power company. The stockholders of the water company are large stockholders in the power company, and they are of the opinion that on account of expenditures which the power company has undertaken for the purpose of developing additional electrical energy, it is desirable that the office building be constructed by the water company. The testimony shows that a lease of similar space in a building in Fresno would cost the power company a great deal more than it agrees to pay the water company. A copy of the lease has been filed in this proceeding as Applicant's Exhibit No. 1. Inasmuch as the lease is between two public utility corporations, the Commission reserves the right to modify it at any time.

There is on file in these proceedings a copy of the proposed mortgage of Fresno City Water Corporation. At the hearing, it was agreed to modify the proposed mortgage in several respects, and not until the Commission has been furnished with a revised copy of the proposed mortgage can a final order be made in this proceeding.

I herewith submit the following form of Order.

O R D E R.

Applications having been filed with the Railroad Commission involving the transfer of the properties of FRESNO CITY WATER COMPANY; the execution of a mortgage and the issue of stock and

bonds by FRESNO CITY WATER CORPORATION, a public hearing having been held and the Railroad 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 this Order, and that the expenditures for such purpose or purposes are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that FRESNO CITY WATER COMPANY be, and it is hereby, authorized to sell and transfer to FRESNO CITY WATER CORPORATION all its properties, more particularly described in Exhibit No. 2 attached to the petition in Application No. 5208.

IT IS HEREBY FURTHER ORDERED that FRESNO CITY WATER CORPORATION be, and it is hereby, granted authority to issue \$350,000.00 of stock in payment for the properties of FRESNO CITY WATER COMPANY, and assume all the obligations of that company, and to issue \$250,000.00 of its 6 per cent 40-year bonds, provided that none of said bonds be issued until the Commission by supplemental order has authorized FRESNO CITY WATER CORPORATION to execute a mortgage securing the payment of said bonds.

IT IS HEREBY FURTHER ORDERED that FRESNO CITY WATER CORPORATION be, and it is hereby, granted authority to enter into a lease substantially in the same form as the lease filed in this proceeding and marked Applicant's Exhibit No. 1, -it being understood that the Commission reserves the right to modify such lease at any time it may deem such modification necessary.

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

- 1.--The bonds herein authorized shall be sold by Fresno City Water Corporation at not less than 92½ per cent of their face value plus accrued interest.
- 2.--The proceeds from the sale of \$50,000.00 of bonds may be used to pay current indebtedness of Fresno City Water Company, the payment of which is being assumed by Fresno City

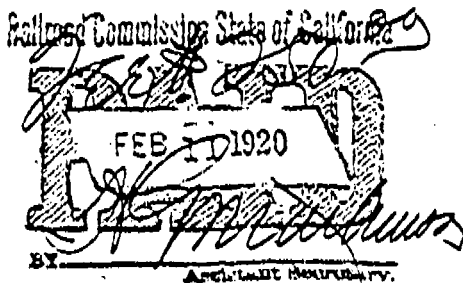
Water Corporation.

- 3.--The proceeds from the sale of \$200,000.00 of bonds may be used for the construction of extensions, additions and betterments described in applicant's Exhibit No. 3.
- 4.--The consideration at which Fresno City Water Company is herein authorized to sell and transfer its properties shall not be urged before this Commission, or any other public body, as fixing a value of said properties for rate-making or any purpose other than the transfer herein authorized.
- 5.-- Fresno City Water Company and Fresno City Water Corporation shall submit to the Railroad Commission for approval a copy of all book entries relating to the transfer and acquisition of the properties referred to herein.
- 6.-- Fresno City Water Corporation shall keep such record of the issue and sale of the stock and bonds herein authorized and of the disposition of the proceeds as will enable it to file on or before the twenty-fifth day of each month a verified report as required by the Railroad Commission's General Order, Number 24, which order, in so far as applicable, is made a part of this Order.
- 7.-- The authority herein granted will not become effective until Fresno City Water Corporation has paid the fee prescribed in the Public Utilities Act.

8.-- The authority herein granted will apply only
to such transfer as may be made and to such
stock and bonds as may be issued on or before
October 1, 1920.

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 10th
day of February, 1920.



Edwin C. Edgerton
H. S. Loveland
Frank R. Perkins
H. B. Brundage
Irving Martin
Commissioners.