

Decision No. 7202

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application of SWEETWATER WATER COMPANY (a Maine Corporation) to sell and convey, and of SWEETWATER WATER CORPORATION (a California corporation) to purchase and acquire, the assets of said Maine corporation; and of said California corporation to issue its \$1,000,000. of stock for said assets, and \$450,000 in bonds.

Application No. 5345

Gibson, Dunne & Crutcher, by J.A. Gibson, Jr and E. E. Bacon, for applicant.

BRUNDIGE, Commissioner.

O P I N I O N

SWEETWATER WATER COMPANY asks permission to sell all its properties to SWEETWATER WATER CORPORATION, a new corporation. The latter joins in the application and asks permission to issue \$1,000,000. of common stock, execute a trust deed or mortgage securing the payment of \$650,000. of 6% serial bonds, and issue \$450,000. of the bonds forthwith.

Sweetwater Water Company reports as of December 31, 1919, \$1,200,000. of common stock, \$132,000. of 6 per cent bonds and \$301,000. of demand notes outstanding. In Decision No. 6286, dated April 24, 1919, in which decision the Commission fixed the rates of Sweetwater Water Company, it appears that the company's engineers estimated the historical cost of the properties as of July 1, 1917, at \$1,673,626. and the present value as of the same date, at \$1,241,738., whereas the Commission's engineers, after making an in-

vestigation, reported the estimated cost of comparable items at \$1,520,724. The rates fixed by the Commission are designed to yield gross revenues of \$109,527., which, after deducting estimated operating expenses, leaves a net revenue of \$55,177.

For the two years ending December 31, 1919, Sweetwater Water Company has reported revenues and expenses as follows;-

<u>ITEM</u>	<u>1918</u>	<u>1919</u>
Operating Revenues	\$97,613.05	\$104,899.42
Operating Expenses	64,007.98	63,630.05
Net Operating Revenues	33,605.07	41,269.37
Miscellaneous Nonoperating Revenues	1,722.47	3,040.23
Gross Corporate Income	35,327.54	\$44,309.60
<u>DEDUCTIONS:</u>		
Interest accrued on funded debt	8,970.00	8,280.00
Other Interest Deductions	18,060.09	18,060.84
Misc. Nonoperating Expenses	17.53	1,646.01
Total Deductions	\$27,047.62	\$27,986.85
Surplus, after paying interest etc	8,279.92	16,322.75

The record shows that the properties of San Diego Land Corporation, which owns all of the stock of the Sweetwater Water Company, except shares necessary to qualify directors, has recently been sold and that it is largely because of the change in ownership of these properties that a transfer of the properties of Sweetwater Water Company is desirable. The record shows that the new owners have no present intention of introducing any change in either the management or operation of the water properties. The new corporation intends to pay for the properties of the Sweetwater Water Company \$1,000,000. represented by capital stock and assume the payment of all indebtedness. To liquidate the indebtedness so assumed, the Sweetwater Water Corporation asks permission to issue and sell \$450,000. of 6 per cent serial bonds at 95. Arrangements have been made for the sale of the bonds and it is proposed to use such part of the proceeds as may be necessary, to pay the \$132,000. of Sweetwater Water Company bonds outstanding and apply the remainder to the payment of the \$301,000. of demand notes.

The proposed mortgage which Sweetwater Water Corporation asks permission to execute, provides that \$15,000. face value of bonds shall be paid annually from January 1, 1921 to January 1, 1930, both years inclusive; \$25,000. annually from January 1, 1931 to January 31, 1939, both years inclusive; and \$225,000. on January 1, 1940. The mortgage is to secure the payment of \$600,000. of bonds, \$450,000 of which are to be issued forthwith. The remainder of the bonds may be issued from time to time in an amount not exceeding 75 per cent of the company's expenditures for additions and betterment, provided that the net income of the company for the twelve months next preceding an application to the trustee for certification of bonds shall have been at least 1-3/4 times the interest on outstanding bonds, together with the interest on the bonds which the trustee is requested to certify.

On February 20th, National City, in which Sweetwater Water Company sells water, filed a protest against the granting of this application unless applicants would stipulate that the price at which the properties are being transferred will not be urged by them at any time as a rate base. At the hearing, both counsel, and David Blankenhorn, Vice President of Sweetwater Water Corporation, stipulated that if the Commission grant this application, the purchasing company will never claim that the price paid for the properties should be regarded as a rate base. It occurs to me that the position taken by counsel, and by David Blankenhorn, removes all objection to the granting of this application, in so far as National City is concerned, and that the city's interests are properly safeguarded.

I herewith submit the following form of order.

O R D E R.

SWEETWATER WATER COMPANY having applied to the Railroad Commission for permission to sell all of its properties to Sweetwater Water Corporation, which has joined in the application and which asks

permission to issue \$1,000,000. of stock, execute a mortgage and issue \$450,000. of bonds, 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 of bonds and stock, is reasonably required by Sweetwater Water Corporation, and that the purposes for which such stock and bonds are to be issued are not reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED that Sweetwater Water Company be, and it is hereby, authorized to sell to Sweetwater Water Corporation, all of its property, more particularly described in the indenture filed with the Railroad Commission on February 25, 1920.

IT IS HEREBY FURTHER ORDERED that Sweetwater Water Corporation be, and it is hereby, authorized to issue in payment for said properties \$1,000,000. of its common capital stock, assume the payment of the indebtedness of said Sweetwater Water Company, execute a mortgage or deed of trust, substantially in the same form as the mortgage or deed of trust filed in this proceeding securing the payment of \$650,000. of 6% serial bonds, and issue \$450,000. of said bonds.

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

1. The bonds herein authorized to be issued shall be sold by Sweetwater Water Corporation for not less than 95 per cent of their face value plus accrued interest, and the proceeds used to pay \$152,000 of outstanding Sweetwater Water Company bonds and \$301,000 of Sweetwater Water Company notes, all of which are referred to in the petition herein.

2. The approval herein given of said mortgage or deed of trust 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 mortgage or deed of trust as to such other legal requirements to which said mortgage or deed of trust may be subject.

3. The price being paid by Sweetwater Water Corporation for the properties of Sweetwater Water Company, the transfer of which is herein authorized, shall never be urged before this Commission, or any other public body having jurisdiction, as a measure of value of said properties for the purpose of fixing rates or for any purpose other than the transfer herein authorized.

4. Within sixty days after the transfer of the properties herein authorized, Sweetwater Water Corporation shall file with the Railroad Commission, a verified copy of the deed under which it obtains title to the properties.

5. Within sixty days after the transfer of the properties herein authorized, Sweetwater Water Corporation shall file with the Railroad Commission for approval, copy of all book entries relating to the transfer and purchase of the properties referred to in this order.

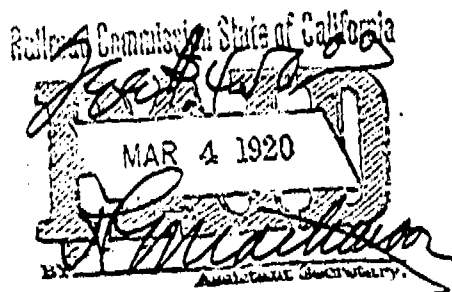
6. Sweetwater Water Corporation shall keep such record of the issue and sale of stock and bonds herein authorized, and of the disposition of the proceeds, as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

7. The authority herein granted will not become effective until Sweetwater Water Corporation has paid the fee prescribed in the Public Utilities Act.

8. The authority herein granted will apply only to such properties as may be transferred 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 2^d day of March, 1920.



Edwin O. Edgerton
W. H. Stanford
Frank R. Brown
H. A. Brundage
Irving Martin