

In the matter of the application of DAVIS WATER COMPANY, a corporation, for permission to issue stock and certificates of indebtedness.

ORIGINAL Application No. 585

C. G. Hopkins for applicant.

TREBLEK, Commissioner.

O P I N I O N.

This is an application of Davis Water Company for an order of this Commission authorizing the issue of capital stock and of certificates of indebtedness, as will hereinafter appear in greater detail.

Applicant was incorporated under the laws of this state on the 16th day of April, 1915, for the purpose of engaging in the business of a public utility supplying water for domestic and other purposes, primarily in the unincorporated town of Davis, Yolo county, California. The incorporators intend to purchase the property of the Schmeiser Manufacturing Company at Davis, in so far as that property is at present devoted to the public water business, and to install such improvements and extensions as may be necessary in order to serve the entire town of Davis with water for domestic and other purposes. The Schmeiser Manufacturing Company has been serving some fifty consumers in the town of Davis with water pumped from a well located on the property of the company in Lots 5 and 6, Block 72. That company desired to separate its public utility operations from its other business, and for that reason secured the incorporation of the present applicant.

Applicant's authorized capital stock consists of 2000 shares of the par value of \$25.00 each, being a total par value of \$50,000. There is no bonded or other indebtedness. The company has as yet conducted no operations.

Applicant now applies to this Commission for authority to issue capital stock for certain purposes and to issue either capital stock or refunding coupon certificates for other purposes, as will hereinafter appear.

I shall now consider the purposes for which applicant asks authority to issue capital stock.

1. Applicant asks authority to issue capital stock of the par value of \$6500 to Schmeiser Manufacturing Company in payment for that portion of its property which is devoted to its public utility water business, as will appear in greater detail in this Commission's opinion and order in Application No. 594, to which opinion and order reference is hereby made. I recommend that this portion of the application be granted.

2. Applicant asks authority to issue one share of stock to each of the five persons who are designated as directors in its articles of incorporation. This Commission has heretofore held that it is not necessary to secure its authority for the issue of stock for such ^{purpose} and the order in this proceeding will consequently make no reference to this request. Applicant may issue one share of stock to each of its five directors without securing the further authority of this Commission.

3. Applicant asks authority to issue 500 shares of its capital stock, having a par value of \$12,500, as "promotion stock," the same to be used, in the language of the application, "in the promotion and furtherance of the business of the company." It appears that this stock is not to be used in payment for services in organizing the company, but is to be issued to the incorporators for a purpose not authorized by any of the provisions of Section 52 of the Public Utilities Act. I recommend that this portion of the application be denied.

4. Applicant asks authority to issue 40 shares of its capital stock of the total par value of \$1,000 to A. B. Robert "in payment for his services in the organization and promotion of said

company and also for his further services as assistant secretary and assistant treasurer during the year 1913." It is evident that such services as Mr. Robert may hereafter perform as assistant secretary and assistant treasurer are properly chargeable to operating expense and that they cannot be capitalized. Mr. Robert is entitled to be paid for such services as he may perform, but this payment should be made out of the current revenues of the company. With reference to promotion and real organization expenses, it appears that applicant has incurred incorporation filing fees and certain legal expenses, and also that Mr. Robert has devoted a portion of his time since March 1, 1913, in securing necessary estimates as to whether or not applicant would have a reasonable opportunity to succeed and in bringing about applicant's incorporation. It should be borne in mind in this connection that applicant is not undertaking a new public utility business, but that it proposes a change in form of an existing utility in connection with plans for the improvement and development of that utility. This circumstance is material, to be considered in estimating the value of promotion services. I find that the sum of \$200 will cover the fees and legal expenses, and believe that \$250 will be a liberal payment to Mr. Robert for his services in organizing the company. I accordingly recommend that capital stock of the par value of \$450 be authorized for these two purposes.

Applicant also asks authority to issue either capital stock or refunding coupon certificates to make extensive improvements and extensions to the present system. Applicant plans to supply the entire town of Davis with water for domestic and other purposes, and also to furnish fire protection. To this end, applicant intends to erect a new water tower, consisting of two tanks, one of them having a capacity of 60,000 gallons and the other having a capacity of 40,000 gallons. The latter tank is to be at an elevation of one hundred feet, so as to furnish adequate pressure both for domestic and fire protection purposes. Applicant further estimates that it

will be necessary to lay 33,000 feet of 4-inch and 6-inch wood stave pipe, which pipe is to be laid along practically all the streets of the town, so that the town may be completely served from applicant's proposed plant. Applicant further expects in time to place the entire system under meters, which meters and the service connections in connection therewith will be installed at applicant's own expense. The water company's revised estimate of expenditures necessary for these extensions and improvements amounts to about \$29,700. While certain of the items, such as the water tower, will be installed at once, others, such as a portion of the pipe lines, may not be installed except from time to time as additions and extensions become necessary. Applicant expects to secure the funds for these extensions and improvements either from the sale of stock at par to residents of Davis or from the sale to them of 6% refunding coupon certificates, which are to be issued in denominations of \$100, \$50 and \$25 each, in a total amount not to exceed \$25,000. The interest on these certificates, together with portions of the principal, are to be paid at intervals of six months, and it is planned to repay both principal and interest within ten years. As was pointed out to applicant at the hearing, it cannot expect to charge rates so high that the public will be donating the system in addition to having the utility declare dividends. Of course, if the utility refrains from paying dividends and uses the money to which it is reasonably entitled in the way of dividends to pay these obligations, no injury will be done to the public. I assume that it will be necessary for at least a number of years to refrain from paying dividends on the stock, so as to enable applicant to carry its proposed financial burdens.

Applicant desires authority to issue either stock or refunding coupon certificates so that persons contemplating an investment in the utility may invest their money in either form. While I find that it will probably not be necessary in the immediate

future to expend the total of \$29,700 for extensions and improvements, it is probable that a considerable portion of this amount will be needed within the first year or so. While the order in this proceeding will authorize the issue of either stock or refunding coupon certificates in the total amount of \$29,700, applicant should give serious consideration to the question whether the construction of the entire system in the immediate future would not be unwise and financially undesirable. Unless the revenues will be sufficient to enable applicant to meet interest on the full amount of the proposed expenditure, it will be better for applicant to extend the system only as needed and to avoid a large investment not producing commensurate revenue. Applicant must report to the Commission, month by month, with reference to the amount of stock or refunding coupon certificates issued and can devote the proceeds thereof only to the purposes specified in this opinion and order.

Applicant attached to its petition a statement of proposed rates to be charged in connection with its proposed water system. These rates are not a part of the application and cannot be considered in this connection. As they involve to some extent increases in rates being paid by existing consumers, it will be necessary to secure the consent of this Commission before the rates can be made effective. If application to make these rates effective is filed with the Commission, a public hearing will be held at Davis, so that all persons interested may appear and be heard. It is evident that public convenience will be served by the construction of the proposed enlarged water system in the town of Davis. No public utility other than the Schweiser Manufacturing Company is at present serving water in the town, and persons not served by this company must rely on private wells which, as shown by the evidence, are unsatisfactory and yield a supply of water which apparently is not as good in quality as that which is being pumped from the well of the Schweiser Manufacturing Company.

I recommend the following form of order:

O R D E R.

DAVIS WATER COMPANY having applied to the Railroad Commission for an order authorizing the issue of certain capital stock and refunding coupon certificates, as appears in the opinion which precedes this order, and a public hearing having been held upon said application, and the Commission finding that the purposes for which said capital stock and refunding coupon certificates are hereinafter authorized are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:

1. Davis Water Company is hereby authorized to issue its capital stock, at not less than par, in the amounts and for the purposes as follows:

(a) Davis Water Company may issue its capital stock of the par value of sixty three hundred (\$6300) dollars in payment for a good and marketable title to that portion of the property of the Schmeiser Manufacturing Company which is devoted to the public utility business, and which is more particularly specified in the order on Application No. 594, to which order reference is hereby made.

(b) Davis Water Company is hereby authorized to issue its capital stock of a par value not to exceed four hundred and fifty (\$450) dollars, in payment for its organization and promotion expenses, of which amount stock not to exceed the par value of two hundred (\$200) dollars may be issued, to pay incorporation and other fees and legal and incidental expenses in connection with incorporation, and stock of the par value of two hundred and fifty (\$250) dollars may be issued to A. B. Robert, in payment for his services in organizing and incorporating the company.

2. Davis Water Company may issue its capital stock, at par, of a face value not to exceed twenty nine thousand seven hundred (\$29,700) dollars, or its six(6%) per cent refunding coupon certificates

at par, in amounts of one hundred (\$100) dollars, fifty (\$50) dollars and twenty-five (\$25) dollars, the total issue not to exceed twenty-five thousand (\$25,000) dollars; bearing interest at the rate of six (6%) per cent per annum from June 1, 1913, payable on or before June 1, 1923, in form substantially the same as the form attached to the petition herein, or such part either of said capital stock or refunding coupon certificates as may be necessary for the purpose of purchasing and installing a double tank water tower at a cost not to exceed eight thousand (\$8000) dollars, and of purchasing and installing its proposed distribution system in the town of Davis, including meters and service connections up to the property line and of installing a tool house and purchasing tools, equipment and incidentals at a cost not to exceed twenty one thousand and seven hundred (\$21,700) dollars.

3. Davis Water Company shall keep separate, true and accurate accounts showing the disposition made of the stock and refunding coupon certificates hereby authorized, and the receipt and application in detail of the proceeds of the sale of such stock and refunding coupon certificates hereby authorized to be issued as may be sold, and on or before the 25th day of each month shall make a verified report to the Commission, stating such disposition and sale or sales during the previous month, the terms and conditions of such sale or sales, 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.

4. This order, in so far as it affects the refunding coupon certificates, shall become effective only after the payment of the fee prescribed by Section 57 of the Public Utilities Act, as amended.

5. This order shall apply only to stock and refunding coupon certificates issued prior to August 1, 1914. If the stock and refunding coupon certificates hereby authorized shall not have been completely issued by said date, application may be made to the Commission for an extension of the time of authorized issue.

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 15th day
of August, 1913.

H. S. Land

W. J. Gordon

Max Thelen

Edwin O. Elyerton

Commissioners.

Railroad Commission State of California

Doc A. 2470
SEP 10 1913
J. H. Matheson
BY Assistant Secretary.