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Decision No. 9200.

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of)
SONOMA VALLEY WATER, LIGHT & POWER CO.)
for permission to purchase the SONOMA)
CITY WATER WORKS, the SONOMA VISTA)
WATER COMPANY and the O'BRIEN RANCH;)
and for permission to issue bonds)
against the combined properties and to)
construct a dam for storage of water)
for both domestic and irrigation purpo-)
ses and to operate these properties as)
one and to extend the distributing sys-)
tems of the three companies.)

Application
Number
6637

H.A. Excell for applicants.

BY THE COMMISSION:

O P I N I O N.

The Railroad Commission is asked to make an order authorizing the transfer to and the purchase by SONOMA VALLEY WATER, LIGHT & POWER COMPANY of the public and non-public utility properties of the SONOMA CITY WATER WORKS, SONOMA VISTA WATER COMPANY and the O'BRIEN RANCH; the execution of a mortgage by SONOMA VALLEY WATER, LIGHT & POWER COMPANY to secure the payment of \$260,000.00 of first mortgage 8 per cent. 30-year bonds, and to issue and sell said bonds, and the construction of a dam and other improvements. Hearings were had on this application before Examiner Satterwhite on April 16th and May 17th.

It is proposed by those interested in this application to consolidate under one ownership the public utility properties now owned and operated by Sonoma Valley Water, Light & Power Company, Sonoma City Water Works and Sonoma Vista Water Company, and to augment the water

supply of the consolidated company by building a dam at or below the junction of Lennox and Carriger creeks. The construction of a dam at that point will store water in which the O'Brien ranch has an interest. It is therefore proposed to acquire this ranch consisting of approximately 998 acres at a cost of \$50,000.00 and thus secure unquestioned control of the dam site and water rights appertaining to the ranch. About 100 acres of the O'Brien ranch are necessary for the project. It is urged that the owners of the land refuse to sell the necessary acreage for the reservoir separate and apart from the entire ranch. O.R. Wagner has appraised the O'Brien ranch properties at \$40.00 an acre, while R.E. Child, consulting engineer, in applicant's Exhibit "B" estimates the water rights on Carriger Creek, Lennox Creek and springs on the ranch at \$33,500.00. He estimates the minimum yield of water at 1500 acre feet per annum. The record shows that his estimates are not based on accurate stream flow measurements, nor has the amount of flow of any of the springs, which is to constitute a large proportion of the total supply, been accurately determined. The most that can be said in this connection is that the purchase price of the O'Brien ranch does not appear unreasonably high.

The Sonoma Valley Water, Light & Power Company was organized in 1910. It reports \$100,000.00 of stock outstanding, all of which, except directors' shares, is owned by Wilfred Chester. The property is said to be free and clear of any encumbrances, other than the last semi-annual taxes. The property of the company is reported to consist of 304.5 acres of land located one mile west of El Verano, a town lot in Sonoma, 2 franchises - one from the city of Sonoma and the other from the County of Sonoma, two small intake dams on Carriger Creek, 1/2 mile of 8-inch casing and 1/2 mile of 4-inch wood stave pipe leading to the storage reservoir, a 10,000,000 gallon stone and concrete reservoir for storage purposes, 1/2 mile of 8-inch casing and 3-1/2 miles of 8-inch wood stave pipe leading into and through the town of

Sonoma, 3 miles of 4-inch wood stave pipe, 1 mile of 2-inch cast-iron pipe, 300 feet of other cast-iron pipe, together with connections and laterals for about 175 consumers. The testimony and record shows that this water plant, taken as a whole, is in a poor state of repair and operating condition. The reservoir cannot be used in its present condition, -practically no service is rendered in the town of Sonoma and the company instead of serving 175 consumers, has but 75 and during the past few years experienced considerable trouble in giving proper service to these.

Louisa V. de Emparan and Marie V de Cutter, co-partners, doing business under the firm name and style of Sonoma City Water Works, ask permission to sell to Sonoma Valley Water, Light & Power Company certain properties for the sum of \$50,000.00. The properties consist of 280 acres of land and a water system supplying the City of Sonoma. The source of supply for this system is the "Lachryma Montis" spring located on the Vallejo ranch near Sonoma. The distributing system is confined to the City of Sonoma. About 260 services are connected with the system, approximately 70% of which are metered.

The Sonoma Vista Water Company asks permission to sell its properties to the Sonoma Valley Water, Light & Power Company for \$10,650. It supplies a district adjoining El Verano on the north. It obtains its water supply from two wells, which are reported to run dry sometimes during the summer. There are 120 services on the system, of which about 88% are metered.

It appears from the record that R.L. Durham has options on the Sonoma City Water Works properties, the Sonoma Vista Water Company and the O'Brien ranch, and that he has agreed to assign his options to the Sonoma Valley Water, Light & Power Company for \$10,000.00. The total payment for the properties, exclusive of the \$10,000.00, is \$120,650.00.

The three water systems have 456 services. An appraisal of the properties, other than the lands, to be consolidated has been prepared by R.E. Child. The land has been appraised by O.R. Wagner of Sonoma. Including Wagner's land appraisals, R.E. Child estimated the reproduction cost new of the properties at \$336,957.00 and the reproduction cost less depreciation at \$297,673.00. In making his appraisal, R.E. Child gave no consideration to the properties which would be abandoned if the companies were consolidated. Following the hearing, a statement was filed in which R.E. Child reports that \$32,627.78 represents the reproduction cost less depreciation of property that would be abandoned as a result of the consolidation. Deducting the \$32,627.78 from the \$296,673.00, leaves a balance of \$264,045.22. This last-named amount includes an allowance of \$95,357.00 for land and \$83,000.00 for franchises and water rights. Deducting these two amounts from the \$264,045.22 leaves \$85,682.22 for structures, transmission and distribution pipes and properties.

In his report, applicant's Exhibit "B", R.E. Child suggests that the company construct a dam 95 feet high at or below the junction of Lennox and Carriger creeks. He believes that this can be built at a cost of \$120,000.00 and that with some winter and early spring irrigation, at least 1500 acre feet of water would be available for sale per annum. He further suggests that \$40,000.00 be expended for the installation of irrigation pipe lines, \$9,000.00 for improvements to the domestic water system and \$20,350.00 be allowed for miscellaneous and legal expenses, - making a total expenditure of \$189,350.00 for construction and miscellaneous purposes. To acquire the properties of Sonoma City Water Works, Sonoma Vista Water Company and the O'Brien ranch, under existing options, the company, as stated above, will have to spend at least \$120,650.00 additional, or a total of \$310,000.00 for the acquisition of the properties and the construction of the dam and other improvements suggest by R.E. Child.

Sonoma Valley Water, Light & Power Company asks permission to execute a mortgage securing the payment of \$260,000.00 of first mortgage 8 per cent 30-year bonds and sell such bonds at not less than 90% of their face value and accrued interest. If sold at 90, the bonds will net the company \$234,000.00 or \$76,000.00 less than the amount required by it according to present estimates. Adding to this amount the interest on the \$260,000.00 of bonds, which interest the company will not earn during 1921-22, a sum of from \$90,000.00 to \$100,000.00 will result, which amount the company will have to raise from a source other than the sale of its bonds. No detailed estimates of the cost of the proposed dam have been submitted, and it appears that no borings have been made to determine the depth and the character of bedrock where it is proposed to construct the same. It is obviously impossible to accurately estimate the cost of the construction of the dam without such information. The Commission can not predicate an order authorizing the construction of the dam, on the information submitted by applicants.

It is urged that if this application is granted, the Sonoma Valley Water, Light & Power Company can secure the funds, other than the \$234,000.00 from the sale of the bonds necessary to acquire the properties, construct the dam and for other purposes, from the sale of preferred stock, the sale of non-operative property and from the sale of wood and rock. Testimony has been introduced showing what profits might be realized from the sale of wood and that there will be a demand for rock for street paving and highway construction. It also appears from the record that \$30,000.00 has been offered for 900 acres of the O'Brien ranch, one-half to be paid in cash and the balance to draw interest at the rate of 6 per cent per annum; and that another offer of \$35.00 an acre for the land not needed for the reservoir site has been received. The offer of \$35.00 an acre is practically the same as the \$30,000.00 offer. For the non-operative properties of Sonoma City Water Works an offer of \$60,000.00 is said to have been received payable at the time the property can be sold by

those making the offer. The parties who made this offer agree to pay the same rate of interest on the \$60,000.00 as the company pays interest on its bonds. It is evident that the only offer made that can be reduced to an immediate cash basis is that for the O'Brien ranch, which will net the company \$15,000.00, a sum wholly inadequate to enable those interested to carry forward this project expeditiously.

There appears to be considerable merit in the consolidation of the properties, provided it is done expeditiously and economically. The plan submitted by applicants does not carry with it any assurance that the dam, the irrigation system and improvements will be constructed without any undue delays. In our opinion, the consolidation of the properties and the construction of the improvements has only been partially financed. The suggestion has been made that preferred stock might be sold to raise some of the necessary funds. The application however was not amended to cover the issue of preferred stock.

It occurs to us that some of the money necessary to complete this project should be secured either through an assessment of the present stockholders of Sonoma Valley Water, Light & Power Company, or the sale of stock, or both. The present outstanding stock is, we believe, out of proportion both as to the investment made by its owners and the reasonable value of the property. The greater portion of the outstanding stock should be cancelled, or the present owners contribute a substantial sum to the enterprise without the issue of any additional stock to them. To properly establish this business, approximately \$100,000.00 should be secured from the present or prospective stockholders, and until a satisfactory showing is made that such an amount can be secured from them, no order authorizing the issue of the bonds will be made by this Commission. In view of this conclusion, it is not necessary to consider the provisions of the proposed mortgage or the detailed purposes for which it is desired to expend the proceeds from the sale of the bonds.

