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Decision No. 9453.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

* * *

In the Matter of the Application of the)
SONOMA VALLEY WATER, LIGHT & POWER CO.)
for permission to purchase the Sonoma)
City Water Works and the Sonoma Vista)
Water Company, and permission to issue)
\$100,000.00 Preferred Stock, said stock)
to have preference both as to assets)
and earnings and to operate the combined)
properties as one, and to extend and con-)
solidate the distributing systems of the)
three properties and to put a concrete)
bottom in the reservoir of the applicant.)

Supplemental
Application
Number
6637

W. Chester for Sonoma Valley Water, Light & Power Co.
R.E. Child for W.W. Kraner, Inc.

LOVELAND, Commissioner.

FIRST SUPPLEMENTAL OPINION

On July 2, 1921, the Railroad Commission made an order in the above entitled matter, declaring that it will not authorize Sonoma Valley Water, Light & Power Co. to issue \$250,000.00 face value of bonds until the company has secured in cash, at least \$100,000.00 from its present or future stockholders.

On August 23rd, Sonoma Valley Water, Light & Power Co. filed a supplemental application in the above entitled matter for permission to issue \$100,000.00 of 8 per cent. cumulative preferred stock. From the testimony of W. Chester, president of Sonoma Valley Water, Light & Power Co., it appears that the company has modified its plans since the original application was heard and submitted. At this time, the company does not intend to issue any bonds nor acquire any non-operative

properties, nor construct the dam and reservoir to which reference is made in the Commission's decision of July 2nd. The company now intends to acquire only the operative properties of the Sonoma City Water Works, a partnership whose members are Louisa V. de Emparan and Marie V. de Cutter, and the operative properties of the Sonoma Vista Water Company. Arrangements are also being made to secure water from the O'Brien ranch and continue in effect an option to acquire the ranch.

The testimony shows that if the properties which the Sonoma Valley Water, Light & Power Co. intends to acquire are consolidated with those now owned by the company, the company should be in a position to give greatly improved service and will have adequate water supply to meet the domestic needs of the consumers now connected with the various systems. It may be that some water will be available for sale for irrigation use.

Sonoma Valley Water, Light & Power Co. has an authorized stock issue of \$100,000.00, all of which is outstanding. Substantially all of the stock is owned by W. Chester, president of the company. The property which the company now owns is reported to consist of 304.5 acres of land located about one mile west of El Verano, a town lot in Sonoma, two franchises - one from the City of Sonoma and the other from the County of Sonoma - two small intake dams on Carriger Creek, one-half mile of 8-inch casing and one-half mile of 4-inch wood stave pipe leading to the storage reservoir, a 10,000,000 gallon stone and concrete reservoir for storage purposes, one-half 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, one 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 the water plant as a whole is in a poor state of repair and operating condition. The reservoir cannot be used in its present conditions, 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 has experienced and is at present

experiencing considerable trouble in giving proper service to these. Considering the service conditions of the properties of Sonoma Valley Water, Light & Power Co., the amount of money that must be expended for the improvement of the properties and other facts before the Commission, I believe that the amount of stock now outstanding is excessive. I am of the opinion that \$50,000.00 of the outstanding stock should be turned back into the company's treasury and in no manner disposed of except as hereafter authorized by the Commission.

W. Chester reported that consideration is being given to the organization of a new company and have such company acquire the properties of the Sonoma Valley Water, Light & Power Co. and issue common stock in payment for the properties and issue and sell preferred stock to secure new capital. If such a step is taken, it will be necessary for the new company to file with the Commission a formal application for permission to issue stock and acquire properties. The owners of the properties which the new company intends to acquire must also ask permission to sell their properties to the new company. The organization of a new company may simplify the readjustment of the capitalization of the properties now owned by Sonoma Valley Water, Light & Power Co. At this time, the only company before the Commission for permission to issue preferred stock is the Sonoma Valley Water, Light & Power Co., and the authority herein granted will necessarily be confined to that company.

The Sonoma Valley Water, Light & Power Co. asks permission to use the proceeds obtained from the sale of its stock for the following purposes

To pay indebtedness,	\$10,000.00
To put a concrete bottom in reservoir of Sonoma Valley Water, Light & Power Co.,	8,000.00
To purchase the operative properties of Sonoma City Water Works,	30,000.00
To purchase the properties of Sonoma Vista Water Co.,	10,650.00
To expend for extensions, betterments, meters and other improvements,	<u>21,350.00</u>
Total,	\$80,000.00

The order herein will provide that no proceeds from the sale of the stock shall be expended ^{for the above purposes} except as hereafter authorized by the Commission. An order authorizing the disbursement of the proceeds will be made as soon as the Commission is satisfied that enough stock can be sold to assure the consummation of the plans of the company as outlined in the supplemental application. The transfer of the properties will also be covered in a supplemental order. There should be filed forthwith a description of the operative properties of the Sonoma City Water Works and also a description of the properties of the Sonoma Vista Water Company.

Sonoma Valley Water, Light & Power Co. asks permission to sell 8 per cent. cumulative preferred stock at \$80.00 net per share. It has made no final arrangements for the sale of stock, but it appears from the record, that a firm is willing to act as the company's agent to sell the stock. The firm expects a 20 per cent. commission assuming that it can sell the stock at par. I am willing to allow the payment of such a commission only because of the unusual conditions under which the properties have been operated. It is expected however, and the order herein will so provide, that the agent must pay all expenses incident to the sale of stock, such as the cost of advertising, his traveling expenses, printing prospectuses, &c. The stock must be sold for not less than \$80.00 net to the company. If the company's agent is not able to sell the stock for par, he may be paid only such commission as amounts to the difference between 80 and the selling price of the stock. Should it be possible for the agent to sell the stock above par, the commission which may be paid to the agent will be limited to 20 per cent of the par value of the stock. The payments of the agent's commission shall be proportional to the amount of money actually paid on any stock subscription. All moneys not allowed for the purpose of paying commissions shall be deposited in a bank or banks and not expended for any purposes except as may

hereafter be permitted by the Commission. If the company is unable to sell enough stock to go forward with its plans, as outlined in the supplemental application filed in this proceeding, the money deposited in a bank or banks must be returned to the purchasers of the stock.

I herewith submit the following form of Order:

FIRST SUPPLEMENTAL ORDER

SONOMA VALLEY WATER, LIGHT & POWER CO. having applied to the Railroad Commission for permission to issue \$100,000.00 of 8 per cent. cumulative preferred stock and to acquire properties, and the owners of the properties which the company intends to acquire having asked permission to sell such properties, a public hearing having been held and the Commission being of the opinion that an order should be made at this time permitting SONOMA VALLEY WATER, LIGHT & POWER CO. to issue and sell 8 per cent. cumulative preferred stock subject to the conditions of this order:

IT IS HEREBY ORDERED, that SONOMA VALLEY WATER, LIGHT & POWER CO. be, and it is hereby, authorized to issue not exceeding \$100,000.00 of its 8 per cent. cumulative preferred stock.

The authority herein granted is subject to the following conditions:

- 1.--The authority herein granted shall not become effective until the present holders of stock of the Sonoma Valley Water, Light & Power Co. have turned back into the treasury of that company \$50,000.00 of the outstanding stock.
- 2.--The stock herein authorized to be issued shall be sold by Sonoma Valley Water, Light & Power Co., for cash, at not less than \$80.00 net to the company. Of the

proceeds realized from the sale of the stock, the company may pay as a commission or brokerage fee an amount equal to 20 per cent. of the par value of the stock, assuming that the stock is sold by the agent at par or more. If the stock is sold by the agent for less than par, the commission or brokerage fee which may be paid must be limited to the difference between the selling price of the stock and 80. The payment of the commission or brokerage fee shall be proportional to the amount of cash actually paid by the stock subscribers. All proceeds other than the amount which is herein permitted to be paid as a commission or a brokerage fee must be deposited by the Sonoma Valley Water, Light & Power Co. in a bank or banks and not expended for any purpose other than that hereafter authorized by the Railroad Commission. All expenses, such as the cost of advertising, traveling expenses, printing prospectuses, &c., incident to the sale of the stock must be paid by the agent of the company out of the commission or brokerage fee herein permitted to be paid.

3.--Sonoma Valley Water, Light & Power Co. shall file with the Commission the name and postoffice address of each stock subscriber, together with the amount of stock subscribed, price at which the subscriber has agreed to purchase the stock and the payments made by each subscriber, -such information to supplement the reports called for by the Commission's General Order No. 24.

4.--Sonoma Valley Water, Light & Power Co. shall file with the Commission a copy of its prospectus, if any is printed and distributed, a copy of its stock subscription agreement and a copy of each and every agreement under the terms of which any individual or individuals are employed to act as agent or salesman for the company to sell the stock herein authorized. The stock subscription agreement shall contain a provision to the effect that the company agrees to return to the subscriber, in the event not enough stock can be sold to carry out the company's plans, the amount paid by the stock subscriber less the commission or brokerage fees allowed by the Railroad Commission, and less such other expenses as the Railroad Commission may authorize the company to pay.

5.--On each stock subscription agreement and on any prospectus distributed by Sonoma Valley Water, Light & Power Co. shall appear this language:-

"While the Railroad Commission has authorized the issue and sale of this stock, its order is permissive only and does not constitute a recommendation or endorsement of the stock."

6.--Sonoma Valley Water, Light & Power Co. shall keep such record of the issue and sale of the stock 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 apply only to such stock as may be issued, sold and delivered on or before December 15, 1921.

The foregoing First Supplemental Opinion and First Supplemental Order are hereby approved and ordered filed as the First Supplemental Opinion and First Supplemental Order of the Railroad Commission of the State of California.

DATED at San Francisco, California, this 31st day of August, 1921.

H. B. Brundage
H. J. Loveland
George W. Masterson
Charles A. Rogers
J. J. [Signature]
Commissioners.