

Decision No. 25957

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
**FELTON WATER COMPANY**  
for orders authorizing the sale of  
all of applicants business and prop-  
erties to a new corporation and an  
order authorizing issue of stock of  
the new corporation in payment of  
the above and also for the payment  
of additional lands and water rights  
necessary for its existence.

Application No. 18787

A. M. Anthony, for applicants.

BY THE COMMISSION:

O P I N I O N

In this application the Railroad Commission is asked to make an order authorizing Felton Water Company to transfer its properties and assets to a new corporation named Felton Water Co. in exchange for stock of the new corporation in such amount as the Commission might determine.

The application shows that Felton Water Company is engaged in the business of supplying water as a public utility to inhabitants of the Town of Felton and of the adjacent subdivisions known as Big Trees, Bonnie Brae, Brookside, Felton Acres and Tanglewood, in Santa Cruz County, serving some 216 consumers. In its annual reports to the Commission for the last three calendar years it reports the following:-

|   | 1930             | 1931             | 1932               |
|---|------------------|------------------|--------------------|
| Operating revenues . . .                  | \$ 3,250.99      | \$ 3,249.55      | \$2,982.05         |
| Operating expenses . . .                  | 1,136.71         | 1,049.02         | 1,507.47           |
| Net operating income                      | 2,114.28         | 2,200.53         | 1,474.58           |
| Miscellaneous nonoperating revenues.....  | 3.57             | -                | -                  |
| Gross corporate income                    | <u>2,117.85</u>  | <u>2,200.53</u>  | <u>1,474.58</u>    |
| <b>DEDUCTIONS:</b>                        |                  |                  |                    |
| Uncollectible water bills                 | -                | 3.97             | -                  |
| Other interest deductions.....            | 1,250.00         | 1,250.00         | 1,051.20           |
| Miscellaneous deductions from income..... | -                | -                | 510.15             |
| TOTAL DEDUCTIONS.....                     | <u>1,250.00</u>  | <u>1,253.97</u>  | <u>1,561.35</u>    |
| Balance carried to surplus                | <u>\$ 867.85</u> | <u>\$ 946.56</u> | <u>\$ 86.77(1)</u> |

(1) Deficit in 1932

The company has an authorized capital stock of \$10,000. divided into 1,000 shares of the par value of \$10.00 each, all common, of which, stock to the par value of \$2,725.00 is now outstanding. It reports that its capitalization is inadequate and it appears that it has decided to organize a new corporation to acquire the properties and to issue stock in an amount more nearly approximating the value of its assets, rather than to increase its own authorized stock and to extend the life of its corporate charter, which terminates in 1936.

The properties to be transferred include some 145 acres of land, more or less, an earth-filled impounding dam and a wood diversion dam, together with pumping equipment, transmission and distribution mains, tanks, hydrants, services, meters and miscellaneous property. In Exhibit No. 1 the Commission's engineering department estimates the historical reproduction cost of the properties, as of March 31, 1933, including land at present market value, at \$38,745.00, and the accrued depreciation at \$4,349.00. The current assets of the present company exclusive of materials

and supplies which are included in the valuation figures, are reported in Exhibit No. 6 at \$67.20 and the current liabilities, consisting of accounts payable, at \$525.20.

It appears that there is now outstanding against the properties a deed of trust, (Exhibit No. 5), now past due, in the amount of \$25,000.00, together with unpaid interest in the amount of \$5,000.00, and a deed of trust, (Exhibit No. 9), also past due, covering a part of the real property, in the amount of \$8,000.00, bearing interest at the rate of seven and one-half percent per annum. The record in the proceeding indicates that the \$25,000.00 deed of trust and interest will be cancelled, but that the \$8,000.00 indebtedness will be assumed by the new corporation. On this point the record shows that it is the new company's intention to execute a new deed of trust and note, payable not later than four years after date of issue with interest at not exceeding seven percent per annum, to refund the \$8,000.00 obligation.

An examination of the record indicates that the appraisal covering the present market value of land should be increased by approximately \$200.00 to cover three additional acres of watershed land not included in Exhibit No. 1. With this adjustment it appears that the Commission might very properly use as a basis for its order authorizing the issue of stock, the sum of \$26,138.00, which is derived as follows:

|   |                    |
|---|--------------------|
| Historical reproduction cost as of March 31, 1933, including land at present market value, as shown in Exhibit No. 1..... | \$38,745.00        |
| Adjustment for land .....   | 200.00             |
| Current assets .....  | 67.00              |
| Total.....  | <u>\$39,012.00</u> |
| <u>LESS:</u>  |                    |
| Accounts payable .....  | \$ 525.00          |
| Deed of trust to be assumed.....  | 8,000.00           |
| Accrued depreciation .....  | 4,349.00           |
| Total.....  | <u>\$12,874.00</u> |
| Balance.....  | <u>\$26,138.00</u> |

The order herein will authorize Felton Water Co. to issue not exceeding \$26,200.00 of capital stock in acquiring the properties of Felton Water Company. In recording the purchase on its books of account, Felton Water Co. should charge to its fixed capital accounts the historical reproduction cost as set forth in Exhibit No. 1, with land at its estimated present market value, plus the cost of any additions and betterments made since March 31, 1933, such charge to be offset in part by a credit to Account 29-Reserve for accrued depreciation- in the amount estimated in the exhibit.

ORDER

Application having been made to the Railroad Commission for an order authorizing the transfer of water properties by Felton Water Company and the issue of stock by Felton Water Co., a public hearing having been held before Examiner Fankhauser, and the Commission being of the opinion that the application should be granted, as herein provided, and that the money, property or labor to be procured or paid for through the issue of \$26,200.00 of stock is reasonably required for the purpose specified herein, which purpose is not, in whole or in part, reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED, that Felton Water Company be, and it hereby is, authorized to transfer to Felton Water Co. all its properties, referred to in this application.

IT IS HEREBY FURTHER ORDERED, that Felton Water Co. be, and it hereby is, authorized in acquiring the properties of Felton Water Company, to issue, on or before August 31, 1933, not exceeding

\$26,200.00 of common stock and to assume the payment of the \$8,000.00 deed of trust referred to in the foregoing opinion.

IT IS HEREBY FURTHER ORDERED, that Felton Water Company be, and it hereby is, authorized to execute a deed of trust, substantially in the same form as Exhibit No. 9, filed in this proceeding and to issue a note, to be secured by said deed of trust, in the principal amount of \$8,000.00, payable on or before four(4) years after date of issue, with interest at not exceeding seven percent per annum, to pay or refund the \$8,000.00 indebtedness it is herein authorized to assume.

The authority herein granted is subject to the following conditions:-

1. The price to be paid by Felton Water Co. for the properties herein authorized to be transferred shall not hereafter be urged before this Commission as a measure of value for the purpose of fixing rates.
2. Within thirty(30) days after Felton Water Co. acquires the properties of Felton Water Company and issues its stock, it shall file with the Commission (a) a copy of the deed, or deeds, of conveyance; (b) a statement showing the exact date upon which it acquired such properties and commenced its operation; (c) a copy of each journal entry used to record on its books the purchase of the properties and the distribution to primary accounts; and (d) a report such as is required by the Railroad Commission's General Order No. 24, relating to the stock authorized to be issued.

3. The authority herein granted to execute a deed of trust is for the purpose of this proceeding only, and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said deed of trust as to such other legal requirements to which it may be subject,
4. The authority herein granted will become effective when Felton Water Co. has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is Twenty-five(\$25.00) Dollars.

DATED at San Francisco, California, this 22nd day of  
 May, 1933.

Al Lewis  
Leon A. ...  
W. B. ...  
Walter ...  
 Commissioners.

Fee # 25<sup>00</sup>/<sub>100</sub>  
 PUBLIC UTILITIES COMMISSION  
 MAY 25 1933  
W. M. ...  
 Fee # 302...