

Decision No. 27594

CONFIDENTIAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
R. H. CROSS
to sell the water system known as
Centerville Water Company to Center-
ville Water Corporation, and of Center-
ville Water Corporation to acquire and
operate said water system by the issu-
ance to R. H. Cross of 2500 shares of
common no-par stock, and for the issu-
ance to said Centerville Water Corpora-
tion of a certificate for public con-
venience and necessity to operate said
water system.

Application No. 19712

A. H. Brandt, for applicants.

BY THE COMMISSION:

O P I N I O N

In this application, filed on November 22, 1934 and amended on December 6, 1934, the Railroad Commission is asked to make an order authorizing R. H. Cross to transfer to Centerville Water Corporation, a new corporation, the water system formerly owned by Centerville Water Company, and authorizing Centerville Water Corporation in payment to issue 2500 shares of its common stock without par value.

The properties involved in this matter are used to supply water primarily for domestic purposes in and about the Town of Centerville, Alameda County. It appears that in the development of the system Centerville Water Company, the former owner, as of October 1, 1923 executed a deed of trust covering the properties and issued \$25,000.00 of first mortgage seven percent bonds due on October 1, 1933. Information on file with the Commission indicates that interest charges on such bonds were met but that on the maturity date the company defaulted in the payment of the principal, which

amounted to \$24,000.00 at that time, \$1,000.00 of bonds previously having been retired.

Thereafter the deed of trust was foreclosed and on June 12, 1934 the properties were sold at a foreclosure sale to R. H. Cross, who has continued to operate them as a public utility under the name of Centerville Water Company.

The present application indicates that R. H. Cross desires to transfer the properties and the operations to a corporate organization and to that end caused the incorporation, on or about September 5, 1934, of Centerville Water Corporation to take over the water system plant and properties, business, franchises, permits, rights thereunder and privileges appurtenant or appertaining to said plant or system. The proposed consideration for the transfer, it appears, is the entire authorized capital stock of Centerville Water Corporation consisting of 2500 shares, all common and all without par value.

For a statement of value of the properties included in the water system, applicants refer to a report filed by C. F. Mau, one of the Commission's assistant engineers, as Exhibit No. 2 in Case No. 3569, a proceeding wherein Centerville Water Company's rates and service conditions were reviewed by the Commission. That report shows the estimated historical reproduction cost of the physical properties, exclusive of organization and working capital, as \$35,648.15 as of August 1, 1933. The present proceeding shows expenditures for capital improvements of \$46.02 during the period between August 1, 1933 and June 12, 1934, and of \$5,527.19 since the latter date, the two figures bringing C. F. Mau's estimated valuation up to \$41,421.36.

The issue of 2500 shares of stock, as now proposed, would be on a basis of about \$16.57 a share, considering the foregoing figure of \$41,421.36, which, it should be noted, includes no allowance or deduction for accrued depreciation. We do not believe we should authorize such a number of shares. In the past it has been our policy in authorizing the issue of no par stock not to permit the

issue at a price or figure less than \$25.00 a share and we believe we should adhere to this policy in the present proceeding. Taking this into consideration and also making allowance for accrued depreciation, we will permit Centerville Water Corporation to issue, in purchasing the properties here under review, not exceeding 1250 shares of its no par stock.

O R D E R

The Railroad Commission having been asked to make its order authorizing R. H. Cross to transfer properties and Centerville Water Corporation to issue 2,500 shares of stock, and the Commission being of the opinion that this is not a matter in which a public hearing is necessary, that the transfer should be authorized, and that the issue of 1250 shares of stock is reasonably required for the purpose hereinafter stated, which purpose is not, in whole or in part, reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that R. H. Cross be, and he hereby is, authorized to sell, assign and transfer to Centerville Water Corporation all the properties, including franchises, permits, rights thereunder and privileges appurtenant or appertaining thereto, acquired by him at the foreclosure sale on June 12, 1934, referred to in the foregoing opinion, together with additions, betterments and improvements thereto since June 12, 1934, and said Centerville Water Corporation is hereby authorized to operate said properties.

IT IS HEREBY FURTHER ORDERED, that Centerville Water Corporation be, and it hereby is, authorized to purchase and acquire said properties and for the purpose of paying therefor, issue not exceeding 1250 shares of common stock without par value.

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

1. Within thirty (30) days after the transfer of the properties and the issue of the stock herein authorized, Centerville Water Corporation shall file with the Commission the following:-

- a. A report of the issue of the stock such as is required by the terms of the Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.
- b. A statement showing the exact date Centerville Water Corporation took over and commenced operating the properties.
- c. A copy of the deed, or deeds of conveyance from R. H. Cross to Centerville Water Corporation.

2. The authority herein granted will become effective upon the filing with the Commission by Centerville Water Corporation and R. H. Cross of a statement accepting such authority.

3. Under such authority no stock may be issued nor transfers of property made subsequent to March 31, 1935.

IT IS HEREBY FURTHER ORDERED, that the application insofar as it involves the issue of 1250 shares of stock be, and it hereby is, dismissed without prejudice.

DATED at San Francisco, California, this 17th day of December, 1934.

Leon Whitely

W. H. Kern

M. B. Hanning

W. H. Kern

Drummond

Commissioners.