

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN GABRIEL VALLEY WATER SERVICE)
to purchase, and Martin and Goold)
Water Co. and J. M. Goold to sell,)
certain water producing and distri-)
buting systems situated in the County)
of Los Angeles, State of California;)
and for authority of said San Gabriel)
Valley Water Service to issue, sell)
and deliver \$100,000. principal amount)
of its First Mortgage Bonds, and to)
sell and deliver 7,000 shares of its)
capital stock.)

Application No. 21034

Paul Overton, for San Gabriel Valley Water Service.
Elbert Wolfred, for Martin and Goold Water Co. and
J. M. Goold.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Commission is asked to enter its order;

1. Authorizing Martin and Goold Water Co. and J. M. Goold to sell their public utility water systems described in this application to San Gabriel Valley Water Service; and
2. Authorizing San Gabriel Valley Water Service to issue \$85,000. 5% first mortgage bonds and 7,000 shares of stock in payment for said properties; and
3. Authorizing San Gabriel Valley Water Service to issue and sell at not less than 92% of their face value and accrued interest, \$15,000. of first mortgage 5% bonds for the purpose of paying in part for the additions and betterments, set forth in Exhibit G filed in this proceeding; and
4. Authorizing San Gabriel Valley Water Service to execute a mortgage or deed of trust to secure the payment of its bonds.

San Gabriel Valley Water Service is a corporation organized on February 10, 1937 under the laws of California. It has an authorized stock issue of 50,000 shares without par value.

Martin and Goold Water Co. is a corporation engaged as a

public utility in the operation of public utility water plants situated in unincorporated territory near the City of El Monte in Los Angeles County. J. M. Goold also operates public utility water systems in the same area.

Martin and Goold Water Co. report 950 consumers and J. M. Goold 154, making a total of 1104. Their operating revenues for 1936 are in Exhibit E reported at \$18,700.09. It appears that they own and operate 18 different water plants which at this time are not interconnected. It is the purpose and intention of San Gabriel Valley Water Service if it acquires the properties, to consolidate the same and to furnish and supply a unified water service to all customers and consumers now served by the separate independent water systems.

Estimates of the value of the properties to be transferred were submitted by Edward R. Bowen, a consulting engineer for applicants, and by Paul Thelen, an assistant engineer for the Commission. The former prepared his estimate on a reproduction cost new basis and the latter on an historical cost new basis. The two estimates may be summarized as follows:-

<u>ITEM</u>	<u>Bowen 1/1/37 (Exh.F)</u>	<u>Thelen 12/31/36 (Exh.3)</u>
<u>Intangible values:</u>		
Organization expense	\$1,000.	\$1,150.
Water rights	100.	-
Going concern	10,000.	-
Total intangible values	<u>\$11,100.</u>	<u>\$1,150.</u>
<u>Physical properties:</u>		
Reproduction cost	\$180,119.	-
Accrued depreciation	22,813.	-
Historical cost	-	141,125.
Accrued depreciation	-	20,000.
Balance-physical properties	<u>\$157,306.</u>	<u>\$121,125.</u>
Total.....	<u><u>\$168,406.</u></u>	<u><u>\$122,275.</u></u>

The Commission in a series of decisions upon applications similar to this, involving the transfer and recapitalization of public utility properties, has held that the amount of securities to be issued should be predicated upon the actual cost, if known, or the estimated historical cost less accrued depreciation, with land, however, at the current market value. It has stated further that it

does not consider estimated reproduction cost values nor allowances for going concern as proper bases to be used in determining the amount of securities to be authorized.

In the present case there is nothing in the record to warrant the Commission in departing from its past practices. The order herein accordingly will authorize the purchasing corporation to issue its stock and bonds in an amount based upon Mr. Thelen's historical cost estimates, which are the only ones of record in the proceeding. Applicants report, however, that there are outstanding on the books of the present operators donations in aid of construction in the amount of \$18,172.30 which are refundable in whole or in part and which will be taken over by the purchaser in acquiring the water properties.

Considering this liability to be set up on the books of the transferee it would appear that the highest amount which the Commission could recognize at this time for the purpose of this proceeding would be approximately \$105,000. San Gabriel Valley Water Service therefore in acquiring the properties of Martin and Goold Water Co. and J. M. Goold may issue not exceeding \$65,000. of bonds, at par, and 1600 shares of stock, at \$25. a share and assume the payment of donations in aid of construction approximating \$18,172. If for any reason San Gabriel Valley Water Service does not acquire all of the properties referred to in said Exhibit 3, the amount of bonds and stock which it issues in payment for properties acquired should be reduced proportionately. Applicants may determine the face amount of said \$65,000. of bonds and the number of shares of said 1600 shares of stock which San Gabriel Valley Water Service will issue to Martin and Goold Water Co. and the amount of said bonds and the number of said shares of stock which San Gabriel Valley Water Service will issue to J. M. Goold.

San Gabriel Valley Water Service intends to expend about \$34,100. for additions and betterments. Exhibit G shows the purposes

for which that sum will be expended. In general the expenditures will be incurred to inter-connect some of the water systems, to drill a new well, to construct a storage reservoir, to install a new steel tank and lay new pipe. The proposed improvements it is said would eliminate twelve of the present twenty pumping plants, excepting for stand-by service, would increase the pressure to a minimum of fifty pounds, now about 30 pounds, and make the installation of fire hydrants possible. It is estimated that the power consumption would be decreased about 40%. To pay in part for these improvements San Gabriel Valley Water Service asks permission to issue \$15,000. face amount of its first mortgage bonds. It asks authority to sell the bonds at not less than 92% of their face value and accrued interest. We think the bonds should be sold for not less than 95% of their face value and accrued interest.

There has been filed in this proceeding a copy (Exhibit G) of the proposed indenture which San Gabriel Valley Water Service desires to execute for the purpose of securing the payment of its first mortgage bonds. We have reviewed such indenture and find the same to be in satisfactory form except in two particulars. We believe the indenture should be modified so that in the event of default the lien of the indenture should attach to all of the company's properties, real, personal or mixed, which it owned at the time the default occurs. We further believe that Article 12 of the indenture should be amended so that the consent of the holders of at least 75% of the bonds outstanding must be ^{obtained} ~~obtained~~ to make effective any of the amendments mentioned in said Article 12.

O R D E R

The Commission having been asked to enter its order as indicated in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and the Commission being of the opinion

that this application should be granted as herein provided, that the money, property or labor to be procured or paid for by the issue of \$80,000 of first mortgage 5% bonds and 1600 shares of common stock by San Gabriel Valley Water Service is reasonably required for the purposes herein stated and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expenses or to income, therefore,

IT IS HEREBY ORDERED as follows:-

1. Martin and Goold Water Co. may, after the effective date hereof and prior to August 1, 1937, transfer to San Gabriel Valley Water Company the properties described in Exhibit B filed in this proceeding.
2. J. M. Goold and Edith M. Goold, husband and wife, may, after the effective date hereof and prior to August 1, 1937, transfer to San Gabriel Valley Water Service, the properties described in Exhibit C filed in this proceeding.
3. San Gabriel Valley Water Service may, after the effective date hereof and prior to August 1, 1937, execute an indenture substantially in the same form as the indenture filed in this proceeding as Exhibit C, as amended by Exhibit 1, provided said indenture is modified, as indicated in the foregoing opinion; and provided further that the authority herein granted 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 indenture as to such other legal requirements to which it may be subject.
4. San Gabriel Valley Water Service may, after the effective date hereof and prior to August 1, 1937, issue in payment for the properties described in said Exhibits B and C not exceeding \$65,000. of its first mortgage 5% bonds due March 1, 1957, and not exceeding 1600 shares of its common capital stock.

5. San Gabriel Valley Water Service may after the effective date hereof and prior to December 1, 1937, issue at not less than 95% of their face value and accrued interest, \$15,000. of its first mortgage 5% bonds due March 1, 1957, for the purpose of paying in part the cost of the additions, betterments and improvements listed in Exhibit G filed in this proceeding.

6. The authority herein granted will become effective when San Gabriel Valley Water Service has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Eighty(\$80.) Dollars and has filed with the Commission two certified copies of its indenture securing the payment of the bonds herein authorized to be executed.

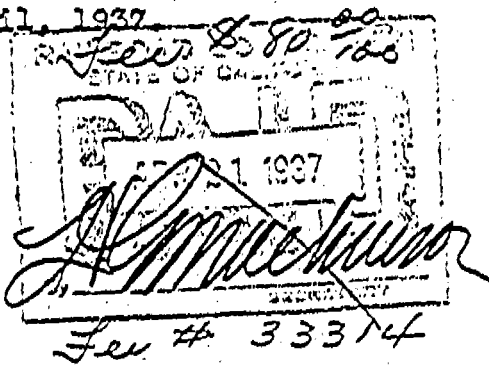
7. Within thirty(30) days after the transfer of the properties herein authorized San Gabriel Valley Water Service shall file with the Railroad Commission a true and correct copy of each or every instrument of conveyance under which it has acquired and holds title to the aforesaid properties.

8. San Gabriel Valley Water Service shall keep such record of the issue, sale and delivery of the bonds and 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 insofar as applicable, is made a part of this order.

9. This application insofar as it involves the issue of \$20,000. face amount of bonds and 5400 shares of stock be and the same is hereby dismissed without prejudice.

DATED at San Francisco, California, this 20th day of

April, 1937



John Applewell
George P. Miller
Raymond J. ...
Walter L. ...
Commissioners