

Decision No. 21298

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
APTOS WATER COMPANY,
a corporation, (a) for a certificate
of public convenience and necessity
to extend its operations in the County
of Santa Cruz, State of California,
under a permit now held by applicant,
and (b) for authority to issue \$100,000
principal amount of its bonds.

Application No. 21298

Orrick, Palmer and Dahlquist, by T. W. Dahlquist
and N. D. Rowley, for applicant.

WAKEFIELD, Commissioner:

OPINION

Aptos Water Company, a California corporation, asks permission to issue \$100,000. of its First Mortgage Bonds, Series A, 5% due June 1, 1957, and execute a mortgage of chattels and trust indenture to secure the payment of the bonds. Aptos Water Company also asks the Commission to declare that public convenience and necessity require it to exercise in its service area the rights and privileges granted by resolution of the Board of Supervisors of Santa Cruz County filed in this proceeding as Exhibit No. 2.

Aptos Water Company has outstanding \$51,003.00 par value of common capital stock. Of this stock \$51,000.00 was issued under the authority granted by Decision No. 19659 dated April 23, 1928, in Application No. 14438, and \$3.00 under the authority granted by Decision No. 19212 dated January 3, 1928 in Application No. 14241. The service area of applicant is shown on the map filed in this proceeding as Exhibit No. 4. In general, the service area consists of that portion of the Aptos and Soquel Augmentation Ranchos generally known under the following names:- Rio Del Mar Country Club, Town of Aptos, Rio Del Mar Poultry Farms, Deer Park, Monte Toyon and Rio Del Mar Lodge Sites.

It is of record that a large part of applicant's present distribution system is obsolete and inadequate. Much of it must be replaced and the system enlarged and extended to serve new consumers. The increase in the number of active service connections at the end of each calendar year is reported as follows:-

<u>Year</u>	<u>Number of Active Service Connections.</u>
1931	95
1932	140
1933	145
1934	152
1935	178
1936	275
1937 At date of hearing	362

Engineering studies showing the estimated cost of applicant's existing water properties and the estimated cost of its proposed new construction were presented by G.W.Cooper, an engineer for the company, and by Jos. Waithman and M. W. Boright, engineers for the Commission. Mr. Boright submitted a valuation of the company's lands and Mr. Waithman an historical cost estimate of existing facilities to be retained by applicant, an estimate of the accrued depreciation applicable to such facilities and an estimate of the cost of constructing new facilities. Mr. Cooper's report covers properties which applicant does not now intend to acquire and construct. As to existing properties, his report contains an estimate of the cost of reproducing such properties. The two engineering studies are in substantial agreement as to the cost of the properties which applicant intends to acquire and construct presently. hereinafter referred to as the initial system.

The estimated cost of survivor capital of the existing system combined with the estimated cost of proposed additions and extensions is by Mr. Waithman in Exhibit No. 7, reported as follows:-

	ESTIMATED		HISTORICAL		COST	
	Survivor	Capital	Proposed	Capital	INITIAL	SYSTEM
	Not		Capital		Not	
	Depreciated	Depreciated	Additions	Depreciated	Depreciated	
	\$	\$	\$	\$	\$	
<u>INTANGIBLE CAPITAL:</u>						
C- 1 Organization	340.	340.	500.	840.	840.	
C- 2 Franchises	200.	200.	-	200.	200.	
Total Intangible Capital	540.	540.	500.	1,040.	1,040.	
<u>TANGIBLE CAPITAL:</u>						
C- 5 Landed Capital	19,475.	19,475.	1,275.	20,750.	20,750.	
C- 6 Bldgs, Structures & Grounds	-	-	1,589.	1,589.	1,589.	
C-10 Wells	12,689.	8,072.	-	12,689.	8,072.	
C-11 Springs	-	-	314.	314.	314.	
C-14 Pumping Equipment	5,300.	2,597.	4,777.	8,077.	7,374.	
C-18 Distribution Mains	14,808.	10,072.	159,313.	174,121.	169,385.	
C-19 Distribution, Tanks & Reservoirs	5,646.	3,711.	14,037.	19,683.	17,748.	
C-20 Fire Hydrants	-	-	6,029.	6,029.	6,029.	
C-21 Services	1,467.	1,467.	2,738.	4,205.	4,205.	
C-22 Meters	1,831.	1,721.	2,954.	4,785.	4,675.	
C-24 General Equipment	2,230.	783.	1,024.	3,254.	1,807.	
Total Tangible Capital	61,446.	47,898.	194,050.	255,496.	241,948.	
Total-All Capital.....	\$ 61,986.	\$ 48,438.	\$194,550.	\$ 256,536.	\$ 242,988.	

As stated, Aptos Water Company asks permission to issue and sell at not less than 94% of their face value and accrued interest, \$100,000. of its first mortgage 5% bonds for the purpose of paying in part the cost of its proposed additions and betterments. Under Section 35 of its proposed trust indenture applicant covenants that it will apply all of the net proceeds from the sale of said \$100,000. of bonds toward the construction and completion of the initial water collection and distribution system described in a schedule filed with the trustee. The company further covenants and agrees fully to pay the costs of construction of said system and all bills or claims contracted or incurred in connection with said construction, to the end that said system will be completed free of all liens except the lien of the indenture.

Aptos Water Company has filed with the Commission a copy of the description of its initial collection and water system referred to in said Section 35. It comprises the system referred to in Mr. Cooper's and Mr. Waithman's reports.

It is of record that Aptos Land and Water Company, owner of applicant's stock, will unconditionally guarantee that the initial system will be fully constructed and completed. The testimony shows that the system can be completed in about six months. The Aptos Land and Water Company will either make a donation to applicant or buy its common stock for a consideration that will enable it to complete the water system. The money which Aptos Land and Water Company will provide should be made available to applicant before or at the time it is expending its bond proceeds. Funds from the two sources should be expended on a pari passu basis. A copy of the agreement of guaranty to be executed by Aptos Land and Water Company, Inc. has been filed with this Commission. There has also been filed with us a revised copy of applicant's proposed mortgage of chattels and trust indenture. The several instruments are in satisfactory form.

Applicant's operating revenues and operating expenses are estimated as follows:-

<u>Operating revenues:</u>	
From 400 domestic consumers	\$ 9,525.00
Fire hydrants	1,000.00
Rio Del Mar Country Club, Inc.	7,096.00
Total	<u>\$17,621.00</u>
<u>Operating expenses:</u>	
Power	\$ 2,350.00
Maintenance	400.00
Labor	1,000.00
Management and office expense	2,000.00
Taxes	500.00
Transportation and tools	150.00
Miscellaneous	250.00
Depreciation annuity	4,650.00
Total	<u>11,300.00</u>
Net operating revenue	<u>\$ 6,321.00</u>

It is quite evident that applicant's ability to meet its obligations is dependent largely upon the sale of water to the Rio Del Mar Country Club, Inc., hereinafter sometimes referred to as the Club. There is filed in this proceeding as Exhibit No. 3 a contract between applicant and Rio Del Mar Country Club, Inc. The contract runs for

a period of 20 years. During that time applicant agrees to furnish the Club all water reasonably required for the following purposes:-

- A. For irrigation and proper maintenance of Club's 18-hole golf course.
- B. For domestic consumption, lawn and shrubbery irrigation, and other miscellaneous uses required at the main Club building, employees' living quarters, Golf lodge and adjacent cabins, and beach club, all of which are owned and operated by the Club.
- C. For incidental sprinkling and watering of grass plots and other park areas situate within the borders of real property owned by the Club.

The agreement specifies the quantity of water which shall represent the actual consumption of water by the Club for each month during every year the agreement is in existence. The Club will pay for such quantities of water the rate on file with the Commission. Applicant may, on 30 days notice to the Club, cancel the agreement, it being specifically understood, however, that the Club shall have no right of option to cancel the agreement. The agreement is subject to such changes or modifications by the Railroad Commission as said Commission may from time to time direct, in the exercise of its jurisdiction. The agreement in its present form is not a covenant running with the land owned by the Club, nor does it bind the successors and assigns of either party. The order herein will require the agreement to be amended in those two respects.

I herewith submit the following form of order:-

O R D E R

Aptos Water Company having asked the Commission to enter its order, as indicated in the foregoing opinion, a public hearing having been held and the Commission having considered the testimony submitted in this proceeding and it being of the opinion that the money, property or labor to be procured or paid for by the issue of \$100,000. of bonds is reasonably required by applicant 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, and that applicant should be authorized to exercise in its service area the rights and privileges granted to applicant by the aforesaid resolution of the Board of Supervisors of Santa Cruz County, therefore

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA HEREBY DECLARES that public convenience and necessity require and will require Aptos Water Company to exercise in the service area defined on the map filed in this proceeding as Exhibit No. 4 the rights and privileges granted to Aptos Water Company in the resolution of the Board of Supervisors of Santa Cruz County filed in this proceeding as Exhibit No. 2.

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be and the same is hereby granted to Aptos Water Company to exercise said rights and privileges.

IT IS HEREBY FURTHER ORDERED as follows:-

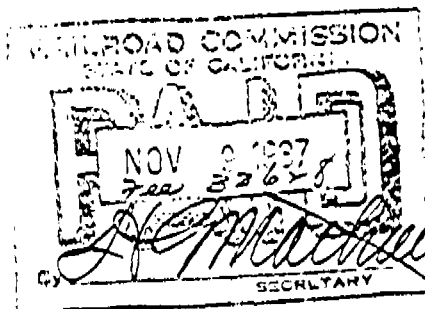
1. Aptos Water Company may, after the effective date hereof and prior to March 31, 1938, for the purpose of paying in part, as hereafter authorized, the cost of the water system referred to in the foregoing opinion, issue and sell at not less than 94% of their face value and accrued interest, \$100,000. face value of its First Mortgage Bonds, Series A, 5%, due June 1, 1957.
2. Aptos Water Company may, after the effective date hereof and prior to March 31, 1938, execute a mortgage of chattels and trust indenture in the same form, or in substantially the same form, as the mortgage of chattels and trust indenture filed in this proceeding on October 22, 1937, provided that the authority herein granted to execute said mortgage of chattels and trust indenture is for the purpose of this proceeding only, and is granted insofar as this Commission has authority under the provisions of the Public Utilities Act, and is not intended as an approval of said mortgage of chattels and trust indenture as to such other legal requirements to which said mortgage of chattels and trust indenture may be subject.

3. Aptos Water Company shall deposit in a bank the proceeds realized from the sale of its bonds and expend the same only for such purposes as may from time to time be authorized by the Railroad Commission.
4. The authority herein granted will become effective when there has been filed with the Commission an executed copy of the Agreement of Guaranty by Aptos Land and Water Company similar in form to the proposed agreement filed in this proceeding on October 25th, or in such other form as may be satisfactory to the Commission, and when Aptos Water Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Hundred(\$100.) Dollars, and when the agreement between Aptos Water Company and Rio Del Mar Country Club, Inc. filed in this proceeding as Exhibit No. 3, has been amended so that the terms thereof will bind the successors and assigns of the parties to said agreement, and that so long as any of applicant's bonds are outstanding, the agreement will constitute a covenant running with the land owned by the Rio Del Mar Country Club, Inc., its successors and assigns.
5. Within thirty(30) days after the execution of the aforesaid mortgage of chattels and trust indenture, Aptos Water Company shall file with the Commission two copies of said mortgage of chattels and trust indenture.
6. Aptos Water Company shall keep such record of the issue, sale and delivery of the bonds herein authorized to be issued 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-A, which order insofar as applicable, is made a part of this order.

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

DATED at San Francisco, California, this 9th day of November, 1937.

Walter M. Allen
Leon G. Whelan
Frank R. Allen
Rafael A. Pineda
Wm. L. Tracy
Commissioners.



\$ 100.00