

Decision No. 30823

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
LONE PINE WATER COMPANY  
for permission to issue to its now  
stockholders pro rata 6,000 shares of  
its capital stock of the par value of  
\$5.00 each, and to sell and issue an  
additional 3,000 shares of its capital  
stock, at and for the price of \$5.00  
per share.

Application No. 21765

**ORIGINAL**

Rex B. Goodcell, for applicant.

BY THE COMMISSION:

O P I N I O N

Lone Pine Water Company asks permission to issue 9,000 shares of its common capital stock having a par value of \$5.00 per share to refinance its properties, to pay indebtedness and to pay the cost of improvements.

Applicant is engaged in the business of supplying domestic water to the inhabitants of the Town of Lone Pine, Inyo County, California. It has an authorized stock issue of \$75,000. divided into 15,000 shares of the par value of \$5.00 per share. It has \$10,000. par value of stock outstanding.

Applicant serves water to about 235 consumers. For the year 1937 it reports operating revenues of \$5,274.23 and ordinary operating expenses including depreciation, state and federal taxes as shown by Exhibit B, of \$3,843.00, leaving a net revenue of \$1,431.23.

In Exhibit B it reports its assets and liabilities as of December 31, 1937 as follows:

<u>Assets</u>		
Fixed capital		\$65,814.91
Organization	\$3,354.91	
Franchises and water rights	42,000.00	
Collecting reservoirs	2,500.00	
Transmission mains	2,414.00	
Distribution mains	13,796.00	
Services	1,550.00	
Deposit on truck	<u>200.00</u>	
Cash in bank		40.52
Due from consumers		201.00
Prepaid taxes		<u>44.80</u>
Total Assets		\$66,101.23

Liabilities

Capital stock - 2,000 shares at \$5.00 par value	\$10,000.00
Notes payable	2,000.00
Accounts payable	3,020.49
Interest accrued	35.67
Accrued taxes	10.40
Reserve for accrued depreciation	5,014.00
Capital surplus	47,746.00
Deficit	1,725.33
Total Liabilities	<u>\$66,101.23</u>

The cost of the fixed capital as shown in the preceding balance sheet does not represent the actual cost of such assets, but rather an estimate of the original cost of applicant's tangible properties by C. P. Harnish, Civil Engineer, and his opinion as to the value of the company's water rights.

Applicant's request to issue \$30,000. par value of stock to its present stockholders is predicated primarily upon the cost or value of its properties as determined by C. P. Harnish. He assigns a value of \$42,000. to the company's right to take 30 miner's inches of water from Lone Pine Creek. He arrives at this value by capitalizing the cost of supplying water to Lone Pine and its inhabitants through the installation of a well and pump. Were such well and pump actually installed and Lone Pine and its inhabitants served water by means of it, applicant might lose, without any compensation, its right to the 30 miner's inches of water from Lone Pine Creek. This water would then become the property of others mentioned in the court decree in a case entitled G. C. Boland vs Lone Pine Water Company, et al.

There is no thought on the part of applicant to abandon the use of the 30 miner's inches of water. To hold that the value of this water varies with the cost of providing and operating a substitutional supply leads to absurd results. We think applicant's stock issue should be predicated on the cost of its properties. This conclusion is in line with many other decisions of the Commission. The record does not, with any degree of accuracy, reveal how much applicant expended to obtain and defend its water right. It does, however, in our opinion, warrant the conclusion that \$7,500. was expended for that purpose.

The order herein will authorize applicant to issue \$7,500. of stock to its present stockholders to reimburse them for expenditures incurred to obtain and defend its water right, and sell \$5,000.00 of stock at not less than par to pay present indebtedness.

The Commission by Decision No. 30322 dated November 8, 1937, as amended in Case No. 4200, entered its order reading in part as follows:

"IT IS HEREBY ORDERED that within thirty(30) days from and after the date of this order, Lone Pine Water Company, a corporation, be and it is hereby directed to file with the Commission plans and specifications for the improvement of its water system to eliminate muddy and discolored water, either by means of storage and settling facilities, by the installation of a well and pumping equipment or by any other practical and acceptable method, and that upon the approval of such plans by the Railroad Commission, Lone Pine Water Company shall proceed immediately with the construction thereof, said improvements to be completed and in proper working order not later than the 31st day of August, 1938."

Exhibit D attached to applicant's petition describes a plan to improve its water service.

At the hearing had on this application on May 18th, P. W. Smith, President of Lone Pine Water Company, testified that said plan had been modified and that a new location had been selected for the proposed reservoir. He is of the opinion that the reservoir can be installed at the new location at a less cost than the reservoir originally proposed and that at such location it is less susceptible to damage by floods. The cost of the new reservoir and other improvements referred to by Mr. Smith is estimated at about \$7,000. The order will authorize the issue at not less than par, \$7,000. of stock to pay the cost of the reservoir and other improvements.

Applicant also asks permission to issue \$3,000. of stock for working capital and finance further improvements to its properties. This request will be granted. Applicant should revise its balance sheet to be in line with this decision.

O R D E R

Lone Pine Water Company having asked permission to issue \$45,000. par value of its common capital stock, a public hearing having been held on this application before Examiner Fankhauser, and the Commission having considered the record in this proceeding, and it being of the opinion that Lone Pine Water Company should be permitted to issue not exceeding \$22,500.00 par value of common capital stock, that the issue of such stock 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, therefore, IT IS HEREBY ORDERED as follows:

1. Lone Pine Water Company may, on or before December 31, 1936, issue not exceeding \$22,500. par value of its common capital stock for the following purposes:
  - a. \$7,500.00 of such stock may be issued and distributed to applicant's present stockholders, to reimburse them for funds advanced to applicant to finance its properties.
  - b. \$15,000.00 of said stock may be sold by applicant for not less than par and the proceeds used for the following purposes.
    - i. To pay the cost of a new reservoir and install new pipes, about \$7,000.00
    - ii. To pay indebtedness, about 5,000.00
    - iii. To provide working capital and to pay the cost of improvements additions and betterments, about 3,000.00
    - iv. Any proceeds not needed for the aforesaid purposes may be expended only for such purposes as are hereafter authorized by the Commission.

2. This application in so far as it involves the issue of \$22,500.00 par value of common capital stock is hereby denied without prejudice.

3. Lone Pine Water Company shall keep such record of the issue, sale and delivery of the stock 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 in so far as applicable, is made a part of this order.

DATED at San Francisco, California, this 31<sup>st</sup> day of May 1938.

William M. Allen  
Leon A. Whitell  
Gauss R. Newlin  
Ray Watson  
Ray L. Riley  
COMMISSIONERS