

Decision No. 22374

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
PALM SPRINGS WATER COMPANY, )  
a corporation, to sell stock.

Application No. 22374

C. L. McFarland, for applicant.

ORIGINAL

BY THE COMMISSION:

O P I N I O N

In this proceeding Palm Springs Water Company asks permission to issue and sell at par \$90,000.00 of its common stock for the purpose of acquiring and constructing properties and paying indebtedness.

Palm Springs Water Company is engaged in the business of supplying water to its consumers in Palm Springs and in adjacent territory in Riverside County. The following tabulation shows the growth of the company's business during the past five years:-

<u>Year</u>	<u>Total Meters</u>	<u>Active Meters</u>	<u>Cu.Ft. of water consumed</u>
1934	587	543	23,244,964
1935	759	711	28,192,744
1936	1038	965	38,046,710
1937	1176	1135	46,946,996
1938	1249	1198	52,683,638

The following table shows the company's operating results for the five year period ending December 31, 1938:-

<u>Account</u>	<u>1934</u>	<u>1935</u>	<u>1936</u>	<u>1937</u>	<u>1938</u>
Operating revenues	\$36,633.03	\$42,758.59	\$55,780.47	\$71,916.45	\$79,655.65
Operating expenses	<u>27,442.10</u>	<u>28,314.06</u>	<u>32,655.04</u>	<u>39,946.88</u>	<u>59,552.66</u>
Net operating revenues	9,190.93	14,444.53	23,125.43	31,969.57	20,102.99
<u>ADD:</u>					
Rents from buildings, land and apparatus	<u>200.00</u>	<u>498.33</u>	<u>465.00</u>	<u>420.00</u>	<u>464.72</u>
Gross corporate in- come	<u>9,390.93</u>	<u>14,942.86</u>	<u>23,590.43</u>	<u>32,389.57</u>	<u>20,567.71</u>
<u>DEDUCT:</u>					
Uncollectible water bills	158.91	102.00	230.15	148.05	317.55
Other interest deduc- tions	<u>1,235.23</u>	<u>1,230.00</u>	<u>1,249.37</u>	<u>2,133.49</u>	<u>2,552.00</u>
Total deductions	<u>1,394.14</u>	<u>1,332.00</u>	<u>1,479.52</u>	<u>2,281.54</u>	<u>2,869.55</u>
Net Income	<u>7,996.79</u>	<u>13,610.86</u>	<u>22,110.91</u>	<u>30,108.03</u>	<u>17,698.16</u>
LESS: dividends paid	<u>7,752.50</u>	<u>8,750.00</u>	<u>10,000.00</u>	<u>10,000.00</u>	<u>10,000.00</u>
Balance to earned sur- plus	<u>\$ 244.29</u>	<u>\$ 4,860.86</u>	<u>\$12,110.91</u>	<u>\$20,108.03</u>	<u>\$ 7,698.16</u>

The increase in operating expenses in 1938 was due to repairing flood damages to pipe lines.

The company has an authorized stock issue of \$500,000.00 divided into 5,000 shares of the par value of \$100. each. Stock in the amount of \$125,000.00 is now outstanding. It has no bonds outstanding. On December 31, 1938 it reported \$40,000.00 of notes outstanding, \$76,179.30 of consumers deposits and \$7,452.44 of accounts payable.

Applicant presently obtains 85 inches of water from Snow Creek and at its low flow 25 inches of water from Chino Creek. In addition, it has a standby well located on Section 25, Township 4 South, Range 4 East. This well is commonly referred to as the Otis well. It is of record that applicant has no surplus gravity water. Upon several occasions the company has been using its entire available supply of gravity water. Areas not now served have made application to applicant for water. To be in a position to meet the demands for water applicant filed an application with the Division of Water Resources

to obtain 35 inches of water from Falls Creek. This application was granted on January 11, 1938. To withdraw this water from Falls Creek and more effectively control and augment its Snow Creek water supply, applicant has entered into an agreement to purchase from A. F. Hicks at a cost of \$55,000.00 Sections 29 and 33 in Township 3 South, Range 3 East and Sections 3 and 5 in Township 4 South, Range 3 East S.B.B.M.; and also all buildings and improvements located on the above described property, including any and all water rights in connection with said sections.

Snow Creek flows through the westerly side of Section 33 and Falls Creek through the easterly side of Section 33. In 1934 applicant acquired, at a cost of \$6,000.00 from Nev-Cal Electric Securities Company, the east half of the east half of Section 20 and all of Section 31, Township 3 South, Range 3 East, S.B.B.M., together with all riparian rights, water and water rights, part and parcel of or appurtenant to all or any part or parts of said land; excepting and reserving to Nev-Cal Electric Securities Company all riparian rights, water and water rights in Snow Creek, part and parcel of or appurtenant to Section 33, or any part or parts thereof, and all riparian rights, water and water rights in that certain stream known as Falls Creek, part and parcel of or appurtenant to Sections 31 and 33 or any part or parts thereof and particularly, the right to the use of all waters flowing or to flow in Falls Creek. Also excepting and reserving to Nev-Cal Electric Securities Company rights of way 50 feet in width for electric lines and for telephone lines extending to or from said Section 33, provided that such rights of way shall be selected so as not to interfere with any structure of Palm Springs Water Company then existing. The lands so conveyed to the Palm Springs Water Company are conveyed subject to all excepted and reserved rights, and to all water rights,

whatever they may be, of the Southern Pacific Company, Southern Pacific Railroad Company and Southern Pacific Land Company, and to reservations in patents and to rights of way and easements for roads, highways, ditches and pipe lines now in use or appearing of record, and to state and county taxes for the fiscal years 1934-1935, then a lien. The Palm Springs Water Company in consideration of the transfer agreed that it will not, at any time, divert or claim the right to divert, the waters of Snow Creek or erect or construct any works for such purpose upstream or southerly from the northern boundary of Section 33. Palm Springs Water Company further agreed that it will not, at any time, either as the owner of riparian lands on Snow Creek or as appropriator of water therefrom or otherwise, or at all, claim or demand the right to have water flow in Snow Creek to, or at, or downstream from, the north boundary of Section 33, so as to deprive the Nev-Cal Electric Securities Company of any water thereof or therefrom for any or all beneficial uses and purposes on Section 33 or so as to diminish the rights of, or the water available to, the Nev-Cal Electric Securities Company for beneficial uses on Section 33. The Nev-Cal Electric Securities Company in turn agreed that it will not, at any time, export water from Snow Creek off or away from Section 33.

By Decision No. 27801 dated March 8, 1935, in Application No. 19831 the Commission authorized Palm Springs Water Company to enter into an agreement with the Southern Pacific Railroad Company and the Southern Pacific Company, under the terms of which applicant and Southern Pacific use jointly the latter's pipe line, about 15,000 feet long, from Snow Creek to Palm Springs Station. Further, under such agreement Palm Springs Water Company is given the right to use such surplus waters as may not be required by the Southern Pacific for its own uses. Subsequently the Southern Pacific Company, Southern Pacific

Railroad Company and Southern Pacific Land Company have released to Palm Springs Water Company all of their rights to divert and use 1.2 second feet of water from Snow Creek. They retain the right to divert and use 2 second feet of water from Snow Creek. The pipe line from applicant's reservoir near Palm Springs was constructed and is owned by applicant. Through this pipe line applicant has been obtaining 85 inches of water, 75 inches being the quantity which it may take from Snow Creek under the permit from the Division of Water Resources, and 10 inches being surplus water of the Southern Pacific Company. The present pipe line from Snow Creek to Palm Springs Station crosses the Snow Creek wash and was partially destroyed by the 1938 flood. By owning Section 33, Palm Springs Water Company can build a pipe line from Snow Creek to its proposed Falls Creek line, a distance of about 5,000 feet. The new line will connect with its present line near Palm Springs Station. The cost of the new pipe line and intake is estimated at \$20,650.00. This line, it is said, will traverse higher ground than the present Southern Pacific line and will therefore be subject to less flood hazard. Moreover, by owning Section 33 the company can better protect the purity of its water supply. Further, by owning said Section 33, it can withdraw from Snow Creek not only the 75 inches of water and from Falls Creek the 35 inches of water allotted to it under permits from the Division of Water Resources, but it will also be in a position to ask for additional allotments and exercise its rights as a riparian owner. There is no doubt but that the water company should acquire such property and augment its present water supply.

In its petition applicant states and agrees that at no future time will any of the figures referred to or contained in this application be used for the basis of making any rates in connection with the

supplying of water by applicant to the territory served by it.

Through the use of stock proceeds applicant desires to pay the following notes:-

- (a) \$15,000.00 7% note dated Jan.1,1938, payable to A.F.Hicks
- (b) 13,000.00 7% note dated Jan.1,1938, payable to A.F.Hicks
- (c) 6,000.00 7% note dated Jan.1,1938, payable to John P.Holditch

The company asks permission to issue, as stated, additional common stock in the sum of \$90,000.00. This stock will be acquired at par by Harold J. Hicks. The company will use the proceeds to pay \$55,000.00 for the land and properties herein referred to, to pay the \$34,000.00 of indebtedness and to pay in part the cost of the new pipe lines.

#### ORDER

Palm Springs Water Company having asked permission to issue \$90,000.00 of common stock for the purposes herein stated, a public hearing having been held before Examiner Fankhauser, and the Commission being of the opinion that the money, property or labor to be procured or paid for through 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, and that this application should be granted subject to the provisions of this order, therefore,

IT IS HEREBY ORDERED that Palm Springs Water Company be, and it is hereby, authorized to issue and sell, at not less than par, on or before November 1, 1939, \$90,000.00 of its common capital stock and use the proceeds for the purposes indicated in the foregoing opinion.

IT IS HEREBY FURTHER ORDERED that Palm Springs Water Company shall keep such record of the issue and sale of the 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-A, which order insofar as applicable, is made a part of this order.

DATED at San Francisco, California, this 21<sup>st</sup> day of April, 1939.

Ray W. W. W. W.  
James D. W. W.  
Ray L. W. W.  
H. W. W.  
Justice F. W. W.

Commissioners.