

Decision No. 38417

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of
LOS NIETOS WATER COMPANY for an Order
Authorizing the Reclassification of
its Shares of Stock and the Issuance
and Sale of 800 Shares of its Capital
Stock.

Application
No. 27001

PAUL OVERTON, for applicant.

BY THE COMMISSION:

O P I N I O N

In this application, Los Nietos Water Company asks permission to issue 110 shares of its capital stock in exchange for 100 shares of Class A and 10 shares of its Class B stock now outstanding, and issue and sell 800 shares of its capital stock at their par value, to wit, \$100 per share, and use the proceeds to pay indebtedness and the cost of additions and betterments.

Applicant is engaged in furnishing and supplying water to the public in unincorporated territory near Compton, California. It has outstanding 100 shares of Class A and 10 shares of Class B stock, which shares of stock are owned by the following:

<u>Stockholder</u>	<u>Class A</u>	<u>Class B</u>
H. H. Wheeler	100	8
V. E. Motz	-	1
O. D. Collins	-	1

H. H. Wheeler acquired the stock of Los Nietos Water Company in 1939 from Dr. L. G. Zoeller. Since then applicant has reconstructed and enlarged its water system. As of June 30, 1945, it reports assets and liabilities as follows:

ASSETS

Fixed capital	\$87,596.96
Cash and deposits	11,249.23
Accounts receivable	621.14
Total assets	<u>\$99,467.33</u>

LIABILITIES

Capital stock	\$11,000.00
Notes payable	62,000.00
Accounts payable	648.59
Accrued taxes	121.20
Service billed in advance	1,248.50
Reserve for accrued depreciation	8,170.48
Corporate surplus	16,278.56
Total liabilities	<u>\$99,467.33</u>

At the end of 1944 applicant had 1015 active service connections. For 1944 its operating revenues amounted to \$19,766.56 and its operating expenses to \$18,502.04. Its net operating revenues were \$1,264.52. From this it deducts uncollectible water bills in the amount of \$107.15, leaving a net income for 1944 of \$1,157.37.

Our analysis of applicant's records (Exhibit 1) shows that its reported investment in fixed capital of \$87,596.96 includes about \$16,768.25 as representing the cost of property which is no longer in existence. The amount is distributed as follows:

Wells	\$ 825.00
Pumping equipment	2,307.40
Distribution mains	10,986.81
Tanks and reservoirs	2,184.93
Meters	464.11
Total	<u>\$16,768.25</u>

In view of the fact that property costing that amount is no longer in existence, the \$16,768.25 should be credited to applicant's fixed capital accounts and charged to its reserve for accrued depreciation and corporate surplus as provided in the uniform classification of accounts for water corporations.

Applicant has amended its Articles of Incorporation so as to provide for an authorized capital stock issue of 2500 shares of the par value of \$100 each, and of the aggregate par value of \$250,000. It asks permission to issue 110 shares of its capital stock in exchange for its outstanding Class A and Class B shares of stock on a share-for-share basis.

In Exhibit C applicant reports the cost of additions and betterments since 1939 at \$61,376.69, while in Exhibit C-1 it reports the cost of proposed additions and betterments at \$14,499.85, making a total of \$75,876.54.

Exhibit C includes \$9,352.34 representing the cost of pipes and fittings on hand. As stated, applicant's fixed capital on June 30, 1945, was reported at \$87,596.96. Deducting from this amount said \$16,768.25 leaves a balance of \$70,828.71. Adding to the \$70,828.71 the proposed cost of additions and betterments less the materials and supplies on hand makes a total of \$75,976.22.

Upon considering the evidence in this proceeding, we find that applicant should at this time be authorized to issue not exceeding \$76,000 par value of its capital stock. Of this amount \$11,000 may be issued in exchange for applicant's outstanding capital stock, while the proceeds from the sale of \$65,000 of capital stock should be used to pay indebtedness in the amount of \$62,000, and the cost of additions and betterments to applicant's properties. The proceeds from the sale of the

\$65,000 of stock, the materials and supplies on hand, together with the amount of cash and deposits, appear to us to be sufficient to enable applicant to complete its construction program as outlined in this application.

O R D E R

A public hearing having been held on this application before Examiner Fankhauser, and the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for by Los Nietos Water Company through the issue of \$76,000 par value of its capital stock is reasonably required by it for the purposes herein stated, that said purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income, and that this application, in so far as it involves the issue of \$15,000 par value of capital stock, should be denied, therefore,

IT IS HEREBY ORDERED as follows:

1. Los Nietos Water Company may, on or before December 31, 1945, issue to its present stockholders in exchange for its outstanding Class A and Class B stock, on a share-for-share basis, 110 shares of its capital stock.
2. Los Nietos Water Company may, on or before June 30, 1946, issue and sell at their par value, to wit, at \$100 per share, 650 shares of its capital stock and use the proceeds to pay the \$62,000 note to which reference is made in the foregoing opinion, and use the remainder of the proceeds to pay the cost of additions and betterments to its properties to which reference is made in Exhibit C-1 on file in this proceeding.

3. Los Nietos Water Company shall file with the Railroad Commission such reports as are required by the Commission's General Order No. 24-A, which order, in so far as applicable, is made a part of this order.

4. This application in so far as it involves the issue of \$15,000 par value of stock is denied.

5. The authority herein granted is effective upon the date hereof.

Dated at San Francisco, California, this 20th day of November, 1945.

Harold Ruden
Justin J. Gaeuen
FRANK W. BROWN
Wm. H. Russell
Harold P. Hula
Commissioners