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Decision No. 12376.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CONSERVATIVE WATER COMPANY,)
a corporation, for an order author-)
izing the issue of bonds.)

Application Number 3202

ORIGINAL

James S. Bennett,
by Harold E. Thomas, for Applicant.

BY THE COMMISSION:

O P I N I O N

CONSERVATIVE WATER COMPANY asks permission to execute a mortgage or trust indenture to secure the payment of \$250,000. of first mortgage six percent. gold bonds and issue and sell at this time \$200,000.00 of such bonds to net the company not less than ninety percent. of their face value and accrued interest, and use the proceeds for the purposes hereafter mentioned.

Conservative Water Company was organized on or about April 21, 1904. It is engaged in the business of serving water for domestic use in the City of Watts and in territory outside of said city adjacent thereto, all within the County of Los Angeles. The company has an outstanding stock issue of \$100,000. substantially all of which is owned by W. W. Pedder. In addition, the company has outstanding \$40,000.00 of eight percent. notes due in 1931. These notes have been issued pursuant to the Commission's Decision Number 8363 dated November 26, 1920. Applicant intends to redeem the notes at 105 and accrued interest. If it is able to sell its six percent. bonds at ninety or more, the payment of the eight percent. notes will re-

sult in a reduction of applicant's interest charges.

As of December 31, 1922 applicant reports that it was serving 2804 consumers. The testimony in this proceeding shows that at present applicant has 3174 consumers, of which 2175 are served through meters and the remainder are being served on a flat rate basis. For the year 1922 applicant reports operating revenues of \$38,918.53 and operating expenses of \$24,476.36, leaving net operating revenues of \$14,442.17. Operating expenses include \$1,876.64 for taxes and \$5,582.72 for depreciation. After paying its interest (\$3,351.53) and providing for uncollectible bills (\$240.75) and nonoperating expenses (\$162.84) applicant reports a surplus of \$10,687.05 for 1922. All of this surplus was invested by applicant in its business, and none distributed as a dividend.

Applicant's business has been increasing very rapidly. The growth of its business is caused in part by an increase in the population throughout the district served by applicant and in part by the abandonment of privately owned wells. Aside from the increase in applicant's business which necessitates additional construction, it is of record that both the City of Watts and the County of Los Angeles have undertaken the paving of several streets and roads, along which applicant has transmission or distribution mains. W. W. Pedder, applicant's president and principal stockholder, believes that transmission and distribution mains located in such streets and roads should be replaced, before the paving is done.

It is for the purpose of providing funds to purchase and lay additional pipes, acquire meters, and refund the \$40,000.00 of eight percent. notes, that applicant asks permission to issue and sell \$200,000.00 of six percent. thirty year bonds. The proceeds obtained from the sale of such bonds, according to the testimony, will be used for the following purposes:-

To purchase and lay new pipes	\$93,555.73
To purchase and install 2000 meters	24,470.00
To pay eight percent notes	40,000.00
Expenditures not itemized	<u>21,974.27</u>
TOTAL	<u>\$ 180,000.00</u>

The company has filed a detailed estimate of the cost of the new pipes and meters and the installation thereof aggregating \$118,025.73.

The testimony shows that applicant intends to sell its bonds through the Hellman Commercial Trust and Savings Bank. It is believed by representatives of applicant that the bonds can be sold to net the company not less than ninety percent. of their face value and accrued interest. W. W. Pedder testified that he would pay the cost of the purchasing and laying the new pipes and meters before he would use any of the bond proceeds to pay the eight percent notes.

Applicant has filed with the Commission a copy of its proposed mortgage or trust indenture. This instrument provides for an authorized bond issue of \$250,000.00. As now drawn, it reserves to the company the option to redeem the bonds after January 1, 1929 at 105 and accrued interest. It is believed that the bonds should be redeemable on or after July 1, 1925, and applicant has been requested to change its trust indenture accordingly. Consideration is also being given to the revision of that portion of the trust indenture relating to the issue of the \$50,000.00 of bonds not covered by this application. The execution of the mortgage or trust indenture will be authorized by the Commission after applicant has submitted to the Commission a revised copy satisfactory to the Commission.

ORDER

CONSERVATIVE WATER COMPANY, having applied to the Railroad Commission for permission to execute a mortgage or trust indenture and issue \$200,000.00 of bonds, a public hearing having been held

before Examiner Fankhauser and the Commission being of the opinion that the money, property or labor to be obtained or procured through the issue of such bonds is reasonably required by applicant;

IT IS HEREBY ORDERED that CONSERVATIVE WATER COMPANY be, and it is hereby, authorized to issue and sell \$200,000.00 of six percent. first mortgage gold bonds due July 1, 1953, provided such bonds are sold to net the company not less than ninety percent. of face value and accrued interest.

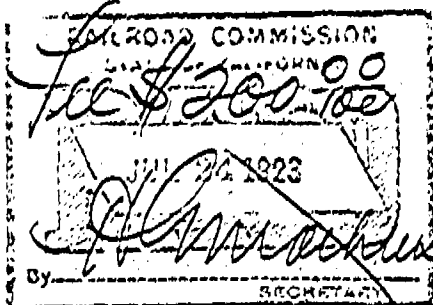
The authority herein granted is subject to further conditions as follows:-

1. No bonds shall be delivered by applicant until the Commission has authorized applicant to execute a mortgage or trust indenture to secure the payment of the bonds.
2. Upon being authorized to execute a mortgage or trust indenture, applicant may use not exceeding \$93,555.73 of the proceeds from the sale of the bonds to pay the cost of acquiring and installing new pipe lines; and not exceeding \$24,470.00 of the proceeds to pay the cost of acquiring and installing 2000 meters; and not exceeding \$40,000.00 of the proceeds to pay the \$40,000.00 of eight percent. notes—all referred to in the schedule of estimates filed in this proceeding on July 9, 1923—or to pay current indebtedness incurred for the purpose of paying the cost of acquiring and installing the said pipe lines and meters and paying said notes. The remainder of the proceeds obtained from the sale of the bonds plus such portion of the \$93,555.73; \$24,470.00 and \$40,000.00 respectively not actually needed for the purposes herein allowed, shall be

expended only for such purposes as the Railroad Commission may authorize by supplemental order or orders.

3. Conservative Water Company shall keep such record of the issue and sale of bonds 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 in so far as applicable, is made a part of this order.
4. The authority herein granted to issue bonds will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$200.00, and when this Commission has authorized applicant to execute a mortgage or trust indenture to secure the payment of the bonds. The authority to issue bonds will expire on December 15, 1923.

DATED at San Francisco, California, this 20th day of July, 1923.



[Signature]
[Signature]
Dwight Martin
Egerton Shore

Commissioners.