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Decision No. 14023.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of)
BELVEDERE WATER CORPORATION)
for authority to issue and sell cer-)
tain of its first mortgage six and)
one half percent. bonds.)

Application Number 10374.

Gibson, Dunn and Crutcher, by R. L. North
and H. F. Prince, for Applicant.

BY THE COMMISSION:

O P I N I O N

In this application Belvedere Water Corporation asks permis-
sion to issue \$250,000.00 of its first mortgage series "B" bonds and
\$155,000.00 of its common capital stock for the purpose of paying indebt-
edness, of financing the cost of acquiring properties from Janss Realty
and Finance Company and of constructing extensions, additions and bet-
terments, as hereinafter set forth.

By Decision Number 12299, dated July 3, 1923 in Applica-
tion Number 9015, the Commission authorized the transfer of the proper-
ties of Belvedere Water Company and of the utility properties of Janss
Investment Company to Belvedere Water Corporation, and the execution
of a mortgage or deed of trust and the issue of \$300,000.00 of bonds,
\$125,000.00 of seven percent. preferred stock and \$220,000.00 of com-
mon stock by Belvedere Water Corporation. The order of the Commis-
sion permitted the company to sell its bonds at not less than ninety-
four percent. of face value and to deliver \$225,533.00 of the proceeds.

and the preferred and common stock, in payment for the properties of Belvedere Water Company and of Janss Investment Company, and to use the remaining proceeds from the sale of its bonds, amounting to \$56,467.00, to finance the cost of additions and betterments. It appears that the properties have been transferred, the mortgage executed and the stock and bonds issued for the purposes indicated in the order.

Applicant's mortgage, as executed to Citizens Trust and Savings Bank, Trustee, secures the payment of an authorized issue of \$1,000,000.00 of first mortgage bonds, of which \$300,000.00 are designated Series "A", \$250,000.00 Series "B", \$250,000.00 Series "C" and \$200,000.00 Series "D". The \$300,000.00 of Series "A" bonds issued pursuant to Decision Number 12299, and the Series "B" bonds herein applied for, are dated January 1, 1923, mature January 1, 1944, bear interest at six and one half percent. per annum, and are callable at 105 and accrued interest, if redeemed on or before January 1, 1933; at 104 and accrued interest if redeemed thereafter and on or before January 1, 1938; and at 103 and accrued interest if redeemed thereafter.

The company asks permission to sell the \$250,000.00 of Series "B" bonds at not less than ninety-four percent. of face value plus accrued interest, netting it at least a total selling price of \$235,000. It intends to use \$139,437.85 of the proceeds to finance the estimated cost of additions and betterments it proposes to make, and to use \$95,562.15 to pay indebtedness due Janss Investment Company for cash advanced to applicant and used for construction purposes. Of the \$155,000.00 of stock it asks permission to deliver \$55,000.00 to Janss Investment Company in payment for cash advances of \$54,691.06 used by applicant for construction purposes, and to deliver \$100,000.00 to Janss Realty and Finance Company in payment for certain water properties constructed or installed by Janss Realty and Finance Company.

Belvedere Water Corporation operates in what is termed the East-side District of Los Angeles, serving the districts known as Boyle Heights Belvedere, Laguna and Belvedere Gardens. It is reported that the rapid increase in population and industrial development in this and adjacent territory has necessitated the construction of extensive additions and betterments not only by it, but by Janss Realty and Finance Company. The properties installed by Janss Realty and Finance Company have been used and operated by applicant and have become an integral part of applicant's system. It is now thought that the acquisition of these properties by Belvedere Water Corporation, applicant herein, will materially benefit the district and will aid in its development and will result in some economies in operation.

The record indicates that the cost of the systems installed by Janss Realty and Finance Company was \$222,406.00. Applicant has paid \$44,453.10, leaving a balance due of \$177,952.90. In full payment for the balance Janss Realty and Finance Company has agreed to accept \$100,000.00 of common stock of applicant and to transfer the properties free and clear of indebtedness. With the acquisition of the properties of Janss Realty and Finance Company, applicant's operations will be extended to the districts known as City Terrace, Belvedere Gardens Square, Bandini Units, Culver Tract, Winter Park and Masonic Tract.

Applicant reports that subsequent to January 1, 1923 and prior to June 1, 1924, there has been expended for additions to and betterments of, its system, the sum of \$198,823.29, and that during the same period there was retired from the fixed capital account the sum of \$9,975.20, leaving net additions and betterments of \$188,848.09. Deducting from this amount the sum of \$56,467.00 obtained from the bonds sold pursuant to Decision Number 12299, there is left the sum of \$132,381.09. To this amount there is added \$21,568.20 for materials and supplies and \$36,417.67 for construction work in progress, making a total of \$190,366.96, as of June 1, 1924, against which no securities have been issued.

In addition to these expenditures, applicant reports that it is necessary and desirable to expend \$139,437.85 for additional facilities in order to properly take care of the demand for service. Adding the \$139,437.85 and the \$190,366.96 to the \$222,406.00 which represents the cost of the properties to be acquired from Janss Realty and Finance Company, gives a total of \$552,210.81 representing the cost of properties to be acquired by applicant through the issue of the \$405,000.00 of securities, consisting of \$155,000.00 of stock and \$250,000.00 of bonds.

As of June 30, 1924 applicant reports a credit balance in its reserve for accrued depreciation of \$11,839.83. In Exhibit "B", which is a report prepared by Chester E. Loveland, consulting engineer, it is estimated that the depreciation annuity, computed for all depreciable properties of applicant and for those to be acquired by it, is \$12,216.37, and that the credit balance in the reserve for accrued depreciation should be \$65,683.44, had proper amounts been set aside. This sum, it appears, is determined by applying the depreciation annuity over the period of years equal to the actual age of each structure and adding thereto interest compounded on these sums at the rate of six percent. per annum. Applicant will issue a lesser amount of stock for the properties which it will acquire from Janss Realty and Finance Company than the reported cost of such properties. The difference between the cost of such properties and the amount of stock issued, applicant intends to credit to its reserve for accrued depreciation, bringing such reserve up to at least \$65,683.44. There is no objection to this procedure, but under no circumstances may any of the excess cost be credited to unappropriated surplus.

ORDER

Belvedere Water Corporation having applied to the Railroad Commission for permission to issue \$250,000.00 of bonds and \$155,000.00 of common stock, a public hearing having been held before Examiner

Fankhauser and the Railroad Commission being of the opinion that the money, property or labor to be procured or paid for by such issue is reasonably required for the purposes specified herein and that the expenditures for such purposes are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED that Belvedere Water Corporation be, and it is hereby, authorized to issue and sell, on or before December 31, 1924, at not less than ninety-four percent. of face value plus accrued interest, \$250,000.00 of its Series "B" first mortgage six and one half percent. bonds and to use approximately \$139,437.85 of the proceeds to finance the cost of the proposed additions and betterments described in Exhibit "B" and referred to in the foregoing opinion, and \$95,562.15 of the proceeds to pay in part indebtedness due Janss Investment Company.

IT IS HEREBY FURTHER ORDERED that Belvedere Water Corporation be, and it is hereby, authorized to issue on or before December 31, 1924, \$155,000.00 of its common capital stock and to deliver \$100,000.00 of such stock in payment of the properties of Janss Realty and Finance Company, to which reference is made in the foregoing opinion, and to deliver \$55,000.00 of such stock in part payment of indebtedness due Janss Investment Company.

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

1. Applicant may credit its reserve for accrued depreciation with the difference between the cost of the properties which it intends to acquire from Janss Realty and Finance Company and the stock issued in payment therefor.

2. Applicant shall keep such record of the issue and sale of the stock and 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.

3. The authority herein granted to issue stock will become effective upon the date hereof, but the authority to issue bonds will become effective only when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$250.00.

DATED at San Francisco, California, this 8th day of September, 1924.

O. C. Sesary

H. C. Brundage

Irving Martin

Edgerton Shore

J. T. Whittney

Commissioners.

