

MEM

Decision No. 17104.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
LOS ANGELES WATER SERVICE COMPANY,
CONSOLIDATED WATER AND DEVELOPMENT
COMPANY, SOUTH PARK WATER COMPANY,
LAWDALE LAND AND WATER COMPANY, MEL-
VIN PLACE WATER COMPANY and THE CAL-
HOUN PLANT for a certificate author-
izing the sale and transfer of the
properties and assets of Consolida-
ted Water and Development Company,
South Park Water Company, Lawndale
Land and Water Company, Melvin Place
Water Company and The Calhoun Plant
to Los Angeles Water Service Company,
and further authorizing said Los An-
geles Water Service Company to sell
and issue its securities.)

ORIGINAL

Application No. 12793

Knight and Reynolds, by Goodwin J. Knight, Attorney, and Frank
Gillelen, Engineer, for applicants;
Earl F. Crandall, for delegation of property owners of Green
Meadows Water District, Proponent;
Floyd M. Hinshaw, Deputy City Attorney and M. Thad. Irwin, Engi-
neer for Department of Water and Power, City of Los Angeles,
Protestant;
R. G. Thomas, for delegation of consumers, Protestant;
Charles F. Kenyon and E. F. Norden, for Chamber of Commerce of
South Los Angeles, Protestant;
Captain William Bryden, for Los Angeles Fire Department, Protestant;
Fred T. Osborn, for Harbor Boulevard Association Committee, Pro-
testant;
E. D. Wood, in propria persona, Protestant;
Thomas E. Cox, in propria persona, Proponent;
E. H. Harris, for Lewis Henry, Protestant;
L. E. Hodgen, in propria persona, and for Harbor Boulevard Asso-
ciation Committee, Protestant;
Mrs. Pearl L. Walker, for Greater South Los Angeles Chamber of
Commerce, Protestant;
H. O. Kokabe, President Harbor Boulevard Association Committee,
Protestant;
Joseph F. Hingsley, representing signers of petition in protest;
J. F. Ferguson, in propria persona, Protestant.

BY THE COMMISSION:

O P I N I O N

The Railroad Commission is asked to make an order authorizing the following:-

1. The sale of all of the property, franchises and assets of the Consolidated Water and Development Company, South Park Water Company, Lawndale Land and Water Company, Melvin Place Water Company and The Calhoun Plant to Los Angeles Water Service Company upon the terms and conditions hereafter set forth.

2. The sale and issuance of 4,000 shares (\$400,000. par value) of the common capital stock of Los Angeles Water Service Company in part consideration of the transfer of the property and assets of said companies, to said Los Angeles Water Service Company.

3. The sale and issuance of bonds of said Los Angeles Water Service Company in the aggregate face amount of \$385,000. for the purposes hereinafter set forth.

Applicant, the Los Angeles Water Service Company, is a corporation duly organized under and by virtue of the laws of the State of California. The authorized capital stock of the corporation is \$1,000,000.00 divided into 7,500 shares of common of the par value of \$100. per share and 2,500 shares of preferred of the par value of \$100. per share. The company proposes to purchase all the business, property and assets of Consolidated Water and Development Company; South Park Water Company; Lawndale Land and Water Company; Melvin Place Water Company; and The Calhoun Plant. The territory served by the several companies and plants is by applicants divided into a western and eastern division. The western division comprises the area now served by the Lawndale Land and Water Company and by some of the plants of the Consolidated Water and Development Company. The western division lies to the south and east of the City of Hawthorne. None of such division is within the city limits of Los Angeles.

The eastern division is now served by the South Park Water Company, the Melvin Place Water Company, The Calhoun Plant and by several plants of the Consolidated Water and Development Company. That portion of the eastern division bounded on the east by Central Avenue, on the north by Manchester Avenue, on the west by Figueroa Street and on the south by 120th Street, is within the city limits of Los Angeles. A portion of the eastern division is outside of the city limits. The eastern and western divisions are not interconnected, neither is it planned to interconnect the same.

Applicants in their Exhibit 5 report that the total area to be served by Los Angeles Water Service Company is six and one half square miles, of which 2.84 square miles is within the city limits of Los Angeles and 3.66 square miles without the city limits. As of January 1, 1926, the total number of active consumers is reported at 5,188.

<u>EASTERN DIVISION</u>	<u>Total No. of Consumers</u>	<u>Inside City L.A.</u>	<u>Outside City L.A.</u>
South Park Water Co.	2,256	2,247	9
Consolidated Water & Dev. Co.	1,069	949	120
Melvin Place Water Co.	681	681	-
Calhoun Plant	286	286	-
Total Eastern Division.....	<u>4,292</u>	<u>4,163</u>	<u>129</u>
<u>WESTERN DIVISION</u>			
Consolidated Water & Dev. Co.	278	-	278
Lawndale Land & Water Co.	618	-	618
Total Western Division.....	<u>896</u>	<u>-</u>	<u>896</u>
GRAND TOTAL.....	<u>5,188</u>	<u>4,163</u>	<u>1,025</u>

The properties which the several companies and individuals intend to transfer to the Los Angeles Water Service Company are described in Exhibit D; D-1; D-2; D-3; and D-4. Exhibit D consists of an inventory and appraisal of the properties prepared by Olmstead and Gillelen, Consulting Engineers, while Exhibit D-1; D-2; D-3 and D-4 contain a description of the real property to be acquired by the Los Angeles Water Service Company. In Exhibit D applicants report the reproduction cost new of the properties as of March 31, 1926 at

\$781,524.00 and the present value at \$583,606.00. The two amounts are distributed among the several companies and plants as follows:-

	Reproduction cost	Depreciation	Present Value
South Park Water Company	\$289,360.	\$47,882	\$241,478
Consolidated Water & Development Co.	259,770	85,190	174,580
Lawndale Land & Water Co.	126,297	46,702	79,595
Melvin Place Water Company	34,696	12,940	21,756
Moneta Tract Water Company	11,401	5,204	6,197
Organization	10,000	-	10,000
Water rights	50,000	-	50,000
Total value properties of Los Angeles Water Service Company before installation of proposed improvements.....	<u>\$781,524</u>	<u>\$197,918</u>	<u>\$583,606</u>

F. H. Van Hoesen, Assistant Engineer for the Commission, in the Commission's Exhibit No. 1 reports that the reproduction cost and present value of the properties as submitted by applicants, are reasonably correct, with the exception of the allowance of \$50,000. for water rights and \$10,000. for organization. Regarding these two items he states--

"In view of the fact that water is obtained from wells tapping the underground storage and can be obtained by drilling in nearly any location throughout the territory, it is believed that no value should be assigned to water rights for the purpose of this proceeding. The item of organization expense amounting to \$10,000. should not be included in the valuation at this time".

The appraisal figures submitted are said to represent estimated reproduction cost new of the properties. The \$781,524.00 includes an allowance of \$59,167.00 as the cost to re-surface the streets as required by city ordinance, while the present value of \$583,606.00 includes an allowance of \$39,977.00 for a similar purpose. These charges would have to be incurred were the entire plant constructed new or reconstructed at the present time. There is, of course, no such proposal before us now.

The above figures do not include the improvements which the Los Angeles Water Service Company intends to install at a cost of \$94,000.00 nor the improvements recently installed by the South Park Water Company at a cost of \$32,972.50, nor the \$12,275.00 of working capital that the new company intends to obtain from the sale of bonds. The three figures just mentioned aggregate \$139,247.50. Adding the \$139,247.50 to the reported reproduction cost new (\$781,524.) makes a total of \$920,771.50, and if added to the reproduction cost less depreciation or present value (\$583,606.00) one obtains a total of \$722,853.50. Against this cost or value the new company proposes to issue \$400,000.00 of common stock and \$385,000.00 of seven percent bonds due June 1, 1946. It asks permission to sell the bonds at 92 percent of their face value and use the proceeds for the following purposes:-

To pay outstanding \$125,000. of South Park Water Company bonds at 102-1/2	\$128,125.
To pay current liabilities of Consolidated Water & Development Company	50,600.
To pay for properties of Lawndale Land & Water Co.	35,000.
To pay for properties of Melvin Place Water Co.	20,000.
To pay for properties of Moneta Tract Water Co. (The Calhoun Plant)	5,000.
To pay expenses of consolidation, legal, engineering, appraisals, audits, etc.	10,000.
To make improvements and betterments	94,000.
Pumping plants	\$7,490.
Elevated storage	15,600.
Distribution system	54,460.
Meters	6,750.
Office equipment	1,200.
Engineering	8,500.
Working capital	<u>12,275.</u>
Total	<u>\$355,000.</u>

Counsel for applicants admitted that the service rendered by Consolidated Water and Development Company has been inadequate and unsatisfactory. Numerous complaints filed with the Commission from time to time show this to be the case. It appears from the Commission's Exhibit No. 1 that the main cause of the poor service from that company's system is due to the fact that each plant is operated as an independent unit so that any interruption of power or the necessity to repair pumps and equipment results in the turn-

ing off of water from consumers. In some places the lack of proper sized transmission or distribution mains causes poor pressure and service. It is believed that the program of improvements outlined by applicants which provides for higher storage tanks, the interconnection of the different pumping plants and installation of larger mains will remove all cause of complaint and enable the Los Angeles Water Service Company to give adequate and satisfactory service throughout the territory in which it intends to operate.

The question was raised whether the Los Angeles Water Service Company could, in territory annexed to the City of Los Angeles, install improvements under franchises obtained from the County of Los Angeles prior to the annexation. We are convinced that the annexation of territory to the city does not curtail any franchise rights granted by the county.

The \$400,000. of stock which Los Angeles Water Service Company asks permission to issue, is to be delivered to the South Park Water Company and will be distributed to its stockholders and to the stockholders of the Consolidated Water and Development Company as part payment for the properties of those companies.

Applicants in their Exhibit E-1 estimate the revenues for the year ending July 1, 1926 at \$128,270.00, the operating expenses for the same period including maintenance, taxes but not depreciation, at \$62,660.00, leaving a balance of \$65,610.00 for depreciation, interest, sinking fund, dividends and surplus. The \$65,610.00 is equal to 2.43 times the annual interest charge on \$385,000.00 of seven percent bonds.

The City of Los Angeles has filed a written protest against the granting of this application. It alleges, among other things, that some of the territory served by the applicants is located within the corporate limits of the City of Los Angeles, and is part of the territory known as Green Meadows District, which is bounded approxi-

mately by Manchester Ave. on the north, Figueroa Street on the west, 120th Street on the south, and Central Ave. on the east; that the Bureau of Water Works and Supply is at present installing water mains varying from six to twenty-four inches in size in the main streets of said district and prior to the paving of said streets, that it is now ready and willing to make any necessary extensions in order to supply any applicants in said district; that said Bureau of Water Works and Supply is amply equipped with water and materials to make the necessary installations of water mains and furnish the inhabitants of the district with an adequate supply of water; that a special dispensation has been granted by the Board of Water and Power Commissioners to the people of said district for the installation of water mains and service connections therein, for the reason that said district is one which is composed of very modest homes and that payments would be accepted for such extensions upon monthly installments after the initial payment for the installation of the service. Protests have also been entered by representatives of the Chamber of Commerce of South Los Angeles, by the Harbor Improvement Association and by several individuals. Petitions signed by many of the consumers have been filed both in favor of, and against the granting of the application.

The testimony of T. M. Irwin, a witness called on behalf of the City of Los Angeles, shows that the city has laid mains, or will lay mains, in streets in the territory recently (Annexation Ordinance No. 53957, approved by the Mayor of Los Angeles on February 9, 1926) annexed in advance of paving such streets and that in a relatively short period of time the city will be in a position to serve all who make application for water in the recently annexed territory. In order to obtain water from the city, the consumer must pay the city 80 cents per front foot plus the regular service connection charge of \$15. for a 3/4 inch service. Thus the owner of a 40 foot lot will have to pay \$47., of which \$15. must be paid at the time the contract is signed and the balance within four months

in equal monthly payments. None of the payments are returned to the consumer.

Representatives of civic organizations and individuals who opposed the granting of the application did so primarily on the ground that the consolidation of the properties under permission from this Commission might give the new company an exclusive franchise, that the consolidation of the properties might cause the city to delay extending its mains and that the consumers will be required to pay in rates an amount sufficient to enable the new company to redeem its bonds and stock. In our opinion, none of these fears are well founded. The granting of this application will not give the Los Angeles Water Service Company any exclusive franchise nor will it necessarily prevent any consumer from obtaining water from the city system, provided such consumer pays the city charges, nor will the consumers be required to pay in rates an amount sufficient to redeem the bonds and the stock, herein authorized to be issued. The rates to be charged by the new company will be under the supervision of the Commission and at no time has the Commission used the outstanding stock and bonds as a basis for the fixing of rates. Rates are based on the reasonable value of the property to be used in rendering service and not on the outstanding stocks and bonds.

The testimony submitted for and against the granting of this application has been carefully considered. We fully appreciate the possibility that the City of Los Angeles may secure a substantial number of the consumers now served by applicants corporation. The record, however, shows that in spite of the poor service with which some of the consumers had to contend during the past year or two, there has been no great demand made upon the city of Los Angeles for service. If all of the territory served by applicants were within the city limits, we might readily dismiss this application, for in that event no one would be left in a position where they could not obtain a satisfactory water supply. The fact is, however, that approxi-

mately 25 percent of the consumers of applicants reside outside the city limits, and that many who reside within the city limits, have expressed a desire to remain consumers of the private company. We repeat that no action that this Commission may take would prevent any one from making application to the city for service.

Giving effect to the estimated earnings submitted by applicants and considering the appraisals and the testimony relating thereto, we believe the Los Angeles Water Service Corporation should be permitted to issue after the effective date of the order herein \$250,000. of stock and \$385,000. of six and a half percent bonds, said bonds to be sold for not less than 92 percent of their face value and accrued interest, to acquire and construct the properties referred to in this opinion. If for any reason all of the said properties cannot be acquired, free and clear of all incumbrances and a good title thereto secured, the price paid for any of such properties must be adjusted accordingly. No bonds may be issued until the Commission has authorized Los Angeles Water Service Company to execute a mortgage and/or deed of trust to secure the payment of such bonds.

O R D E R

Application having been made to the Railroad Commission for permission to transfer the public utility water plants and properties referred to in the foregoing opinion to the Los Angeles Water Service Company, and said Los Angeles Water Service Company having asked permission to acquire said properties and to issue \$400,000. of stock and \$385,000. of seven percent bonds, public hearings having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that the Los Angeles Water Service Company should be permitted to issue not exceeding \$250,000. of stock and not exceeding \$385,000. of six and one half percent bonds for the purposes

herein stated and that the money, property or labor to be procured and paid for through such issue is reasonably required by Los Angeles Water Service Company, and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:-

1. South Park Water Company, Consolidated Water and Development Company, Lawndale Land and Water Company, J. L. Munson, owner of Melvin Place Water Company and J.C. Calhoun, owner of The Calhoun Plant be, and they are hereby, authorized to sell their public utility water properties, more particularly described in Exhibit D and in Exhibits D-1; D-2; D-3 and D-4, to the Los Angeles Water Service Company, which company is hereby permitted to acquire said properties.
2. Los Angeles Water Service Company may, after the effective date hereof, issue on or before February 1, 1927, not exceeding \$250,000.00 of common stock as part payment for said properties.
3. Los Angeles Water Service Company may, after the effective date hereof, issue and sell on or before February 1, 1927, at not less than 92 percent of their face value and accrued interest \$385,000. of its 6-1/2 percent bonds due June 1, 1946, and use the proceeds for the following purposes:-

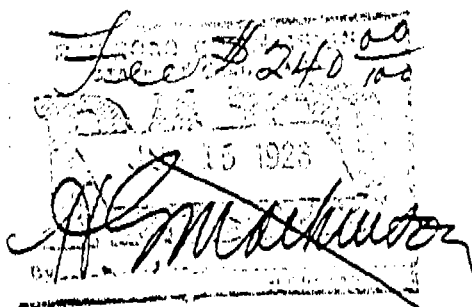
To pay outstanding \$125,000. of South Park Water Company bonds at 102-1/2.....	\$128,125.
To pay current liabilities of Consolidated Water & Development Company.....	50,600.
To pay for properties of Lawndale Land & Water Co.	35,000.
To pay for properties of Melvin Place Water Co.....	20,000.
To pay for properties of Moneta Tract Water Co.(The Calhoun Plant).....	5,000.
To pay expenses of consolidation, legal, engineering, appraisals, audits, etc.....	<u>10,000.</u>
Carried forward.....	\$248,725.

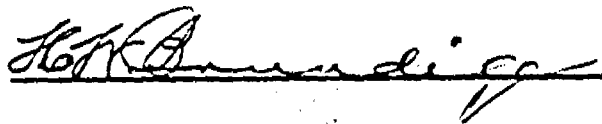
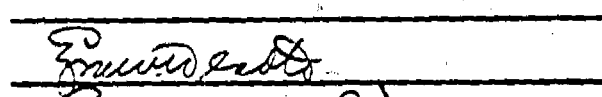
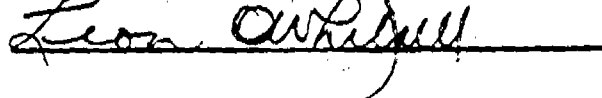
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Brought forward	\$248,725.
To make improvements and betterments	94,000.
Pumping plants.....	\$7,490.
Elevated storage.....	15,600.
Distribution system.....	54,460.
Meters.....	6,750.
Office equipment.....	1,200.
Engineering.....	8,500.
Working capital	<u>12,275.</u>
Total.....	<u>\$355,000.</u>

4. The authority herein granted will not become effective until Los Angeles Water Service Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$240., nor until the Commission by supplemental order has authorized said company to execute a mortgage and/or deed of trust to secure the payment of said \$385,000. of bonds.
5. Los Angeles Water Service Company shall keep such record of the issue, sale and delivery 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, which order insofar as applicable, is made a part of this order.
6. This application insofar as it involves \$150,000. of stock be denied, and the same is hereby dismissed without prejudice.

DATED at San Francisco, California, this 13th day of July, 1926.


 Fee \$240.00
 15 1926




 Commissioners