

Decision No. 17458

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
HOLLYDALE WATER COMPANY,)
a corporation, for permission to)
issue capital stock and to fix)
rates.)

ORIGINAL

Application No. 13015

In the Matter of the Application of)
HOLLYDALE WATER COMPANY,)
for an order granting certificate)
of public convenience and)
necessity.)

Application No. 13131

Abrahams & Sadicoff,
by H. G. Sadicoff, for applicant.

WHITSELL, COMMISSIONER:

O P I N I O N

In these two proceedings the Railroad Commission is asked to make an order granting to Hollydale Water Company, a certificate of public convenience and necessity; authorizing it to issue \$100,000. stock; and fixing the rates which it shall charge for water sold and delivered by it.

A public hearing was held on these matters in Los Angeles on September 2, 1926, at which time they were consoli-

dated for the purpose of receiving evidence and for decision. At the hearing no one appeared to protest the granting of the company's requests.

The region to be served by applicant is a tract containing about three hundred and fifty acres of land, known as Hollydale, located along the lines of the Los Angeles and Salt Lake Railroad between the cities of Los Angeles and Long Beach. It appears that this district is now being subdivided and developed, for residential and industrial occupancy, by Mercantile Investment Company, which company has installed a water system to aid in the sale of lots and to supply water to the purchasers thereof. In this connection it is reported that the territory is not served by any other public utility and that it is not in a position where it can obtain service from any other public utility or private concern.

The water system installed by the present owners is described in Exhibit "A", filed with Application No. 13015, and in Exhibit "1", filed at the hearing, and consists, in general, of three parcels of real estate, lots 13 and 14, block 11, and lot 20, block 13; two wells, one in service, drilled to a depth of 600 feet, and the other, capped at present, drilled to a depth of 500 feet; pumping equipment at the first well, consisting of two Westco pumps, two 15 h.p. fifty cycle motors and pipes, fittings, gauges and other equipment; and a distributing system consisting of about 59,955 feet of two, three, four, five, six and eight inch O.D. casing pipe. At present there are about fifty services installed, none metered.

A valuation of the system, prepared by the Engineering Service Corporation, shows the estimated reproduction cost as follows:-

1.	Main Plant:		
	Real Estate	\$5,583.00	
	Buildings at Well No. 1	666.50	
	Wells:		
	No. 1 in service	\$2,760.	
	No. 2 capped	<u>2,500.</u>	5,260.00
	Equipment:		
	Well No. 1 - pumps, motors, pressure system, etc.	<u>3,398.30</u>	\$14,907.80
2.	Mains and distributing system:		
	Mains and laterals, 59,955 feet	26,140.40	
	Installation	13,460.55	
	Service connections	2,953.50	
	Valves, fittings, etc.	<u>801.45</u>	43,355.90
3.	Fire protection system:		
	71 hydrants and valves		674.50
4.	Lot easements		<u>4,600.00</u>
	Total		\$63,538.20
	Less depreciation		<u>2,597.60</u>
	Balance		60,940.60
	Going Concern Value		<u>7,159.40</u>
	Total		<u>\$68,100.00</u>

It is proposed to transfer the water system to applicant, free and clear of indebtedness, for \$68,100. of stock. It will be noticed, however, that there is included in the foregoing tabulation an item of \$7,159.40 for going concern value, which we are asked to recognize as a basis for an order authorizing the issue of stock of like amount. In support of this request the testimony of L. W. Babcock, applicant's manager, shows the following:-

"In arriving at the valuation of 'Going Concern Value' we have regarded this item essentially as being the cost of reproducing a given income. Inasmuch as this property is in the initial earning period it cannot be regarded as having a net revenue. However, even though it shows an operating loss it has a 'going value' for it has earnings or gross income. This system has a deferred, but undoubted, earning capacity, and the going value is affected by the period

required to develop the business. We have for these purposes capitalized the anticipated average net earnings (based on a fair water rate) for a period of five years from date. We have reduced this capitalized value of five years hence to present worth today. The difference between the estimated present worth and our appraised Reproduction Cost less depreciation we call our 'Going Concern Value'."

I am unable to agree with applicant's method of determining a going concern value and believe that the \$7,159.40 included in the valuation as representing going concern value should be eliminated. Deducting the \$7,159.40 from the valuation submitted leaves a balance of \$60,940.60.

After acquiring the water properties applicant proposes to expend during the next two years, about \$31,600. for additional equipment and other purposes, consisting of the following:-

1 - 60,000 gallon 100 foot steel tank	\$6,000.00
500 - 3/4 inch meters, resident property, @ \$17.35 each	8,675.00
50 - 2 inch meters, industrial property, @ \$75. each	3,750.00
100 - 1 inch meters, business property, @ \$25.41 each	2,541.00
Duplicate pumping equipment and installation. .	4,000.00
Working capital and general purposes.	<u>6,834.00</u>
Total	<u>\$31,600.00</u>

The company asks permission to issue \$31,600. of stock for these purposes and it reports that such stock will be issued at par and purchased by Mercantile Investment Company.

Applicant has filed, as its Exhibit "C", a copy of its proposed rate schedule, which is as follows:-

1. Monthly minimum charges for metered use:-

For 5/8 inch meters	\$1.25	per	100	cu.	ft.
" 3/4 " " "	2.00	"	"	"	"
" 1 " " "	3.00	"	"	"	"
" 1-1/2 " " "	5.00	"	"	"	"
" 2 " " "	8.00	"	"	"	"
2. Monthly quantity rates:-

For use between 0 and 400 cu. ft.	\$.315	per	100	cu.	ft.
" " " 400 " 2000 " " "	.21	"	"	"	"
" " over 2000 cu. ft.18	"	"	"	"

The order herein will establish the rates which applicant will be permitted to charge. The order will also grant the request for a certificate of public convenience and necessity, but will authorize the issue of only \$92,800.00 of stock, of which \$60,900.00 may be delivered in payment for the water system, \$31,600.00 in payment for additions and extensions and working capital and \$500.00 to applicant's incorporators.

I herewith submit the following form of order:-

O R D E R

Hollydale Water Company having applied to the Railroad Commission for a certificate of public convenience and necessity and for an order fixing rates and authorizing the issue of \$100,000.00 of stock, a public hearing having been held, and the Railroad Commission being of the opinion that the issue of only \$92,800.00 of stock should be authorized and that the issue of such stock is reasonably required by applicant, and that in other respects the applications should be granted as herein provided,

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA HEREBY DECLARES that present and future public convenience and necessity require and will require that Hollydale Water Company, a corporation, acquire and operate a water system for the purpose of supplying water for domestic and industrial purposes in the district referred to in the foregoing opinion:

IT IS HEREBY ORDERED that Hollydale Water Company be, and it hereby is, directed to file with the Railroad Commission of the State of California within twenty days from the date of this order

the following schedule of rates to be charged for all service rendered subsequent to the effective date hereof:-

FLAT RATES

Three quarter inch service, per month \$1.50

METER RATES

1. Minimum Monthly Charges:

5/8 inch meters	\$1.25
3/4 " "	2.00
1 " "	3.00
1-1/2 " "	5.00
2 " "	8.00

2. Monthly Quantity Rates:

0 to 400 cu.ft. per 100 cu.ft.	\$.31 1/2
400 to 2000 " " " " " "21
2000 to 4000 " " " " " "18
4000 to 6000 " " " " " "15
Over 6000 " " " " " "10

NOTE: The above "Monthly Minimum Charges" entitle the consumer to the quantity of water due under the "Monthly Quantity Rates".

IT IS HEREBY FURTHER ORDERED that Hollydale Water Company be, and it hereby is, directed to file with the Railroad Commission within 30 days from the date of this order, rules and regulations governing the distribution of water to consumers, such rules and regulations to become effective upon their acceptance by this Commission.

IT IS HEREBY FURTHER ORDERED that Hollydale Water Company be, and it hereby is, authorized to issue at not less than par not exceeding \$92,800. of stock, and to sell \$300. thereof to its incorporators and to use the proceeds for organization expenses and working capital, and to deliver \$60,900. in full payment for the water system now owned by Mercantile Investment Company and to sell \$31,600. to finance the cost of the additions and extensions referred to in the foregoing opinion and to provide working capital.

The authority herein granted is subject to the following conditions:-

1. Applicant 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.

2. The authority herein granted will become effective twenty days after the date hereof.

IT IS HEREBY FURTHER ORDERED that Application No. 13015 insofar as it involves the request to issue \$7,200.00 of stock be, and it is hereby, dismissed without prejudice.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

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

H. B. Brundage
C. Seaver

Leon A. White
Thos. J. Koutts

Commissioners.