

Decision No. 17826

PICHA

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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

Application No. 13261.

M. C. Hartranft, for applicant.
John S. Knox, for Tujunga-Los Angeles
Consolidation Association, protestant.

BY THE COMMISSION:

O P I N I O N

Haines Canyon Water Company asks permission to issue and sell at not less than 94 percent of their face value and accrued interest \$25,000.00 of its six and one half percent Series "B" first mortgage bonds due December 1, 1943, and "apply the proceeds to the reimbursement of moneys actually expended from the treasury of the applicant on account of the expenditure of the \$24,633.94 by reason of the installation of the new equipment" referred to hereinafter.

Applicant has an authorized stock issue of \$100,000.00 all of which is outstanding. It has an authorized bond issue of \$250,000.00, the payment of which is secured by a deed of trust dated December 1, 1923. Bonds in the amount of \$135,000.00 are now outstanding. Of the outstanding bonds, \$110,000.00 bear interest at the rate of seven percent per annum and \$25,000.00 at the rate of six and one half percent per annum. The company has no notes payable and its accounts payable and other current indebt-

edness appear in the following balance sheet, which is as of
September 30, 1926:-

ASSETS:

Capital investment	\$268,231.81
Cash on hand	2,848.02
Bond interest fund	3,000.00
Accounts receivable	13,071.34
Materials on hand.	786.11
Prepaid insurance.	279.32
Deposit with Los Angeles County . .	15.00
Unamortized bond discount and expense	<u>14,231.10</u>
Total Assets.	<u>\$302,462.70</u>

LIABILITIES:

Capital stock outstanding	\$100,000.00
Bonds outstanding	135,000.00
Extension capital under contract . .	20,089.59
Accrued water purchases	5,229.28
Accounts payable	4,084.76
Accrued wages	1,150.00
Accrued taxes	927.99
Accrued interest	3,108.36
Customers deposits.	2,565.31
Reserve for depreciation.	26,674.86
Surplus	<u>3,632.55</u>
Total Liabilities.	<u>\$302,462.70</u>

As stated above, applicant reports that from
September 30, 1924, to September 30, 1926, it expended for addi-
tions and betterments to its properties \$24,633.94. This
expenditure is segregated as follows:

Franchises and water rights	\$184.00
Land	5,199.61
Buildings and structures	298.43
Pumping equipment.	1,164.11
Distribution mains	6,978.33
Reservoirs and tanks.	15.02
Hydrants.	1,949.75
Services.	3,445.65
Meters	1,087.24
Tools and appliances.	394.82
Office equipment	85.50
Garage equipment	23.00
Undistributed construction.	<u>3,808.47</u>
Total	<u>\$24,633.94</u>

Applicant under its deed of trust may call upon the trustee under such deed of trust to certify bonds equal to 75 per cent of the cost of additions and betterments exclusive of its investments in intangible property. It appears that under its deed of trust applicant is now in a position to call on the trustee to certify approximately \$18,000.00 of bonds. The remainder of the bonds which applicant asks permission to issue cannot be certified by the trustee until such time as applicant has expended additional sums of money for additions and betterments.

John S. Knox, appearing on behalf of the Tajunga - Los Angeles Consolidation Association, asks the Commission to deny the application for the alleged reason, among others, that there is no necessity at this time which requires the company to make the expenditures to which reference will be made hereafter. He called several witnesses who are consumers of applicant and who testified that the service now given by applicant is adequate and that to their knowledge the company is in a position to furnish all the water that may be required by it. Our attention was also directed to a general election called for the purpose of giving the electorate of Tajunga the opportunity to vote on the question of annexation to the City of Los Angeles.

Representatives of applicant admit that its system has been adequate to render satisfactory service to present consumers. However, to give such service the testimony shows that there have been times when applicant had to place in operation every unit of equipment. During July of this year the company operated continuously for sixty-three hours every motor owned by it. It is of record that there has been a constant increase in the quantity of

water sold by applicant. Its sales during 1922 are reported at 12,747,000 cu. ft.; during 1923 at 17,619,000 cu. ft.; during 1924 at 19,914,000 cu. ft.; during 1925 at 21,491,000 cu. ft. and during the ten months ending October 31, 1926 at 23,080,000 cu. ft. In case of a break-down the company now has no reserve equipment. Its storage reservoirs have only a capacity of 1,600,000 gallons which under normal conditions would meet the demands of the consumers for about one and a half days. We believe that the company should forthwith proceed with the installations of additional pumping and booster equipment.

As stated above applicant asks permission to issue bonds to reimburse its treasury. Both the petition and the testimony submitted under direct examination seem to proceed on the theory that inasmuch as \$24,633.94 has been expended for additions and betterments, the company is entitled to issue bonds to reimburse its treasury. Such a conclusion does not necessarily follow. Section fifty-two of the public utilities act requires the Commission to make a finding that the money, property and labor to be procured or paid for through the issue of securities is reasonably required for the purposes stated in the Commission's order, and further provides that a public utility may issue stocks, bonds, notes or other evidences of indebtedness if authorized by the Commission for the reimbursement of moneys actually expended from income or from any other moneys in the treasury of the public utility not secured by or obtained from the issue of stocks, bonds, notes or other evidence of indebtedness. The record shows that some of the money invested in additions and betterments is represented by evidences of indebtedness. As to those expenditures it is not proper to reimburse the treasury of

the company through the issue of bonds. The proper procedure is to issue bonds to pay indebtedness. Upon cross examination H. B. Lynch, president and general manager, testified that while the company was asking permission to issue bonds to reimburse its treasury, that it would use a substantial part of the proceeds obtained from the sale of such bonds to acquire pumping and booster equipment and to cover its reservoirs. He seemed to think, however, that the expenditure of moneys for such purpose was incidental to the request of the company to issue bonds to reimburse its treasury. This might be true if applicant had submitted satisfactory evidence showing that it was as a matter of law entitled to issue \$25,000.00 of bonds to reimburse its treasury. Instead of justifying the issue on the basis of reimbursement, applicant's witness emphasized the necessity for making certain improvements. The improvements, referred to in the evidence herein, we believe should be forthwith installed and the order herein will authorize the issue of \$11,000.00 of bonds for that purpose. The order will further authorize the issue of \$5,000.00 of bonds to pay indebtedness and reimburse applicant's reserve for accrued depreciation. The bonds, we believe, should be sold by applicant for not less than 97 percent of their face value and accrued interest.

O R D E R

Haines Canyon Water Company having applied to the Railroad Commission for permission to issue \$25,000.00 of its first mortgage six and one half percent Series "B" bonds due December 1, 1943, a public hearing having been held before Examiner Fankhauser

and the Commission being of the opinion that the money, property or labor to be procured or paid for by the issue of \$16,000.00 of such bonds is reasonably required by applicant and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:-

1. Haines Canyon Water Company may issue and sell for not less than 97 percent of their face value and accrued interest, \$16,000.00 of six and one half percent first mortgage bonds due December 1, 1943, and use the proceeds from \$11,000.00 of said bonds to pay, in whole or in part, the cost of acquiring and installing new pumping and booster equipment, the cost of a new building and the cost of covering its reservoirs; the proceeds from \$5,000.00 of said bonds may be used to pay indebtedness and reimburse the company's reserve for accrued depreciation.
2. The authority herein granted will become effective when applicant has paid the minimum fee prescribed by Section fifty-seven of the Public Utilities Act, which fee is Twenty-five (\$25.00) Dollars.
3. Haines Canyon Water Company shall keep such record of the issue, sale and delivery of the 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 insofar as applicable, is made a part of this order.

4. This application insofar as it involves the issue of \$9,000.00 of bonds be, and the same is hereby, denied without prejudice.

DATED at San Francisco, California, this 30th day of December, 1926.

H. B. Bondage

C. Seaver

Thos. E. Lott

Commissioners.

See \$25,000
RAILROAD COMMISSION
STATE OF CALIFORNIA
DEC 7 1927
A. M. Johnson
See \$25,000