

LEM

Decision No. 18162.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
IMPERIAL UTILITIES CORPORATION,
a corporation, for a certificate auth-
orizing it to issue and sell its
bonds in the total par value of
\$125,000.00.

ORIGINAL

Application No. 15539

Chapman and Chapman,
by L. M. Chapman, for applicant..

BY THE COMMISSION:

OPINION

Imperial Utilities Corporation asks permission to issue and sell at not less than 90 percent of their face value and accrued interest \$125,000.00 of its first mortgage six percent bonds due January 1, 1947, and use the proceeds to pay outstanding indebtedness in the amount of \$71,500.00 and to pay the cost of new properties to which reference will hereafter be made.

Applicant is engaged in the business of furnishing water for domestic, irrigation and industrial uses in the unincorporated town of Wilmar, Los Angeles County; of furnishing water for domestic and railroad use in the incorporated town of Niland, Imperial County; of furnishing water for domestic, industrial use and fire protection in the incorporated town of Calipatria, Imperial County; of furnishing water for domestic, railroad use and fire protection in the incorporated town of Barstow, San Bernardino County and of manufacturing and selling ice for railroad use in the town of Barstow, San Bernardino County.

Applicant has an authorized stock issue of \$100,000.00, of which \$50,000.00 is outstanding. It has no outstanding bonded indebtedness. The company does report, however, notes outstanding in the amount of \$78,500.00 as of February 1, 1927. Of the outstanding notes \$62,500.00, it appears, were issued to redeem \$61,500.00 of bonds.

Applicant in its Exhibit No. 4, prepared by Olmstead and Gillelan, Civil Engineers, reports the present value (reproduction cost new less depreciation) of its operating properties exclusive of real estate, stock on hand, tools and movable equipment and its ice plant at Barstow, at \$272,943.21 segregated as follows:-

Water system at Barstow	\$45,611.65
Water system at Niland	22,893.43
Water system at Calipatria	34,293.13
Water system at Wilmar	<u>169,945.00</u>
Total.....	<u>\$272,943.21</u>

Applicant in its Exhibit "A" reports its investment in land at \$12,500.00 and the depreciated cost of its Barstow ice plant, exclusive of land at \$16,450.17; adding the two amounts to the \$272,943.21 makes a total of \$301,893.38.

The number of services for December, 1927, at Wilmar are reported in applicant's Exhibit No. 4 at 1,554; at Barstow 346; at Calipatria 258; and at Niland 25, making a total of 2183.

Applicant intends to acquire at a cost of \$5,150.00 a 5000 barrel steel storage tank, now a part of its Wilmar Water System and a five room frame cottage, built on company property and occupied by the superintendent of the Wilmar Water System. These improvements are now owned by E. M. Burntrager, applicant's principal stockholder. The record herein shows that applicant has need for the improvements and that the amount which it intends to pay for the same is a reasonable price. Applicant also intends to expend \$80,400.00 for the extension and improvement of its water systems and the construction of a new ice plant at Barstow. The improvements to its water system

are set forth in Exhibit "E" attached to the petition in this proceeding and aggregate a total of \$39,900.00.

At Barstow the company intends to construct and equip an entirely new ice plant of 22 tons daily ice making capacity and 300 tons storage capacity. The cost of the plant and equipment is reported at \$40,000.00, to which should be added the cost of the land at \$1,500.00, making a total estimated cost of \$41,500.00. It is applicant's intention to sell the land on which its present ice plant is located to The Atchison, Topeka and Santa Fe Railway Company and use whatever moneys it realizes from the sale of such land to pay in part for the new ice plant.

Applicant asks permission to use the proceeds obtained from the sale of the \$125,000.00 of bonds to pay \$71,500.00 of notes (Exhibit "D") and to pay in part the cost of the new properties and improvements referred to in its Exhibit "E".

If we accept for the purpose of this proceeding the reported present value (\$272,943.21) and add thereto the cost (\$85,500.00) of the new properties and improvements, makes a total of \$358,493.21. This does not include any allowance for land or for materials and supplies.

For the two years and nine months ending September 30, 1926, applicant reports revenues and expenses as follows:-

	<u>1924</u>	<u>1925</u>	<u>First nine months of 1926</u>
Revenues-----	\$95,712.37	\$103,013.35	\$93,302.10
Operating Expenses--	71,863.90	62,042.13	52,782.90
Net Revenue-----	\$23,848.47	\$40,971.22	\$40,519.20
Depreciation-----	14,099.28	14,813.09	11,109.69
Operating Profit----	\$9,749.19	\$26,158.13	\$29,409.51
Interest on Bonds & Notes	4,446.63	4,607.44	3,380.81
NET PROFIT-----	\$5,302.56	\$21,550.69	\$26,028.70

Applicant has filed its Exhibit No. 2, a copy of its proposed mortgage and/or deed of trust which it asks permission to

execute to secure the payment of an authorized bond issue of \$350,000.00. We have reviewed this document, and believe that it should be modified in the following particulars. The form of the bond as well as the provisions of the mortgage and/or deed of trust should be modified so that the consent of the holders of at least eighty percent in principal amount of the bonds outstanding instead of seventy-five percent be required before any change in the form of the bond or deed of trust becomes effective. The instrument should contain a clause prohibiting any change in the maturity date of any bonds issued or any change in the interest rate or date on which interest becomes due and payable on bonds issued, unless such change be approved by holders of all the bonds issued and outstanding. A provision of the deed of trust, as it now reads, permits the issue of additional bonds subsequent to the issue of Series A in amounts equal to seventy-five percent of the appraised value of the property acquired or to be acquired. This should be changed so as to permit the issue of bonds only up to seventy percent of either the fair market value at that time or the actual cash cost to the company (whichever is less) of the property acquired or to be acquired. The sinking fund provision, Article V, should be modified so as to give the company permission to use one half of the annual sinking fund payments to construct additions and betterments to its properties. If any of the sinking fund payments are used for such purpose, provision should be made in the mortgage prohibiting the issue of any additional bonds against properties acquired, or constructed through the use of sinking fund moneys. Upon receipt of a revised copy of applicant's proposed mortgage containing the modifications herein indicated, the Commission will give further consideration to

authorizing the execution of the proposed mortgage and/or deed of trust.

Applicant asks permission to sell its first mortgage six percent twenty year bonds at not less than ninety or on the basis of approximately 6-7/8 percent. In view of the record in this proceeding, we are of the opinion that applicant should obtain a better price for its bonds. The order herein will permit the issue and sale of such bonds at not less than ninety-three or on a basis of approximately 6-5/8 percent.

O R D E R

Imperial Utilities Corporation having asked permission to issue \$125,000.00 of six percent twenty year bonds, 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 the issue 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 expense or to income, therefore,

IT IS HEREBY ORDERED as follows:-

1. Imperial Utilities Corporation may issue and sell at not less than ninety-three percent of their face value and accrued interest, on or before August 1, 1927, \$125,000.00 of six percent twenty year bonds and use the proceeds to pay the \$71,500.00 of notes referred to in its Exhibit "D" and to pay in part the cost of acquiring and constructing the properties

referred to in its Exhibit "D" and Exhibit "E".

2. The authority herein granted will become effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$125.00, and when the Commission has authorized applicant to execute a mortgage and/or deed of trust to secure the payment of said \$125,000.00 of bonds.

3. Imperial Utilities Corporation 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.

DATED at San Francisco, California, this 4th
day of April, 1927.

Ernest
H. Rindge
C. Sealey

Thos S. Loring

Commissioners.

