

LBM

Decision No. 19005 .

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
LOS ANGELES COUNTY WATER WORKS
for authority to exercise its fran-
chise right, to sell its properties
and to discontinue public utility
service, and of Gardena Valley Water
Company to purchase the said properties
and to assume the said public utility
service, to issue bonds, preferred
stock and common stock in payment
for said properties.

ORIGINAL

Application No. 13914.

McAdoo, Neblett & O'Connor,
by William H. Neblett, for applicants.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Railroad Commission is asked to enter its order authorizing the Los Angeles County Water Works to exercise the rights and privileges granted it by Ordinance No. 906 N.S. of the Board of Supervisors of Los Angeles County; to sell and transfer its properties to the Gardena Valley Water Company, a new corporation, and to discontinue public utility service. The Commission is further asked to authorize the Gardena Valley Water Company to purchase and operate the properties of Los Angeles County Water Works, to execute a mortgage and/or deed of trust to secure the payment of an authorized bond issue of \$500,000.00 and to issue \$125,000.00 of first mortgage six and a half percent 20-year bonds, \$30,000.00 of seven percent cumulative preferred stock and \$85,000.00 of common stock for the purpose of acquiring the properties and paying debts of Los Angeles County Water Works and paying for addi-

tions and improvements to said properties.

The Los Angeles County Water Works owns and operates a public utility water system serving the unincorporated towns of Gardena and Moneta and adjacent territory in Los Angeles County and also a portion of the City of Los Angeles in the so-called "shoestring strip". The service area is bounded on the north by Ballona Avenue, on the south by Electric Street (182nd Street), on the west by Arlington Street and on the east by Figueroa Street. At the end of 1926 there were, according to the record, 1799 services attached to the water system of Los Angeles County Water Works. For the reason that not all of the services are metered, it has been impossible for the company to furnish a record of its water sales. Both the increase in services and the operating revenues indicate an increase in the company's business. The number of services in 1922 are reported at 1242 and the operating revenues at \$22,819.00; while for 1926 the number of services, as said, are reported at 1799 and the operating revenue at \$37,675.00.

The estimated historical cost of the properties and the estimated reproduction cost thereof are reported in applicant's Exhibit "F" as follows:-

Estimated original cost:	
Plant as of December 31, 1926.....	\$246,539.00
Proposed improvements	39,100.00
Organization expenses.....	2,500.00
Total.....	<u>\$288,139.00</u>
Estimated reproduction cost:	
Plant as of December 31, 1926.....	\$304,792.00
Proposed improvements.....	39,100.00
Organization expense.....	2,500.00
Total.....	<u>\$346,392.00</u>
LESS accrued depreciation.....	<u>60,335.00</u>
Estimated reproduction cost less accrued depreciation.....	<u>\$286,057.00</u>

If the depreciation annuity is calculated on a five percent sinking fund basis, the amount in the depreciation reserve (applicable to original cost) is reported at \$42,512.00 and if calculated on six percent basis, \$39,452.00. The company in its Exhibit No. 2 shows a depreciation reserve of \$29,340.91.

In Decision No. 17208 dated August 11, 1926 (Vol. 28, Opinions and Orders of the Railroad Commission, page 451) it appears that the engineering department of the Commission estimated the original cost of the properties of the company as of December 31, 1925, at \$227,443.00. Adding the net cost of the additions and betterments installed during 1926 to the \$227,443.00 makes a total of \$243,933. as compared with the company's estimate of \$246,539.00.

The analysis of the evidence shows that the net income, that is, the amount available for interest, amortization of debt discount and expense, interest on the depreciation reserve, dividends and surplus is estimated at \$14,500.00.

Exhibit No. 2 shows that the Los Angeles County Water Works on August 31st had outstanding \$64,500.00 of common stock, \$40,000. of six percent bonds, and had current liabilities of \$80,635.08, such current liabilities consisting of \$47,821.13 of notes payable and \$32,813.95 of accounts payable. Its current assets are reported at \$11,932.47, which, deducted from current liabilities, leaves net current liabilities of \$68,702.61.

To acquire the properties of Los Angeles County Water Works, pay its debts and provide \$30,000.00 for additions and betterments, the Gardena Valley Water Company asks permission to issue and sell at 94 and accrued interest \$125,000.00 of six and one half percent 20-year bonds, \$30,000.00 of seven percent preferred stock at par, and \$85,000.00 of common stock, presumably at par. Had the proposed capitalization been outstanding during the current year, the company would earn less than two percent on the \$85,000. of common stock.

While there is no question but that the properties of Los Angeles County Water Works should be re-financed they should, in our opinion, be re-financed on a basis different from that proposed in this proceeding. Too much emphasis is being placed on the number of times the net earnings of a property may exceed bond in-

terest or dividends on preferred stock. It is just as important, if not more so, to capitalize a property so that it can show reasonable earnings on common stock. The records of this Commission show conclusively that companies which have been able to obtain some of their construction funds from the sale of common stock, have been able to sell readily bonds or preferred stock and furnish ^{MORE} satisfactory service.

It should also be remembered that we are not concerned here with a property to be constructed, but with a property which has been in operation for years and that the rates of the Los Angeles County Water Works have only recently been determined by the Commission. It is our conclusion that the capitalization of the properties in question should bear some relation to their earnings as well as the cost or the value thereof, and that a form of capitalization which on its face seems to preclude the raising of some of the construction funds through the issue of common stock is not in the public interest and therefore should not be authorized by this Commission. We therefore believe that this application, insofar as it involves the transfer of properties, the cessation of public utility service, the issue of stocks and bonds, and the execution of a mortgage, should be denied without prejudice.

Los Angeles County Water Works asks permission to exercise the rights and privileges granted to it by Ordinance No. 906 (New series) of the County of Los Angeles. This ordinance permits the company to maintain a system of water pipes under and across certain public highways in said county. A map showing the territory covered by the ordinance has been filed in this proceeding as Exhibit "D". It is alleged that the company at the time it obtained the franchise (August 20, 1923) was not aware that a certificate declaring public convenience and necessity require the exercise of the rights and privileges granted by said franchise would be required. No one appeared to protest the granting of

the certificate. It should be understood, however, that the certificate is effective as of the date of the supplemental order referred to in the following order. It should also be understood by Los Angeles County Water Works that it must give satisfactory service throughout the territory covered by the franchise, if it expects this Commission to prevent other utilities from operating in the territory.

O R D E R

Los Angeles County Water Works having asked permission to exercise such rights and privileges as were granted to it by ordinance No. 906(New series) of County of Los Angeles and to sell its properties to Gardena Valley Water Company, and thereafter discontinue public utility service, and Gardena Valley Water Company having asked permission to purchase said properties, to issue \$125,000.00 of bonds, \$30,000.00 of seven percent cumulative preferred stock and \$85,000.00 of common stock, and execute a mortgage and/or deed of trust, a public hearing having been held before Examiner Fankhauser and the Commission having considered the evidence submitted and being of the opinion that this application insofar as it involves the transfer of properties, the discontinuance of public utility service, the purchase of said properties, the issue of said bonds and stocks and the execution of said mortgage and/or deed of trust, should be denied without prejudice, and that Los Angeles County Water Works should be given permission to exercise the rights and privileges granted to it by said ordinance No. 906(New series) subject to the conditions expressed in the foregoing opinion and in this order, therefore,

IT IS HEREBY ORDERED that this application insofar as it involves the transfer of the properties of Los Angeles County Water Works, the discontinuance of public utility service by said Los Angeles County Water Works, the purchase of said properties and the assumption of public utility service by Gardena Valley Water Company, the issue of \$125,000.00 of bonds, \$30,000.00 of seven percent cumulative preferred stock, \$85,000.00 of common stock and the execution of a mortgage and/or deed of trust by said Gardena Valley Water Company be, and the same is hereby, denied without prejudice.

THE RAILROAD COMMISSION OF CALIFORNIA HEREBY DECLARES that public convenience and necessity require the exercise by Los Angeles County Water Works of the rights and privileges conferred by Ordinance No. 906(New Series) of the County of Los Angeles, adopted August 20, 1923, provided that Los Angeles County Water Works shall first have filed with the Railroad Commission a stipulation duly authorized by its Board of Directors, declaring that Los Angeles County Water Works, its successors and assigns, will never claim before the Railroad Commission or any court or other public body, a value for said rights and privileges in excess of the amount actually paid to the County of Los Angeles, as the consideration for the grant of such franchise, which amount shall be set forth in the stipulation, and shall have received from the Railroad Commission a supplemental order declaring that such stipulation has been filed in form satisfactory to the Railroad Commission.

DATED at San Francisco, California, this 4th day of November ~~October~~, 1927.

Emmerson
Osborne
Leon Whitehall
Thos. S. Powell
M. J. Carr
Commissioners.