

LEM

Decision No. 19608.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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

ORIGINAL

Application No. 14501

McAdoo, Neblitt and O'Connor, for applicants.

BY THE COMMISSION:

O P I N I O N

Los Angeles County Water Works in this proceeding asks permission to sell its properties to the Gardena Valley Water Company and thereafter discontinue public utility service. The Gardena Valley Water Company in turn asks permission to purchase the properties of the Los Angeles County Water Works, to issue and sell at 91.8357 percent of their face value and accrued interest, \$125,000.00 of six percent twenty year bonds, issue and sell for cash at par \$30,000.00 of seven percent preferred stock and deliver \$64,500.00 of common stock to the Los Angeles County Water Works as part payment for its properties and to assume the public utility obligations of Los Angeles County Water Works.

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

"shoe string 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 1927 there were, according to the company's annual report, 1860 services attached to its water system. 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.; while for 1927 the number of services, as said, are reported at 1860 and the operating revenues at \$48,651.85.

The estimated original cost of the properties of the Los Angeles County Water Works as of December 31, 1927, is reported at \$265,805.00. This amount is based upon an estimate of the original cost of the water system by the Commission's engineers as of December 31, 1925, (Decision No. 17208, Vol.28, Opinions and Orders of the California Railroad Commission, page 451.) amounting to \$227,443. To this figure was added the actual cost of net additions to capital from January 31, 1926 to December 31, 1927, shown on the books of the Los Angeles County Water Works and amounting to \$38,362.00. Deducting from the \$265,805.00 the amount which should be in the reserve for accrued depreciation, namely, \$47,022.00, and the advances by consumers for construction purposes amounting to \$6,514.23, and then adding to the difference the estimated cost of proposed additions and improvements (\$25,973.49) to be financed from the sale of the bonds and preferred stock, referred to in this application, results in a net figure of \$238,242.26.

For 1927, as stated, the company reports operating revenues of \$48,651.85 and for 1926, \$37,675.44. The operating expenses for 1927 are reported at \$31,891.00 and for 1926, \$31,274.38, leaving net operating revenue for 1927 of \$16,760.85, and for 1926, \$6,401.06. The operating expenses for the two years are segregated as follows:-

<u>ITEM</u>	<u>1927</u>	<u>1926</u>
Source of water supply expenses	-	\$2,955.93
Pumping expenses	\$7,597.24	6,959.90
Transmission and distribution expenses	13,612.85	9,070.87
Commercial expenses	2,428.88	2,322.72
General and miscellaneous expenses	2,949.02	3,759.94
Taxes	1,320.73	928.47
General amortization of capital	3,982.20	4,776.55
Total.....	<u>\$31,891.00</u>	<u>\$31,274.38</u>

Gardena Valley Water Company asks permission to issue and sell at not less than 91.8357 percent of their face value and accrued interest, \$125,000.00 of six percent twenty year bonds and use the proceeds amounting to \$114,794.62 for the following purposes:-

- a. \$40,000.00 to pay the present outstanding bonded debt of Los Angeles County Water Works amounting to \$40,000.00.
- b. \$48,821.13 to pay notes aggregating the same amount and issued by Los Angeles County Water Works to obtain funds to pay for the cost of materials purchased for improvements and additions to its water system.
- c. \$25,973.49 to be expended by the trustee under the company's proposed mortgage to reimburse the treasury for improvements and additions to the water system made, and to be made, subsequent to December 31, 1927.

The Gardena Valley Water Company asks permission to issue and sell at par \$30,000.00 of its seven percent preferred stock and use the proceeds for the following purposes:-

- a. \$27,500.00 to be used in payment of a portion of the obligation incurred by Los Angeles County Water Works for additions and improvements to its water system, which obligations on December 31, 1927, amounted to \$28,502.39.
- b. To pay organization expenses not exceeding \$2,500.00.

The \$64,500.00 of common stock which the Gardena Valley Water Company asks permission to issue will be delivered to the Los Angeles County Water Works in payment for its properties.

By Decision No. 19005 dated November 4, 1927, in Application No. 13914, the Commission denied the request of the Gardena Valley Water Company to issue \$125,000.00 of six and one half percent twenty year bonds, \$30,000.00 of seven percent cumulative preferred stock and \$85,000.00 of common stock. Since then the company's earnings have continued to increase and, as indicated herein, the requests for permission to issue securities have been modified. The company now asks authority to issue six percent bonds instead of six and one half percent and \$64,500.00 of common stock instead of \$85,000.00 of common stock. If the stock and bonds which the Gardena Valley Water Company now asks permission to issue had been outstanding during 1927 the company would have earned the equivalent of about nine percent on the \$64,500.00 of common stock.

The Gardena Valley Water Company asks permission to execute a mortgage and/or deed of trust to secure the payment of a presently authorized bond issue of \$500,000.00. It refers to the proposed mortgage and/or deed of trust which it filed in Application No. 13914. The instrument filed in that proceeding does not conform with the bonds which the company now asks permission to issue. That

instrument is also incomplete in that it does not show the date on which it proposes to execute the same; the date on which the bonds of the company may be redeemed; refers to the expenditure of bond proceeds for purposes other than those indicated in the application now before the Commission and does not show the date on which the company will be required to make sinking fund payments. In view of this situation, we believe that before the authority herein granted to issue bonds becomes effective, the Cardena Valley Water Company should file with the Commission a revised copy of its proposed mortgage and be authorized to execute such instrument.

ORDER

Los Angeles County Water Works having applied to the Railroad Commission for permission to sell its properties to the Cardena Valley Water Company and to discontinue public utility service, and Cardena Valley Water Company having asked permission to purchase such properties and to assume public utility service; to execute a mortgage and/or deed of trust and to issue \$125,000.00 of six percent twenty year bonds, \$30,000.00 of seven percent cumulative preferred stock and \$64,500.00 of common stock, and the Commission being of the opinion that this is a matter in which a public hearing is not necessary and that the issue of the bonds and stock herein authorized is reasonably required by Cardena Valley Water Company and that the expenditures are not in whole or in part reasonably chargeable to operating expenses or to income and that this application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED as follows:-

1. Los Angeles County Water Works may, after the effective date of the authority herein granted and on or before October 1, 1928, sell all of its properties to the Gardena Valley Water Company, which company is hereby authorized to acquire the same, said properties being more particularly described in Exhibit No. 1 filed in Application No. 13914. Upon the purchase of said properties by the Gardena Valley Water Company and the assumption of the public utility service by said company, the Los Angeles County Water Works may discontinue its public utility service.

2. The Gardena Valley Water Company may, after the effective date of the authority herein granted, and on or before October 1, 1928, issue \$125,000.00 of six percent twenty year first mortgage bonds, \$30,000.00 of seven percent cumulative preferred stock, and \$64,500.00 of common stock. The bonds shall be sold for not less than 91.8357 percent of their face value and accrued interest and the proceeds, other than accrued interest amounting to not less than \$114,794.62, shall be used for the following purposes:-

- a. \$40,000.00 to pay the present outstanding bonded debt of Los Angeles County Water Works amounting to \$40,000.00.
- b. \$48,821.13 to pay notes aggregating the same amount and issued by Los Angeles County Water Works to obtain funds to pay for the cost of materials purchased for improvements and additions to its water system.
- c. \$25,973.49 to be expended by the trustee under the company's proposed mortgage to reimburse the treasury for improvements and additions to the water system made, and to be made, subsequent to December 31, 1927.

The preferred stock shall be sold for not less than par and \$27,500.00 of the proceeds used to pay indebtedness incurred by Los Angeles County Water Works for additions and improvements to its water system and \$2,500.00 to pay organization expenses. The

\$64,500.00 of common stock shall be delivered by the Gardena Valley Water Company at par to the Los Angeles County Water Works in payment for its properties. The accrued interest may be used for general corporate purposes.

3. The authority herein granted will become effective when Gardena Valley Water Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$125.00, and when the Commission has authorized said company to execute a mortgage and/or deed of trust to secure the payment of the bonds herein authorized to be issued.

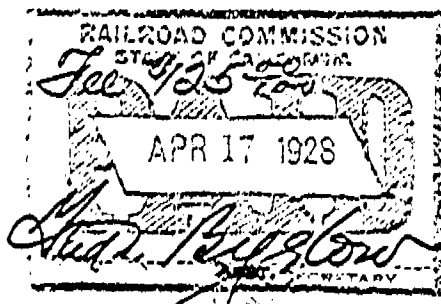
4. Applicant shall keep such record of the issue, sale and delivery of the stock and bonds herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24, which order, insofar as applicable, is made a part of this order.

5. Within sixty days after the transfer of the properties herein authorized, Gardena Valley Water Company shall file a certified copy of the deed under which it acquires title to said properties, also a statement showing the date when it acquired the same.

DATED at San Francisco, California, this 13th day of April, 1928.

Leon White
C. Seavey

M. J. Sullivan
Commissioners.



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