

LBM

Decision No. 20043

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
LOS ANGELES AND SUBURBAN WATER COMPANY,
a corporation, for authority to issue
stock.

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)
) Application No. 14779
)

In the Matter of the Application of
LOS ANGELES AND SUBURBAN WATER COMPANY,
a corporation, ARTESIA WATER COMPANY,
a co-partnership, and INGLEWOOD WATER
COMPANY, a corporation, for an order
authorizing said Los Angeles and Subur-
ban Water Company to buy, and said Ar-
tesia Water Company and said Inglewood
Water Company, respectively, to sell
certain public utility properties.

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)
) Application No. 14780
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ORIGINAL

In the Matter of the Application of
LOS ANGELES AND SUBURBAN WATER COM-
PANY, a corporation, to purchase and
hold the capital stock of certain other
public utilities.

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)
) Application No. 14781
)

O'Melveny, Tuller & Myers, by W.W.Clary and Kent Allen,
for Los Angeles and Suburban Water Company,
E. H. Breidt, for Tujunga Chamber of Commerce,
John E. Knox, for certain water users of Tujunga,
F. M. Hinshaw, Deputy City Attorney, for Department
of Water and Power, City of Los Angeles,
protestant.

BY THE COMMISSION:

O P I N I O N

In these three proceedings the Railroad Commission is
asked to make its order authorizing Artesia Water Company and
Inglewood Water Company to transfer water properties to Los Angeles
and Suburban Water Company and authorizing Los Angeles and Subur-
ban Water Company to acquire such properties and, in addition, to
acquire and hold the capital stock of Bell Water Company, Claremont

Domestic Water Company, Hollydale Water Company, Haines Canyon Water Company and Los Angeles Water Service Company, and to issue \$1,502,600.00 of its common capital stock.

The applications show that Los Angeles and Suburban Water Company is a corporation organized on or about May 3, 1928, under the laws of the State of California for the purpose, primarily, of acquiring and operating public utility water properties. It now seeks to acquire the properties comprising two water systems and the stock of five other water companies and through such acquisition to consolidate the operations of the seven utilities under one management and control. The seven companies referred to operate in Los Angeles County and, according to the testimony herein, supply about 12,137 consumers with water.

It appears that the purchasing company has made arrangements to buy the properties of the Artesia Water Company for \$17,000.00 and those of Inglewood Water Company for \$120,000.00. In both cases the properties are to be transferred free and clear of indebtedness. It has made arrangements to purchase stock of the other five companies as follows;—

1. All of the outstanding stock of Los Angeles Water Service Company, to-wit, 2505 shares (\$250,500. par value) for the price of \$100. a share.

2. At least seventy percent of the outstanding stock of Claremont Domestic Water Company (10,000 shares of the total par value of \$100,000.) for the price of \$13. a share.

3. At least 826.32 shares of the par value of \$25. each, of the outstanding stock of Bell Water Company at the price of \$100. a share for 773.32 shares and of \$90. a share for 53 shares. (1240 shares now outstanding).

4. All of the outstanding stock of Hollydale Water Company, to-wit, 612 shares (\$61,200. par value) for the total purchase price of \$20,000.00.

5. At least 72.5 percent of the outstanding stock of Haines Canyon Water Company(1000 shares of the total par value of \$100,000.) for the price of \$70. a share.

Although arrangements have been made in some cases to acquire only a part of the outstanding stock, Los Angeles and Suburban Water Company reports that it stands ready to acquire the remainder upon the same terms and it is said that the holders of additional amounts have agreed to sell their stock. It believes that it will be able to purchase all of the stock. It appears that upon acquiring all the outstanding stock of the several companies, Los Angeles and Suburban Water Company proposes to cause the transfer to it of the physical properties of such corporations.

The total cost of acquiring all the outstanding stock of the five companies is reported at \$590,500. In addition, upon obtaining control of the five corporations, applicant proposes to redeem certain note and bond indebtedness now existing against these properties. The indebtedness to be redeemed and the amounts necessary are as follows;-

Obligation	Amount Outstanding	Amount required to redeem
Bell Water Co.-Notes	\$15,500.00	\$15,500.00
Claremont Domestic Water Co. first mortgage 6s due 1954	62,500.00	64,375.00
Haines Canyon Water Co. first mortgage 7s and 6-1/2s due 1943	148,000.00	152,440.00
Los Angeles Water Service Co. first mortgage 6-1/2s due 1945	377,500.00	386,937.50
Totals.....	\$603,500.00	\$619,252.50

The total cost to Los Angeles and Suburban Water Company of acquiring the properties of the two companies and all of the stock of the other five and of retiring the bond and note indebtedness, as above, is reported at \$1,346,752.50. Applicants have filed as

Exhibit "A" in Application No. 14779, a report prepared by Haskins and Sells, certified public accountants, based upon an examination of the records of the present operators, showing a total reported investment in fixed capital of \$1,751,089.10 and net investment, after deducting depreciation, of \$1,326,629.01. The amounts agreed to be paid by Los Angeles and Suburban Water Company compared with the reported book costs of the properties appear below:-

Property	Purchase Price	Book Costs	
		Total	Less reserve for Depreciation
Artesia Water Company	\$ 17,000.00	\$ 26,430.80	26,430.80
Inglewood Water Company	120,000.00	142,412.29	77,644.80
Bell Water Company, including Turner Water System			
Stock-\$120,000.			
Notes- 15,500.	135,500.00	172,082.34	134,619.25
Claremont Dom. Water Company			
Stock- 130,000.			
Bonds- 64,375.	194,375.00	207,125.32	182,749.32
Haines Canyon Water Co.			
Stock- 70,000.			
Bonds- 152,440.	222,440.00	297,411.60	263,087.35
Hollydale Water Company			
Stock	20,000.00	70,823.74	64,082.30
Los Angeles Water Service Co.			
Stock 250,500.			
Bonds 386,937.50	637,437.50	834,802.41	578,015.19
Totals.....	\$1,346,752.50	\$1,751,089.10	\$1,326,629.01

John C. Rath, president of Los Angeles and Suburban Water Company and an engineer by profession, testified that he had made an examination of the properties involved in these proceedings and that in his opinion the historical costs, less depreciation, of the physical properties, aggregated \$1,485,000.00.

Los Angeles and Suburban Water Company proposes to issue and sell at par for cash \$1,502,100.00 of its common capital stock to finance the cost of acquiring the water properties and capital

stock and for other purposes, as follows;-

To pay for properties of Artesia Water Company and Inglewood Water Company	\$137,000.00
To pay for all the outstanding stock of Bell Water Company, Claremont Domestic Water Company, Haines Canyon Water Company, Hollydale Water Company and Los Angeles Water Service Company	590,500.00
To pay and redeem bonds and notes	619,252.50
Sub-total.....	<u>\$1,346,752.50</u>
To pay for improvements and betterments	70,438.00
To provide working capital	40,000.00
To pay commissions	19,850.00
To pay organization expenses	<u>25,000.00</u>
Total.....	<u><u>\$1,502,090.50</u></u>

In addition it asks permission to issue five shares of stock of the aggregate par value of \$500.00 to its directors.

In general, we are familiar with the properties involved in these applications, as each of the utilities heretofore have been before us in formal proceedings. It appears to us that we can at this time authorize Los Angeles and Suburban Water Company to issue \$1,372,300.00 and use the proceeds from the sale of the stock to finance the cost of acquiring the various stocks and properties and to retire the outstanding bond and note indebtedness and provide \$25,000 for working capital. We have not, however, been furnished with sufficient information on which we can base an order at this time authorizing the issue of the remaining stock. When applicant, Los Angeles and Suburban Water Company has filed the data requested at the hearing, we will give further consideration to authorizing the issue of additional stock. No evidence was submitted by protestants or representatives of consumers.

O R D E R

Applications having been filed with the Railroad Commission, as set forth in the foregoing opinion, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of

the opinion that the applications should be granted, as herein provided, and that the issue of \$1,372,300.00 of stock is reasonably required at this time for the purposes specified herein, and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expense or to income,

IT IS HEREBY ORDERED as follows:-

1. C. C. Ridgeway and Pearl Ridgeway, co-partners doing business under the firm name and style of Artesia Water Company, may transfer to Los Angeles and Suburban Water Company for \$17,000., the properties described in this agreement dated March 30, 1928, filed as Exhibit "F" in Application No. 14780, subject to the terms and conditions of said agreement.

2. Inglewood Water Company may transfer to Los Angeles and Suburban Water Company for \$120,000.00 the properties described in the agreement dated April 3, 1928 filed as Exhibit "E" in Application No. 14780, subject to the terms and conditions of said agreement.

3. Los Angeles and Suburban Water Company may acquire the aforesaid properties for the consideration indicated, provided that the transfer in each case be made free and clear of indebtedness.

4. Los Angeles and Suburban Water Company may acquire and hold all the outstanding capital stock of Bell Water Company, Claremont Domestic Water Company, Haines Canyon Water Company, Hollydale Water Company and Los Angeles Water Service Company for the prices set forth in the foregoing opinion, subject to the terms and conditions of the agreements filed as Exhibits "A", "B", "C", "D" and "E" in Application No. 14781.

5. Los Angeles and Suburban Water Company may issue and sell, for cash, at not less than par, on or before December 31, 1928,

\$1,371,800.00 of its common capital stock, and use the proceeds as follows:-

To pay for the properties of Artesia Water Company and Inglewood Water Company, provided transfer be made free and clear of indebtedness	\$137,000.00
To pay for the outstanding capital stock of Bell Water Company, Claremont Domestic Water Company, Haines Canyon Water Company, Hollydale Water Company and Los Angeles Water Service Company	590,500.00
To pay and redeem outstanding notes and bonds of Bell Water Company, Claremont Domestic Water Company, Haines Canyon Water Company and Los Angeles Water Service Company	619,252.50
To provide working capital	25,000.00
Total.....	<u>\$ 1,371,752.50</u>

The remaining proceeds and such portion of the \$1,371,752.50 not needed for the above purposes may be used only when authorized by the Commission in supplemental orders.

6. Los Angeles and Suburban Water Company may issue and sell for cash at not less than par on or before December 31, 1928, \$500. of its common capital stock to the persons named in its Articles of Incorporation and to use the proceeds for organization and incorporation expenses.

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

a. The prices at which Los Angeles and Suburban Water Company is herein authorized to acquire stock and properties shall not hereafter be urged before this Commission or other public body or court as a measure of the value of said stock or properties for rate fixing or other purposes.

b. Los Angeles and Suburban Water Company shall file with the Commission a copy of the entries by which it records on its books of account the cost of acquisition of the aforesaid stock and properties and thereafter distributes such cost.

c. Artesia Water Company and Inglewood Water Company, within sixty days after transferring their properties to Los Angeles and Suburban Water Company shall file with the Commission financial reports covering the period from January 1, 1928 to the date of transfer, such reports to be prepared on the regular annual report forms prescribed and provided by this Commission.

d. Within thirty days after acquiring the properties of Artesia Water Company and of Inglewood Water Company, Los Angeles and Suburban Water Company shall file certified copies of the deed of conveyance by which it received title to such properties and shall at the same time advise the Commission of the exact date upon which it acquired possession and control of such properties.

e. Los Angeles and Suburban Water Company shall keep such record of the issue and sale 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.

f. The authority herein granted will become effective upon the date hereof.

DATED at San Francisco, California, this 12th day of July, 1928.

W. V. Carr

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Commissioners.