

**ORIGINAL**Decision No. 23428

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 INVESTMENT WATER COMPANY, )  
 a corporation, for authority to sell )  
 its properties and to discontinue )  
 public utility service, and of )  
 INVESTMENT WATER CORPORATION, LTD., )  
 a corporation, to purchase the said )  
 properties and to assume the said )  
 public utility service and to issue )  
 bonds and common stock in payment for )  
 the said properties. )

Application No. 17040

Flint and McKay, by W. R. Flint and W. L. Nutton,  
 for applicants.

BY THE COMMISSION:

O P I N I O N

In this proceeding the Commission is asked to enter its order authorizing Investment Water Company to sell its properties to Investment Water Corporation, Ltd., and thereafter to discontinue public utility service and authorizing Investment Water Corporation, Ltd. to purchase the properties of Investment Water Company, to issue \$150,000.00 of bonds and \$100,000.00 of common stock and assume indebtedness for the purpose of paying for said properties and to assume the public utility obligations of Investment Water Company.

The Investment Water Company is now engaged in the business of supplying water as a public utility for domestic, industrial and municipal purposes to consumers located in, and in the neighborhood of, the Angeles Mesa Addition to the City of Los Angeles, in an unincorporated territory situate adjacent thereto and/or nearby, all located in the County of Los Angeles.

The territory served by the Investment Water Company is more particularly described in Exhibit "E", as comprising about 1.06 square miles in and in the neighborhood of the Angeles Mesa Addition to the City of Los Angeles. It extends, into the city proper, from Crenshaw Boulevard (Angeles Mesa Drive) three quarters of a mile easterly to the mid-block between Arlington (First) and Van Ness Avenues, and from Vernon Avenue one-half mile southerly. City lands served also include a strip one-half block wide west of Crenshaw Boulevard from McClung Walk on the north to the above defined southern boundary, and a small district limited by the half block north and south of Slauson Avenue and east of Alviso Avenue. In the County of Los Angeles, the company's service area comprises those lands adjoining the first two in the above outlined localities and reaching westerly seven-tenths of a mile or more, as well as that territory lying between Chanson Drive and Mullen Way, the alley south of Slauson Avenue, the city limits and the unsubdivided portion of the Baldwin Hills. Furthermore, not immediately contiguous to the last mentioned areas, but connected thereto by an eight inch transmission main lie some most recently piped tracts. Mains here serve a territory bounded on the north by Slauson Avenue and the northerly line of Tract No. 9831, on the east and south by that strip of the City of Los Angeles which confines the City of Inglewood on its northern border, on the west by Orange Drive and the westerly boundary of the above numbered tract.

The Investment Water Company obtains the major portion of its water supply by pumping from wells. Its main pumping plant is situate on the northerly side of 48th Street between Fourth and Fifth Avenues and is usually referred to as No. 1. In this unit there are three wells which under average operating conditions have a capacity of 375 gallons per minute and, in addition, the company has

Well No. 8 and its Arlington pumping plant, commonly referred to as Plant No. 2. The Arlington pumping plant consists of four wells, which are used only for standby service. In addition to these wells, the pipes of the Investment Water Company are connected with the water system of the City of Los Angeles. The distribution system of the Investment Water Company consists of approximately 22.2 miles of mains, not including the pipe laid in service manifold. 98-1/2 per cent of the mains are 4, 6, 8 or 10 inches in diameter which insures an ample capacity. A large percentage of the distributing system consists of cast iron pipe. For many years past the company has adhered rigidly to the current specifications of the Bureau of Water Works and Supply of the City of Los Angeles. All the services are metered. As of June 1, 1930, there were 1685 service meters installed, practically all of which were active. Fire protection is furnished both in the city and in the county through the installation of 81 fire hydrants of the type approved by the City of Los Angeles.

The Investment Water Company, as of September 30, 1930, reports assets and liabilities as follows:

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<u>ASSETS</u>	
Fixed capital installed.....	\$326,082.93
Due from consumers and agents.....	5,696.86
Materials and supplies.....	350.00
Accounts receivable (Investment Water Corporation, Ltd)	2,852.23
Total Assets.....	<u>\$334,982.02</u>

<u>LIABILITIES</u>	
Common capital stock outstanding.....	\$ 30,000.00
Accounts with system corporations.....	165,265.28
Consumers advances for construction.....	10,588.24
Donations in aid of construction.....	488.30
Taxes accrued (City and County net).....	559.17
Reserve for accrued depreciation.....	19,187.29
Reserve for Federal income tax.....	970.00
Corporate surplus unappropriated.....	13,036.83
Capital surplus.....	94,886.91
Total Liabilities.....	<u>\$334,982.02</u>

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All of the company's outstanding stock is owned or controlled by Los Angeles Investment Company. Officials of the Los Angeles Investment Company have been operating the properties owned by the Investment Water Company largely as though that property was a department of the Los Angeles Investment Company. The water company has not been charged with amounts which, were it operated as an independent property, it would have had to pay for services of engineers and accountants.

The record shows that Los Angeles Investment Company has no present intention of disposing of its interest in the water system. It is felt that the properties of the Investment Water Company should be recapitalized and that the most expeditious manner to accomplish such end, is the transfer of the properties to a new corporation.

By Decision No. 20961, dated April 13, 1929, in Application No. 15158 (Vol. 32, Opinions and Orders of the Railroad Commission of California, page 832), which decision became effective as of May 21, 1929, the Commission fixed the rates which the Investment Water Company is now charging. In its decision <sup>the Commission</sup> finds that the rates fixed by its order should produce a fair return upon a rate base of \$275,000.00. In Exhibit "E" filed in this proceeding, the estimated original cost of the properties of the Investment Water Company is reported at \$364,514.00. This includes \$39,500.00 for going concern value, \$22,802.00 for franchises and water rights and \$46,685.00 for land. The Commission in its rate decision did not recognize any item for going concern value, nor did it specifically allow any amount for franchises and water rights. It appears from the decision that it recognized \$46,685.00 as the value of the company's lands. The estimated reproduction cost new of the Investment Water Company properties, as of June 1, 1930, is in Exhibit "E" reported at \$413,345.00 and the reproduction cost new, less depreciation, \$383,364. These figures include \$43,100.00 for franchises and water rights, \$46,685.00 for lands, \$39,500.00 for going concern value. The estimated reproduction cost new depreciated indicates that the depreciable properties are in approximately an eighty-nine percent condition. If the same condition

percentage is applied to the estimated original cost of the depreciable properties, we find that the estimated original cost of the properties depreciated, including present value of land, is about \$271,500.00.

For the year ending May 31, 1930, Investment Water Company had, according to Exhibit "E", operating revenues and operating expenses as follows:

Operating revenue.....	\$45,616.38
Operating expenses including state and local taxes but not depreci- ation.....	<u>19,594.25</u>
Net revenue for depreciation, federal taxes and fair return.....	26,022.13
Less depreciation calculated on 5% sinking fund basis.....	<u>2,608.36</u>
Balance.....	<u>\$23,413.77</u>

Investment Water Corporation, Ltd. asks permission to issue for the purpose of acquiring the properties of the Investment Water Company, \$100,000.00 of common stock and \$150,000.00 of six per cent twenty year bonds, payable October 1, 1950. In addition, it will assume all the liabilities and indebtedness of Investment Water Company, except such indebtedness as is payable to system corporations. As of September 30, 1930, the indebtedness to be assumed, as shown by its balance sheet, totalled \$11,147.41.

The stock will be issued to the Investment Water Company and the bonds sold to the Los Angeles Investment Securities Corporation at 95 percent of their face value plus accrued interest. The proceeds obtained from the sale of the bonds will be delivered to the Investment Water Company as part payment for its properties. The properties of the Investment Water Company will be acquired free and clear of all liens and encumbrances.

There has been filed in this proceeding as Exhibit "G" a copy of the proposed trust indenture which Investment Water Corporation, Ltd. asks permission to execute. We have reviewed this trust

indenture and find the same to be in satisfactory form except that we believe it should be modified so that cash and accounts receivable will become subject to the lien of the indenture if and when the company is declared to be in default, and that the Series "A" bonds should be limited to \$150,000.00 face value. Furthermore, we believe that Article IV of the indenture should be amended by striking out those provisions which authorize the corporation through its Board of Directors, or otherwise, to indicate to the trustee the series of bonds which are to be redeemed in whole or in part through the use of sinking fund monies.

#### ORDER

The Commission having been requested to enter its order, as indicated in the foregoing opinion, 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 \$100,000.00 of stock and \$150,000.00 of bonds by the Investment Water Corporation, Ltd. is reasonably required for the purpose herein stated and that the expenditures for such purpose are not, in whole or in part, reasonably chargeable to operating expense or to income and that this application should be granted, as herein provided, therefore,

IT IS HEREBY ORDERED as follows:

(1) Investment Water Company may, on and after the effective date of this order and prior to June 30, 1931, sell all of its properties, which are more particularly described in Exhibit "I", provided that the Investment Water Corporation, Ltd. will assume, and it is hereby authorized to assume, all of the liabilities of the

Investment Water Company, except the indebtedness payable by Investment Water Company to system corporations.

(2) Investment Water Corporation, Ltd. may, on and after the effective date hereof and prior to June 30, 1931, issue \$100,000.00 of its common capital stock, such stock to be delivered to the Investment Water Company and accepted by that company at par in part payment for its properties.

(3) Investment Water Corporation, Ltd. may, on and after the effective date hereof and prior to June 30, 1931, issue and sell, at not less than 95 percent of their face value and accrued interest, \$150,000.00 of six percent twenty year first mortgage bonds, payable October 1, 1950, and use the proceeds obtained from the sale of said bonds to pay in part for the properties which Investment Water Company is herein authorized to sell.

(4) Investment Water Corporation, Ltd. may, on and after the effective date hereof and prior to June 30, 1931, execute a trust indenture substantially in the same form as the trust indenture filed with the Commission in this proceeding on January 6, 1931, provided such trust indenture is modified, as indicated in the foregoing opinion, and provided further that the authority herein granted to execute said trust indenture is given for the purpose of this proceeding only and insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of said trust indenture to such other legal requirements to which said trust indenture may be subject.

(5) The authority herein granted to transfer properties and issue stock and bonds will become effective when Investment Water Corporation, Ltd. has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$150.00, and when Investment Water Corporation, Ltd. has filed with the Railroad Commission two certified copies of its trust indenture executed pursuant to the

authority herein granted.

(6) Upon the issue of the stock and bonds herein authorized and the acquisition of the properties of Investment Water Company by Investment Water Corporation, Ltd. and the assumption by Investment Water Corporation, Ltd. of the public utility obligations of Investment Water Company, Investment Water Company may discontinue its public utility service.

(7) Applicant, Investment Water Corporation, Ltd., shall keep such record of the issue and sale 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.

(8) Within thirty days after the acquisition of the properties of Investment Water Company, Investment Water Corporation, Ltd. shall file with the Commission a certified copy of the deed, or other instrument, under which it acquires and holds title to the properties of Investment Water Company.

DATED at San Francisco, California, this 24th day of February, 1931.

Fee \$150<sup>00</sup>  
RAILROAD COMMISSION  
FEB 25 1931  
P. M. [Signature]  
Fee \$ [Signature]

C. C. Seamy  
Leon O. [Signature]  
[Signature]  
M. B. Kamin  
Fred G. [Signature]  
Commissioners.