

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the matter of the application  
of Sawtelle Water Company for  
authority to issue bonds.

Application No. 1050.

Decision No. 1422

Herbert J. Goudge, for applicant.

LOVELAND, Commissioner.

Opinion

Sawtelle Water Company is engaged in the business of supplying water to the city of Sawtelle and outlying territory in Los Angeles County. It has outstanding stock in the sum of \$50,000, consisting of 5,000 shares of the par value of \$10 each. Its indebtedness consists of \$14,532.56, of which \$12,567.12 is due the Santa Monica Water Company. The balance represents audited vouchers and wages unpaid. The applicant desires to make certain extensions to its distributing system necessary in the conduct of its business for the year 1914, at a cost of \$10,467.44. These proposed expenditures are set forth in Exhibit "C" attached to the application on file with this Commission.

For the purpose of paying off its floating indebtedness in the sum of \$14,532.56 and to provide for necessary expenditures in the sum of \$10,467.44, application is made by Sawtelle Water Company for authority to issue \$25,000 of 5 per cent thirty year bonds.

For the year 1912 Sawtelle Water Company reported gross earnings of \$10,005.50 and a profit for the year of \$3,367.59. For the year 1913 it reported gross earnings of \$9,338.84 and a profit for the year of \$937.96.

The applicant has filed an inventory of its properties in the sum of \$54,531.79, which includes the sum of \$12,200 for water rights.

Among applicant's current assets is a sum due from the Santa Monica Land and Water Company in the amount of \$14,992.62. The control of Sawtelle Water Company is vested in the same parties who control Santa Monica Water Company and Santa Monica Land and Water Company. The applicant herein is indebted to Santa Monica Water Company in the sum of \$12,567.12 and at the same time is a creditor of Santa Monica Land and Water Company in the sum of \$14,992.62.

It was urged on behalf of the applicant that it should not be required to offset these items one against the other; that the company had earned a surplus of \$17,799.91 and that the \$14,992.62 loaned to the Santa Monica Land and Water Company might be construed as a dividend payment.

Of course this sum was not paid out as a dividend but consists of advances made from time to time to Santa Monica Land and Water Company. The power of this Commission to authorize issues of bonds for reimbursement purposes is limited under Section 52 of the Public Utilities Act, under the provisions of which reimbursement may be authorized only for expenditures within five years next prior to the filing of the application. The utility must establish that its surplus was earned after proper provision for necessary operating expenses, depreciation and fixed charges. When such a showing has been made, it is then for the Commission to determine whether the public interest requires that bonds be issued.

The present application is for authority to issue bonds to pay an indebtedness and not to reimburse applicant for moneys expended from income. An application for reimbursement must be substantiated by proper showing that such money has been earned and thereafter invested for purposes properly chargeable to capital account.

In the absence of such a showing I believe that the applicant should settle its account with the Santa Monica Water Company from the moneys due from the Santa Monica Land and Water Company.

It is clear that the extensions which applicant desires to make to its system are required in the conduct of its business and I recommend that it be authorized to borrow such moneys as may be needed up to \$10,500 for additions to its system. I do not believe that it is necessary to resort to a bond issue to raise this sum and I shall therefore recommend that the application for bonds be denied and that the company be given authority to issue its note for these purposes.

I recommend the following form of order:

O r d e r

Sawtelle Water Company having made application to this Commission to issue \$25,000 of 5 per cent thirty year bonds, and a hearing having been held and it appearing for the reasons set forth in the foregoing opinion that the application should be denied,

IT IS HEREBY ORDERED that the same be and it is hereby denied.

IT IS FURTHER ORDERED that Sawtelle Water Company be given authority and it is hereby given authority to issue its note or notes in a sum not to exceed \$10,500 for the purpose of making additions and betterments to its plant and system in and contiguous to the city of Sawtelle, Los Angeles County, in accordance with its Exhibit "C" on file with this Commission in connection with the application herein.

Said note or notes shall be issued for a period not to exceed five years and at a rate of interest not to exceed 7 per cent.

The authority herein given shall apply to such note or notes as shall have been issued prior to January 1, 1915.

Sawtelle Water Company shall keep separate, true, and accurate accounts showing the receipt and application in detail of the proceeds of the sale of the note or notes hereby authorized to be issued; and on or before the twenty-fifth day of each month the company shall make verified reports to the Commission stating the sale or sales of said note or notes during the preceding month, the terms and conditions of the sale, the moneys realized therefrom, and the use and application of such moneys, all in accordance with this Commission's General Order No. 24, which order, in so far as applicable, is made a part of this order.

The authority herein given is conditioned upon the payment by the applicant herein of the fee prescribed under the Public Utilities Act.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 11<sup>th</sup> day of April, 1914.

Railroad Commission, State of California

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BY *[Handwritten signature]*  
Assistant Secretary.

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Commissioners.