

ORIGINAL

Decision No. ✓

Decision No. 1934

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of the Hawthorne Electric and Water Company, a corporation, for the following, to-wit:

An order authorizing the immediate issue of capital stock, for the acquisition of certain properties;

An order authorizing the immediate issue of certain of its bonds for the discharge of certain obligations of applicant;

An order authorizing the future issue of its bonds.

Application  
No. 1276

Frank J. Thomas for applicant.

EDGERTON, Commissioner.

O P I N I O N

This is an application by Hawthorne Electric and Water Company for an order authorizing the issue of \$18,000 par value of capital stock and certain of its bonds, and for an order authorizing it to incumber its property as security for the payment of said bonds.

Applicant operates a water system in the Town of Hawthorne, Los Angeles County. It has an authorized capital stock of \$50,000 par value, of which there has been issued \$13,805 par value. It has no bonded indebtedness, but it has outstanding promissory notes in the principal sum of \$32,570.53, on which interest had accrued up to July 1, 1914, amounting to \$2,176.54, and additional interest has accumulated since.

It is proposed to refund these outstanding notes and the interest due thereon with five per cent bonds of applicant, the bonds to be exchanged at full face value.

Applicant in addition to its own system has been serving water through two pipe lines owned by others, and it is proposed to purchase these pipe lines and to give in exchange therefor \$18,000 par value of its capital stock.

Applicant claims that the original cost of its system was \$39,553.75, and that the original cost of the pipe lines to be acquired with the \$18,000 par value of capital stock was \$19,204.66. This makes a total original cost of plant of \$58,758.41 against which there would be, if this application were granted, approximately \$54,746.87 of bonds and \$31,805 of stock, or a total capitalization of \$86,551.87. Hence, without taking into account any depreciation there would be \$7,793.46 more capitalization than property to support it.

Furthermore, it appears from an examination of the items of expenditure represented by the outstanding promissory notes that many of these items are for operating expenses such as salaries, stamps, supplies, etc., and while it might be proper to capitalize these as being a maintenance of service, yet this should only be done in the event that applicant's financial condition would warrant the issuance of the securities required.

This application has in many respects been carefully prepared and evidences a large amount of labor and thought and I am not inclined to deny this application without giving an opportunity to modify or change it. I believe that the purchase of the pipe lines in exchange for \$18,000 par value of capital stock is permissible, and with this plant added to the existing plant of applicant I believe that a bond issue of approximately \$20,000 would be warranted. I think this application should be denied, with permission to applicant to present

to the Commission without further hearing a revised financial plan.

Herewith a form of order:

ORDER

Application having been made by Hawthorne Electric and Water Company for an order authorizing the issue of stocks and bonds, and for an order authorizing the incumbering of its property as security for the payment of bonds, and a public hearing having been had and it appearing to the Commission that the application should be denied without prejudice,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that this application be and the same is hereby denied, with permission to applicant to submit a revised or modified application to the Commission without the necessity of further hearing.

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 13<sup>th</sup> day of November, 1914.

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*W. H. Boardman*

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*W. G. Gordon*

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*Max Shelton*

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*Edwin O. Edgerston*

Commissioners.