

ORIGINAL

Decision No. _____

Decision No. 3127

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application)
of HERMOSA BEACH WATER CORPORATION) Application No. 2077.
for permission to issue 10,000 shares)
of its capital stock at par.)

F. D. Cornell for applicant.

BY THE COMMISSION:

O P I N I O N.

Applicant asks authority of the Railroad Commission to issue and sell at par 10,000 shares of its capital stock of the par value of \$1.00 each. It wishes to place the proceeds with the trustee under the deed of trust securing the payment of its outstanding bonds, to be used under the sinking fund provisions of the deed of trust. The issued stock and bonds of applicant are all owned by El Sobrante Land Company. Said company has subscribed for said 10,000 shares of stock, and \$5,000. is now in bank ready to be paid on account thereof when the issue of stock is authorized.

Applicant was organized September 22, 1914. It acquired the plant and system of Hermosa Beach Water Company, which had been serving domestic and irrigation water in Hermosa Beach and vicinity since 1901. Applicant has an authorized capital stock of \$100,000. divided into 100,000 shares of the par

value of \$1.00 each of which 35006 shares are now issued. It has an authorized bonded indebtedness of \$80,000. face value. The issue of \$73,000. face value of said bonds has been authorized. Of this amount \$65,700. face value is now outstanding. Said stocks and bonds were authorized by this Commission in decision No. 1866 of October 13, 1914, and decision No. 2610 of July 19, 1915. Reference is hereby made to the above decisions and also to decision No. 2868 of November 3, 1915, permitting an amendment of the deed of trust to provide for sinking fund.

Applicant formerly served domestic water in the city of Manhattan Beach, adjoining Hermosa Beach, before the city installed its own system. Applicant ceased serving water at retail in Manhattan Beach in July, 1914, but sold considerable water to the city for distribution through the city system until March, 1915. Since the latter date it had derived no revenue at all from the Manhattan Beach territory.

Applicant's system has not been appraised nor inspected by the Commission's engineers. The report of Mr. Burdett Moody, consulting engineer, was submitted and used at the present hearing and at the hearing of application for authority to purchase the present system and issue stock and bonds, which resulted in decision No. 1866 above referred to.

During the last two years over \$6,000. has been invested in laying new pipe lines and 360 services to vacant lots in streets before paving. This installation is in the rapidly growing section of the city. The saving in expense of subsequent paving over mains and pipes applicant estimates will soon equal the amount so invested.

Applicant reports that it has developed its business in Hermosa Beach to such an extent that it is now serving as many consumers as it formerly served to Hermosa Beach and Manhattan Beach combined. It now has about 1200 services, all metered.

The rates charged by applicant for domestic water are:

Monthly minimum including 6,000 gallons	\$1.50
First 20,000 gallons in excess of 6,000 gallons, per 1,000 gallons	.15
All water in excess of 26,000 gallons, per 1,000 gallons	.12
Flat rate per month	1.50

It reports gross earnings of \$21,027.25 for 1915, but does not submit its expenses for the same period, as it is awaiting the result of an auditing firm. It reports \$14,645.50 as the gross earnings for eight months ending September 30, 1915, and expenses (before providing for interest or depreciation of plant) of \$8,264.32 for that period.

Applicant estimates that by February 1, 1917, when it is required under its deed of trust to provide \$2,000. for the sinking fund, its net earnings will be sufficient to care for its annual interest on \$73,000. of bonds, provide suitable annuity to meet accruing depreciation on its plant, and provide sinking fund as required by its deed of trust.

In view of this estimate, there seems to be no real need at this time to issue stock to provide a sinking fund. The amended deed of trust provides that applicant "will accumulate from the revenues of the company from time to time" and pay over to the trustee sinking fund in increasing annual amounts "from the revenues collected during the year." It is probable that the money received from the sale of stock could be used to better advantage by applicant in its business than through investments which will be available to the trustee under conditions imposed by the deed of trust and the order herein. Investment of the sinking fund by the trustee in

bonds of applicant would be the part of wisdom. As a reduction of indebtedness and an added protection to the holders of the bonds will result, we grant the application.

O R D E R.

HERMOSA BEACH WATER CORPORATION having applied to the Railroad Commission for authority to issue at par 10,000 shares of its capital stock of the par value of \$1.00 each and place the proceeds thereof in the hands of Title Insurance and Trust Company of Los Angeles as trustee under its deed of trust, securing the payment of its bonds, said moneys to be used by said trustee under and in accordance with the sinking fund provisions of the deed of trust securing the payment of said bonds, and a public hearing having been held thereon, and it appearing to the Commission that the purposes for which the proceeds of said stock are to be used are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that Hermosa Beach Water Company be and it is hereby authorized and empowered to issue to El Sobrante Land Company 10,000 shares of its capital stock at par for cash, and to place the proceeds thereof in

the hands of Title Insurance and Trust Company of Los Angeles as trustee under the deed of trust securing the payment of its bonds, to be invested by said trustee under the provisions of said deed of trust and the conditions of this order.

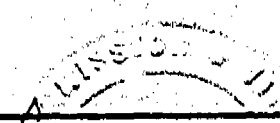
The authority hereby granted is upon the following conditions and none other, to-wit:

1. Said fund so placed in the hands of said trustee shall be invested by it in bonds of Hermosa Beach Water Corporation under the terms and provisions of said deed of trust or in securities approved by law for the investment of trust funds.

2. Hermosa Beach Water Company shall within 20 days after the issue of any of its capital stock hereunder notify this Commission in writing of the date, number of shares and person or persons to whom issued and the disposition made of the proceeds thereof; and shall keep this Commission advised from time to time in writing and in detail as to the investment of said sinking fund by said trustee, said advice to be communicated not less than twenty days after an investment or change of investment by said trustee.

3. The authority hereby granted shall apply as to 5,000 shares of its capital stock, only to stock issued by applicant within twenty days after the date hereof; and as to 5,000 shares of its capital stock, only to stock issued by applicant within 90 days after the date hereon.

Dated at San Francisco, California, this 25th day of February, 1916.



Commissioners.