

ORIGINAL

Decision No. ✓

Decision No. 3157

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

---oOo---

In the matter of the application of INGLEWOOD WATER COMPANY for an order authorizing it to change rates, to issue bonds and purchase water system from HYDE PARK WATER COMPANY, and of latter company to sell said system.

) Application No. 1972.

- Willis I. Morrison and K. E. Steinhauser for applicant.
- Clyde Woodworth, City Attorney, for City of Inglewood.
- L. Wilhelm for Hyde Park Improvement Association.
- J. E. Brockman for water users in a portion of Inglewood.
- H. M. Lannon for water users in Angeles Mesa Tract and vicinity.

BY THE COMMISSION:

O P I N I O N.

INGLEWOOD WATER COMPANY asks authority of the Railroad Commission to create a bonded indebtedness of \$300,000. face value, \$230,000. face value thereof to be issued now for refunding indebtedness and purchasing the water system of Hyde Park Water Company and \$70,000. face value to provide future betterments and additions.. It also wishes to place in effect a schedule of rates which will increase its revenue from its present business, and with the present growth in its business enable it in the near future to earn the interest on the proposed bonds but not to give any return

to its stockholders.

Inglewood Water Company by its annual report for the year ending December 31, 1915, shows assets and liabilities as follows:

Assets

Fixed Capital Installed prior to January 1, 1913. . . . .	\$277,117.74
Fixed Capital Installed since December 31, 1912. . . . .	47,601.47
Cash. . . . .	16.71
Notes Receivable. . . . .	3,000.00
Accounts Receivable. . . . .	16,650.91
Miscellaneous Investments. . . . .	1,200.00
Materials and Supplies. . . . .	2,314.98
Corporate Deficit. . . . .	<u>66,068.68</u>
Total Assets. . . . .	\$ 413,970.49

Liabilities

Capital Stock . . . . .	\$ 125,000.00
Notes Payable. . . . .	205,827.20
Consumers' Deposits. . . . .	190.00
Miscellaneous Accounts Payable. . . . .	40,964.86
Reserve for Accrued Depreciation . . . . .	<u>41,988.43</u>
Total Liabilities . . . . .	\$ 413,970.49

Above item of miscellaneous accounts payable, \$40,964.86, evidently includes accrued interest unpaid.

By its application said notes and accounts are further shown as follows:

H. R. Boynton Company, open account for merchandise purchased . . . . .	\$4,015.64
First National Bank of Inglewood, note,	3,000.00
Title Insurance and Trust Company, note secured by mortgage on Lots 571, 572 and the East one-half of Lot 573, Tract 211, Book 15, Pages 50 and 51 of Maps. . . . .	3,000.00
Sundry accounts payable, as per "Exhibit I" attached to application . .	2,960.00
Taxes due in 1915. . . . .	<u>2,500.00</u>
Interest accrued on note to Charles Lloyd . . . . .	10,381.54
Interest accrued on note to Centinela Land Company . . . . .	24,223.60
Charles Lloyd note (principal) . . . .	58,764.64
Centinela Land Company note (principal)	<u>137,117.48</u>
Total . . . . .	\$245,962.90

It wishes to now issue bonds to refund indebtedness as follows:

Principal of Lloyd note . . . . .	\$ 58,764.64
Principal of Centinela Land Company note	137,117.48
On account of remaining indebtedness	<u>14,117.88</u>
For refunding above indebtedness . . .	210,000.00
Purchasing Hyde Park Water System without real estate . . . . .	20,000.00
Additions and betterments in future . .	<u>70,000.00</u>
Total issue (\$230,000. - to be issued now) . . . . .	\$300,000.00

Centinela Land Company and Charles Lloyd respectively offer to waive interest on their notes, and take bonds for the principal of their notes, and that company also offers to donate pipe lines of the alleged value of \$16,499.92 which have been donated in turn to it by various subdividers in procuring water for their nearby tracts. Inglewood Water Company, the stock of

which is owned by Mr. Lloyd and the stockholders of Centinela Land Company, would profit under this plan to the extent of \$51,105.06.

In 1903 A. C. Freeman owned large tracts of land adjacent to Inglewood and a small water system supplying about one hundred consumers in Inglewood. He sold to Charles Lloyd, Harry Lee Martin, Wiloughby Rodman and James Cook, hereinafter referred to as the "associates", about seventeen hundred acres of his land together with the water system. In the transaction the associates took title to the land and the system in the name of Inglewood Water Company, a corporation which had been organized by Mr. Freeman with an authorized capital stock of \$250,000. but which had not issued any stock or acquired any property up to that time.

In 1904 the associates organized Inglewood Domestic Water Company, a corporation with a capital stock of \$125,000. to which was conveyed only the personal property constituting the water system and later such real estate as it now owns. All of its \$125,000. in stock was issued in payment for the system, the stock being passed to the stockholders of the selling corporation in the form of a stock disbursement. After thus segregating the water business the name of the seller was changed to Inglewood Land Company and the new water company which had purchased the system changed its name to Inglewood Water Company, the present applicant. Subsequently, Mr. Lloyd withdrew from the Inglewood Land Company receiving in lieu of his interest in the corporation a portion of the company's real estate; and all of its remaining land was acquired by Centinela Land Company, a corporation organized for that purpose by the remaining stockholders in the original land company.

Centinela Land Company in May, 1913, purchased from L. E. Shepard for \$17,500. all of the capital stock of

Hyde Park Water Company, since which time the water system of the latter company has been operated by Inglewood Water Company in connection with its Inglewood system, the pumping plant of the Hyde Park system being dismantled by Inglewood Water Company. Additions and extensions have been since made at a cost of \$4261.50. It was testified that the associates are not interested in lands in the Hyde Park district, which lies northeast of Inglewood, but that the stock was purchased in order to secure additional consumers for the Inglewood system, and to effect economies in operations. Lands owned by the company of the stated value of \$2400. are to be retained by it.

Since 1902 the associates have operated the land and water business in conjunction. Since 1904 the water business has been conducted by them through a separate corporation, as above stated. Mr. Lloyd has not been interested with them in land operations since the organization of Centinela Land Company in which he has never been a stockholder. He has always been a stockholder in Inglewood Water Company, however.

Centinela Land Company still holds about 200 acres of the original 1700 acres purchased from Mr. Freeman, the remainder having been sold for building lots, and in acre, half acre and five acre tracts.

Since its inception, and more particularly during the last few years, the Inglewood Water Company has enjoyed a rapid growth, constantly enlarging and extending its system. It has paid no dividends. It has put into extensions and betterments all of its earnings as well as the large sums advanced by Centinela Land Company and Charles Lloyd, for that purpose. Applicant showed that the average annual increase in the number of bills rendered for the last six years has been slightly in excess of 16% while the average <sup>annual</sup> increase in gross revenues for the same period has been over 19%.

A total of 1,873 consumers were served through the Inglewood and Hyde Park systems as of January 1, 1916. The con-

sumption is for domestic purposes and entirely metered. Of the total number served, 502 were consumers under the Hyde Park Water system of which 250 consumers were on mains leased from the Angeles Mesa Land Company. Of the remaining 1371 served by the Inglewood Water Company twenty-five consumers were on mains leased from the Centinela Land Company. The service area of these plants covers approximately three-quarters of the incorporated limits of the city of Inglewood; also a large district adjoining the Inglewood city limits on the south, and about 1.2 square miles in the vicinity of Hyde Park. The real estate and buildings are maintained in excellent condition, the water bearing land being planted to orchards of deciduous fruits and kept in a good state of cultivation.

Inglewood Water Company's pumping plant is located on lot 27, tract 671. Water is obtained by means of air lifts from four 12" wells and one 16" well located on lot 23, tract 511, a short distance northeast of the pumping plant. From the wells the water passes to a cement reservoir located at the pumping plant and having a capacity of one and a quarter million gallons. The water is pumped from it into a brick and concrete reservoir with a similar capacity, and located on a hill in Block 77, a short distance north of the pumping plant. From this latter reservoir the supply is delivered direct to the distribution mains in Inglewood, the Hyde Park system also receiving its supply from the same source. Mr. Harry Lee Martin for applicants estimates the water supply available from the above mentioned wells at 200 miners inches. The present plant will deliver only about half this amount. The water supply could be increased nearly 100% at a cost of about \$1500, through the installation of additional pumping equipment. The motive power for pumping is steam, with electric current as an auxiliary. The pumping plant and equipment are in good repair and are operated in winter about ten hours per day for three or four days per week and during maximum demand in the summer for about sixteen hours daily.

It was also testified that a very considerable increase in the present number of consumers could be taken care of with but a slight increase in operating expenses through more continuous pumping operations.

The distribution system as a rule is so laid out and planned that it could with proper pumping and storage facilities accommodate more than double the present number of consumers in the districts now served.

In certain sections of the distribution systems, however, particularly in the Hyde Park district, the service under the present operative conditions is somewhat inadequate. In the case of the Hyde Park territory an increase in the reservoir height and an enlargement of certain of the distribution mains will relieve this situation. Applicants say that improvements will be made in the service there in due course as funds become available, and point to improvements already made since May, 1913, as evidence of future policy. The rates fixed herein contemplate adequate service and the Commission will expect any inadequacy in service to be remedied at the earliest date practicable.

Mr. James Armstrong, one of the Commission's hydraulic engineers made a thorough examination of applicant's operating revenues, expenses, water use and consumption. Analysis of the annual reports of both companies for 1915, shows:

Operating Revenue and Expenses

Metered rate sales . . . . .	\$30,119.41
Flat rate sales. . . . .	578.71
Sales by Inglewood W. Co. to Hyde Park W.Co. . . . .	3,726.79*
Service connections. . . . .	1,620.00*
Gross operating revenue . . . . .	<u>\$36,044.91</u>
Operating expenses, including \$5,013.36, but excluding depreciation . . . . .	27,793.66
Net operating revenue without depreciation	<u>\$ 8,251.25</u>

\*Future revenue from service connections has been eliminated by decision in Case No. 683. Combining the systems the item of \$3726.79 which now appears in both operating revenue and operating expenses would be eliminated. Operating expenses after examination appear reasonable. They will probably be reduced somewhat by combining the systems.

The great majority of the consumers on both systems use comparatively small quantities of water. Out of a total of 21,490 monthly bills rendered by both companies for the twelve months ending December 31, 1915, 9688, or about 45%, were for 500 cu. ft. or less per month. Some 25% to 30% were for 300 cu. ft. or less per month. It is also noteworthy that 14,506, or nearly 68% of the total monthly bills rendered were for 1,000 cu. ft. or less.

As to the real estate of Inglewood Water Company, the only testimony as to its value and proper segregation as to its operative and non-operative character was that of Mr. Martin, who qualified as an expert. No testimony as to value or segregation was offered by City of Inglewood or other interests represented at the hearing. The present value of the real estate was estimated by the witness at \$93,650, of which \$86,650 was classed by him as operative. Of this latter amount \$2500. represents the parcel on which applicant's barns and corrals are located, which it was testified could be removed at small expense to some other parcel; and \$2150. represents a parcel now used only for mains. This parcel could probably be sold, reserving suitable rights of way for the mains and their maintenance. The non-operative property could ~~be~~ at the proper time be sold and the proceeds made available for further improvements or extensions. As the rates now to be fixed are not designed to afford an adequate return on all of applicant's property, it is not necessary to exclude the non-operative property from consideration for rate fixing purposes.

An appraisal of properties comprising the equipment of both systems was made by the engineer for applicants, and one by the Commission's engineer. It was stipulated that the inventory prepared by applicant's engineer should be adopted and that the unit cost and overhead of the engineer for the Commission should be used. In pursuance of this stipulation Mr. Armstrong presented the following report:



	<u>Estimated Cost</u>	<u>Cost Less Accrued Depreciation</u>	<u>Sinking Fund Annuity</u>
Inglewood Water Co.	240,622	\$189,154	\$ 4,268.37
Hyde Park Water Co.	23,196	17,412	520.49
Operative real est. Inglewood Water Co. as per testimony	86,650	86,650	
Totals	<u>350,468</u>	<u>293,216</u>	<u>4,788.86</u>
Non-operative real est. Inglewood Water Co. as per testimony. Mains to be donated by Centinela Land Co,	7,000	7,000	
	16,500	16,500*	
Totals	<u>\$373,968</u>	<u>\$316,716</u>	

\* No data as to accrued depreciation.

Not included in the above is the actual cost of the franchise owned by the Inglewood Water Company amounting to \$230.00.

The rates at present in effect are:

Inglewood Water Company.

Regular Domestic Rate:

Minimum bill for any calendar month,  
Allowance, 500 cubic feet \$1.00  
10¢ per 100 cubic feet for any  
additional water used.  
To consumers who maintain in  
reasonably good order lawns,  
(either grass or clover) cover-  
ing not less than 900 square  
feet-10¢ per 100 cubic feet for  
all water used.

Special Rate No. 1.

Minimum bill for any calendar month \$2.00  
10¢ per 100 for first 1000 cubic feet.  
7½¢ per 100 cubic feet for any additional  
water used.

Special Rate No. 2.

Minimum bill for any calendar month, \$3.00  
7½¢ per 100 cubic feet for all water used.

Fire Hydrants, per year,

\$2.50

Hyde Park Water Company.

Minimum bill for any calendar month \$1.00  
Allowance 660 cu. ft.  
7½¢ per 100 cubic feet for all water in excess of  
660 cu. ft.

Hyde Park Water Company now purchases water from Inglewood Water Company at  $7\frac{1}{2}\text{¢}$  per 100 cu. ft.

The rate desired for the combined systems is a service charge of  $75\text{¢}$  for each calendar month on all active services, and in addition, a charge of  $8\text{¢}$  per hundred cu. ft. for all water used; fire hydrants, \$5.00 per year per outlet. Applicants desire to keep the rates low to develop the territory, to meet the low rates in force in Los Angeles, and especially to reach the goal of 2000 users, which they feel is necessary to realize an adequate return at the requested rates. Meanwhile applicants wish to earn sufficient to make the bonds marketable so funds may be procured for extensions and improvements. The rates fixed herein we think will prove better adapted to the purposes and needs of the utility than the rates requested. They are lower than the rates in effect in most other communities in southern California where the water supply is pumped.

An estimate of the revenue and financial needs of the combined systems for the current year 1916 is given below. It assumes an increase in revenue of 12%, an increase in maintenance and operation expenses other than taxes of 6%, both as estimated by applicants; and that \$230,000. of bonds are outstanding. Such estimate based on the rates fixed herein, applied to the water use of 1915, is:

Maintenance and operation, with taxes,	\$25,210.08
Sinking fund annuity for depreciation,	4,788.86
Interest at 6% on \$230,000. . . . .	<u>13,800.00</u>
	\$43,798.94
Gross revenue ( $34,913.63 + 12\% =$ )	<u>39,108.86</u>
Deficit . . . . .	\$ 4,690.08
Reducing bonds \$80,000, reduces interest	<u>4,800.00</u>
Deficit. . . . .	\$ 109.92

The rates fixed herein may temporarily result in some diminution in water use, thus reducing the above estimated gross revenue.

The estimated increase of 12% in revenue and 6% in maintenance and operation expense, is probably conservative. The experience of the past six years, including a period of great business depression and general absence of development operations, indicates this. We think it better policy, however, not to anticipate the future in this case. We therefore authorize the issue of only \$150,000. face value of bonds at this time. After a year's experience of careful management of the two systems combined, using the rates fixed herein, a situation may be presented which will justify a further issue of bonds for refunding purposes.

The proposed bonds are to be designated first mortgage gold bonds, 150 of them to be of the denomination of \$1,000. each and 300 of them to be of the denomination of \$500. each, all to bear interest at the rate of 6% per annum, payable semi-annually, evidenced by interest coupons attached, subject to call at 102½ and accrued interest and to be registered if desired. The deed of trust securing the payment of the bonds provides that the company will, five years after their date, and annually thereafter, deposit with the trustee an amount equal to 3% of the par value of the bonds then outstanding, to be used in the purchase and redemption of such bonds as may be called at 102½ or in the purchase of bonds in the open market at not exceeding that price, or invested by the trustee pending the calling or retirement of the bonds; the sinking fund to be managed by the trustee subject to direction of the company.

For the purchase of Hyde Park water system we have allowed \$17,500. - substantially the figure shown in the report of the engineers for the Commission and the companies. The indebtedness of Hyde Park Water Company should be applied on the purchase price.

The accounts and notes receivable of Inglewood Water Company total \$19,650.91. The principal amounts are due from its stockholders, from Centinela Land Company and from Hyde Park Water Company. Water bills amount to less than \$1,000. These outstanding notes and accounts applied upon the indebtedness of the company would reduce its present needs for refunding debts and purchasing the Hyde Park system to about \$200,000.

When market conditions are suitable, in the judgment of the company, the real estate not used or useful in serving the public could be sold and the proceeds used in reducing the indebtedness or in increasing facilities for service.

At the hearing some complaint was made that the present rates are too high to justify use of water for irrigation and that the company has a rule requiring a continuous run of at least six hours before it will pump for irrigation purposes. It was shown that the land company furnished to purchasers a certificate of Inglewood Water Company agreeing to furnish irrigation water at a rate of \$1.00 per hour for a head of 100 miner's inches or \$1.75 per hour for a head of 200 miner's inches. The certificate made no reference to the six hour rule. Most of the irrigable area has been developed as residence property rather than ranches and gardens and demand for irrigation water has almost entirely ceased. Some twenty-five persons at the hearing said they would like to purchase irrigation water if they could get it at a reasonable rate. The entire revenue now derived from that source is not sufficient to pay the bare expense of pumping irrigation water. The expense of operating the pump alone without overhead depreciation or other allowance is about \$1.25 per hour producing about 177 miner's inches. The irrigation plant could not be operated without a serious financial burden upon the consumers of domestic water. It is so little used that no part of it except the land on

which it stands has been included in the appraisal. The land is classified by the commission's engineer as non-operative. Under these circumstances where irrigation use has practically ceased and territory has now been developed for home sites, taking most of the water available, and the community is growing rapidly and will probably continue to make increasingly greater demand upon this utility for domestic water, the possibility of developing demand for irrigation water should be disregarded.

O R D E R.

INGLEWOOD WATER COMPANY having applied to the Railroad Commission for authority to change its rates charged to the inhabitants of Inglewood and vicinity for water; to create a bonded indebtedness of \$300,000., and to issue \$230,000. face value of said bonds at this time, using \$210,000. face value thereof to refund certain indebtedness; also to purchase a certain water system from Hyde Park Water Company, and issue \$20,000. face value of said bonds in payment therefor, in which latter application the latter company joins, and a public hearing having been had thereon and the matter having been submitted, and the Commission being now fully advised, and it appearing to the Commission that the purposes for which said bonds are proposed to be issued are not in whole or in part reasonably chargeable to operating expense or to income,

IT IS HEREBY FOUND AS A FACT by the Railroad Commission of the State of California that the said rates in so far as they differ from the rates herein found to be reasonable are unreasonable and unjust; and the rates hereinafter set out are hereby found to be just and reasonable rates to be charged for the distribution of water by Inglewood Water Company to its consumers, and basing its order on the foregoing findings of fact and the further findings of fact set out in the opinion preceding this order.

IT IS HEREBY ORDERED that Inglewood Water Company be and it is hereby directed to establish and to file with this Commission within twenty days from the date of this order the following rates to be charged for service of water to the inhabitants of Inglewood and vicinity:

Minimum per month for first 300 cu. ft.  
or less. . . . . \$.75

For excess 300 cu. ft. to 2000 cu.  
ft., per 100 cu. ft. . . .13

For excess over 2000 cu. ft., per  
100 cu. ft. . . . . .08

Fire hydrants \$5.00 per year per  
outlet.

IT IS FURTHER ORDERED that Inglewood Water Company be and it is hereby authorized to purchase, and Hyde Park Water Company be and it is hereby authorized to sell for a consideration of \$17,500, all of its property except Lots A and B, Tract 2095, but including all water works, systems, pipe lines, easements, rights of way, franchises and privileges, as described in form of deed attached to the application as Exhibit C. Said form, except as to consideration expressed therein, is hereby approved. Said consideration shall be paid by first satisfying any indebtedness due from the Hyde Park Water Company to Inglewood Water Company and the balance of said consideration of \$17,500. shall be paid in bonds of Inglewood Water Company herein authorized, issued at par.

IT IS FURTHER ORDERED that Inglewood Water Company be and it is hereby authorized to execute and deliver mortgage or deed of trust in a form to be hereafter approved to secure the payment of \$300,000. face value of its 6% first mortgage gold bonds and to issue at par under the terms and conditions hereof \$150,000. face value of its said bonds; part of which said bonds may be issued at par in payment for the plant and water system of Hyde Park Water Company exclusive of its real estate; \$13,000. face value of which said bonds

or so much thereof as may be necessary may be issued to refund indebtedness with interest, to the following persons, to wit:

H. R. Boynton Company . . . . .	\$4,015.64
First National Bank of Inglewood	3,000.00
Title Insurance and Trust Company	3,000.00
Sundry accounts payable, as per "Exhibit I" attached to application . . . . .	<u>2,960.00</u>
Total . . . . .	\$12,975.64

and the remainder thereof may be issued at par to refund to that extent indebtedness to Centinela Land Company and Charles Lloyd ratably in proportion to the principal of their respective notes, or in such other proportions as the said parties may mutually agree upon.

The authority herein granted as to all of the specific authorizations herein recited, is upon the following conditions and not otherwise:

1. Said property of Hyde Park Water Company shall be conveyed by good and sufficient written instrument to Inglewood Water Company free of incumbrance.
2. Inglewood Water Company shall assume and carry out all of the obligations for the service of water now resting upon Hyde Park Water Company.
3. The authority herein granted shall not be considered or treated in any proceeding before this Commission or any other tribunal as a finding by this Commission of value for any purpose other than that of the present application.
4. Said bonds shall not be issued for the purpose of refunding indebtedness to persons, firms or corporations indebted to Inglewood Water Company in excess of the net amount of in-

debtedness due from said company after deducting the indebtedness due to said company.

5. Before any bonds are delivered to them hereunder, Centinela Land Company and Charles Lloyd shall respectively waive the interest to January 1, 1916 upon their respective notes for \$137,117.48 and \$58,764.64 executed by Inglewood Water Company; and Centinela Land Company shall by suitable instrument in writing convey to Inglewood Water Company free of incumbrance pipe lines referred to in the opinion, of the stated value of \$16,499.92.

6. This order is for the purposes of this proceeding only, and is not intended as an approval of said bonds or the instrument securing their payment, nor of the instrument conveying said property, as to any other legal requirement to which they may severally be subject.

7. The authority herein granted shall apply only to such properties and rights as shall have been transferred hereunder and to such bonds as shall have been issued hereunder on or before August 1, 1916.

8. Applicant shall report to the Railroad Commission within thirty days after the issue of any bonds hereby authorized to be issued the fact of the issue thereof, the terms and conditions thereof and the disposition of the proceeds; and the fact and the date of the transfer of said property of Hyde Park Water Company.

9. The authority herein given to issue bonds shall not become effective until Inglewood Water Company has



paid the fee as specified in the Public Utilities Act.

Dated at San Francisco, California, this 14<sup>th</sup>  
day of March, 1916.

W. H. ...  
...  
Edwin A. ...  
Commissioners.

Railroad Commission State of California  
MAR 17 1916  
Assistant Secretary