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Decision No. \_\_\_\_\_

# ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

Decision No. 3205

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In the Matter of the Application of )  
 LERDO LAND COMPANY to sell and LERDO )  
 WATER COMPANY to purchase the water )  
 system used for and in connection with )  
 the irrigation of Lerdo Sub-Division )  
 "A", Kern County, California, and such )  
 other of the rights of said Lerdo Land )  
 Company as may be of the nature of a )  
 public utility. )

Application No. 1943

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Thomas C. Job, for applicant,  
 H. T. Miller, in propria persona,

BY THE COMMISSION.

## O P I N I O N

This is an application of Lerdo Land Company having its principal place of business in Los Angeles, Los Angeles County, for authority to sell its irrigation plant and system at Lerdo, Kern County, to Lerdo Water Company, and of the latter company to issue stock in payment therefor.

Lerdo Land Company was incorporated on March 10, 1911 for the purpose of placing on the market a tract of approximately 6,500 acres of land situated approximately six miles north of Bakersfield, Kern County.

The original incorporators of Lerdo Land Company were as follows:-

W. E. Keller,	Los Angeles, California.
A. C. Balch,	Los Angeles, California.
W. E. Holliday,	Los Angeles, California.
Joseph Sartori,	Los Angeles, California.
Ben R. Meyer,	Los Angeles, California.
W. G. Kerckhoff,	Los Angeles, California.
A. G. Wishon,	Fresno, California.

The property which Lerdo Land Company owns has been divided into three tracts known as sub-divisions "A", "B", and "C". In addition a townsite has been surveyed. This application is concerned only with sub-division "A", containing 4,161 acres and the townsite containing 596 acres, no property having been sold or water developed upon the remaining portions of the tract.

These lands were first placed on the market in December 1912. The general price was \$150.00 per acre on ten years time payable in ten equal installments. Out of approximately 1400 acres sold under contract, only about 330 acres are now in good standing, the contracts for the other acreage having been forfeited. The 330 acres now under contract are held by about ten individuals.

By a clause in its contracts of sale Lerdo Land Company has obligated itself to form mutual water companies upon its property, as the land shall be sold and fully paid for. To accomplish this Lerdo Land Company plans at some future time to divide its property into districts and to form a mutual water company in each district, the stock in said company to be issued to settlers upon the basis of one share of stock for each acre of land purchased and fully paid for.

On account of the small amount of land sold and the few settlers upon said land, and the fact that none of the land has as yet been fully paid for no mutual water companies have as yet been formed by Lerdo Land Company but settlers have been furnished water at the rate of \$8.00 per acre per annum. Certain settlers for a time held contracts entitling them to water at

\$4.00 per acre but all of these contracts have been forfeited.

The present application is the outgrowth of an informal complaint as to Lerdo Land Company's water rates filed in February 1915. Investigation by the Commission showed that Lerdo Land Company was performing the functions of a public utility and it was accordingly directed to file tariffs with the Commission. Lerdo Land Company thereupon decided to form a second corporation to be known as Lerdo Water Company in order that the Land Company might be freed from the obligations of a public utility.

Lerdo Water Company was accordingly incorporated on September 22, 1915 with an authorized capitalization of 5,000 shares of capital stock of the par value of \$25.00 per share or a total par value of \$125,000.00. It is proposed that 4,995 shares of said stock shall be issued to Lerdo Land Company in payment for its water properties and the five remaining shares issued to directors. In exchange for this stock Lerdo Land Company not only agrees to transfer its water properties but also agrees to make improvements from time to time so that the total value of the system will eventually amount to \$125,000.00.

In order that the provisions of its contracts of sale may be complied with, it is proposed that as each purchaser of the land makes final payments and receives deed to his property he shall also receive one share of stock in Lerdo Water Company for each acre of land, and thereafter when a sufficient number of settlers have located in any one district it is proposed that they shall surrender their stock in Lerdo Water Company and receive a like number of shares in a mutual company.

Pending the formation of mutual water companies, Lerdo Water Company proposes to furnish water to settlers at cost.

The property which Lerdo Land Company proposes to transfer to Lerdo Water Company consists of all the water properties now owned by Lerdo Land Company, including a small parcel of

real estate surrounding each well, pumps, accessories, machinery, easements for rights of way for water ditches, etc.

Lerdo Land Company has drilled seven wells in subdivision "A" and two in the Lerdo townsite. These wells are equipped with pumps, etc. The Company has also constructed a system of canals, and ditches.

Witness for applicant testified that \$71,000.00 had been invested to date in this water system and that approximately \$125,000.00 would be necessary to complete the system so as to serve the entire tract adequately when settled.

At the hearing of the application Mr. H. T. Miller, a purchaser of land, appeared to protest against any action on the part of Lerdo Land Company which would in any way impair his contract rights, particularly as regards the formation of mutual water companies and the furnishing of water thereby.

It does not appear from the evidence that Lerdo Land Company is required by its contracts to form a mutual company or companies at the present time, none of the land having been fully paid for. It further appears that the formation of a mutual company at this time would be impracticable on account of the few and scattered settlers upon the land.

We are not convinced, however, that the formation of a new public utility corporation by Lerdo Land Company forms a solution of its problems. This Commission has always stood ready to assist the corporations of the State in separating their public utility business from their other business where it is apparent that such separation would be advantageous to the public and to the corporations involved.

In the present case, however, it is proposed to form a new public utility corporation and issue \$125,000. par value of capital stock in order to serve water to ten or twelve individuals scattered over approximately 4,000 acres of land. This course appears to us to be neither economical nor necessary. Such a

corporation cannot hope to pay operating expenses for some years to come. Although Lerdo Land Company has agreed to assume certain of the financial obligations of the new company, we believe that these obligations will be more satisfactorily taken care of if Lerdo Land Company retains title to the property with full responsibility for its efficient operation.

A further difficulty in applicant's plan arises from the contracts entered into by Lerdo Land Company, for the formation of mutual water companies at some future date. At the present time Lerdo Land Company has outlined only in a most general way the manner in which it will proceed to separate Lerdo Water Company into mutual water companies, and the manner in which these mutual water companies will be operated. Without a more definite knowledge of the manner in which this separation will be accomplished we cannot recommend the granting of this application. When applicant can come before this Commission with a definite plan for the formation of mutual water companies or for the incorporation of a public utility company which can be reasonably expected to operate independently of Lerdo Land Company, we will be inclined to look with more favor upon this application. In the mean time we recommend that this application be dismissed without prejudice to its renewal at a later date.

#### O R D E R

LERDO LAND COMPANY having applied to this Commission for authority to sell its water utility properties in Kern County, California, to Lerdo Water Company for 4,995 shares of stock of the par value of \$25.00 per share and Lerdo Water Company having applied to this Commission for authority to purchase said property and to

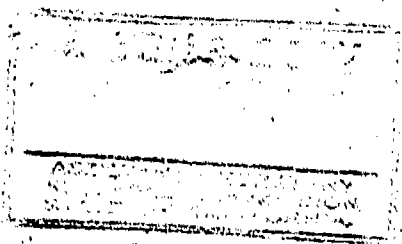
issue 5,000 shares of stock of the par value of \$25.00 per share,  
4,995 shares to Lerdo Water Company in payment for its water utility  
properties and five shares for qualification of directors.

And a hearing having been held;

And it appearing to the Commission that for the  
reasons set out in the foregoing Opinion, this application should  
be dismissed without prejudice;

IT IS HEREBY ORDERED that the application herein be  
and it is hereby dismissed without prejudice.

Dated at San Francisco, California, this 29<sup>th</sup> day  
of March, 1916.



Max Shelton  
H. H. ...  
H. G. ...  
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Commissioners.