

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of)	
Torrance Water, Light & Power Company)	
for an order authorizing the issue of)	Application No. 341
capital stock and bonds.)	

EDGERTON, Commissioner.

O P I N I O N

This is an application by Torrance Water, Light and Power Company, joined in by Dominguez Land Corporation, Ralph Bennett, Trustee, and Ralph Bennett and E. C. Dicey, joint trustees, for an order authorizing the Torrance Water, Light and Power Company to-

1. Issue 50,000 shares of its capital stock at not less than 80 cents a share, and
2. Authorizing said company to execute and deliver a mortgage or deed of trust encumbering all of its property to secure the payment of principal and interest of \$300,000 face value of bonds, and
3. Authorizing said company to issue \$125,000 face value of bonds at not less than 80 per cent of the face value thereof, said bonds to bear interest at the rate of 6 per cent per annum, and
4. Authorizing Dominguez Land Corporation, Ralph Bennett, Trustee, and Ralph Bennett and E. C. Dicey, joint trustees, to convey a water system and appurtenances to Torrance Water, Light and Power Company.

The property which is to be made security for the bonds herein asked to be authorized is a water distributing system located in the town of Torrance, Los Angeles County, and

consists of lands, pipes, pumps, rights of way, etc., as more fully set out in Exhibit 3, attached to the amended and supplemental application on file herein.

The present owner of the lands on which the irrigating and domestic water system is situated, is the Dominguez Land Corporation.

The title to the rights of way, easements and water systems with appliances and appurtenances is temporarily fixed in Ralph Bennett, Trustee, and Ralph Bennett and E. C. Dacey, joint trustees, who are now operating the water system.

Applicant, Torrance Water, Light and Power Company, was organized with capital stock of \$200,000, for the purpose of taking over this water system from its present owners, and it is proposed to pay for said water system the sum of \$142,791.30, which is stated to be actual cost of constructing the system.

To provide this money, applicant asks to be allowed to sell \$50,000 par value of its capital stock at 80 per cent of par and \$125,000 face value of its bonds at 80 per cent of such face value, thus producing \$140,000. The result of this transaction would be that on property costing \$142,791.30 there would be issued \$125,000 of bonds which would provide a margin of property over face of outstanding bonds of only about 12 per cent.

Ordinarily the Commission has insisted upon a greater margin of property over face of bonds than would here result, and I see nothing in this situation which would justify the issuance of more securities upon this property than it can safely carry.

The plan of the promoters and builders of this water system as presented to the Commission, evidently contemplated that they should immediately receive back \$125,000 face of bonds salable at 80 per cent, of \$100,000, thus leaving them with an investment of only \$42,791.30, for which they were willing to take capital stock at 80 per cent of par.

Keeping in view the fact that these gentlemen constructed

the water system with the primary purpose of increasing the value of the land which they had purchased and subdivided with the view of establishing a city or town thereon, because it is apparent that without a water system to supply people with water no considerable sales of land could be made, it seems no injustice to insist upon a reduction in the amount of bonds asked for so that there will at least be a margin of 20 per cent value of property over face of bonds and to allow an additional amount of stock to represent the equity in the property after deducting bonded indebtedness.

The public has a direct interest in the capitalization of a public utility corporation. If such a corporation is conservatively capitalized it makes it possible to obtain money to make extensions, additions and betterments as they are needed, whereas, if the corporation is overbonded it becomes impossible to use the property of the company as security for such purposes, and the public suffers the lack of much needed service.

I recommend that an amount of bonds be authorized, equal to 80 per cent of the cost of this plant, or in round numbers, \$115,000.

Applicant asks to be allowed to issue 50,000 shares of stock and to sell the same at 80 per cent of par, but this request contemplates the turning over of \$125,000 face value of bonds, and \$50,000 par value of stock on a basis of 80 per cent of their face value in exchange for \$142,791.30 of property.

In view of the reduction of the amount of bonds authorized to \$115,000, which leaves a margin of value of property over indebtedness of \$27,791.30, I recommend that applicant be allowed to issue in payment for the property herein proposed to be conveyed, stock to represent the equity in said property at 80 per cent of par, or \$34,000 par value of stock.

The town of Torrance is near the City of Los Angeles, and the water system in question has been designed and constructed

to conform to the water system serving the City of Los Angeles, so that if in the future the City of Los Angeles desires to take over and operate this water system it may do so without the necessity of reconstructing it to conform with its own system.

The Town of Torrance is a new community sparsely settled but with a population rapidly increasing, and it is expected that within a reasonable period there will be consumers sufficient to use the capacity of this water system. At present, however, no adequate income is produced in the operation of this system to pay the interest charged created by a bond issue, and some guarantee should be provided for the payment of this interest.

The Dominguez Land Corporation owns, sells and leases the land served by this water system and in reality is the corporation into which feeds all of the profits of the enterprise which includes the establishment of the Town of Torrance, and the sale and lease of all property included therein.

Therefore, I recommend that the order herein be contingent upon a guarantee by said Dominguez Land Corporation of the interest on the bonds herein authorized.

I submit herewith the following form of order:

O R D E R

Application having been made by the Torrance Water, Light and Power Company, the Dominguez Land Corporation, Ralph Bennett, Trustee, and Ralph Bennett and E. C. Dacey, joint trustees, for an order authorizing said Torrance Water, Light and Power Company to issue \$125,000 face value of 6 per cent bonds and \$50,000 par value of common capital stock and to mortgage or encumber its property as security for the payment of principal and interest of said bonds and authorizing the Dominguez Land Corporation, Ralph Bennett, Trustee, and Ralph Bennett and E. C. Dacey, joint trustees, to sell, and Torrance Water, Light and Power Company to purchase a certain water distributing system

with its appurtenances located in the Town of Torrance, Los Angeles County, California,

And a hearing having been duly held, and it appearing to the Commission that the property to be procured by the issue of such stock and bonds is required for the purpose of operating a water distributing system in the Town of Torrance and the purposes for which said stock and bonds are to be issued are not in whole or in part reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED, that the Railroad Commission of the State of California does hereby authorize,

1. The issue by Torrance Water, Light and Power Company of \$115,000 face value of bonds bearing interest at the rate of 6 per cent per annum, dated May 1, 1913, payable on the 1st day of May, 1943, and

2. The issue by said company of \$34,000 par value of common capital stock.

3. The sale by Dominguez Land Corporation, Ralph Bennett, Trustee, and Ralph Bennett and E. C. Dicey, Joint Trustees, and the purchase by Torrance Water, Light and Power Company of that certain water distributing system and the appurtenances located in the Town of Torrance, Los Angeles County, California, and more particularly described in Exhibit 3, attached to the amended and supplemental application and petition on file herein and as described in the copy of a proposed trust deed on file with the application herein, the full consideration for said conveyance to be the transfer by said Torrance Water, Light and Power Company of \$115,000 face value of its bonds and \$34,000 par value of its common capital stock.

4. The Torrance Water, Light and Power Company to convey, mortgage or encumber all of its property and plant for

the purpose of securing the payment of the bonds herein authorized to be issued.

Said bonds to be issued in pursuance of the terms of an indenture to be dated May 1, 1913, and to be executed by the Torrance Water, Light and Power Company to the Los Angeles Trust and Savings Bank, a copy of which proposed indenture is marked Exhibit 4 and attached to the original application herein.

This order is made upon the following conditions, not otherwise:

1. Torrance Water, Light and Power Company shall receive in exchange for the stocks and bonds herein authorized to be issued, a good and marketable title to all that certain property or water system located in the Town of Torrance, Los Angeles County, and particularly described in Exhibit No. 3, attached to the amended and supplemental application and petition on file herein, and as described in the copy of a proposed trust deed on file with the application herein.

2. Immediately upon the issuance of the stock and bonds herein authorized for the considerations herein named, said company shall make a verified report to the Commission containing a detailed statement of the issuance of said stock and bonds, and the acquisition therefor of the property herein mentioned.

3. This order shall not become effective for any purpose until there shall have been approved by this Commission, a contract or agreement whereby the Dominguez Corporation shall guarantee the payment of the interest on the bonds herein authorized to be issued.

4. The authority hereby given to issue stock and

