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Decision No. 9997.

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application of )  
CITY WATER COMPANY OF OCEAN PARK )  
for authority to issue and sell )  
bonds in the sum of \$37,000.00 and )  
to execute or renew promissory notes )  
for a period longer than one year. )

Application No. 7447.

LeRoy M. Edwards for applicant.

BY THE COMMISSION:

O P I N I O N

CITY WATER COMPANY OF OCEAN PARK asks permission to issue and sell, on an 8 per cent. basis or better, \$37,000.00 of its first mortgage 6 per cent. serial gold bonds, or, in the event that it is unable to dispose of its bonds, to issue at face value \$37,950. of its promissory notes bearing interest at not more than 7 per cent. per annum and maturing on or before two years after date of issue.

A public hearing was held before Examiner Williams in Los Angeles on January 4, 1922.

City Water Company of Ocean Park was organized on or about April 15, 1905, with an authorized stock issue of \$200,000.00 of common stock, all of which is at present outstanding.

The company reports its assets and liabilities, as of November 30, 1921, as follows:-

ASSETS:

Fixed Capital, . . . . .	\$295,070.76
Cash, . . . . .	741.35
Materials and Supplies, . . . . .	7,306.45
Notes Receivable, . . . . .	200.00
Accounts Receivable, . . . . .	21.10
Consumers' Accounts, . . . . .	865.25
Prepaid Insurance, . . . . .	110.05
U.S. Government Bonds, . . . . .	3,000.00
City Water Company of Ocean Park, . . . . .	12,000.00
Unamortized Discount on Stock, . . . . .	<u>101,000.00</u>
TOTAL <u>ASSETS</u> , . . . . .	\$420,314.96

LIABILITIES:

Capital Stock, . . . . .	\$200,000.00
Funded Debt, . . . . .	15,000.00
Notes Payable, . . . . .	17,950.00
Accounts Payable, . . . . .	2,079.39
Consumers' Deposits, . . . . .	879.70
Special Deposits, . . . . .	70.00
Interest and Taxes Accrued, . . . . .	976.25
Reserve for Accrued Depreciation, . . . . .	48,387.03
Income invested in Fixed Capital, . . . . .	124,168.30
Surplus, . . . . .	<u>10,804.29</u>
TOTAL <u>LIABILITIES</u> , . . . . .	\$420,314.96

The record shows that on January 1, 1917, applicant executed a first mortgage securing the payment of \$50,000.00 of first mortgage 6 per cent. bonds maturing in equal annual installments of \$5,000.00 on the first day of January of each of the years 1921 to 1930, both inclusive. Subsequently, applicant issued \$15,000.00 of its bonds, of which all but \$3,000.00 have been reacquired by the company.

Applicant now proposes to issue \$37,000.00 of its bonds and to use the proceeds to pay its outstanding short term notes of \$17,950.00, and to pay the cost of new transmission mains. The testimony of G.M. Jones, applicant's president and general manager, shows that the \$17,950.00 of notes, which bear interest at 7 per cent., were issued during 1921 to obtain funds to pay for additions and betterments to its plant and properties, consisting, in general, of a new deep well pump, two booster pumps, additional garage and buildings and additional pipe lines.

Applicant further reports that in order to give its consumers adequate service it proposes to install at a cost of \$16,947.45, a new main transmission line from its existing pumping plant to the speedway, a distance of approximately one mile. This line will consist of 250 feet of 14-inch cast iron pipe, 1025 feet of 12-inch. cast iron pipe, 1550 feet of 10-inch cast iron pipe, 3100 feet of 8-inch cast iron pipe, and 450 feet of 4-inch cast iron pipe. G.M. Jones testified that the pipe now in use which will be replaced by this proposed new line, will be used in other portions of applicant's system.

The bonds which applicant asks permission to issue mature serially in equal annual installments of \$5,000.00 on the first day of January of each of the years 1923 to 1930, except in the year 1926, when only \$2,000.00 are payable. The testimony shows that applicant has made no arrangements for the sale of its bonds. It however requests permission to sell them on an 8 per cent. basis or better, which means a selling price ranging from 88 to 98. In Application No. 7100, a rate proceeding, applicant reports the cost of its properties at \$247,164.57. In the same proceeding, the Commission's engineers introduced an exhibit showing the estimated original cost of the operative properties to be \$209,191.00. If applicant were to sell the bonds and use the proceeds as indicated in this application, its total bonded debt will be \$40,000.00 while its current indebtedness is only of a nominal amount. The company's net earnings as shown by Exhibit No. 2 are considerably in excess of \$2,400.00, the annual interest charge on \$40,000.00 of 6 per cent. bonds. In view of the facts before the Commission, it occurs to us that applicant should be able to sell its bonds at prices ranging from 93.9 to 99 or on a 7 per cent. basis.

Applicant also asks permission, in the event that it is unable to dispose of its bonds, to issue its promissory notes in the aggregate face amount of \$37,950.00, in which case, \$17,950.00 of notes will be used to refund the \$17,950.00 of notes now outstanding and the balance to pay for the transmission main. Such notes, should they be issued, will

bear interest at not more than 7 per cent. per annum, will mature on or before two years after date of issue and probably will be endorsed personally by G.M. Jones, applicant's president.

O R D E R

CITY WATER COMPANY OF OCEAN PARK having applied to the Railroad Commission for permission to issue bonds or notes, a public hearing having been held and it appearing to the Railroad Commission that the money, property or labor to be procured or paid for by such issue is reasonably required for the purpose or purposes specified herein and that the expenditures for such purpose or purposes are not in whole or in part reasonably chargeable to operating expenses or to income;

IT IS HEREBY ORDERED, that CITY WATER COMPANY OF OCEAN PARK be, and it is hereby, authorized to issue and sell \$37,000.00 of its first mortgage 6 per cent. bonds for the purpose of paying the \$17,950.00 of notes and financing the cost of its proposed new transmission main, all of which are referred to in the preceding opinion.

IT IS HEREBY FURTHER ORDERED, that CITY WATER COMPANY OF OCEAN PARK be, and it is hereby, authorized to issue, in lieu of the \$37,000.00 of bonds herein authorized \$37,950.00 face value of its promissory notes, of which \$17,950.00 shall be used to refund the notes now outstanding and the balance to pay the cost of the proposed transmission main, all of which are referred to in the preceding opinion.

The authority herein granted is subject to the following conditions:

