

LBM

Decision No. 23319

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CLEAR LAKE PARK WATER COMPANY)
to purchase, and of Los Angeles)
Mortgage Underwriters to sell, a)
public utility domestic water system,) Application No. 20869
and for an order authorizing the)
issuance by Clear Lake Park Water)
Company of its note, mortgage and)
shares of stock.)

James M. O'Brien, for applicants.

BY THE COMMISSION:

O P I N I O N

This is an application for an order of the Railroad Commission authorizing Los Angeles Mortgage Underwriters, Inc. to sell and convey a small public utility water plant, known as the Austin System, to Clear Lake Park Water Company, a corporation, and authorizing Clear Lake Park Water Company to execute a mortgage, to issue a promissory note in the principal amount of \$4,000. and to issue 244 shares of its common capital stock of the aggregate par value of \$24,400.

Clear Lake Park Water Company is a corporation organized under the laws of the State of California on or about August 7, 1935 with an authorized capital stock of 250 shares of the aggregate par value of \$25,000., all common. It is recited in the application that prior to the time the company came under the jurisdiction of the Commission it acquired from Clear Lake Park Club a domestic water system located in and in the vicinity of Clear Lake Park, Lake County, under an agreement calling for a purchase payment of \$22,437., payable in the amount of \$37. in cash and \$22,400. in stock.

To date such stock has not been issued. In the meantime the Commission, by Decision No. 28476, dated December 30, 1935, upon a complaint made by consumers and an investigation on the Commission's own motion, Cases Nos. 4003 and 4022, found that the company was operating as a public utility and directed it to file rates, rules and regulations covering its service of water. Accordingly the company now comes before this Commission for the necessary authority to issue its stock to complete the payment of the water system it now owns and operates.

In support of the request to issue stock the company refers to a valuation prepared by the Commission's engineering division in connection with the above mentioned complaint and investigation wherein the historical cost of the water properties, as of July 1, 1935 was estimated at \$22,437. An examination recently made of the company's books of account by the Commission's Department of Finance and Accounts, in connection with the present proceeding, indicates assets and liabilities as of October 31, 1936 as follows:-

ASSETS

Fixed capital	\$22,563.07	
Organization expense	213.34	
Other intangible capital	<u>155.75</u>	\$22,932.16
Cash		82.45
Accounts receivable		<u>596.14</u>
Total		<u>\$23,610.75</u>

LIABILITIES

Capital stock-subscribed		\$22,400.00
Service collected in advance		295.75
Accounts payable		306.67
Notes payable		400.23
Reserve for depreciation		161.81
Profit and loss		<u>46.29</u>
Total.....		<u>\$23,610.75</u>

In addition to the water system referred to above, Clear Lake Park Water Company has been operating under a lease arrangement authorized by the Commission by Decision No. 29094, dated August 31,

1936, a public utility water system, known as the Austin System, which is owned by Los Angeles Mortgage Underwriters, Inc. The Austin System is contiguous to and connected with the system owned by the water company.

In order to place the two water systems under one ownership the water company now has made arrangements to purchase the Austin System for a price of \$6,000., payable through the issue of \$2,000. of its capital stock and the issue of a \$4,000. note due in monthly installments of \$40. or more with interest at the rate of six per cent. per annum, secured by mortgage covering the properties to be thus conveyed to it. It has filed a copy of the proposed mortgage as Exhibit C attached to the application herein.

In making the request for the conveyance of the Austin System and the issue of the stock and note in payment therefor, applicants allege that the historical cost of the properties is \$8,307.74. This figure is made up of the following:-

Historical cost of physical properties as of March, 1931, estimated by the Commission's engineering department in Application No. 17226	\$6,157.00
Cost of installing 4-inch main connecting the two water systems in May and June, 1936	1,538.40
New meters	649.32
Pipe, fittings, etc	163.02
Total.....	<u>\$8,307.74</u>

It appears that the consolidation of the two systems, as here proposed, should result in no change in the service given the public. We believe, however, that Clear Lake Park Water Company in recording on its books the purchase of the Austin System should charge to fixed capital accounts the reported estimated historical cost thereof, plus additions and betterments, namely \$8,307.74, and should credit to its reserve for depreciation the difference between such figure and the par value of the stock and note to be issued in payment.

With the purchase of the properties recorded in this manner we will authorize the issue of the \$24,400. of stock and the \$4,000. note as requested.

O R D E R

Application having been made to the Railroad Commission for an order authorizing the transfer of properties and the issue of \$24,400. of stock and the execution of a mortgage and note for \$4,000., and the Commission being of the opinion that this is not a matter in which a public hearing is necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for through the issue of such stock and note is reasonably required for the purposes specified herein, and that the expenditures for such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income,

IT IS HEREBY ORDERED as follows:-

1. Los Angeles Mortgage Underwriters, Inc. may, on or before February 28, 1937, sell and convey to Clear Lake Park Water Company the public utility water properties referred to in the preceding opinion as the Austin System.
2. Clear Lake Park Water Company may, on or before February 28, 1937, issue in payment for the properties herein authorized to be sold and conveyed to it, 20 shares of its common capital stock of the aggregate par value of \$2,000. and its promissory note in the principal amount of \$4,000. payable in monthly installments of \$40. or more with interest at the rate of six per cent. per annum.
3. Clear Lake Park Water Company may, on or before February 28, 1937, execute a mortgage to secure the payment of said \$4,000. note, said mortgage to be in or substantially in the same form as that filed as Exhibit C in this matter, provided that the authority herein given

is for the purpose of this proceeding only, and is granted only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act and is not intended as an approval of said mortgage as to such other legal requirements to which it may be subject.

4. Clear Lake Park Water Company may, on or before February 28, 1937, issue 224 shares of its common capital stock of the aggregate par value of \$22,400. to complete its payment of the water system heretofore acquired by it from Clear Lake Park Club and referred to in the preceding opinion.

5. The authority herein granted to sell and convey properties and to issue stock shall become effective upon the date hereof, while the authority granted to execute a mortgage and to issue a note shall become effective when Clear Lake Park Water Company has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is Twenty-five (\$25.) Dollars.

6. The authority herein granted is subject to the following conditions:-

- a. The consideration paid or to be paid for the water systems referred to in this matter, and the amount of ^{the} stock and the note to be issued, shall not hereafter be urged before this Commission as a measure of value of said systems for the purpose of fixing rates.
- b. Clear Lake Park Water Company in recording on its books the purchase of the Austin System shall charge to fixed capital accounts the estimated historical cost thereof, as indicated in the preceding opinion, plus subsequent additions and betterments, and shall credit to the reserve for depreciation the difference between such historical cost plus additions and betterments, on the one hand, and the par value of the stock and note issued

in payment thereof, on the other hand.

c. Clear Lake Park Water Company shall keep such record of the issue of the stock and note herein authorized as will enable it to file within thirty(30) days after such issue a verified report, as required by the Commission's General Order No. 24-A, which order insofar as applicable, is made a part of this order.

d. Clear Lake Park Water Company within thirty(30) days after acquiring the Austin System shall file with the Commission a certified copy of the deed, or deeds, of conveyance and a certified copy of the mortgage executed to secure the payment of the \$4,000. note herein authorized to be issued.

DATED at San Francisco, California, this 30th day of November, 1936.

M B Lewis
Leon Whitley
M J Lee
Walter Pearson
Frazer Blum
Commissioners.

