

Decision No. 20654

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SAN GABRIEL VALLEY WATER SERVICE to )  
purchase and E. H. McHANN and J.E. )  
LAYCOOK, a co-partnership doing busi- )  
ness under the name of McHANN & LAY- )  
COOK DOMESTIC WATER SYSTEM to sell )  
a certain public utility water sys- )  
tem situated in the County of Los )  
Angeles, State of California; )

and of )  
SAN GABRIEL VALLEY WATER SERVICE, a )  
corporation, to purchase and INDIO )  
WATER COMPANY, LTD., a corporation, )  
to sell all of its public utility )  
water system situated in the County )  
of Riverside, State of California )

and of )  
SAN GABRIEL VALLEY WATER SERVICE )  
to issue, sell and deliver \$120,000. )  
principal amount of its First Mort- )  
gage Bonds, and to issue and deliver )  
1200 shares of its capital stock in )  
payment for said properties. )

Application No. 21250

ORIGINAL

Paul Overton, for San Gabriel Valley Water  
Service.

BY THE COMMISSION:

O P I N I O N

This is an application for an order of the Railroad Commission  
as follows:-

1. Authorizing E. H. McHann and J.E.Laycook, co-partners doing  
business under the firm name and style of McHann & Laycook Domestic  
Water System, to sell a portion of their public utility water proper-  
ties to San Gabriel Valley Water Service, a corporation;
2. Authorizing Indio Water Company, Ltd. to sell all of its  
public utility water properties to San Gabriel Valley Water Service;
3. Authorizing San Gabriel Valley Water Service to issue \$120,000.  
principal amount of its First Mortgage Bonds, Series of 1937, 5%, and  
1120<sup>(1)</sup> shares of its common stock without par value to finance the cost

(1) The corporation originally asked for permission to issue 1200 shares  
of stock but at the hearing on July 8, 1937 by verbal amendment  
reduced the amount to 1120 shares.

of said properties of E.H.McHann and J.E.Laycock and of Indio Water Company, Ltd., and of additions, betterments and improvements.

4. Granting to San Gabriel Valley Water Service a certificate of public convenience and necessity to supply water in that part of the County of Los Angeles shown on a map marked Exhibit "2" filed in this proceeding.

Public hearings in the matter were held before Examiner W.R. Williams in Los Angeles on July 8, 1936 and July 13, 1937. On the latter date it was taken under submission.

San Gabriel Valley Water Service is a corporation organized under the laws of the State of California on or about February 10, 1937 with an authorized capital stock of 50,000 shares all of one class and without par value. Heretofore, by Decision No. 29687, dated April 20, 1937, as amended by Decision No. 29767, dated May 17, 1937, in Application No. 21034, it was authorized to execute a trust indenture and to issue \$65,000. of bonds, similar to those now proposed to be issued, and 1600 shares of stock at \$25. a share to pay for the water properties of Martin and Goold Water Co., a corporation, and of J. M. Goold, located in unincorporated territory in the County of Los Angeles near the City of El Monte. It was also authorized to issue and sell in addition \$15,000. of bonds at not less than 95% of face value plus accrued interest to finance the cost of additions, betterments and improvements to the properties to be acquired.

The record in the present proceeding shows that San Gabriel Valley Water Service acquired the properties of Martin and Goold Water Co. and of J.M.Goold as of May 1, 1937, issued the \$65,000. of bonds and 1600 shares of stock in payment and expended for improvements, additions and betterments to said properties up to June 30, 1937 the sum of \$20,058.15. The record further shows that the company in order to extend and enlarge its operations, has made

arrangements to purchase water properties of E. H. McHann and J.E. Laycook located near those heretofore acquired by it, and also the properties of Indio Water Company, Ltd.

There was filed with the application copies of the agreements for the sale of these properties which provided for a total consideration of \$90,000. face value of bonds and 1200 shares of no par value common stock, transfer in each case to be made free and clear of indebtedness and encumbrances except about \$6,500. of consumers' advances for construction now outstanding against the McHann and Laycook system. At the hearing on July 8th, however, it was reported that the agreements had been modified and that it was now planned to pay the sum of \$113,293. in cash for the properties now proposed to be transferred and to obtain the funds primarily through the sale of 1120 shares of stock at \$25. a share and \$85,000. face value of the \$120,000. of bonds covered by the application at 90% of face value.

At the hearing had on July 8th R. H. Nicholson amended Exhibit "F" and as amended, it shows the following:-

Estimated historical cost of properties:	
McHann & Laycook Domestic Water System	\$46,700.
Indio Water Company, Ltd.	73,800.
Total.....	<u>\$120,500.</u>

Estimated historical cost less accrued depreciation:	
McHann & Laycook Domestic Water System	\$ 45,766.
Indio Water Company, Ltd.	67,527.
Total .....	<u>\$113,293.</u>

The exhibit as originally filed showed a historical cost depreciated of \$49,566. for the McHann & Laycook properties and \$69,929. for the Indio Water Company, Ltd. properties, or a total of \$119,495.

In support of the request to transfer the two properties as now proposed, Mr. Nicholson, the president of San Gabriel Valley Water Service, testified that the acquisition of the McHann & Laycook system and its interconnection with the corporation's present properties

would permit the placing of a storage reservoir at a higher elevation than is now possible, thereby increasing the water pressure and improving the service to the present consumers. His testimony indicates that with the placing of these properties and those of Indio Water Company, Ltd.<sup>(2)</sup> under the ownership of San Gabriel Valley Water Service, the cost of additions and improvements should be more readily financed. The record shows that a construction program now is contemplated calling for the expenditure of \$62,000. as follows:-

1. For the Indio system:	
500,000 gallon concrete storage reservoir	\$6,500.
100,000 gallon steel reservoir on 100' steel tower	12,500.
5,300 feet 4" welded pipe	2,800.
240 meters and boxes	4,000.
Gasoline engine standby booster unit	1,000.
Total.....	<u>\$26,800.</u>
2. For the Los Angeles County system:	
100,000 gallon steel tank on 100' tower	\$12,000.
Land	1,000.
Pumping equipment	4,000.
Office building	5,000.
100 meters and boxes	1,200.
100 services	2,000.
Distribution mains	10,000.
Total.....	<u>\$35,200.</u>

It appears that the company has made tentative arrangements to issue and sell at 90, the \$120,000. of bonds covered by this application to finance in part the cost of the two systems and of the additions, betterments and improvements.

The acquisition of the two water systems and the installation of the proposed improvements and additions, as here outlined, will thus call for a total expenditure of \$175,293. The sale of the securities now applied for, at the prices indicated, should yield the company \$28,000. for the stock and \$108,000. for the bonds, a total of \$136,000., leaving a balance of \$39,293. which, according to the testimony, will

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(2) The outstanding stock of Indio Water Company, Ltd. (\$13,500. par value) is owned or controlled by R.H. Nicholson.

be provided by unsecured advances on open account from the stockholders and from earnings. At the conclusion of the proposed financing, with the improvements and additions installed, applicant will have outstanding \$200,000. or first mortgage 5% bonds and 2720 shares of no par stock issued on the basis of \$25. a share or a total basis of \$68,000. resulting in a capital setup which, disregarding current assets and liabilities, may be stated as follows:-

Historical cost of water systems, less accrued depreciation, as shown in Exhibit "F" as amended:	
San Gabriel Valley Water Service	\$130,702.
McHann & Laycock Domestic Water System	45,766.
Indio Water Company, Ltd.	67,527.
Additions to June 30, 1937	20,058.
Proposed additions and betterments	62,000.
Subtotal . . . . .	<u>\$326,053.</u>
Discount on bonds . . . . .	12,750.
Total . . . . .	<u>\$338,803.</u>
Bonds- Face value	\$200,000.
Advances: Excess of expenditures of \$20,058. prior to June 30, 1937 over proceeds from \$15,000. of bonds authorized by Dec. No. 29687	5,808.
Excess of proposed expenditures over proceeds from \$120,000. of bonds applied for	39,293.
Consumers' advances	24,000.
Common stock	68,000.
Total . . . . .	<u>\$337,101.</u>

The issue of \$200,000. of bonds under the terms indicated will result in an annual interest charge of \$10,000. and in amortization of bond discount of \$750. According to the record in this proceeding the operating revenues of all the properties to be consolidated for the 12 months ending April 30, 1937 were \$43,246.84 and the operating expenses, excluding depreciation, were \$19,497.46, leaving net revenue available for depreciation and interest of \$23,749.38. Considering the above fixed charges of \$10,750. and depreciation annuities estimated by applicant at \$4,701.84 would leave a balance of \$8,287.54 for other interest, including interest on depreciation reserve and for a return on stock. The reported expenses do not take into consideration any savings that are expected to accrue from the consolidation of the properties. Our reference to said figures is not tantamount to a

finding that they are correct and not subject to adjustments in the event of a rate proceeding.

It appears that San Gabriel Valley Water Service in operating the properties formerly owned by Martin and Goold Water Co., J. M. Goold and McHann & Laycock desires to have its service area and operating rights defined in one certificate of public convenience and necessity in lieu of those heretofore obtained by it or its predecessors. It alleges in this connection that there appears to be an overlapping of service areas covered by different certificates heretofore granted and to remove all doubt it has prepared and filed as Exhibit "2" a map showing the area it now serves and desires to serve in Los Angeles County.

As shown by Exhibit "2" it is proposed to extend the service area. While no public witnesses were called to testify to the need for service by San Gabriel Valley Water Service in the area not now served by it, the record does show through the testimony of R.E. Nicholson, that no public utility water company now is operating in the territory for which a certificate is requested by applicant, that there have been demands for service by residents in said territory and that applicant is willing and able to extend its lines to meet such demands and to give water service in the entire territory in which it seeks to operate. No protest was made at the hearings to applicant's request.

#### O R D E R

The Railroad Commission having been asked to make its order granting a certificate of public convenience and necessity and authorizing the transfer of properties and the issue of stock and bonds, public hearings having been held and the Commission being of the opinion that the application should be granted, as herein provided, and that the money, property or labor to be procured or paid for through the issue of such stock and bonds 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, therefore,

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA HEREBY DECLARES that public convenience and necessity require San Gabriel Valley Water Service to operate and maintain a water system for the purpose of supplying water in that portion of the County of Los Angeles shown upon the map marked Exhibit "2" filed at the hearing on this application on July 13, 1937, said portion of said county being the area shaded in blue upon said map, and

IT IS HEREBY ORDERED as follows:-

1. A certificate of public convenience and necessity is hereby granted to San Gabriel Valley Water Service, a corporation, in accordance with the foregoing declaration, said certificate being in lieu of any and all other certificates heretofore granted to said San Gabriel Valley Water Service, Martin and Goold Water Co., J. M. Goold and McHann & Laycock Domestic Water System affecting said territory.

2. E. H. McHann and J.E.Laycock, copartners doing business under the firm name and style of McHann & Laycock Domestic Water System, and Indio Water Company, Ltd., a corporation, be and they hereby are authorized to sell and transfer their water properties referred to in this application, to San Gabriel Valley Water Service.

3. San Gabriel Valley Water Service be, and it hereby is, authorized on or before December 31, 1937 to issue and sell at not less than 90% of their face value plus accrued interest, \$120,000. of its First Mortgage Bonds, Series of 1937, 5%, and at not less than \$25. a share, 1120 shares of its common stock without par value, and to use \$113,293. of the proceeds to pay for the properties of McHann & Laycock Domestic Water System and of Indio Water Company, Ltd., herein authorized to be sold and transferred, and to use the remaining proceeds to finance the cost of the additions, betterments and improvements referred to in the

opinion preceding this order.

4. San Gabriel Valley Water Service shall file with the Commission within 30 days after acquiring title to the properties herein authorized to be transferred, a copy of each deed or other instrument of conveyance under which it holds title to said properties, and a statement showing the exact date upon which it acquired and commenced operating said properties.

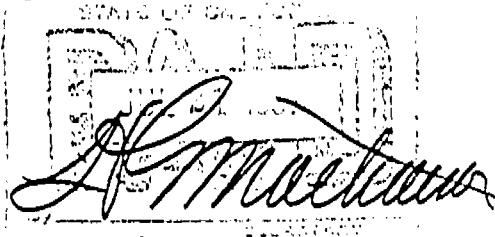
5. San Gabriel Valley Water Service shall keep such record of the issue and sale of the stock and bonds herein authorized and of the disposition of the proceeds as will enable it to file, on or before the 25th day of each month, a verified report, as required by the Railroad Commission's General Order No. 24-A, which order insofar as applicable, is made a part of this order.

6. The authority herein granted is not to be construed as an acceptance or finding of value of the properties herein authorized to be transferred for any purpose other than the transfer herein authorized.

7. The authority herein granted will become effective when San Gabriel Valley Water Service has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is One Hundred and Twenty(\$120.00) Dollars.

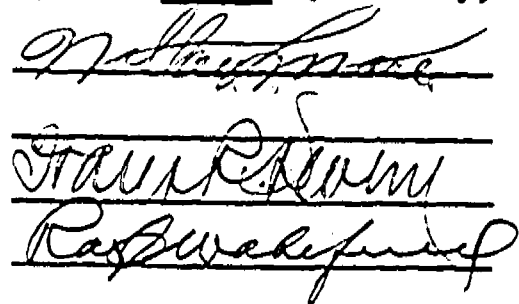
8. San Gabriel Valley Water Service shall keep a separate set of subsidiary records for its water system and operations in and about Indio and its system and operations in Los Angeles County, such subsidiary records to show, among other things, the fixed capital, operating revenues and operating expenses for each of such systems, and shall file with the Commission, if requested to do so, special annual reports for each of said systems.

DATED at San Francisco, California, this <sup>14</sup>16 day of July, 1937. ~~Fee \$120.00~~



Fee # 33501

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Commissioners