

Decision No. 30255

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of
SWARTHOUT VALLEY WATER COMPANY,
a California corporation, for an
order authorizing issue of stock and
promissory note.

Application No. 21378.

Wm. H. B. Haymond for applicant.
Lloyd Nix for Wrightwood Property Owners'
Protective Association.
Will H. Light in propria persona.

WAKEFIELD, Commissioner:

O P I N I O N

This is an application by Swarthout Valley Water Company, a corporation, for an order authorizing it to acquire, maintain and operate certain water properties located in Swarthout Valley in Los Angeles and San Bernardino Counties, and to furnish water for domestic, recreational, irrigation and other uses in the area described in the application and outlined in the map filed as Exhibit A in this proceeding, and for an order authorizing it to execute a chattel mortgage, assignment and deed of trust, to issue its four per cent installment note in the principal amount of \$45,000. and to issue \$20,000. par value of its common capital stock.

In making the original application the company filed, among other things, copies of the agreements under which it proposes to acquire the water properties from the present owner, a description of such properties and a schedule of its proposed rates. At the public hearing held in the matter in Los Angeles on September 23, 1937,

it filed a supplemental application containing an amendment to the purchase agreement and a proposed fire hydrant rate not included in the original schedule of rates. This opinion and order will dispose of both the original and the supplemental application.

The record shows that Swarthout Valley Water Company was organized under the laws of the State of California on or about April 16, 1937 for the purpose of acquiring, owning and operating, as a public utility, the water system located in Swarthout Valley, at present owned by Security-First National Bank of Los Angeles. The territory served and to be served consists of approximately five and one-half square miles, used chiefly for summer and winter resort purposes, including and surrounding the unincorporated community of Wrightwood.

It appears that construction of the water system was started during 1914 by those interested in subdividing and developing the territory and that water was distributed, but not sold, to purchasers of lots and not to the general public. Thereafter financial difficulties brought about the foreclosure and sale of the water system, as well as other properties of the subdividers, and through these proceedings Security-First National Bank of Los Angeles became the owner of the water system and certain unsold lots and unsubdivided acreage. Without offering to dedicate the system to the public the bank continued the water operation.

Neither the bank nor its predecessors received any certificate of public convenience and necessity from this Commission or made any charge for water service. However, by the terms of an agreement dated April 22, 1937, (Exhibit B), of a supplemental agreement dated July 21, 1937, (Exhibit B-1), and of a second supplemental agreement dated September 22, 1937 (Exhibit B-2) the Bank turned over the operations of the water properties to the ap-

plicant corporation. Thereafter, on June 1, 1937, a flat charge of \$1.75 per month per consumer was made with an understanding that refunds would be made of the difference between this rate and the rate that might be established subsequently by the Commission.

The agreements referred to provide that applicant shall receive for its operation of the properties twenty per cent of the net proceeds and shall deliver the remaining eighty per cent to the Bank, and further, give to applicant the option to purchase the properties for the sum of \$60,000., payable \$15,000. in cash and \$45,000. through the issue of a four per cent promissory note, secured by a chattel mortgage, assignment and deed of trust, and payable in installments as follows:

One year after date of issue	\$1,500
Two years after date of issue	1,500
Three years after date of issue	1,500
Four years after date of issue	1,500
Five years after date of issue	1,500
Six years after date of issue	2,500
Seven years after date of issue	2,500
Eight years after date of issue	2,500
Nine years after date of issue	2,500
Ten years after date of issue	<u>27,500</u>
Total	\$45,000

The company reports that during June and July the receipts from the water operations were \$1,098.75 and the expenses, exclusive of depreciation, were \$763.80. It has also installed additions and improvements approximating \$15,000. which it has financed with moneys obtained from Security-First Company, an affiliate of Security-First National Bank of Los Angeles.

Applicant now has exercised its option to purchase the properties and accordingly has made this application for the necessary authority to be established as a public utility and to execute the instruments and to issue the securities to complete the transaction.

In making the requests contained in the application, the company has accepted valuation figures prepared by the Commission's Valuation Division and introduced into the record in this proceeding as Exhibit 1. These figures summarized are as follows:

<u>Item</u>	<u>Historical cost-August 31, 1937</u>	
	<u>Undepreciated</u>	<u>Depreciated</u>
Organization	\$ 1,203.00	\$ 1,203.00
Landed capital	9,850.00	9,850.00
Physical structures	69,449.62	56,529.48
Total operative capital	<u>\$ 80,502.62</u>	<u>\$67,582.48</u>
Construction Work in progress	2,029.67	2,029.67
Nonoperative capital	1,558.37	676.34
Materials and supplies	1,305.40	1,305.40
Total-Exhibit 1	<u>85,396.06</u>	<u>71,593.89</u>
Add-Value of 10 acres not included in Exhibit 1	1,000.00	1,000.00
Total	<u><u>\$86,396.06</u></u>	<u><u>\$72,593.89</u></u>

At present approximately 300 consumers are attached to the water system. On this basis applicant's officers have estimated the gross revenues during the first year of operation at \$6,192. and the expenses, exclusive of interest and depreciation, at \$3,610., which would leave a balance of \$2,582. The interest requirements under the proposed note issue will amount to \$1,800. during the first year and the proper depreciation annuity to be charged against the operations has been estimated by the Commission's Valuation Division at \$1,270. The inclusions of these items of expense would result in a slight deficit.

It is clear that at the outset at least applicant's operation may not produce sufficient cash to enable it to meet its principal repayments and interest requirements, and to provide for any material repairs and replacements. On this point, however, Mr. Joseph E. Rayburn, who is president of applicant corporation and also is in charge of the Special Properties Department of the Security-First

National Bank of Los Angeles, testified that a verbal agreement had been made whereby Security-First Company, or the bank, would advance to applicant upon short term unsecured 4 per cent notes, or by contributions, sufficient funds to enable it to meet its requirements. The record further shows that there are about four hundred unsold lots in the subdivided area which can be served by the present system with but slight expenditure for connections, as well as several hundred unsubdivided acres in the vicinity. It appears that the bank is endeavoring to dispose of its real estate holdings acquired through said foreclosure and applicant's officers are of the opinion that eventually the system will be self-supporting.

To complete the present financing plans the company proposes to issue and sell to Security-First Company at par for cash, 200 shares of its common capital stock of the aggregate par value of \$20,000. and to use the proceeds for the following purposes:

To make the initial cash payment to Security-First National Bank of Los Angeles for the water system		\$15,000
To pay for contemplated additions and improvements as follows:		
Complete circulation of water distributing system by eliminating dead ends	\$1,200	
Construction of 15,000 gallon storage tank	500	
Replacement of 3000 feet of 3" and 4" pipe	<u>800</u>	2,500
To pay for additional improvements and to provide working capital		<u>2,500</u>
	Total	\$20,000

The pipe to be replaced will be used elsewhere in the system.

The company made no showing of any additional capital expenditures other than those aggregating \$2,500. referred to in the foregoing tabulation. In my opinion the record does not justify the use of \$2,500. of stock proceeds for working capital, especially when it is considered that substantially all, if not all, of the consumers will be placed on a rate schedule, hereinafter set forth, providing for the payment in advance of annual minimum charges. The Commission's engineers in Exhibit 1 estimated a reasonable working capital at \$600.

With the conclusion of the proposed financing the present short term indebtedness of some \$15,000. will be discharged and applicant will commence its utility operations with a financial structure consisting of only the \$45,000. note and \$20,000. of stock.

Upon inaugurating the service as a public utility the company proposes to place into effect a schedule of meter rates only, which is shown in Exhibit G and Exhibit G-1 as follows:

<u>ANNUAL MINIMUM CHARGE</u>		(Payable in advance)	
	5/8 inch meter	- - - - -	\$15.00
	3/4 inch meter	- - - - -	18.00
1	inch meter	- - - - -	24.00
1½	inch meter	- - - - -	30.00
2	inch meter	- - - - -	36.00

Each of the foregoing minimum annual charges will entitle the consumer to the quantity of water which that annual minimum charge will purchase at the following rates for service consumer

has subscribed to or has been furnished with:

DOMESTIC SERVICE SCHEDULE NO. 1

First	6,000 cu. ft.	- - -	25¢	per 100 cu. ft.
Next	6,000 cu. ft.	- - -	22½¢	per 100 cu. ft.
Next	8,000 cu. ft.	- - -	15 ¢	per 100 cu. ft.
All over	20,000 cu. ft.	- - -	10 ¢	per 100 cu. ft.

FIRE HYDRANTS \$1.25 per month, payable in advance.

This charge is to include maintenance and repairs to the hydrant.

INTERMITTENT IRRIGATION SERVICE

For meters of 2" size and up.
Service on demand only.
Minimum annual quantity, 150,000 cu. ft.
RATE--- .04¢ per 100 cu. ft.

SPECIAL CONDITIONS: This type of service shall only apply to water furnished to irrigate commercial farm crops, and is subject to demands of domestic consumers and to rotation of service among intermittent irrigation users.

METER READING DATES

Meters will be read on the first days of March, June, September, and December and a statement rendered each consumer within five days of said date, showing the meter readings and a statement of the balance, if any, due under the annual minimum charge or bill for excess water over the annual minimum allowance in cases where the quantities have been exceeded.

At the hearing, objections to the proposed annual minimum charges were made by Mr. Will H. Light, a property owner, and by Mr. Wm. Lloyd Nix, representing the Wrightwood Property Owners' Protective Association. Both protestants stated that they had no objection to paying a reasonable amount for water, but felt that the annual charges should be somewhat less than those set forth in the proposed schedule and should not be payable in advance.

However, the proposed rates and practices do not seem to me to be out of line or inconsistent with those in effect on other water systems operating in similar territory under similar

conditions. Moreover, it is clear from the evidence herein that the rates will not for some time result in any material return to the owner on its investment.

It appears that in most cases the proposed rates will be lower than the \$1.75 flat rate now in effect so that under the arrangement heretofore referred to some refund will be due the consumers. The record is clear that such refunds will be made by the present owner and will not in any way be assumed or paid by applicant.

In recording the acquisition of the properties on the books of account, it appears to me that applicant should set up in its fixed capital and investment accounts the estimated undepreciated historical cost figures of \$86,396.06, plus the cost of additions made since August 31, 1937, and should set up as a credit balance in a reserve for depreciation the sum of \$13,802.17, being the difference between the estimated undepreciated and the depreciated cost figures. The excess of the \$86,396.06 over the par value of the stock and notes issued in payment for the properties and the reserve for depreciation should be credited to a capital surplus account.

I herewith submit the following form of Order:

O R D E R

Swarthout Valley Water Company having applied to the Railroad Commission for authorization to operate as a public utility and for permission to execute indentures and to issue stock and a note, a public hearing having been held and the Commission being of the opinion 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 the stock and the 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 expense or to income,

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA hereby declares that public convenience and necessity require and will require Swarthout Valley Water Company to acquire, maintain and operate the properties described in Exhibits B, B-2, and D, filed in this proceeding and to furnish water for domestic, recreational, irrigation, fire hydrant and other uses in the area delineated by the heavy blue line on the map filed as Exhibit A, and

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be and it hereby is, granted in accordance with the foregoing declaration.

IT IS HEREBY FURTHER ORDERED that Swarthout Valley Water Company be, and it hereby is, authorized to execute a mortgage of chattels with assignments of rents and a deed of trust with assignment of rents in, or substantially in, the same form as those filed as Exhibits F-1, and F-2 respectively, provided that the authority here given is for the purpose of this proceeding only and is given only insofar as this Commission has jurisdiction under the terms of the Public Utilities Act, and is not intended as an approval of said instruments as to such other legal requirements to which they may be subject.

IT IS HEREBY FURTHER ORDERED that Swarthout Valley Water Company be, and it hereby is, authorized to issue on or before December 31, 1937, its four per cent installment note in the principal amount of \$45,000 for the purpose of paying in part for the water system referred to herein.

IT IS HEREBY FURTHER ORDERED that Swarthout Valley Water Company be, and it hereby is, authorized to issue and sell as par for cash on or before December 31, 1937, not exceeding \$20,000 of its common capital stock and to use of the proceeds \$15,000. to pay in part for the aforesaid water system, not exceeding \$2,500 to pay for the contemplated additions and improvements referred to in the foregoing Opinion and not exceeding \$600 for working capital, provided that the remainder of the proceeds from the sale of the stock be placed in a special account and used only for such purposes as the Commission may hereafter authorize.

IT IS HEREBY FURTHER ORDERED that Swarthout Valley Water Company be and it is hereby authorized and directed to place into effect as of the date of this Order the schedule of rates set out below:

RATES

ANNUAL MINIMUM CHARGE (Payable in Advance)

5/8 inch meter -----	\$15.00
3/4 inch meter -----	18.00
1 inch meter -----	24.00
1 1/2 inch meter -----	30.00
2 inch meter -----	36.00

Each of the foregoing minimum annual charges will entitle the consumer to the quantity of water which that annual minimum charge will purchase at the following rates for service consumer has subscribed to or has been furnished with.

DOMESTIC SERVICE - Schedule No. 1

First	6,000 cu. ft. per 100 cu. ft. -----	\$0.25
Next	6,000 cu. ft. per 100 cu. ft. -----	.22 1/2
Next	8,000 cu. ft. per 100 cu. ft. -----	.15
All over	20,000 cu.ft. per 100 cu. ft. -----	.10

FIRE HYDRANTS -----\$1.25 per month,
payable in advance.

This charge is to include maintenance and repairs to hydrant.

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For meters of 2-inch size and up.
Service on demand only.
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Special Conditions: This type of service shall only apply to water furnished to irrigate commercial farm crops, and is subject to demands of domestic consumers and to rotation of service among intermittent irrigation users.

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Meters will be read on the first days of March, June, September and December, and a statement rendered each consumer within five days of said date, showing the meter readings and a statement of the balance, if any, due under the annual minimum charge or bill for excess water over the annual minimum allowance in cases where quantities have been exceeded.

NOTE: Charges for the balance of the year 1937 to be prorated equitably upon the basis of the remaining months and fraction thereof.

The authority herein granted is subject to the following conditions:

1. Applicant shall receive the water properties referred to herein free and clear of indebtedness except the \$45,000. note herein authorized and current taxes not due.
2. Applicant shall file with the Commission, within thirty (30) days after acquiring title to the aforesaid properties, a true and correct copy of each deed or other instrument of conveyance.
3. Applicant shall keep such record of the issue of the stock and note 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, which order, in so far as applicable, is made

a part of this order.

4. The authority herein granted shall become effective twenty (20) days from the date hereof, provided applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Forty-five Dollars (\$45.00).

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 18th day of October, 1937.

William H. ...
Samuel ...
Frank ...
Robert ...
W. L. Peery
Commissioners.

\$45.00
A. J. Mathison
Fm# 33609