

Decision No. 37203

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

IN THE MATTER OF THE APPLICATION

of

THE EAST BELL LAND COMPANY,
a corporation,

and

COAST WATER COMPANY,
a corporation.

ORIGINAL

Application No. 26108

J. F. Glynn, for East Bell Land Company

O. C. Beck, for Coast Water Company

BY THE COMMISSION:

O P I N I O N

The East Bell Land Company is engaged in serving water to a portion of the community known as Bell Gardens located in Los Angeles County, about one mile east of the City of Bell. The company is also engaged in the real estate business.

The East Bell Land Company, hereinafter sometimes referred to as the Seller, asks permission to sell its public utility water properties to Coast Water Company, a

corporation organized by O. C. Beck and T. A. Beck. They too are engaged in the real estate business and have sold to the East Bell Land Company some of the property which it subdivided. They have also subdivided some of the property owned by the Seller.

The Commission by Decision No. 28021, dated June 10, 1935, in Application No. 19852, and by Decision No. 30217, dated October 11, 1937, in Application No. 21294, granted the Seller a certificate of public convenience and necessity to operate a water system in the area described in said decisions. By Decision No. 28021, the Commission fixed the rates which the Seller may charge for water, reference to which will hereafter be made.

The territory served by Seller embraces approximately 320 acres of land, including an 8-acre unsubdivided tract owned by Seller. There are 731 lots in the subdivision service area or 4.3 lots per gross acre of subdivided area. The entire area is over 90% built-up with small homes. The increase in the average number of active connections at the end of the year, the operating revenues, operating expenses, and net operating revenues are shown by the following table:

<u>Year</u>	<u>Number of Active Service Connections at End of Year</u>	<u>Operating Revenues</u>	<u>Operating Expenses</u>	<u>Net Operating Revenues</u>
1936	400	\$ 4,118.36	\$4,599.32	\$ 480.96*
1937	505	6,914.46	6,146.40	768.06
1938	593	8,180.00	7,216.00	964.00
1939	613	9,084.65	8,746.51	338.14
1940	627	8,731.70	8,430.06	301.64
1941	683	10,084.63	9,353.68	730.95
1942	696	11,590.84	9,219.32	2,371.52
1943	734	11,984.80	8,622.70	3,362.10

*Red Figure

All consumers, except sixteen, receive water under flat rates. The flat rate for domestic use is \$1.25 per month per connection except for 25 lots north of Gage Avenue where a charge of \$1.50 per month is made. Where more than one user is located on one service connection, an additional charge of \$0.50 per user is made. The flat rate for commercial uses ranges from \$2.00 to \$6.50 per month. The total revenue from commercial users is about \$41.50 per month. Only eleven of the sixteen metered consumers use more than the minimum amount of water under the meter rates. In November, 1943, their water bills aggregated \$45.99.

The actual cost of the properties is not available. In Exhibit No. 1, Donald M. Baker, a member of the firm of Ruscardon Engineers, reports the historical cost of the water properties at \$57,313 and the accrued depreciation calculated on a straight line basis at \$13,628, leaving a historical cost depreciated of \$43,685. The testimony shows that he made a field examination of the properties and endeavored to ascertain the actual cost of the same. He used such actual cost data as was available in estimating the historical cost of the properties. He obtained some of his cost data from Fred G. Zahn, in Charge of Sales, Pacific Southwest Pipe Company, who supplied much of the pipe used in constructing the system. The testimony shows that Mr. Zahn supplied him with some erroneous cost figures and that the cost figures submitted by Mr. Baker should be increased by about \$7,072. Adding this to Mr. Baker's estimated historical cost makes a total of \$64,385. If the \$7,072 is depreciated on the

same basis as the historical cost new found by Mr. Baker, the depreciated historical cost of the properties is \$49,057.

The East Bell Land Company has agreed to sell its properties to Coast Water Company for \$65,000. The agreement of sale as originally submitted to us was a conditional sale contract under which Coast Water Company would pay \$5,000 in cash and the balance in monthly installments of \$430 or more with interest at the rate of 6% per annum. Under this agreement, title to the properties would not pass until the Seller had received the final payment. Upon being advised that under such an agreement, the Commission would regard Coast Water Company as the agent for the Seller and hold the Seller responsible for the operation of the plant, the parties thereupon amended the application at the hearing. As amended, title to the property will pass upon the payment of the \$5,000. Coast Water Company will, if authorized by the Commission, issue to the Seller its \$15,000 note secured by a deed of trust and its \$45,000 note secured by a mortgage of chattels. Both notes bear interest at the rate of 6% per annum. The \$15,000 note including interest is payable in monthly installments of \$143 or more, and the \$45,000 note and interest in monthly installments of \$287 or more. The small down payment is prompted by an income tax situation affecting the parties and not by a lack of credit of the stockholders of Coast Water Company.

Coast Water Company also asks permission to issue \$10,000 of common stock to O. C. Beck and T. A. Beck. \$5,000 of the proceeds will be used to make the down payment on the

purchase of the properties and the remainder will be used for improvements.

Coast Water Company in Exhibit "c" submits a proforma statement showing its assets and liabilities as follows:

<u>Assets</u>		
Fixed Assets		\$65,000.00
Land	\$ 1,000.00	
Buildings	1,042.40	
Wells	4,422.64	
Pumping Station Machinery and Equipment	11,715.08	
Tanks	20,849.05	
Mains	23,622.64	
Miscellaneous	1,981.31	
Office Equipment	<u>366.88</u>	
Cash		<u>5,000.00</u>
	Total Assets	<u>\$70,000.00</u>
<u>Liabilities</u>		
Stock Subscribed		\$ 5,000.00
Contracts Payable		<u>65,000.00</u>
	Total Liabilities	<u>\$70,000.00</u>

In our opinion there is nothing in this record that warrants the recording of tangible properties at the figures indicated in the proforma statement. The properties should not, as of January 1, 1944, be recorded on the books of Coast Water Company in excess of \$64,385. The books should also show an accrued depreciation of \$15,298, leaving a cost less depreciation of \$49,057. If Coast Water Company pays for the properties more than \$49,057, it must charge the difference between said \$49,057 and what it pays for the properties to Account 15, Other Suspense. The amount charged

to that account should be amortized by charges to Corporate Surplus within a period of ten years after the date of the acquisition of the properties.

As stated, nearly all of Seller's water service is rendered under flat rates. In the agreement of sale, Coast Water Company gives the Seller a flat rate for water service for 20 years subject to the Railroad Commission's approval. The water thus delivered to the Seller will be used by the owners of East Bell Land Company, the Specht family, on their home place of about six acres. No actual rate is mentioned or fixed in the agreement. We will not approve that part of the sale agreement. The Seller should pay the same rate as is charged other consumers similarly situated.

O R D E R

A public hearing having been held in the above entitled matter before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing and it being of the opinion that the money, property or labor to be procured or paid for by the issue of the stock and notes herein authorized is reasonably required by applicant, Coast Water Company, for the purposes herein stated; that expenditures in the amount of \$49,057 are not reasonably chargeable to operating expenses or to income, and that this application should be granted subject to the provisions of this Order, therefore,

IT IS HEREBY ORDERED as follows:

1. East Bell Land Company may, after the effective date hereof and on or before December 31, 1944, sell to Coast Water Company its public utility water properties described in the sale agreement on file in this application as Exhibit "A."

2. Coast Water Company may, after the effective date hereof and on or before December 31, 1944, issue and sell at not less than par \$10,000 of its common capital stock and use \$5,000 of the proceeds to pay, in part, the cost of the public utility water properties of East Bell Land Company. The remaining \$5,000 shall be used by Coast Water Company to make improvements to said water properties.

3. Coast Water Company may, after the effective date hereof and on or before December 31, 1944, issue to East Bell Land Company its 6% promissory note in the principal sum of not exceeding \$15,000 and its 6% promissory note for the principal sum of not exceeding \$45,000 in part payment for the public utility water properties which it is acquiring from East Bell Land Company. Further, it may execute a deed of trust to secure the payment of said \$15,000 note and a mortgage of chattels to secure the payment of said \$45,000 note, said notes, deed of trust, and mortgage of chattels to be in substantially the same form as the notes, deed of trust, and mortgage of chattels filed with the Railroad Commission on June 21, 1944.

4. If Coast Water Company acquires said public utility water properties of East Bell Land Company, it may

charge to fixed capital accounts not more than \$64,685, offset by a depreciation reserve of \$15,298. The difference between the amount paid for the properties and said charges to fixed capital accounts less the depreciation reserve, to-wit: \$49,057, shall be charged to Account 15, Other Suspense, and amortized by charges to Corporate Surplus within a period of ten years after the date of the acquisition of the properties.

5. The authority herein granted will become effective when Coast Water Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is Sixty (\$60.00) Dollars.

6. East Bell Land Company shall file a written statement with this Commission within thirty (30) days after the sale of said properties, indicating the date on which control and possession of said water system were relinquished.

7. On or before the date of actual transfer of said water system, East Bell Land Company shall refund all deposits which consumers are entitled to have refunded under the utility's filed rates, rules, and regulations, and shall file a written statement within thirty (30) days after the sale of said properties showing the disposition of any of such deposits or that no deposits existed.

8. Coast Water Company is hereby directed to file within thirty (30) days after the acquisition of said water properties, four (4) copies of rates for water service furnished by means of said water properties, which rates shall not be higher in any particular than the applicable rates now on file with the Commission.

9. Coast Water Company is hereby directed to file within thirty (30) days after the acquisition of said water properties four (4) sets of rules and regulations applicable to water service in the area now served by East Bell Land Company, each set of which shall contain a map or sketch drawn to an indicated scale upon a sheet approximately 8½x11" in size, delineating thereupon in distinctive markings the boundaries of the present service area and the location thereof with reference to the surrounding territory, it being understood, however, that the filing of such sketch shall not be considered as a conclusive determination of the area dedicated.

10. Coast Water Company is hereby directed to file within thirty (30) days after the acquisition of said water properties four (4) copies of a comprehensive map drawn to an indicated scale of not less than 600 feet to the inch, delineating the service area and its location with reference to source of supply and surrounding territory. Such map shall show the source and date thereof and include data sufficient to determine clearly the location of the various properties comprising the service area.

11. Any finding of value made herein shall be limited solely to the purposes of the proceeding herein involved.

Dated at San Francisco, California, this ^{11th}~~10~~ day
of July, 1944.

Richard Kachas
Justice A. Coenen
Francis D. Havens

Grant Russell
Commissioners.

