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Decision No. 14469.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
BELL WATER COMPANY)
for an order authorizing the adjust-)
ment and establishment of proper book)
accounts; permission to purchase ad-)
ditional land; authority to mortgage)
property and issue notes; authority)
to issue and sell stock; and for auth-)
ority to increase water rates.)

Application Number 10503

ORIGINAL

A. B. Shaub, for Applicant.
Frederick Lake, for certain consumers, protestants.
F. E. Goodway and I. M. Vaughn, in propria persona
and for certain consumers, protestants.

BY THE COMMISSION:

FIRST SUPPLEMENTAL OPINION

On December 22, 1924 the Railroad Commission by Decision Number 14390 in the above entitled matter authorized Bell Water Company to issue a \$12,000.00 note and use the proceeds, if necessary, for the following purposes:-

| | |
|---|--------------------|
| To purchase land referred to in the application | \$4,700.00 |
| To install one 50,000 gallon steel tank on a 60-foot tower | 6,000.00 |
| Pipes and fittings to connect same | 1,300.00 |
| | <hr/> |
| Total..... | <u>\$12,000.00</u> |

The Commission by Decision Number 14390 also authorized the company to execute a mortgage to secure the payment of the note. In the opinion in such decision it is stated that the tank will be located on the land which the company is authorized to purchase. Such statement is in error and the fact is that the tank will be located on the company's property fronting Baker Avenue, this property having an ele-

vation higher than the property which the company is authorized to purchase through the issue of the \$12,000.00 note.

The Commission still has before it for consideration the adjustment and establishment of proper accounts of applicant, the request for permission to issue stock and the request for permission to increase water rates.

To support its request for the adjustment of its book accounts, applicant filed as its Exhibit No. 1 a report prepared by The Chester H. Loveland Engineers. This report, among other things, contains a balance sheet of the company as of December 31, 1923 before adjusting the accounts, and also a balance sheet as of January 1, 1924 after the accounts were adjusted, as indicated in the report. Material changes were made in several of the company's accounts. It is alleged that the records of the company do not show the cost of the properties; that neither the assessment levied nor the income invested appear on the books of the company and that from such books it is impossible to determine the original cost of the properties. The Chester H. Loveland Engineers made an estimate of the historical cost new of the properties, which cost as of January 1, 1924 is reported at \$112,145.60, as compared with the cost of \$53,148.28 appearing on the books of the company on December 31, 1923. The report does not show that the company actually expended \$112,145.60 to acquire the properties included in such report. No changes were made in the current asset accounts. The account "treasury securities" amounting to \$6,918.50 represents the par value of 276.74 shares of re-acquired stock through forfeiture; the owners having failed to pay assessments levied thereon.

In setting up the liability accounts the Loveland Engineers increased corporate surplus unappropriated from \$9,862.39 to \$41,975.08. The assessment on stock was increased from \$1,058.18 to \$20,458.12. The appreciated value of fixed capital was decreased from \$17,859.74 to \$13,444.10. The reserve for accrued depreciation was increased from \$14,157.20 to \$15,818.32, while donations in aid of construction was

increased from \$185.46 to \$10,424.67. There is no evidence before the Commission to show that the company's surplus earnings have amounted to \$41,975.08. The Commission will not permit credits arising from a re-valuation of applicant's assets to be transferred to "Corporate surplus unappropriated". The items from an adjustment of the books which have been credited or debited to "Corporate surplus unappropriated" should be taken out of such account and transferred to a "suspense account". The balance credited to the account "Appreciation of fixed capital" should also be transferred to the suspense account. The fixed capital accounts now appearing on the books of the company must be adjusted so that they will reflect the valuation of the properties by the Commission's engineers, which figures are included in the rate base used in this decision.

Bell Water Company asks permission to issue and sell at not less than par \$25,000.00 of common stock and use the proceeds to acquire and install additional properties as follows:-

| | |
|---|--------------------|
| 1 concrete storage reservoir(250,000 gal.) at Plant No. 1 | \$6,000.00 |
| 1 Booster pump direct connected with 40 H.P. motor, automatic control, and reverse connection for Holt Gas Engine | 3,500.00 |
| 600' 10" #12 R.S. @ \$1.45 | 870.00 |
| 1300' 8" #12 R.S. 1.19 | 1,547.00 |
| 1300' 4" 16 R.S. .50 | 650.00 |
| Valves and fittings | 500.00 |
| Addition to Pumphouse Plant No. 1 | 800.00 |
| Pumphouse for Booster Pump | 800.00 |
| 120 new services and meters | 2,500.00 |
| Distribution main enlargements | 5,000.00 |
| Refund of construction advances | 4,000.00 |
| Total | <u>\$26,167.00</u> |

It is of record that the addition to pumphouse at plant number one has been completed.

Bell Water Company asks permission to issue additional stock, as a stock dividend to existing stockholders, in an amount sufficient to equalize and more truly reflect the value of the shares, as compared with any new stock sold at par. The company has now \$10,582.50 par value of stock outstanding. It has no funded debt. It reports as of October 31, 1924 \$500.00 of notes payable, \$1,097.51 of accounts payable, \$727.45 of accrued taxes, \$7,450.62 advanced by consumers and \$53.66 of fees payable for county permits.

When a utility applies to the Commission for permission to issue stock for the purpose of paying a dividend, it is incumbent upon such utility to show that it has had surplus profits from its business and that such surplus profits have been invested in its properties. In our opinion, neither assessments on stock, nor advances by consumers, nor reserve for accrued depreciation, nor donations, nor an increase in the asset accounts due to a re-valuation of properties, results in surplus profits available for dividend purposes. Such items not being available for the purpose of declaring a dividend, they cannot be used as a basis for the issue of stock to reimburse a utility's treasury, which stock in turn is to be used to pay a dividend.

The record shows that the accumulated surplus of applicant on December 31, 1923 was \$9,862.39 and that from January 1, 1924 to October 31, 1924 its surplus earnings amounted to \$5,693.00. Adding the two amounts makes an accumulated surplus of \$15,555.39. The order herein will permit applicant to issue \$15,500.00 of stock to reimburse its treasury because of earnings expended for properties. After such reimbursement the \$15,500.00 of stock may be used to pay a dividend.

Bell Water Company also asks permission to increase water rates. The rate schedules now in effect were fixed by this Commission by Decision Number 8077 dated September 13, 1920, and are as

follows:-

DOMESTIC METER RATE:

| | |
|--|--------|
| 500 cu.ft. or less, per month | \$1.00 |
| 500 cu.ft. to 2000 cu.ft., per 100 cu.ft. | .15 |
| All in excess of 2000 cu.ft., per 100 cu.ft. | .10 |

IRRIGATION METER RATE:

| | |
|--|------|
| 2500 cu.ft. or less, for setting of meter | 1.50 |
| All in excess of 2500 cu.ft., per 100 cu.ft. | .06 |

IRRIGATION-FULL FLOW OF PUMP #2:

| | |
|---|------|
| (Approximate capacity 100 miner's inches.) | |
| 1 hour or less | 2.00 |
| All in excess of 1 hour, per hour | 2.00 |

The Commission has upon two previous occasions reviewed applicant's rates. Reference is here made to Decision Number 3085 dated February 8, 1916 in Application Number 1983; and to Decision Number 8077 dated September 13, 1920 in Application Number 5731. In those two rate proceedings the water system of the Laguna-Bell tract was excluded from the inventory because the water company did not at that time own it. Title has since been acquired and the properties have been included in the appraisal submitted in this proceeding.

Reference has already been made to the report (Applicant's Exhibit No. 1) prepared by The Chester H. Loveland Engineers. This report will not be considered in connection with applicant's request to increase rates, for the reason that applicant did not call any representative of The Chester H. Loveland Engineers, to enable counsel for consumers to cross-examine such representative in regard to said report.

Howard McCurdy, an engineer, called in behalf of certain consumers, presented an appraisal of the mains, meters and services based upon the quantities shown in Applicant's Exhibit No. 1. This appraisal (Consumer's Exhibit No. 1) was prepared upon the reproduction cost basis and totaled \$63,347.00 for the items mentioned. Accrued depreciation on a straight line method was computed and found

to be \$29,508.00 or a total reproduction cost, less depreciation, of \$33,839.00.

M. I. Reed, an assistant engineer of the Railroad Commission, presented a report and appraisal (Commission's Exhibit No. 1) of the physical properties of this company which totals \$90,627.00 as of January 1, 1924. Additions and betterments from January 1, 1924, to September 30, 1924, were found to be \$10,004.00. A depreciation annuity was computed by the five percent sinking fund method and was found to be \$2,122.00 as of January 1, 1924 and \$2,355.00 as of September 30, 1924.

H. R. Robbins, an assistant engineer of the Railroad Commission, presented an appraisement (Commission's Exhibit No. 2) of the lands of the Bell Water Company which amounted to \$17,120.00. He also testified that the sum of \$4,700.00 was a reasonable price to be paid for the contemplated purchase of the present company office building and the lot upon which it is located.

The appraisals of the Commission's engineers were based upon the estimated historical cost of the physical property and upon the present value of the lands and rights of way and totaled \$117,751.00 as of September 30, 1924. ^{This does not include the \$4700.} The report of Mr. McCurdy, which was made upon the basis of reproduction cost, was incomplete in that it included only certain items of the distribution system installed prior to September 1, 1923. By reason of the variance in dates and inventories, a direct comparison between McCurdy's report and Reed's report cannot be made.

From the record it appears that the company will forthwith undertake the expenditure of \$12,000.00 for the purchase of land, erection of a tank and connect same with its plant number one. Additional expenditures should be made during the year to replace pipes, to install meters and new services in order to enable applicant to give more efficient service. The amount of such expenditures is not definitely known. The major expenditures which applicant intends

to incur for construction purposes will not be placed in service until the summer of 1925.

After a consideration of the evidence submitted the Commission finds that a rate base for 1925 of \$130,000.00 is reasonable.

Bell Water Company, in its annual reports filed with the Railroad Commission for the past four years, shows operating revenues and operating expenses exclusive of depreciation as follows:-

| ITEM | 1920 | 1921 | 1922 | 1923 |
|--------------------|------------|-------------|-------------|-------------|
| Revenues | \$8,012.49 | \$11,232.65 | \$13,802.31 | \$17,505.46 |
| Expenses | 5,823.63 | 6,234.67 | 8,165.27 | 10,930.34 |
| Net | \$2,188.86 | \$ 4,997.98 | \$ 5,637.04 | \$ 6,575.12 |

The company's revenues in 1921 increased forty-two percent. as compared with 1920; in 1922 they increased twenty-three percent. as compared with 1921; while in 1923 they increased twenty-seven percent. over 1922. The average annual increase for the three years was thirty-one percent. The company's revenues from September 1, 1923 to August 31, 1924 were \$20,153.66. Assuming a twenty percent. increase for 1925 over the year ending August 31, 1924 results in a total revenue of \$24,184.29.

The company's operating expenses, exclusive of depreciation, for the twelve month period ending August 31, 1924 totaled \$10,392.53. M. I. Reed estimates the operating expenses for the ensuing year at \$12,236.00. The depreciation annuity designed to replace the worn out and obsolete property at the end of its useful life was estimated by him, as of September 30, 1924 at \$2,355.00.

The rates now in effect for the Bell Water Company were designed when the utility was serving water to a community partly given over to a service which required a great amount of water for irrigation. The irrigation use has greatly been supplanted by ordinary domestic service and the company is now serving the few remaining irrigation users with water at an economic loss. A study of the rates

discloses the fact that water is served for irrigation purposes at a much lower price than to domestic and commercial consumers, even though in some instances the water is served from the same mains and under similar conditions. We are of the opinion that the present irrigation rates are a discrimination against the domestic and commercial consumers and that those users who demand this type of service should pay a more just and equitable rate.

The record shows that the company earned during the year ending August 31, 1924 under existing rates, more than seven percent on a reasonable rate base. The Commission finds, after a consideration of the evidence, that the applicant's present domestic rate schedule is just and reasonable, except as to the minimum charges. The Commission further finds that applicant's rates for irrigation service should be readjusted to approximate more reasonably the cost of water to domestic and commercial consumers. The rates fixed by the order should yield applicant a return of somewhat more than seven percent on a rate base of \$130,000.00.

Counsel for protestants developed the fact that certain rules and regulations of applicant were in need of modification. We are of the opinion that this company should submit revised rules and regulations governing the relations with its consumers.

Applicant asks in the petition to this Commission that the Commission pass on the reasonableness of a fire hydrant rental rate. This rate was agreed to by representatives of the company, the Bell Community Fire Protection District and the Board of Supervisors of the County of Los Angeles. We are of the opinion that the provisions of this contract at this time will not work a hardship upon the existing consumers of the Bell Water System and for this reason this Commis-

sion is of the opinion that the rates as contained in this contract shall be filed as herein ordered:

FIRST SUPPLEMENTAL ORDER

BELL WATER COMPANY having asked permission to adjust its accounts, to issue stock and increase water rates, public hearings having been held before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearings,

IT IS HEREBY FOUND AS A FACT that the accounts of Bell Water Company should be adjusted; that the money, property or labor to be procured or paid for through the issue of \$40,500.00 of stock is reasonably required by the company for the purposes herein stated, and that the rates now charged by Bell Water Company, for water supplied to its consumers are unjust and unreasonable in so far as they differ from the rates herein established, and that the rates herein established are just and reasonable rates,

AND basing the order upon the foregoing finding of fact, and upon the statement of fact contained in the preceding opinion

IT IS HEREBY ORDERED as follows:-

1. Bell Water Company shall within sixty days after the date hereof file with the Railroad Commission copies of all journal entries adjusting its accounts, in conformity with the opinion preceding this order.
2. Bell Water Company may issue at not less than par \$15,500.00 of its common stock to reimburse its treasury because of earnings expended for the acquisition of properties. After the reimbursement of the company's treasury through the issue of such stock, the stock may be distributed to applicant's stockholders as a stock dividend.

3. Bell Water Company may issue and sell for cash at not less than par on or before December 1, 1925, \$25,000.00 of common stock and use the proceeds, if necessary, to acquire and install the properties referred to in the preceding opinion. Any proceeds not necessary for said purposes may be expended only for such purposes as the Commission will authorize by supplemental order or orders.
4. Bell Water Company is hereby authorized and directed to file with the Railroad Commission on or before February 1, 1925 the following schedule of rates to be charged for all water delivered to consumers subsequent to January 1, 1925;-

METER RATES FOR DOMESTIC, COMMERCIAL AND IRRIGATION CONSUMERS

| <u>MINIMUM MONTHLY CHARGES</u> | |
|--------------------------------|--------|
| 5/8 inch meter | \$1.00 |
| 3/4 inch meter | 1.50 |
| 1 inch meter | 2.00 |
| 1-1/2 inch meter | 4.00 |
| 2 inch meter | 6.00 |
| 3 inch meter | 12.00 |
| 4 inch meter | 18.00 |
| 6 inch meter | 35.00 |

Each of the foregoing monthly minimum charges will entitle the consumers to the quantity of water that the minimum monthly charge will produce at the following "monthly meter rates."

MONTHLY METER RATES

| | |
|---|-------|
| From 0 to 500 cu.ft., per 100 cu.ft. | \$.20 |
| From 500 to 2000 cu.ft., per 100 cu.ft. | .15 |
| 2000 cu.ft. and above per 100 cu.ft. | .10 |

FLAT RATE IRRIGATION USE PER HOUR

| | |
|---|--------|
| Full flow of pump #2, 1 hour or less | \$3.50 |
| All in excess of 1 hour, per hour or fraction thereof | 3.50 |

FIRE HYDRANT RENTALS

| | |
|---------------------------------|--------|
| Per hydrant per month | \$1.50 |
|---------------------------------|--------|

5. Bell Water Company shall within thirty days after the date of this order file with the Railroad Commission rates, rules and regulations governing service to its consumers, said rules and regulations to become effective upon their acceptance for filing by the Railroad Commission.
6. Bell Water Company shall keep such record of the issue, sale and delivery of the stock 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.
7. The effective date of this order shall be twenty days from and after the date hereof.

DATED at San Francisco, California, this 17th day of
January, 1925.

W. B. Bunnidge
C. Seaver
Egerton Shore
Geon D. Squires

Commissioners.