

Decision No. 17382.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN GABRIEL VALLEY WATER COMPANY)
for an order authorizing an increase) Application No. 11431.
of rates, the acquisition of proper-)
ty and the issuance of securities.)

Gibson, Dunn and Crutcher, by S. M.
Haskins, for applicant.

Roscoe R. Hess, Assistant City Attorney,
for City of Pasadena, interested
party.

BY THE COMMISSION:

O P I N I O N

San Gabriel Valley Water Company, applicant in the above entitled proceeding, owns and operates a public utility water system which supplies domestic and irrigation water to the inhabitants of the City of San Marino, portions of the Cities of Pasadena and San Gabriel, and adjacent unincorporated territory in Los Angeles County. Applicant alleges in effect that the present rates do not yield sufficient revenue to provide a reasonable return upon the fair value of its properties devoted to public use. The Commission therefore is requested to establish an increased schedule of rates. Applicant further alleges that it desires to acquire certain leased properties which it proposes to purchase at a price to be fixed by the Commission and in payment thereof to issue its promissory note payable on or

before five years after date, bearing interest at the rate of six per cent. per annum, payable quarterly. Authority to acquire these properties is requested.

A public hearing in this matter was held before Examiner Williams at Los Angeles, after due notice thereof had been given so that all interested parties might appear and be heard.

The early history and development of the San Gabriel Valley Water Company as disclosed by former proceedings before the Commission is fully covered in Decision No. 2916, dated November 20, 1915 (8 C.R.C. 481). This decision shows that the Company was organized in 1907 and purchased the Alhambra Addition Water Company. Since that time the system has been extended into new territory. Certain portions also have been sold to the Cities of Alhambra and Pasadena. In connection with this system applicant has for convenience operated under lease the Oak Knoll, Patton and Rosemead water systems which are owned by the Huntington Land and Improvement Company, the parent company of the San Gabriel Valley Water Company. The systems are all interconnected and it is now the desire of applicant to purchase the three systems and incorporate them into the San Gabriel Valley Water Company, and to have one set of rates applicable to the entire consolidated system. It is quite evident that such a unified ownership and control would lessen the cost of operation and better the service to the consumers. The purchase of the leased properties will therefore be authorized and a rate schedule established, applicable throughout the combined properties.

The water is obtained from wells located at various points throughout the territory served, and may be pumped directly into the mains, or into storage reservoirs from which it is distributed by gravity. The wells are located in what are considered to be good water-bearing lands. Apparently there is an

ample supply for the present needs, with a considerable reserve for future development.

The rates at present in effect were established by the Commission in its Decision No. 2916, supra, and are as follows:

DOMESTIC AND COMMERCIAL

Meter Rates:

600 cubic feet or less per month	\$1.00
600 to 5000 cubic feet, per 100 cu.ft.12
5000 to 50,000 cubic feet, per 100 cu.ft..10
All over 50,000 " " " "05

MUNICIPAL

Oak Knoll fire service, minimum per month. .	\$20.00
" " " " per hydrant.	2.00
Other divisions fire service, per hydrant. . .	2.00
Water for municipal use, per 100 cu.ft..10

IRRIGATION

Where meter is installed at the consumer's expense, per 1000 cubic feet or fraction thereof. \$.50

Where meter is installed at the company's expense the following minimum rates shall apply:

1½ inch meter, minimum rate per month. . . .	2.00
For which the consumers shall be entitled to annual quantity of 48,000 cubic feet.	
2 inch meter, minimum rate per month	2.50
For which the consumer shall be entitled to annual quantity of 60,000 cubic feet.	

All excess at 5 cents per 100 cubic feet.

FLAT RATE

Charge for residence and stores, per month. . \$1.00

Reports were submitted by Edward R. Bowen, of Reburn & Bowen, Consulting Engineers, for applicant, and F. E. Van Hoesen, M. I. Reed and M. W. Boright, Assistant Engineers of the Railroad Commission. These reports cover in detail the various important elements arising in a proceeding for the fixing of rates, and will

be considered under the following heads:

1. Value of Property
 - (a) Physical properties
 - (b) Lands
 - (c) Intangibles
2. Replacement Annuity
3. Maintenance and Operating Expense
4. Revenue

VALUE OF OPERATIVE PROPERTY

A comparative tabulation showing the results of the appraisals of the system as submitted by the various engineers, revised in accordance with the testimony, is shown as follows:

<u>SAN GABRIEL VALLEY WATER SYSTEM</u>		
	<u>Bowen</u>	<u>Commission's Engineers</u>
Physical Properties	\$517,261	\$491,897
Lands	65,282	66,749
Intangibles	62,700	2,000
Total	<u>\$645,243</u>	<u>\$560,646</u>

LEASED SYSTEMS

<u>OAK KNOLL, PATTON AND ROSEMEAD</u>		
	<u>Bowen</u>	<u>Commission's Engineers</u>
Physical Properties	\$286,463	\$261,771
Lands	34,188	33,480
Intangibles	15,000	None
Total	<u>\$335,651</u>	<u>\$295,251</u>

An analysis of the reports from which the above figures were obtained shows that the differences are due to the fact that the Commission's engineer excluded a number of items such as old wells, pumping equipment, etc., which were not operative or considered used or useful. These items totalled \$12,170 on the San Gabriel Valley Water Company's system and \$22,709 on the leased systems. The overhead allowances applied by the engineers are responsible for the remaining differences, which when taken

into consideration, brings the valuations of the physical properties in close accord. The testimony justifies the exclusion of the non-operative property made by the Commission's engineer, and the overhead allowance used by him also appears reasonable. A careful consideration of the testimony and reports leads to the conclusion that the appraisal of physical properties as submitted by the Commission's engineers is reasonable, and it will therefore be used in determining a rate base for the purposes of this proceeding.

There is practically no difference in the appraisals submitted for applicant's lands, between the engineers. The sum of \$100,229 will be considered a reasonable value for this item.

There is a considerable difference between the engineers' estimates of intangibles, such as organization expense, water rights, etc. However, the Commission in its Decision No.2916, supra, expressed its views very clearly in the matter of water rights, wherein an allowance was made only for actual expenditures in establishing or defending these rights. As no evidence was presented to the Commission concerning these matters, no allowance can be made at this time for water rights. However, organization expense and the cost of franchises represent actual money expended, and the sum of \$3,000 will be considered adequate to cover those expenses incurred in connection with the organization of the San Gabriel Valley Water Company.

A summary of the above items shows that the estimated original cost of used and useful properties is as follows:

San Gabriel Valley Water Company	\$561,646
Leased systems.	<u>295,251</u>
Total	\$856,897

The testimony shows that \$119,221 has been advanced by consumers to aid in the construction of mains into an unprofit-

able territory and therefore should not be included in a rate base at this time. Deducting this amount from the above estimated original cost leaves \$737,676, which is a reasonable rate base for the purposes of this proceeding.

REPLACEMENT ANNUITY

A replacement annuity on the used and useful properties as indicated above amounts to \$11,862, computed on the 5% sinking fund basis, and \$10,197 by the 6% method. The sum of \$11,000 will be considered sufficient for this item.

MAINTENANCE AND OPERATING EXPENSE

E. R. Bowen, the applicant's engineer, and M. I. Reed, one of the Commission's engineers, made an analysis of the maintenance and operating expense for a number of years, from which they estimated the annual expense for the immediate future, which is shown as follows:

Mr. Bowen	\$59,038
Mr. Reed	49,245

The testimony shows that applicant maintains an office at Alhambra and reimburses the Euntington Land and Improvement Company, the parent corporation, for a portion of its Los Angeles office expense and general officers' salaries. The accounting is done at Alhambra and is posted quarterly at the Los Angeles office, which results in a duplication of work and causes an abnormal expense per consumer for this item. Mr. Reed in building up his estimate for this item considered that a substantial reduction can be made in the cost by eliminating the Los Angeles office with possibly the exception of a managing director, who would be responsible for the policies of the company and need spend only a small portion of his time in such duties. This proposed plan of management appears practicable, as it will permit operation of

the system without duplication of effort, and result in a saving of expense both to the company and the consumers. In view of the testimony presented regarding this item, \$50,000 is considered sufficient to cover the cost of operating this system.

REVENUE

The present rate schedule returned in revenues to this utility the sum of \$63,212.92 in 1923; \$68,574.42 in 1924; and \$76,942.95 in 1925. Even considering the increase in revenues due to the growth of the community, it is apparent that applicant is entitled to an increase of rates. The schedule of rates established is designed to yield a return sufficient to cover maintenance and operating expense, depreciation annuity, and a reasonable return upon the rate base found to be chargeable against the present consumers.

Applicant filed upon request an inventory and description of the properties of the Oak Knoll, Patton and Rosemead systems, which it desires authority to purchase from the Huntington Land and Improvement Company at the original cost, set out at \$337,058.46. This includes the sum of \$15,000 for water rights and \$22,709 for properties not used or useful at this time. This transfer is from the parent company and it does not seem advisable to include value for water rights on unused properties. The sum of \$300,000 is considered a fair and reasonable price to be placed on these properties for the purpose of transfer.

No one appeared at the hearing to oppose the purchase of the leased systems.

O R D E R

San Gabriel Valley Water Company having made application as entitled above, a public hearing having been held thereon, and the Commission being now fully informed in the matter,

It Is Hereby Found as a Fact that the rates now charged

IT IS HEREBY FURTHER ORDERED that San Gabriel Valley Water Company be, and it is hereby directed to file with this Commission within thirty (30) days from the date of this order, rules and regulations to govern relations with its consumers, such rules and regulations to become effective upon their acceptance by this Commission.

IT IS HEREBY FURTHER ORDERED that San Gabriel Valley Water Company be, and it is hereby authorized to purchase from the Huntington Land and Improvement Company for the sum of \$300,000 those certain water systems known as the Oak Knoll, Patton, and Rosemead systems, as more particularly described in the application herein, and in payment therefor to issue its promissory note payable on or before five years after date, bearing interest at the rate of six per cent. per annum, payable quarterly.

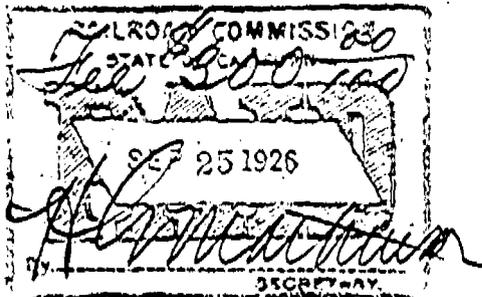
The authority herein granted is subject to the following conditions:

1. The consideration which the San Gabriel Valley Water Company is hereby authorized to pay for the properties referred to above shall not be urged before this Commission as a measure of the value of such properties other than the transfer herein authorized.
2. Within thirty (30) days after the execution of the deed conveying the property herein authorized to be transferred, a certified copy thereof shall be filed with the Commission.
3. The authority herein granted to transfer properties will terminate sixty (60) days after the date hereof.
4. The authority herein granted will become

effective when applicant has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$300.

For all other purposes the effective date of this order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 22nd day of September, 1926.



H. B. ...
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Commissioners.