

DECISION NO. 18393

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

The Inter-City Improvement Association,
an unincorporated association, J.V. Hawes,
J.L. Cotton et al.

Plaintiffs,

vs.

A.B. Chapman Estate, a corporation,

Defendant.

Case No. 2270.

Thos. S. Clay, for plaintiffs.

Chapman & Chapman by L.M. Chapman,
For defendants.

BY THE COMMISSION:

O P I N I O N

The above entitled case was filed by certain water users receiving service from the system owned by the A.B. Chapman Estate, a corporation, which, among other things, supplies domestic and irrigation water to the residents of that certain territory lying between the city of Pasadena and Arcadia and between Foothill Boulevard and Duarte Road, in Los Angeles County. The complaint in this proceeding alleges in effect that the present rates charged by the defendant are unjust and unreasonable for the following reasons:

That rates were fixed upon the assumption that defendant delivered 11,678,350 cubic feet of water annually instead of approximately 28,000,000 cubic feet of water; that defendant's wells will produce 310 miner's inches of water, whereas the territory

to which water is supplied does not require and will never require more than 200 miner's inches; that the present rate prohibits the use of water for irrigation on the one-acre tracts which were purchased for the purpose of devoting a large portion of each of such tracts to agricultural uses; that in the fixing of the rates now in effect no consideration was given to the fact that each tract purchaser paid to the defendant, as part of the purchase price of his land, a portion of the development costs of the entire tract which included the water system; that about one-third of the total water delivered is used by defendant for the irrigation of its unsold lands for which service said defendant pays less than the cost of pumping. Wherefore, complainants request the Commission investigate the matters complained of and fix a new and equitable rate to be paid for the water used.

Defendant by way of answer denies generally all of the essential allegations set out in the complaint and in addition thereto alleges that the rates now in force as established by the Railroad Commission are inadequate to produce a reasonable revenue to defendant for the operation of the water system, and further alleges that, if any change is to be made therein, said rate should be increased rather than decreased. The Commission therefore is asked to dismiss the complaint.

A public hearing in this matter was held before Examiner Williams at Los Angeles after all interested parties had been duly notified and given an opportunity to appear and be heard.

At the hearing in this matter, counsel for complainants informed the Commission that he would present evidence only in connection with the allegations set out in Paragraph V, Article A, of this complaint, in which it is alleged in effect that the present rates were established upon the assumption that defendant delivered

to its consumers 11,678,000 cubic feet of water annually instead of 28,000,000 cubic feet, which latter amount, it is contended, is approximately the actual total amount of water delivered by defendant for all purposes.

The rates now in effect on this system were established by the Railroad Commission in its Decision No. 15876, decided January 19, 1926, and are as follows:

MONTHLY METER RATES

From	0	to	500	cubic feet per 100	cubic feet	-----	\$	0.25
From	600	to	3,000	"	"	-----		.30
From	3,000	to	5,000	"	"	-----		.15
From	5,000	to	25,000	"	"	-----		.10
All over			25,000	"	"	-----		.07

MINIMUM MONTHLY CHARGES

5/8	inch meter	-----	\$	1.50
3/4	"	-----		2.00
1	"	-----		3.00
1 1/2	"	-----		5.00
2	"	-----		8.00
3	"	-----		15.00

Each of the foregoing "Minimum Monthly Charges" will entitle the consumer to the quantity of water which that minimum monthly charge will purchase at the "Monthly Meter Rates."

A report was presented by Valentine B. Espinoza, a certified public accountant appearing on behalf of defendants, in which the accounts and records of the defendants' water utility operations were analyzed and which set forth the fixed capital installed and operating results as of February 25, 1927. By stipulation of complainants, this report was accepted to be true and correct. A similar report was also submitted by W.H. van Hoesen, one of the Commission's hydraulic engineers, who made an estimate of the original cost of the used and useful properties of defendant and also a detailed analysis of the costs of operation and maintenance together with an estimate of the reasonable costs of system operation. Set out below for purposes of comparison is a

summary of the final results of these two reports:

	Espinoza	Van Hoesen Dec. 1, 1926.
Fixed Capital, Feb. 28, 1927.	\$161,429.89	\$154,775.29
Maintenance and Operation expense, twelve months end- ing February 28, 1927.	14,266.59	14,490.00 Est. Reas.
Depreciation annuity 5% sinking fund.	3,573.41	2,574.95
Revenue twelve months end- ing February 28, 1927.		
Domestic	\$13,794.59	
Irrigation	<u>8,156.68</u>	
	21,951.27	20,099.03
Amount left for interest return.	4,269.27	3,035.00
Rate of return.	2.7%	1.9%

From the above figures it is evident that the operations of this system for a full twelve months' period ending February 28, 1927, result in a net return of not in excess of 2.7% upon the invested capital taking the maximum determination possible from the figures presented.

In this proceeding, the principal cause of complaint is that the Chapman Estate, itself, uses a very large amount of water and is therefore enabled to obtain its water supply at a rate which in the average costs it considerably less than the smaller water users must pay. This is, of course, true but this is also true of all users of very large volumes of water on all water systems using a graduated scale of quantity rate charges. All water delivered to the Estate is measured at the wells and the Estate must thereby suffer all line and distribution losses, whereas deliveries to the users of smaller quantities are made to each individual and measured at his own premises. The principle of granting a less rate for large wholesale consumption is of course obvious. The

cost of serving one consumer using a very large volume of water is clearly very much less than the cost of serving a great number of consumers whose combined total use would be approximately the same. In this instance defendant upon its unsold lands uses a great deal more water than any or all of the other consumers; for instance, from the period commencing February 1st and ending December 1st, 1926, Chapman Estate paid a total of \$6,139. for water used for irrigation and other purposes while all of the other consumers combined paid but \$847. during the same period.

Complainants also contended that in fixing the rates now in effect the Commission did not give proper consideration to the water used by the Estate Company. The evidence shows, however, that the total use of the Estate, both actual, as far as the records then existing disclosed, as well as the estimated future use, was given full and proper consideration by the Commission. Had this matter not been properly accounted for, it is very clear that the rate as established would undoubtedly have been much higher.

In connection with the claim that the Estate Company has received water at less than the cost of production, it should be sufficient to say that the testimony indicates that the cost of production per 100 cubic feet on this system was approximately 4.6 cents in 1926, for which the user of water in excess of 25,000 cubic feet per month pays 7 cents per 100 cubic feet for such excess only, being required to pay the regular quantity rates in effect for all of the first 25,000 cubic feet used.

Full consideration of the evidence presented in this proceeding leads to the conclusion that the schedule of rates now in effect on this system is not unfair or unreasonable but compares very favorably with the rates charged by similar utilities operating in the general vicinity and under similar conditions and circumstances, and it further appears that the present rates have

not resulted in yielding revenues to the defendant in excess of a fair return upon the investment under the existing conditions. The complaint therefore will be dismissed.

O R D E R

Complaint, as entitled above, having been made against A.E. Chapman Estate, a corporation, to the effect that the rates charged its consumers for water service are unfair and unreasonable, a public hearing having been held thereon, the matter having been submitted, and the Commission being now fully informed thereon,

IT IS HEREBY ORDERED that the above entitled proceeding be and the same is hereby dismissed.

The effective date of this Order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 25th day of May, 1927.

Emmerson
H. H. C. ...
C. ...
Thos. S. ...