

Decision No. 18768

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)

PORTOLA WATER COMPANY,

a corporation, for authority to  
issue capital stock, and authority  
to issue promissory notes.

Application No. 13652.

**ORIGINAL**

H. B. Wolfe, for applicant.

WHITSELL, COMMISSIONER:

O P I N I O N

Portola Water Company, a corporation, engaged in the public utility business of supplying water for domestic and commercial purposes to consumers in and in the vicinity of the Town of Portola, Plumas County, has applied to the Railroad Commission for authority to issue stock and promissory notes, for the fixing of a minimum monthly charge for metered service, and also for a general readjustment of the present flat rates now in effect.

The application alleges that the system is now being placed upon a measured basis and that there is no minimum monthly charge for such measured service, and that the present rates do not yield a fair return to applicant upon its capital investment; wherefore, a general readjustment of the rates is requested, including

a monthly minimum charge for metered service.

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

The Portola Water Company was organized in 1910 as a co-partnership by E. I. Lane, J. H. Golden, N. F. Golden and E. V. Darby, and was incorporated in March, 1918. The water supply at present is obtained from springs known as the Golden, Turner and Malloy Springs, located in the mountains south of Portola, and stored in two reservoirs of a total capacity of 1,225,000 gallons, from which it is distributed by gravity. On May 15, 1927, this utility was serving approximately 220 consumers, 80 of whom have been metered recently.

The rates at present in effect were established by the Commission in Decision No. 3722, dated September 28, 1916, and are as follows:-

MONTHLY WATER RATES  
TO BE CHARGED BY  
PORTOLA WATER COMPANY

1. RESIDENCES:

4 rooms or less-----	\$1.00
Each additional room-----	.10
Kitchen sink and washstand or either-----	.25
Each toilet-----	.25
Each bathtub-----	.25

2. HOTELS, LODGING HOUSES, BOARDING HOUSES, ETC.:

Minimum charge, each-----	2.00
Bedrooms for rental, each-----	.20
Public dining rooms, each-----	1.50

3. RESTAURANTS, LUNCH STANDS, ETC.:

Per unit table or counter seating capacity-	.15
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4. BARBER SHOPS:

Each chair in use-----\$ 1.00

5. COMMERCIAL USE:

Stores, lodge rooms and halls, pool and  
billiard rooms, physicians' and dentists'  
offices, each-----\$ 1.00  
Professional offices, banks and Real Estate  
offices----- .75  
Soda-water fountains with other businesses----- .75  
Bakeries and butcher shops----- 2.00  
Laundries----- 3.00

6. AUXILIARY USES - ADDITIONAL RATES:

Lawn, garden or shrubbery watered or street  
sprinkled per 100 square feet----- .02  
Horses (average number cared for in month), each----- .25  
Public bathtub, each----- .75  
Public toilet, each----- .75  
Automobiles, each----- .25

7. PUBLIC STABLE AND GARAGE:

Each minimum-----\$ 2.00  
Per animal or machine cared for on average----- .25

8. WESTERN PACIFIC RAILWAY:

Hospital-----\$ 7.50  
Station and grounds----- 25.00  
Other use, measured or estimated----- .20 per 100  
cu. ft.

9. PUBLIC USE:

School when in session-----\$ 2.50  
Fire hydrants, each----- 1.00  
Other use, measured or estimated----- .20 per 100  
cu. ft.

10. METERED RATE:

All at 20 cents per 100 cubic feet.

11. WATER CARRIED TO PREMISES AT ONE-HALF RATES SET OUT ABOVE.

No appraisalment of the physical properties of this utility was presented by applicant; however, a report was submitted by R. E. Savage, one of the Commission's hydraulic engineers, in

which he estimated the original cost of the used and useful physical properties to be \$28,775.00, as of May 15, 1927, and the depreciation annuity \$645.00, computed by the sinking fund method at five percent. The above total of \$28,775.00 included \$2,645.00 spent upon the development of water from a well in the Feather River and still under construction. From the evidence, it appears that the completion and equipment of this well, together with the installation of additional facilities for its operation and for the storage and distribution of the waters therefrom will require the expenditure of approximately \$5,000.00. Other construction work in progress, not included in the above estimate, amounts to \$1,153.00 for additions to the transmission mains. These two sums should be added to the value of the above appraisalment of the physical properties, making a total of \$34,928.00. A corresponding increase of \$145.00 should likewise be made in the depreciation annuity, making a total of \$790.00.

The evidence shows the three springs supplying this water system have a total average capacity of approximately 80,000 gallons per day. In the establishment of the rates now in effect, the Commission added the sum of \$1,279.00 to the value of the physical properties to cover intangible values, principally water rights. Since that time, applicant has acquired the rights to Turner Springs, claimed by A. P. Laffranchini and the Beckwith Peak Lumber Company, through contracts entered into in 1924 at a total agreed price of \$3,000.00, payable in annual amounts, for which \$1,601.00 has actually been paid to date. Under these circumstances, it appears that applicant is entitled to have included in the rate base for the purpose of this proceeding the sum of \$4,000.00, representing as nearly as can be determined from the evidence the cost of acquisition of the rights to use the waters from the springs now used as the main source of supply.

Applicant contended that the present maintenance and operating costs would require the expenditure of \$4,975.00 per year to have sufficient force on hand to properly look after the system, and further claimed that, when the new Feather River well and pumping plant is placed in operation, an additional employee will be required and the costs of pumping will also have to be provided for.

The annual operating expenses for the immediate future were estimated by the Commission's engineer to be \$3,350.00. The evidence shows that, although this estimate did not provide sufficiently for the future taxes, the allowances for other elements of operating costs were very liberal and that the total allowance will provide amply for all reasonable future operating costs, including the reading and repairing of meters and costs of pumping, which, it should be understood, will not be continuous but will be required only at such periods as necessary to supplement the gravity supply of water from the springs.

The revenues for 1926 amounted to \$6,185.00 which showed a net return of slightly in excess of nine percent on the investment at that time, including water rights and based upon the operating costs as set out in the Annual Reports. Using the figures established above, the existing rates for the immediate future should return to applicant a net revenue of about 6.8 percent upon a total rate base of \$38,928.00.

It is apparent that the present rates of this utility are producing not far from a fair return upon the investment under existing conditions. However, the utility has been ordered heretofore by the Commission to meter the system and install certain improvements, including the development of a new water supply. Considerable money must be spent by this utility to comply with these orders. Slight inequalities exist in the present flat rate schedule which do not fairly cover the present changed conditions.

There is no monthly minimum charge in the present schedule of rates for metered service and one will be provided for herein. It should be pointed out at this time that the many complaints made against this utility for poor management and inadequate service and lack of water during the summer led this Commission, in its Decision No. 17047, dated July 2, 1926, to order the installation of the improvements referred to above, which, however, have not as yet been completed and placed in satisfactory operation. Therefore, it is apparent that the schedule of rates established in the following order properly should not be placed in effect unless and until the above mentioned improvements have been fully installed and have been accepted. When this has been done, the schedule of rates will be allowed to become effective upon supplemental order of this Commission.

Coming now to the request to issue securities, it appears that the corporation desires to issue \$10,760.00 of its capital stock to finance in part construction expenditures made during 1926 and to issue a \$5,000.00 note to finance the cost of additional construction.

The company reports that during the year 1926, in order to augment its water supply and to better its service, it expended \$12,984.13 for the following purposes:-

Meters-----	\$ 686.34
Malloy-Turner reservoir-----	1,499.97
Pipe line from Turner Spring to reservoir-----	1,263.58
Cost of laying pipe line -Turner Spring to town--	2,686.30
Pipe and materials-----	2,769.62
Freight and drayage-----	296.13
Surveying-----	48.00
New well-----	2,299.44
Cost of fencing reservoir and laying pipe to new school house-----	183.25
Land for reservoir site-----	<u>1,251.50</u>
Total-----	<u><u>\$12,984.13</u></u>

The testimony herein indicates that no liabilities were incurred in making these expenditures, the cost being made out of surplus earnings and other cash on hand. In now asking permission to issue \$10,750.00 of stock the company is seeking to reimburse itself in part for such expenditures and through such issue permanently finance them. After such reimbursement it proposes to distribute the stock, to its present stockholders, as a stock dividend.

An order authorizing the issue of stock for the purpose of reimbursing the treasury requires, among other things, a determination of the extent of the surplus earnings invested in the properties and business of the company. In the present case the company reports that on December 31, 1925, it had an accumulated surplus of \$7,971.92 and, during 1926, net profits of \$3,173.35, the two amounts totalling \$11,145.27. From this figure, however, the company deducts \$1,139.20 on account of cash dividends paid and \$12,984.13 on account of appropriations from surplus in making the additions and betterments heretofore referred to. These deductions result in a deficit at the close of the year of \$2,978.06 which applicant has eliminated from its records, according to the testimony herein, by a charge to the reserve for accrued depreciation, reducing the credit balance in that account from \$3,068.06 to \$90.00.

I do not look with favor on applicant's action in thus charging its deficit to its reserve and reducing that account. A reversing entry should be made charging the surplus account with the \$2,978.06 and restoring the reserve to the former credit balance of \$3,068.06, as of December 31, 1926. In addition the company should credit back to its corporate surplus account the \$12,984.13 reported expended in 1926. With these adjustments the balance

sheet of the company, as of December 31, 1926, would read as follows:-

ASSETS:

Fixed capital-----	\$27,224.13	
Cash-----	90.00	
Total Assets-----		<u>\$27,314.13</u>

LIABILITIES:

Capital stock-----	\$14,240.00	
Reserve for depreciation-----	3,068.06	
Corporate surplus-----	10,006.07	
Total Liabilities-----		<u>\$27,314.13</u>

The credit balance in the surplus account as shown above, which appears to have been invested in the properties of the company, is somewhat less than the amount of stock which the company proposes to issue to reimburse its treasury and to pay a stock dividend. Further, I do not believe that the company should, at this time at least, distribute all of its surplus through the payment of either cash or stock dividends. Accordingly I recommend that the company be permitted at this time to issue not exceeding \$8,760.00 of stock in reimbursement of its treasury.

The issue of the \$5,000.00 note is for the purpose of financing construction work subsequent to December 31, 1926. The company reports, and the testimony herein indicates, that it will need approximately that amount to install additional meters, purchase a pump, install a chlorination plant and install additional pipe lines.

The proposed note, or notes, will be unsecured and will run for a period of one year with interest at not exceeding seven percent per annum. It is intended, and permission is asked, to renew the notes, or a portion thereof, upon maturity for a further period of one year. While a public utility can issue one year



notes without obtaining permission from this Commission, it cannot renew them unless authorized to do so. In the present case the company, in now asking permission to renew its one year notes upon maturity, is, in effect, asking permission to incur a two year indebtedness, thus bringing the matter within the Commission's jurisdiction.

At the hearing applicant introduced as exhibits two agreements for the sale and purchase of land and rights of way used in its operations, Exhibit No. 1 being a copy of an agreement between A. P. Laffranchini and Lizzie Laffranchini on the one hand and Portola Water Company on the other, and Exhibit No. 2 being a copy of an agreement between F. P. Myers and J. M. Turner and Ethel P. Turner and Eleanor Myers on the one hand and Portola Water Company on the other. The first agreement provides for a total price of \$1,000.00 payable in the sum of \$150.00 sixty days after date and in a like amount each year thereafter until paid. The second agreement provides for a total price of \$2,000.00 payable in six annual installments. I believe that these instruments are evidences of indebtedness, payable more than one year after date of execution, as defined in Section 52 of the Public Utilities Act and as such should be approved by this Commission.

I herewith submit the following form of order.

#### ORDER

Application having been made to the Railroad Commission, as entitled above, a public hearing having been held, and the Commission being fully informed in the matter, and being of the opinion that the money, property or labor to be procured or paid for

through the issue of the stock and notes herein authorized 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,

IT IS HEREBY FOUND AS A FACT that the rates now charged by Portola Water Company, a corporation, for water delivered to consumers are unjust and unreasonable insofar as they differ from the rates herein established and that the rates herein established are just and reasonable rates to be charged for such service. And, basing its order upon the foregoing finding of fact and upon the statements of fact contained in the preceding opinion,

IT IS HEREBY ORDERED that Portola Water Company be, and it is hereby, authorized and directed to file with this Commission, within thirty (30) days from the date of this order, the following schedule of rates to become effective only when the Feather River well is completed and equipped with adequate pumping equipment and storage facilities and connected to the distribution system in a manner satisfactory to this Commission and confirmed by supplemental order herein.

MONTHLY FLAT RATES

1. RESIDENCES:

4 rooms or less-----	\$ 1.00
Each additional room-----	.10
Kitchen sink-----	.25
Each toilet-----	.25
Each bathtub-----	.25

2. HOTELS, LODGING HOUSES, BOARDING HOUSES, ETC.:

Minimum charge, each-----	\$ 2.00
Bedrooms for rental, each-----	.20
Public dining rooms, each-----	1.50

3. RESTAURANTS, LUNCH STANDS, ETC.:

Minimum charge-----\$ 1.75  
 Per unit table or counter seating capacity----- .15

4. BARBER SHOPS:

Each chair in use-----\$ 1.00

5. COMMERCIAL USE:

Stores and banks-----\$ 1.50  
 Lodge rooms and halls, pool and billiard rooms,  
 physicians' and dentists' offices, each----- 1.00  
 Real Estate and other offices----- .75  
 Soda-water fountains with other businesses----- 1.00  
 Bakeries----- 2.00  
 Butcher shops----- 1.75

6. AUXILIARY USES - ADDITIONAL RATES:

Lawn, garden or shrubbery watered or street  
 sprinkled per 100 square feet-----\$ .02  
 Horses (average number cared for in month) each- .25  
 Public bathtub, each----- .75  
 Public toilet, each----- .75

7. WESTERN PACIFIC RAILWAY:

Hospital-----\$ 7.50  
 Station and grounds----- 25.00

8. PUBLIC USE:

Fire hydrants, each-----\$ 1.00

9. ALL OTHER USES AT METER RATES:

METER RATES

Minimum Monthly Charges:

5/8" meter-----\$ 1.75  
 3/4" "----- 2.00  
 1" "----- 2.50  
 1-1/2" "----- 3.25  
 2" "----- 5.00  
 3" "----- 10.00  
 4" "----- 20.00

Monthly Quantity Charges:

First 800 cubic feet or less, per 100 cubic feet-----\$ 1.75  
 From 800 to 2,000 cubic feet, per 100 cubic feet----- .20  
 From 2,000 to 4,000 " " " " " "----- .15  
 From 4,000 to 10,000 " " " " " "----- .10  
 From 10,000 to 25,000 " " " " " "----- .08  
 Over 25,000 " " " " " "----- .06

IT IS HEREBY FURTHER ORDERED that Portola Water Company, a corporation, file with the Railroad Commission, within thirty (30) days from the date of this order, revised rules and regulations governing service to its consumers, said rules and regulations to become effective when accepted for filing by this Commission.

IT IS HEREBY FURTHER ORDERED that Portola Water Company be, and it hereby is, authorized to issue not exceeding \$8,760.00 of its common capital stock for the purpose of reimbursing its treasury on account of earnings expended for additions and betterments during 1926.

IT IS HEREBY FURTHER ORDERED that Portola Water Company be, and it hereby is, authorized to enter into and execute the two agreements referred to in the foregoing opinion providing for the payment of the amounts and in the manner referred to therein, and to issue its unsecured promissory note, or notes, in the principal amount of \$5,000.00 payable one year after date of issue with interest at not exceeding seven percent per annum, and to renew such notes, or any portion thereof, upon maturity, for a further period of one year, and to use the proceeds to finance the cost of additions and betterments subsequent to December 31, 1926, referred to in this application.

IT IS HEREBY FURTHER ORDERED that Portola Water Company shall keep such record of the issue of the stock and notes 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, insofar as applicable, is made a part of this order.

IT IS HEREBY FURTHER ORDERED that the authority herein granted to enter into contracts and to issue notes shall become effective when applicant has paid the minimum fee prescribed by Section 57 of the Public Utilities Act, which fee is Twenty-five (\$25.00) dollars, and that for all other purposes the effective date of this order shall be twenty (20) days from and after the date hereof. Under the authority herein granted no stocks or notes may be issued after September 30, 1928.

IT IS HEREBY FURTHER ORDERED that the application insofar as it involves the issue of \$2,000.00 of stock be, and it hereby is, dismissed without prejudice.

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 20<sup>th</sup> day of August, 1927.

Fee \$25<sup>00</sup>/<sub>100</sub>  
RAILROAD COMMISSION  
STATE OF CALIFORNIA  
AUG 23 1927  
*M. M. Atcherson*  
Fee \$25<sup>00</sup>/<sub>100</sub>

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*Chas. J. ...*  
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*Leon Whittell*  
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*Thos. G. ...*  
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Commissioners.