

Decision No. 19602**ORIGINAL**

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of  
Narbonne Ranch Water Company #2 for  
order authorizing loan on property,  
and increase in rates.

Application No. 14028.

Dodson and Shunk, by G.C. Dodson,  
for applicant.

J.R. Jensen, for certain protestant  
consumers.

BY THE COMMISSION:

O P I N I O N

This is an application by Narbonne Ranch Water Company #2, a corporation, which is engaged in the business of selling water for domestic and irrigation purposes in and in the vicinity of Lomita, Los Angeles County, California. The application alleges in effect that it is necessary to replace approximately 2,650 feet of 10-inch pipe and to construct a new reservoir in order to enable applicant to render adequate service to its consumers; that applicant has arranged to obtain a loan of \$5,000. to cover the cost of the above mentioned improvements; that the present rates do not provide an adequate return on the present investment; that the return will be still more inadequate when the contemplated additions and betterments have been installed. Wherefore, applicant asks that the Railroad Commission make its order authorizing applicant to secure a bank loan to provide the funds required for the proposed additions to the

plant and to make such an adjustment of its rates as will enable applicant to obtain an adequate return on its investment.

A public hearing was held in the above entitled proceeding before Examiner Williams at Lomita, Los Angeles County, after all interested parties had been duly notified and given an opportunity to appear and be heard.

This water system was originally installed by W.I. Hollingsworth in 1907 to serve a subdivided area covering Narbonne Ranch #2. It was operated as a mutual water company until water service was extended to the public in the Townsite of Lomita and adjacent lands. In Application No. 4099, this company, among other things, asked for authority to be permitted to operate as a mutual water company, but this request was denied without prejudice in the Commission's Decision No. 6063, dated January 15, 1919, 16 C.R.C. 408.

The record shows that 340 shares of common stock of par value of \$10. per share were distributed to the purchasers of the subdivided lands in proportion to their holdings as an incident to their land purchases and without separate consideration for the water stock. In addition to furnishing domestic and irrigation water to the subdivided lands, water is also sold for domestic use in the Town of Lomita.

The water supply is obtained by pumping from a well, from which it is delivered into a concrete reservoir having a capacity of approximately 38,800 gallons. The water is then distributed by gravity through 44,150 feet of mains ranging from ten to one and one-half inches in diameter. The average number of domestic consumers during 1927 was 307 and the average number of irrigation consumers over the same period was 36. The system is fully metered but the meters and services are the

property of consumers.

The schedule of rates at present in effect is as follows:

DOMESTIC METER RATES

For Stockholders:

First 1,000 cubic feet per month-----\$1.25  
 All over 1,000 cubic feet for each  
 additional 1,000 cubic feet----- 0.50

For Non-Stockholders:

First 1,000 cubic feet per month-----\$1.50  
 All over 1,000 cubic feet for each  
 additional 1,000 cubic feet----- 0.50

IRRIGATION RATE

Weir inch per hour-----\$0.02

Applicant did not present an appraisal of its property or a study of its maintenance and operating expenses, but relied on the results of operation set out in its annual reports filed with the Railroad Commission. The operating revenues and expenses, exclusive of depreciation, shown in these reports for a number of years are as follows:

	1922	1923	1924	1925	1926	1927	Year end- ing Nov.1,
Revenue	\$4,301.54	\$4,923.15	\$7,046.89	\$7,139.96	\$6,283.15	\$7,823.31	
Expense	5,421.56	4,556.69	5,572.73	7,450.10	6,094.66	5,947.00	
	*\$1,120.02	\$ 366.46	\$1,474.16	\$ *310.14	\$ 188.49	\$1,876.31	

\*Deficit.

A report containing an appraisal of the physical property and an analysis of the maintenance and operating cost was presented by D.H. Harroun, one of the Commission's hydraulic engineers, in which he estimated the original cost of the property to be \$36,396., with a corresponding depreciation annuity of \$578., computed by

the sinking fund method at five per cent. The maintenance and operating expenses for the future were estimated to be \$4,751. and were based largely on the cost of operating similar systems under like conditions. This report and appraisal were accepted by applicant and protestants and will be used for the purposes of this proceeding.

Applying the operating figures recommended by the Commission's engineer, the operations for 1926 and 1927 result in a return of 3.80% and 6.85%, respectively, on the estimated cost of the property. However, the evidence indicates that the percentage of increase in business experienced in 1927 cannot reasonably be expected for the immediate future.

All meters and services on this system have been installed at the expense of the consumers. This practice is not in accordance with the Commission's general rules and regulations, which require all water utilities to install and maintain, at their own expense, the service facilities from the main to the curb, or property line. The company therefore will be required to purchase the service facilities from the consumers and hereafter make all new installations at its own expense. However, the purchase of these facilities will require the outlay of more capital and the additional cost thereof should be included in the investment of the company reasonably devoted to the public use. It is estimated that the cost of acquiring these services will approximate \$6,000., the inclusion of which will correspondingly increase the estimated cost of the properties and also somewhat increase the operating expenses.

Under these circumstances, it is apparent that the rates of this utility should be slightly readjusted in order to provide a more proper return upon the investment and remove ex-

isting discrimination. In order to avoid a severe financial strain upon the utility, the following order will permit the payment to be made for the services and meters through credits on the monthly water bills.

The rates now in effect provide a charge of \$1.25 per month to stockholders of the company for the same quantity of water for which a non-stockholder pays \$1.50. This method of charging for service is clearly an unfair discrimination in rates and the practice must be discontinued immediately. The following order will provide that all consumers receiving the same class of service pay the same rate, irrespective of their status as stockholders or non-stockholders.

The company, in its application, requested authority to negotiate a loan for \$5,000., which money was to be used for additions and betterments to its system. The testimony showed that arrangements have already been completed for a one-year loan, and applicant asked that this request be dismissed.

A petition was presented by a number of consumers in protest of the company's application, in which it was alleged that the needed improvements on the system should be financed by an assessment against the property of all the stockholders and not through the medium of increased rates, in order that the non-resident stockholders be made to contribute their share of the improvements to the system in proportion to their holdings. The adjustment in the rates granted herein is solely for the purposes of removing unjust discrimination and establishing a more equitable schedule of rates for the services rendered; no part of said schedule is designed for the purpose of financing new construction.

O R D E R

Narbonne Ranch Water Company #2, a corporation, having applied to the Railroad Commission for authority to increase the rates charged for water service furnished to consumers in and in the vicinity of Lomita, Los Angeles County, and having also made application for authority to secure a bank loan to provide funds necessary for capital investment, a public hearing having been held thereon, the matters having been submitted and the Commission being now fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the rates and charges of the Narbonne Ranch Water Company #2 for water delivered to consumers in and in the vicinity of Lomita, Los Angeles County, in so far as they differ from the rates herein established, are unjust and unreasonable and discriminatory and that the rates and charges herein established are just and reasonable rates to be charged for the service rendered.

And basing the order upon the foregoing findings of fact and upon the statements of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that Narbonne Ranch Water Company #2 be and it is hereby authorized and directed to file with this Commission, within twenty (20) days from the date of this order, the following schedule of rates to be charged for all water service rendered subsequent to the thirtieth day of April, 1928, said schedule of rates to be applicable to all of applicant's consumers, irrespective of said consumers' status as stockholders of non-stockholders of this company.

METER RATESMonthly Meter Quantity Rates:

First 1,000 cubic feet-----\$1.50  
 All over 1,000 cubic feet, per 100 cubic feet----- .05

Monthly Minimum Meter Charges:

5/8 or 3/4-inch meter-----\$1.50  
 1-inch meter----- 2.50  
 1 1/2-inch meter----- 3.50  
 2-inch meter----- 6.00

Each of the foregoing monthly minimum charges will entitle the consumer to the quantity of water which that minimum will purchase at the "Monthly Minimum Meter Charges" set out above.

Irrigation Rate:

Weir Inch Hour-----\$0.02

IT IS HEREBY FURTHER ORDERED that the application, in so far as it relates to the loan for the financing of the proposed improvements, be and the same is hereby dismissed without prejudice.

IT IS HEREBY FURTHER ORDERED that Narbonne Ranch Water Company #2 be and it is hereby directed to file with the Railroad Commission, within thirty (30) days from the date of this order, revised rules and regulations to govern the distribution of water to consumers, said rules and regulations to become effective upon their acceptance for filing by this Commission.

IT IS HEREBY FURTHER ORDERED that Narbonne Ranch Water Company #2 be and it is hereby directed to acquire title to all service connections now owned by its consumers, including the service pipe from main to curb or property line, meter and meter-box, if any; payment for said facilities to be based upon a fair estimate of present value thereof and made by means of refunds on the monthly water bills of said consumers to the

extent of not less than twenty per cent thereof, by cash, or otherwise; provided, however, that all said service connections be so acquired and paid for on or before the first day of October, 1929. Said company shall file a quarter-annual statement with this Commission showing the status of compliance with the directions set out in this paragraph of the order herein.

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 13<sup>th</sup> day of April, 1928.

Leon Whitehall

C. A. Seaver

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M. A. Quinn

Commissioners.

