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In the Matter of the Application of the CITY OF REDONDO BEACH, CALIFORNIA, for an order fixing the value of certain property of the Redondo Water Company, a public utility corporation,

) Application No. 1398.
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Frank L. Perry, for Applicant,
S. M. Haskins, for the Water Company.

LOVELAND: Commissioner,

O P I N I O N.

This application was filed by the City of Redondo Beach under Sections 47 and 70 of the Public Utilities Act, providing for the fixing of a just compensation to be paid to utilities whose property is sought to be purchased by a municipality.

Applicant has specified the property, whose value it desires fixed, in the text of its application, amended at the time of the hearing so that the Commission has before it the exact inventory of the items to be appraised.

This water system originated under the ownership of the Redondo Beach Company in 1888, at which time the Redondo townsite was placed upon the market. Ten years later, by reorganization, the water system passed to the Redondo Improvement Company which continued to operate the utility until the incorporation of the present company, on July 3, 1908.

All of the structures and machinery of the original installation have long since been discarded or sold. The present system includes two pumping plants and three wells and about 30 miles of pipe lines to which are attached some 1218 services. There are

the usual buildings, reservoir, and sundry necessary equipment.

The Commission's hydraulic engineers presented their valuation at the hearing held in the City of Redondo Beach on February 5, 1915, at which time the Company also presented a valuation by their engineers, Lippincott and Bowen.

There was very little difference as to the value of the physical property but the main difference occurred in the estimate of what is known as overhead expense. The engineer for the Commission presented and explained his estimate, which averaged about 12 per cent as compared with the 30 per cent used by Messrs. Lippincott and Bowen upon items estimated reproduced, and 17½ per cent upon items whose full cost had been carefully kept.

The records of the Company were found to be in excellent condition and it was possible to review historically the steps in the development of the present system. Our engineers were careful to fully investigate the details of development and the amount which I shall recommend to the Commission as the just compensation in this case, has taken recognition of certain expenses which occurred but proved to be a loss.

The depreciation has been computed, after consultation between the engineers of the Commission and those of the Company, upon what is known as the straight line basis. This contemplates the depreciation of any item of property in the direct ratio of its age to its probable useful life. The owner of a structure whose useful life is twenty years, having used it five years, has already enjoyed the period of lowest cost of upkeep and a buyer, such as the City of Redondo Beach, when taking over the structure has to meet with an increasing amount of depreciation each successive year and for that reason, is at a disadvantage if it is required to pay on a curve line basis when it assumes the ownership of the property.

Mr. Lippincott, for the Company, has asked for \$3000 for water

rights, predicating this amount upon the value attached to a clause inserted in deeds by a predecessor of the water company. This engineer did not wish to state that the water, approximately 100 miner's inches, was worth \$3000, but that he desired to nominally recognize such a right at \$3000. The reversion clause, by virtue of which the value is claimed, occurs in all deeds according to the map of Redondo Townsite:

"The right of way over and through all lands delineated upon this map, is hereby reserved for all purposes appertaining to water rights, or sewer pipes that may be required by the grantors, their successors or assigns; also reserving any and all artesian water that may at any time be developed on said land and not used thereon. * * * * *

In the case under consideration it was shown by testimony that water could be developed in the neighborhood in question on lands other than those upon which the supply is developed, the value of which we are now asked to determine. To my mind, this case, therefore, presents less difficulties than others where adjoining lands are not admittedly water bearing.

The property listed under the application, as amended, of the City of Redondo Beach, therefore, is as follows:

REAL ESTATE

A portion of Block 24 of Redondo Townsite, comprising about 2.15 acres.

Lots 11-15 inclusive,	Block 29,	Redondo Townsite
Lots 17, 18, 35, 36,	Block 58,	Redondo Townsite
Lots 7-12 inclusive,	Block 62,	Redondo Townsite
Lots 1-11 inclusive,	Block 99,	Redondo Townsite

Portion of Block 99 of Redondo Townsite comprising about 0.17 acres.

Structures and Equipment,

- 1 engineer's dwelling of 5 rooms,
- 1 frame barn, 40 X 44
- 1 frame shop, 24 X 34
- 1 frame store room, 24 X 40
- 1 pump house of concrete with addition,
- 1 pump house of brick,
- 3 wells of 16" diameter,
- 2 pump pits,
- 1 tunnel between two of the wells,
- 1 85 H. P. electrical motor

- 1 75 H. P. electrical motor,
- 1 12" X 16" Gould Pump,
- 1 14" X 12" Gould Pump,
- 1 Reservoir of approximately 1½ million gallons capacity,
- 1 Weir box.

DISTRIBUTING SYSTEM

327	lineal feet of 1" Galvanized pipe,
179	" " " 1½" Standard Screw Pipe,
68783	" " " 2" " " "
18872	" " " 4" " " "
25248	" " " 6" " " "
7620	" " " 4" Cast Iron " "
2893	" " " 6" " " "
6970	" " " 8" " " "
305	" " " 10" " " "
1005	" " " 16" " " "
5740	" " " 8" Converse Lockjoint Pipe,
380	" " " 4" Riveted Steel Pipe #14,
5530	" " " 6" " " " #12,
740	" " " 9" " " " "
1370	" " " 10" " " " "
1450	" " " 15" " " " "
8917	" " " 2" Standard Screw Pipe, second hand,
1412	" " " 6" " " " "
8873	" " " 4" O. D. Casing, second hand,
All	Valves in pipe lines,

778-1/2"	Services,
352-3/4"	"
33-1"	"
1-1½"	"
49-2"	"
4-4"	"
1-6"	"
105-2"	Standpipes and Valves
13-1"	" " "
2-1/2"	Meters,
31-5/8"	"
3-3/4"	"
17-1"	"
1-1½"	"
10-2"	"
1-4"	"

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All material on hand January 1, 1915.

All operating equipment.

All office furniture, fixtures, maps, records.

All other property owned by the Redondo Water Company in the City of Redondo Beach on January 1, 1915, and used and useful in the conduct of its water utility business.

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The following table shows the results reported by the various engineers:

I t e m	Commission's Engineers.	Lippincott and Bowen
Real Estate and water rights,	\$ 9225	\$10800
Buildings,	5551	5480
Wells,	6591	5780
Pump Pits,	5642	5984
Tunnel,	1343	1418
Motors,	1068	1110
Pumps,	9964	10894
Reservoir,	7791	8332
Weir Box,	370	396
Paving over mains,	752	897
Distribution System,	77413	87247
Services,	5722	6965
Hydrants,	1227	1331
Meters,	1536	1813
Material on hand,	500 (est.)	2334
Operating Equipment,	1000 "	1965
Office furniture, etc.,	700 "	3000
Water rights,	incl. in Real Estate,	3000
Organization Expense,		514
	\$127170	\$158013

The Commission's engineers had estimated certain items of material and equipment and at the hearing, evidence was produced showing the exact amounts. I find it necessary, therefore, as stipulated, to add to the total of the Commission's engineers' figures as follows:

I t e m	Estimated Value	Actual Cost
Organization expense,		\$ 515.00
Material on hand,	\$ 500.00	1986.32
Operating Equipment,	1000.00	1672.52
Office Equipment,	700.00	1500.00
Total,	\$2200.00	\$5673.84
Difference,	3473.84	
	\$5673.84	\$5673.84

Adding the difference of \$3473.84 to the \$127170, I find the total of the physical property as valued by the Commission's engineers, to be \$130644.

The Water Company, through its president, gave its opinion upon the going value of this utility as ten per cent of the valuation of the physical property, such value accruing from the rights

to do business and its actual successful operation. When we stop to consider that this water system was laid out as part of a land scheme over 25 years ago, and were a modern system to be designed today, it is probable that several changes in pipe sizes would be necessary. I fail to recognize now any additional value, inasmuch as the amount which the Commission's engineers have found has not been reduced on account of obsolescence.

It was stipulated at the hearing that the Water Company would be allowed to furnish the Commission and the City of Redondo at some subsequent date a determination of its development cost. Such a statement has been filed, showing, with interest at 8%, an accumulated deficit since 1905 of \$73,216, basing cost of plant at \$179,407, which is approximately the reproduction cost new as found by the engineers Lippincott and Bowen. The Commission's engineers found approximately \$155,000 for the same cost. Compounding the difference of \$24,000 at 8% for 10 years amounts to \$51,804. By a careful analysis of their statement, I arrive at a point where it appears that the more that utility loses the more valuable it is, because there is no evidence but what a continued accumulating deficit will occur each year. It would, therefore, seem a wise move on the part of the utility to dispose of its property before accumulating further deficits. I shall, therefore, recommend no change in the amount of the proper compensation which I have found.

An independent computation has been made by the Commission's engineers based on their estimated cost new, interest allowed at 6% and depreciation with a 4% sinking fund and 40 year maturity which is the average life of all items. The surplus and deficits shift alternately from year to year and without interest the deficits actually are exceeded by the surplus. A strict determination of the actual conditions would require a careful inspection of the book entries which generally show items carried in operating ac-

count when they properly should have been included in capital.

Taking all of the evidence into consideration and allowing what I think is legitimate for intangibles and easements, I will find a value as a whole and not specifically enumerate any particular element, finding such value to be \$135,000.

I submit the following findings:

F I N D I N G S.

City of Redondo Beach, a municipal corporation, having filed a petition with this Commission, setting forth the intention of said city to acquire, under eminent domain proceedings, the lands, property and rights of every character whatsoever of the certain named water company furnishing water to the inhabitants of said City of Redondo Beach and asking that this Commission fix and determine the just compensation which shall be paid by said City of Redondo Beach for such property and rights; and a hearing having been held, and being fully apprised in the premises,

The Commission makes the following findings with respect to the water company involved:

REDONDO WATER COMPANY

The property sought to be acquired belonging to this company is described as follows:

PARCEL 1 - A portion of the unsubdivided part of Block Twenty-four (24), Townsite of Redondo Beach, as per map recorded in Book 39, page 1 et seq., Miscellaneous Records of Los Angeles County, said portion being described as follows:

Beginning at the southeast corner of Lot Sixteen (16), said Block Twenty-four (24); thence southwesterly along the southerly line of Lots Sixteen (16) to Twenty-three (23) inclusive, in said Block twenty-four (24) three hundred forty five and two tenths (345.2) feet, more or less, to the most southerly corner of said Lot twenty-three (23); thence southeasterly along the northeasterly line of Lots thirty-two (32) to Forty two (42) inclusive, in said Block Twenty four (24), four hundred thirty three (433) feet, more or less, to the most easterly corner of said Lot Forty-two (42); thence northeasterly in a direct line to the most southerly corner of Lot Five (5), said Block Twenty four (24); thence northwesterly along the southwesterly line of Lots Five (5) to Twelve (12) inclusive in said Block Twenty-four (24) three hundred seven and four tenths (307.4) feet, more or less, to the point of beginning; also a strip of land of a uniform width of Twenty (20) feet lying on the northeasterly side of and adjacent to Lots Forty three (43) to Forty six (46) inclusive, in said Block Twenty four (24) and extending from the tract of land above described to Amethyst Street.

PARCEL 2 - Lots Eleven (11), Twelve (12), Thirteen (13), Fourteen (14), and Fifteen (15). Block Twenty-nine (29), said Townsite of Redondo Beach.

PARCEL 3 - Lots Seventeen (17), Eighteen (18), Thirty-five (35) and Thirty-six (36), Block Fifty-eight (58), said Townsite of Redondo Beach.

PARCEL 4 - Lots Seven (7), Eight (8), Nine (9), Ten (10), Eleven (11), and Twelve (12), Block Sixty two (62), said Townsite of Redondo Beach.

PARCEL 5 - Lots one (1), Two (2), Three (3), Four (4), Five (5), Six (6), Seven (7), Eight (8), Nine (9), Ten (10) and Eleven (11), Block Ninety nine (99), said Townsite of Redondo Beach.

PARCEL 6 - All that portion of Lots Twenty-five (25), Twenty-six (26), Twenty-seven (27), and Twenty-eight (28), said Block Ninety nine (99), described as follows: Beginning at a point in the northerly line of said Lot Twenty-five (25), One hundred forty (140) feet easterly from the northwest corner thereof; thence southerly on a line parallel with the westerly line of said Lots Twenty five (25) Twenty-six (26), Twenty-seven (27) and Twenty-eight (28); to a point in the southerly line of said Lot Twenty-eight (28); thence easterly along said southerly line of said Lot Twenty-eight (28), Fifty (50) feet, more or less, to the southeast corner thereof; thence northerly along the easterly line of said Lotx Twenty eight (28), Twenty seven (27), Twenty-six (26) and Twenty-five (25), One hundred sixty five and two tenths (165.2) feet, more or less to the northeast corner of said Lot Twenty five (25); thence westerly along said northerly line of Lot Twenty-five (25) thirty five (35) feet, more or less, to the point of beginning.

- 1 Engineer's dwelling located on Parcel No. 5,
- 1 Frame barn located on Parcel No. 5,
- 1 Frame shop located on Parcel No. 5,
- 1 Frame store room located on Parcel No. 5,
- 1 Pump House with addition, located on Parcel No. 5,
- 1 Pump House located on Parcel No. 5,
- 3 Wells of 16" Diameter, located on Parcel No. 5,
- 2 Pump pits located on Parcel No. 5,
- 1 Tunnel connecting two wells on Parcel No. 5,
- 1 85 H. P. Electric Motor,
- 1 75 H. P. Electric Motor,
- 1 Gould Pump, 12" X 16", with accessories,
- 1 Gould Pump, 14" X 12", with accessories,
- 1 Reservoir, 90' X 112', located on Parcel No. 4,
- 1 Weir box located on Parcel No. 4,

DISTRIBUTION SYSTEM.

327	Lineal feet of	1"	Galvanized Pipe,
179	"	1 1/2"	Standard Screw Pipe,
68783	"	2"	"
18872	"	4"	"
25248	"	6"	"
7620	"	4"	Cast Iron Pipe,
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5740	"	8"	Converse Lockjoint Pipe,
380	"	4"	Riveted Steel Pipe #14
5530	"	6"	"
740	"	9"	"

1370	lineal feet of	10"	Riveted Steel Pipe #12,
1450	"	"	"
6917	"	15"	"
1412	"	2"	Standard Screw Pipe, second hand
8873	"	6"	"
all	"	4"	O. D. Casing, second hand
			Valves in Pipe lines.

778	-1/2"	Services,
352	-3/4"	"
33	-1"	"
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105	-2"	Standpipes and valves.
13	-1"	"
2	-1/2"	Meters,
31	-5/8"	"
3	-3/4"	"
17	-1"	"
1	-1 1/2"	"
10	-2"	"
1	-4"	"

M I S C E L L A N E O U S

All material on hand January 1, 1915.

All operating equipment, automobile, tools, etc.,

All office furniture, fixtures, maps and records.

All other property owned by the Redondo Water Company in the City of Redondo Beach on January 1, 1915, and used and useful in the conduct of its water utility business.

The Commission hereby finds as a fact that a fair compensation to be paid by the City of Redondo Beach for this property is the sum of \$135,000.

The foregoing opinion and findings are hereby approved and ordered filed as the opinion and findings of the Railroad Commission of the State of California.

Dated at San Francisco, this 3rd day of March, 1915.

Max J. [Signature]
[Signature]
[Signature]
[Signature]
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 Commissioners.