

ORIGINAL

Decision No. 2916

Decision No. _____

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of
SAN GABRIEL VALLEY WATER COMPANY,
a corporation, to fix and increase
the rates to be charged for domestic
and irrigation water.

Application No. 1497.

GRANADA PARK WATER COMMITTEE,

Complainant,

vs.

SAN GABRIEL VALLEY WATER COMPANY,

Defendant.

Case No. 782.

Haas & Dunnigan and S. M. Haskins for San Gabriel
Valley Water Company.
Alfred Barstow for City of Alhambra.
E. J. Rhoades for Alhambra Chamber of Commerce.
John W. Kemp for Granada Park Water Committee.
Earl Wakeman for City of San Gabriel.

DEVLIN, Commissioner.

O P I N I O N.

It was stipulated by all parties in this proceeding
that the complaint of the Granada Park Water Committee, hereafter
referred to as complainant, and the application of the San Gabriel
Valley Water Company, hereafter referred to as the Water Company
or the applicant, be consolidated for hearing.

The application in this proceeding was filed January
15, 1915. Applicant alleges in effect that the rates fixed by
the Board of Trustees of the City of Alhambra are inadequate and
unjust and do not return to the utility the necessary cost of
maintenance, operation, annual depreciation and a fair return

upon its investment within the city. Applicant further alleges that the schedule of rates in effect in San Gabriel, San Marino, Oak Knoll (Pasadena), Oak Knoll (San Marino), Rosemead and Los Angeles County do not produce sufficient revenue to return to the company the annual charges on the various plants supplying the municipalities with water.

Complainant filed its complaint on February 17, 1915. Complainant is an association formed for the purpose of purchasing ~~water~~ and distributing ^{water} to its members in the unincorporated town of Granada Park, Los Angeles County. Complainant alleges in effect, (1) that its water system is connected with the San Gabriel Valley Water Company's system; (2) that it maintains and operates the distribution system in Granada Park; (3) that the Water Company has been and is charging at the rate of \$1.00 for each 1,000 cubic feet of water delivered to complainant; (4) that complainant has been discriminated against in rates.

Complainant asks that the Water Company be ordered to deliver water at the wholesale rate of 56 $\frac{1}{2}$ ¢ per 1,000 cubic feet, and return to complainant the difference between the amount collected for the past five years and the rate that it here asks to have established.

The schedule of rates which are in effect follows:

IN ALHAMBRA, SAN GABRIEL, SAN MARINO and LOS ANGELES CO.

DOMESTIC:

1300 cubic feet or less \$1.25 per mo.
Excess 7 $\frac{1}{2}$ ¢ per 100 cubic feet.
Flat rate minimum 1.25 per mo.

IRRIGATION:

56 $\frac{1}{2}$ ¢ per 1000 cubic feet or fraction.

These rates are also in force in Rosemead with the exception of the rate for irrigation water which is 38 $\frac{1}{2}$ ¢ per 1000 cubic feet or fraction.

IN OAK KNOLL, (PASADENA and SAN MARINO).

DOMESTIC:

Flat rate minimum \$ 1.00 per mo.
500 cubic feet or less 1.00 per mo.
Excess 10¢ per 100 cu. ft.

IRRIGATION:

38¢ per 1000 cu. ft. or fraction.

Applicant asks that rates be established uniformly for all its territory which will return to it, annual depreciation, maintenance and operation, and 8 per cent on appraisal of Mr. J. B. Lippincott, engineer for the company. The rates to yield this return are estimated by applicant as follows:

DOMESTIC:

500 cu. ft. or less \$ 1.25 per mo.
Excess 21.4¢ per 100 cu. ft.

IRRIGATION:

60¢ per 1000 cubic feet or fraction.

The city authorities in Alhambra and Pasadena fixed the rates in these municipalities, but the rates for all other portions of the system were established by the Water Company and have been continued in force without any suggestion of an increase before this time.

The water system was inaugurated about 1875 by D. B. Wilson who incorporated the Lake Vineyard Land and Water Association. In 1883, the Alhambra Addition Water Company was organized and purchased, extended and operated the system. In 1907 the San Gabriel Valley Water Company was organized and purchased the plant of the Alhambra Addition Water Company. The Huntington Land and Improvement Company subdivided the Oak Knoll tract in Pasadena and in San Marino in 1906, and constructed a water system as an adjunct of its real estate promotion business.

San Gabriel and San Marino are new cities and were incorporated subsequent to the effective date of the Public Utilities Act. These cities are sparsely settled and the utility serving them must necessarily have a large investment per consumer. The Huntington Land and Improvement Company subdivided and marketed practically all the real estate in these cities and also in Rosemead. This company is also the owner of a majority of the stock of the San Gabriel Valley Water Company.

In Rosemead the water system is still owned by the Huntington Land and Improvement Company which leased it to the Water Company for an annual rental which is agreed upon each year, and which for the year 1914 was \$300.00. The Oak Knoll system is also owned by the Huntington Company and leased to the Water Company for an annual rental which for 1914 was \$4,000.00..

This system naturally divides into five units practically separate and complete, namely, Alhambra, San Marino and San Gabriel, Los Angeles County, Oak Knoll (Pasadena), Oak Knoll (San Marino) and Rosemead.

The properties of the Water Company in these divisions consist of:

Alhambra

9 wells located in Keweenaw Canyon.
Pumping plant comprising centrifugal pumps, air compressor, motors, etc.
3 small reservoirs, transmission and distribution system, lands and water rights.

San Marino and San Gabriel.

3 wells, one reservoir, transmission mains and distribution pipes in each city.
Lands and rights.

Los Angeles County

One well near San Marino.
60,000 gallon redwood tank, distribution system, lands and rights.

Oak Knoll

One well in Oak Knoll, steel tank of 50,000 gallon capacity, distribution system, lands and rights.

Rosemead

One well, concrete distributing reservoir, distribution system, lands and rights.

Hearings were held in this proceeding in Los Angeles on May 11, 12 and 13, 1915, and subsequently briefs were filed.

It developed in evidence that complainant, Granada Park Water Committee, entered into a contract to pay \$1.00 per 1,000 cubic feet for water at the time of the construction of its distributing system, which was prior to the effective date of the Public Utilities Act.

In computing the rate to be established, the issues involved have been considered in three principal divisions:

1. Value of the property;
2. Maintenance and operation expenses;
3. Rate schedule.

These will be taken up in the order named.

1. VALUE OF THE PROPERTY

The elements going to make up this plant are rather complex and for the sake of convenience have been subdivided as follows:

- (1) Physical properties;
- (2) Lands;
- (3) Intangibles.

These will be considered in turn.

(1) Physical properties.

Appraisals were presented by J. B. Lippincott and E. R. Bowen for the Water Company, C. E. Hewes, City engineer, for the City of Alhambra, and by the Hydraulic Engineers of the Commission.

Hewes' appraisal refers only to such properties as are used in serving the City of Alhambra.

The following is a comparative tabulation of these appraisals:

LOCATION	ESTIMATED COST NEW			EST. COST LESS DEPRECIATION		
	WATER COMPANY	CITY OF ALHAMBRA	COM. HYD. ENGRS.	WATER COMPANY	CITY OF ALHAMBRA	COM. HYD. ENGRS.
Alhambra	\$366723	\$282077	\$284018	\$311075	\$229338	\$197434
Los Angeles Co.	14619		14772	12304		10377
Rosemead	35900		29907	32183		23124
San Marino & S.F.	90268		77278	83561		60917
O.E. Pasa. & S. Mar.	60089		52681	53340		42942
	\$567599		\$458656	\$492613		\$334794

In the appraisals by the Water Company and by the City of Alhambra the equal annual payment method of depreciation was used. That submitted by the Commission's Hydraulic Engineers was computed by the straight line method. The unit costs applied by these engineers check so closely that I shall not discuss them further. The difference between the appraisals submitted is due almost entirely to the difference in overhead percentage applied.

The Commission's Hydraulic Engineers testified that from the sums reported above they proposed to deduct certain sums for pipe donated to the Water Company, which is operated at present to only a small percentage of its capacity, and for services and meters paid for by consumers.

It was admitted by the attorneys for the Water Company that pavement over mains which were installed prior to the construction of the pavement does not add to the value of the mains and is not a proper item to be included in an appraisal for rate-making purposes. This matter was discussed by Commissioner Thelen

in the decision in Application No. 1141, (Dec.No.2279) In the matter of the application of Marin Municipal Water District for an order of the Railroad Commission fixing and determining the just compensation to be paid to the Marin Water and Power Company for its lands, properties and rights, and by Commissioner Edgerton in the decision in Application No. 1531, (Dec. No. 2586) In the matter of the Application of the Peoples Water Company for reorganization. Although the capital cost of pavement over mains is not included, the depreciation annuity may properly be increased to include a sum sufficient to cover the additional expense necessary to ultimately replace the pipe through pavement. An estimate of the amount to be included in the sinking fund for this purpose was submitted by the Commission's Engineers as follows:

<u>Division</u>	<u>6% Sinking Fund Annuity</u>
Alhambra	\$ 954.00
San Gabriel and San Marino	272.00
Los Angeles County	33.00
Oak Knoll	123.00
Rosemead	42.00
Entire System	\$1,424.00

The estimated cost and sinking fund annuity involved in the meters and services paid for by the consumers are as follows:

LOCATION	EST. COST NEW		ANNUITY @ 6%	
	Services	Meters	Services	Meters
Alhambra	\$15383	\$24164	\$ 416	\$ 653
Los Angeles County	299	553	8	15
Rosemead	737	2326	20	63
San Marino & Gabriel	1119	2812	30	76
Oak Knoll (Pasadena and San Marino)	1481	3939	40	106
Total	\$19019	\$33794	\$ 514	\$ 913

The Company from its inception up to July, 1913, charged the prospective consumers for service connections and

meters at prices ranging from \$21.00 for a one inch connection and 5/8ths inch meter to \$85.00 for a two inch connection and a two inch compound meter. Subsequent to July 1, 1913, the City of Alhambra passed an ordinance forbidding the Water Company to require the consumers to pay for the meters but did not forbid the service connection charge which is still being collected by the Water Company. It is claimed by the Water Company that the amounts charged are the average cost, installed, of these services and meters. The statement was made by the superintendent of the Water Company that this sum was collected from the prospective consumer as payment for the meter and service and not as a condition precedent to extending service. From the evidence it appears that the intention of the parties interested was that the sum paid by the consumer was for the service connection, that is, the consumer purchased the service connection, but because he has no franchise he cannot maintain property of this nature in the streets. That the consumer cannot so use his property is no reason why the title automatically passes to the Water Company and later adds to the burden on that same consumer in an appraisal for rate making purposes. It is assumed, however, that the economical operation of the system requires that the Water Company maintain and replace the service connections and meters and a sum sufficient for this purpose has been included in the annual charges. Attorneys for the Water Company in their reply brief ~~XXXXXXXXXXXXXXXXXXXX~~ contend that donated pipe has become a part of the system of the Company. They contend that as such donated pipe was not given to the Company by the consumers at large, if the Company is not allowed a return upon this donated property it would in effect be saying that the Company may not receive such presents, and that the consumers of the system are entitled to all individual donations made to the Company, and that this is manifestly unreasonable.

The same argument would apply to the pipe donated to the Company by real estate concerns seeking to exploit certain subdivisions. There is a distinction between services and meters on the one hand and such mains and laterals on the other, in that the services and meters were paid for by the consumers generally. Thus the attorneys for the Water Company draw a distinction between services and meters and donated pipes, and in that contention it appears to me they present an argument for the exclusion of services and meters, paid for by consumers, in an appraisal made for the purposes of this proceeding.

Written on "Valuation of Public Service Corporations", Vol. I at page 163, quotes as follows:

"California Supreme Court case of the San Diego Water Company vs. City of San Diego, 118 Cal. 556, 50 Pac. 633, 639, decided October 9th, 1897 - - - The opinion of Judge Van Fleet concurred in by two other judges, contains the following in regard to services. 'It may be added that when, as it appears, portions of the company's expenses are specifically repaid by the consumers, such expenses should be eliminated from the computation. This will apply at least to the taps put in by private consumers'."

The Wisconsin Railroad Commission in City of Washburn vs. Washburn Water Works Co., 6 W.R.C.R. 74, 92, decided December 6, 1910, says:

"It is well understood that, as a matter of equity, the commission does not include services paid for by consumers in the valuation of public service property for the purpose of establishing rates."

This Commission held that meters and services paid for by consumers are not proper elements to be allowed for rate making purposes in the case of City of Eagle Rock vs. Eagle Rock Water Company, Vol. 3 C.R.C. 1054.

In Decision No. 2689 in Case No. 683, In the matter of the Practice of Water, Gas, Electric and Telephone Utilities requiring deposits before rendering service, decided August 12, 1915, Commissioner Thelen makes the following

statement in regard to the meters that were paid for by consumers:

"While not formally passing on the question, I desire to draw attention of water, gas and electric utilities to the question whether it would not be well for them to purchase from their consumers such meters, regulators and transformers as are now the property of the consumers."

At the hearing it was contended by the attorney for the City of Alhambra that all donated pipe should be excluded as an element of value for the purpose of this proceeding, which the city engineer estimated to have a value of \$64,459. This pipe was installed and paid for by real estate companies to serve particular sections in which they were interested and later deeded to the Water Company. The Commission's Hydraulic Engineers submitted a list of the pipe lines so donated which are serving only a small number of consumers. These were excluded in their appraisal because it was deemed that it would not be just to make the consumers at large bear the expense of these extensions. The estimated cost new of the pipe excluded is:

Alhambra	\$11,517.00
San Marino and San Gabriel.	15,204.00
Los Angeles County.	525.00
	<u>\$27,246.00</u>

Although these pipes were expressly donated to the Company, they are now the property of the Water Company and as such the Company is entitled to a return on their fair value. On the other hand, the use value is not measured by an estimate of cost for there are a number of these pipe lines that have only one consumer for a large investment, and it is obviously unfair to permit it to become a burden upon the remainder of the system.

I find as a fact that the following would be the reasonable cost new of the physical properties of this Company exclusive of real estate:

Alhambra	\$232,954.00
San Marino and San Gabriel	58,143.00
Los Angeles County	13,395.00
Oak Knoll	47,261.00
Rosemead	<u>26,844.00</u>

\$378,597.00

I desire to point out that while I find the above is a fair sum to be allowed as cost new of the physical properties of this Company for the purposes of this proceeding, we must consider not only the cost new to the Company but also original cost and all the conditions surrounding the construction and operation of the plant since its inception.

(2) Lands.

Appraisals were submitted by Frank R. Griffith, General Manager of the Huntington Company, and O. P. Baldwin for the City of Alhambra. An appraisal was also submitted in typewritten form purporting to be an estimate, by Lloyd R. Macey of the William R. Staats Company of Pasadena. Mr. Macey did not present himself for examination at the hearing. These appraisals in tabular form follow:

ALHAMBRA SYSTEM

	<u>Macey for</u> <u>Water Co.</u>	<u>Griffith for</u> <u>Water Co.</u>	<u>Baldwin for</u> <u>City</u>
Oak Knoll Lot A, .10 Ac.	\$ 600	\$500	\$500
" " " B, .12 "	720	1600	1000
Alhambra Add. Tract, Lot 1, Range 18, 5 Ac.	15,000	12500	10000
Phillip's Sub. Alh. Add. Lot 1, .2 Ac., and res. site Garfield Ave. 2.34 Ac.	7,500	7375	5000
Oak Knoll, Sheet C, Lot L .531 Ac.	3,300	4248	4248
Lot M, .02 Ac.	120	200	200
Lot N, .06 "	420	550	550
Lot O, .48 "	2,400	3840	2300
Lot P, .336 "	2,016	2688	1200
Lot R, 1.31 "	6,550	10480	5500
Lot S, 2.17 "	10,850	17360	3500
Lot T, .24 "	1,440	1920	750
	<u>\$50,916</u>	<u>\$63261</u>	<u>\$34748</u>

	<u>Macey for</u> <u>Water Co.</u>	<u>Griffith for</u> <u>Water Co.</u>	<u>Baldwin for</u> <u>City</u>
Los Angeles County, Lot 4, Block A, Lot 14, " B,		\$ 1470 <u>1130</u>	
		\$2600	
San Marino & San Gabriel Lot 3, 1.10 Ac. Lot 5, 50 x 100 Ft. Lot 5, 50 x 100 Ft. Lot 6, & 7, 9.54 ac. Part Lot 1, 80 x 85 Ft.		\$ 9600 500 500 33390 <u>700</u>	
Total		\$44690	

Mr. Baldwin, together with two other real estate men, after a careful study of the situation and of each parcel of land, made independent appraisals, and the combined result of the judgment of these three men was submitted in evidence. Mr. Griffith, on the other hand, appears to have valued these parcels of land more from a general knowledge of the vicinity than from a knowledge of these specific parcels of land, and on the whole it appears that he has jumped to conclusions and has not carefully worked out his estimate. The values submitted are based exclusively on the use of the land for residential purposes, no consideration having been given to their value as a water producing property. The courts have held that in arriving at a value for real estate its value for all uses to which it may be put should be considered. There is very little evidence on which to base an estimate of real estate in districts other than the Alhambra and Oak Knoll district, except that of Griffith, and he testified to the relative value as between his estimate of the lands used in the Alhambra division and the lands of the other divisions. The evidence shows that a part of this real estate is not used or useful in serving present consumers. The appraised value of these parcels follows:—

Alhambra	\$ 7,250.00
San Marino and San Gabriel	22,350.00

As before stated, the preceding sums are based entirely upon use for residential purposes. I am of the opinion that in a case of percolating water running through the lands any value due to the presence of water should be merged with the value of the land.

(3) Intangibles.

For the purposes of this discussion this heading has been subdivided into the following:

- (a) Water rights;
- (b) Going concern;
- (c) Additional overhead.

(a). Water rights.

J. B. Lippincott for the Water Company and A. L. Sonderegger for the City of Alhambra submitted estimates of the value of water rights. Mr. Lippincott in applicant's Exhibit No. 4, entitled, "Report on the Amount of the Available Water Supply of the San Gabriel Valley Water Company", made a detailed study of the water situation of this locality. A synopsis of this report follows:

The water supply of this Company is obtained from wells sunk in the water-bearing strata of the Pasadena Mesa between what are known as the Monk Hill Dyke and the Raymond Hill Dyke. The Monk Hill Dyke is a continuance of the San Rafael Hill and forms a natural underground barrier or dam. There are numerous openings through this barrier which permit the passage of water into the area between the dykes. The Raymond Hill Dyke is comprised of a miocene soft sandstone and extends from Arroyo Seco in a northeasterly direction past Oak Knoll to Monrovia. This dyke is a barrier to the flow of the water and forms a natural underground reservoir. The area between these two dykes is some 21.7 square miles. The principal stream draining into this basin is the Arroyo Seco with its

tributary, Millard Canyon. The watershed draining into this stream is situated in the San Gabriel Range of mountains and part of the water goes down Arroyo Seco to the Los Angeles River while the balance goes underground to the Pasadena Mesa.

Mr. Lippincott testified that the water-bearing strata contained a sufficient supply to last 31½ years if extracted at the rate of 758 miner's inches (miner's inch equaling 1/50th of a second foot), which Mr. Lippincott and T. B. Allin, city engineer of Pasadena, arrived at, as the extraction during the year 1912. Using the average yearly rainfall, the area of the watershed and a runoff factor, he arrives at an estimate of 1456 miner's inches as a total available annual inflow to this reservoir, and that the present use (1914) is 1069 miner's inches. His report states that if Pasadena secures an outside supply of water, which he believes will be necessary in the course of a few years, the annual inflow will be increased to a considerable extent. Keweenaw Canyon which supplies Alhambra and Oak Knoll is at the lip of this (Raymond Hill) dyke and is one of the best water supplies in the Pasadena Mesa.

The water supply for San Marino, San Gabriel and Rosemead is obtained from wells located near those towns and for which water the Company claims no water right value. The plain in which these wells are located has a large water supply and wells can be sunk at practically any locality and an abundant source of water supply obtained.

For determination of the amount of water used by the Company in supplying the City of Alhambra, Mr. Lippincott testified that 314 miner's inches, which is the recorded maximum simultaneously drawn from all sources, is necessary for the operation of the Water Company's system. The Water Company's pumping plants were tested in 1912 by A. L. Sonderegger for the City of Alhambra and he reported a maximum capacity of 314.7

miner's inches. The Water Company, through its attorneys, contended that the above maximum should be accepted as the quantity necessary, whereas the City of Alhambra contends that the average summer draft on the system should be used. Mr. Sonderegger estimates this average summer use as 153.5 miner's inches. He maintains that the underground reservoir is the same as a surface reservoir and that the Water Company has in this underground reservoir behind the Raymond Hill Dyke a storage system from which to pump to meet the peak load demand, and that the consumers are paying interest and depreciation on a plant capacity of 314 miner's inches and that therefore these additional plants in conjunction with the underground reservoir take the place of a surface storage system.

E. R. Bowen submitted a statement showing that the maximum pumpage during various short periods, none of which exceeded ten hours, was 314 miner's inches. The system which supplies Alhambra has three small distributing reservoirs of an aggregate capacity of $7\frac{1}{2}$ million gallons. The maximum daily production was $3\frac{1}{2}$ million gallons per day and the average daily use for the month of heaviest draft is $2\frac{1}{2}$ million gallons. These reservoirs can be used to equalize the consumption and if so used the maximum produced for a few hours is not a criterion of the quantity of water supply necessary. Therefore, I do not accept the contention of Mr. Lippincott that the amount pumped for a few hours when operating at the maximum capacity of the plants, is the amount necessary for the efficient operation of this system, nor that of Mr. Sonderegger that the average summer use is the amount necessary.

Under efficient operation of this system the water supply which must be available for use is the amount which can be pumped together with that available in storage which will tide the Water Company over the longest period of greatest demand

possible with the existing facilities.

Counsel for applicant, in his brief, contends that the Company must have a right to take 314 miner's inches in order to meet the requirements of its consumers, and states that the Commission should approve this, because if it does not any company that invades the field of extraction occupied by the San Gabriel Valley Water Company and diminishes the quantity of water which the San Gabriel Valley Water Company can take therefrom would have a right to cite this Commission in justification of the position taken by such invader. I desire to call attention to my belief that in determining the amount which is necessary for the efficient operation of the system the amount which the Company has acquired a right to extract from this field or the amount that the Company may have used during the five years next last past is not persuasive.

J. B. Lippincott and E. R. Bowen for the Water Company presented a valuation of water rights evidencing a value of \$1126.50 per miner's inch (1/50th of a second foot) for water in Keweenaw Canyon and \$1,000 per miner's inch at the Oak Knoll plant. This estimate is based on the next available source of supply theory, using the Los Angeles Aqueduct as this source. A. I. Sonderegger for the City of Alhambra also appraised the water rights of this Company by the next available source of supply theory, but arrived at a value of \$500 per miner's inch by pumping on the area known as Chapman's Ranch on the San Gabriel River.

If we are to consider this method of arriving at a value for this water supply, I can see no logical reason for neglecting to consider the surplus supply in the natural underground reservoir in the area between the Raymond Hill Dyke and the Monk Hill Dyke. The evidence shows that there is a large excess of inflow over withdrawals with the prospect that if

Pasadena secures an additional supply from an outside source this inflow will be increased. There are 21.7 square miles in the area between the dykes, a part of which is either owned or the water rights are owned by the Huntington Company, but there is a large area not controlled by this Company. In this area are located a large number of wells operating at present, which could perhaps be purchased or land bought and additional wells sunk, and so long as the supply of other users was not decreased these wells could continue to operate. Accepting Mr. Lippincott's testimony, there is a sufficient supply to care for any increased demands which may occur.

The evidence presented by Mr. Lippincott on the value of water rights in this proceeding is the same as he presented in testimony In the matter of the Application of the Peoples Water Company for Reorganization. I am of the same opinion in regard to this testimony as Commissioner Edgerton who stated in Decision No. 2586 (Ap. 1531, supra) as follows:

"As to the value of the water rights under which the present actual production of water is made I have given earnest and careful consideration to Mr. Lippincott's method of arriving at value and also to all other suggested methods but I cannot find in any of them a satisfying basis upon which to fix a definite value for these water rights.

"It has been specifically determined by the United States Supreme Court that the appropriation of water by a public utility from a running stream creates a property right, but our courts nowhere have pointed out any basis upon which the value thereof is to be determined. I believe Mr. Lippincott has put before us a perfectly sincere and carefully thought out basis for determining value and if we were not dealing with a public utility service, which, of course, involves the control of both value of plant and return thereon, his method would be very persuasive, but, of course, no strict comparison can be made between the value of water which is not under public control and that which is. However, the evidence of Mr. Lippincott is valuable and has been given very careful consideration."

San Joaquin and Kings River Canal and Irrigation Co.
vs. The County of Stanislaus, 233 U.S. 454, clearly establishes

that water rights acquired by appropriation may have a value, but it is a most difficult problem to determine the extent of that value.

In Water Company of Tonopah vs. Public Service Commission of Nevada, decided on August 13, 1913, being a case of water right value claimed for percolating water, Judge Morrow refers to the Water company's claim as follows:

"The water which it (the company) claims as a water right is percolating water running through its lands. I do not understand that percolating water passing under or through the soil is anywhere recognized as a water right, having a valuation separate and distinct from the land. It is not in any sense surface water. It is not water appropriated from running streams; nor is it water, the right to which is the same as that of a riparian owner. Percolating water is part and parcel of the soil, and it is as much a constituent element of the land as the mineral therein contained. Its value, if it has any, is therefore, in the land and cannot be separated from the land. It follows that in this case the value which the water has must be in the land. It may be that the complainant's development of water upon this land has given it a largely increased value, but if that is so, it appears to me that that should be the valuation of the land with its water content as a whole and not as land with water right attached. This may not make a great difference in the result; but it will enable the Commission and the Court to make a comparison with other land of like character and similarly situated."

In concluding, Judge Morrow says:

"It seems to me that it would be difficult to establish an absolutely independent water value aside from the value of the land; but the value of the water with the land may be ascertained in the view of its available uses."

If we use the area behind the Raymond Hill Dyke as the next available source and compute the value on that basis, the amount derived would equal capitalization of a slightly increased cost of pumping, and interest and depreciation on a pipe line which would probably not exceed 3 miles in length. The cost to the Company of these rights is not available, however, this Company has been compelled to defend its rights in the courts for a number of years and was undoubtedly put to considerable expense.

After carefully considering all the elements going to make up the value of the lands with their appurtenant water, I find as a fact these values are:

Alhambra	\$87,500.00
Los Angeles County	2,000.00
San Marino and San Gabriel	15,000.00
Oak Knoll	17,950.00
Rosemead	<u>3,070.00</u>
Entire System	\$125,520.00

(b) Going Concern.

No claim was made by the Water Company of an amount to be allowed for going concern, development of business or franchise value.

(c) Additional Overhead.

The engineers for the Water Company contend that an allowance of 30 per cent should be added to their appraisal for overhead. This amount was based on the overhead cost of the Los Angeles Aqueduct. The Commission's Hydraulic Engineers estimate that the fair allowance for overhead is 15 per cent for pipe lines; 16 per cent for wells, machinery, etc.; 12 per cent for buildings and reservoirs; and 10 per cent for such items as services and meters.

Mr. Lippincott has duplicated in his overhead a number of the items which he has already included in his unit costs, such as incidentals, storage and superintendence.

After considering all the evidence relative to auxiliary and overhead expense, I am of the opinion that the Commission's Engineers have been liberal in this instance in their estimate for this item.

An attack was made on the Commission's Engineers' overhead allowance on the ground that a larger overhead had been used in a number of other proceedings than has been allowed in this

instance and especially in the application of the City of San Diego to fix rates. This matter was also taken up in the Peoples Water Company case, supra, in which Commissioner Edgerton says:

"Our attention was also called to the overhead fixed by Mr. Hawley in the application of the City of San Diego to fix rates upon a portion of its water system. He allowed in that case a higher average overhead than he does here, but he calls attention to the fact that the San Diego property consists of reservoirs, transmission mains, filter stations, etc. at long distances from supply points and built under conditions which would involve greater uncertainties and more risk, resulting in larger expenditures for contingencies, engineering and administration than we are here dealing with. Peoples Water Company system has a greater proportion of construction, such as distribution, pipe lines, etc. which involve a lesser amount of expenditures which go to make up overhead."

Combining all the elements to be considered in an appraisal for rate making purposes which have been enumerated in this opinion, I find as a fact that the reasonable cost new of the plant of this Company would be:

Alhambra	\$320,454.00
Los Angeles County	15,395.00
Oak Knoll	65,211.00
San Marino and San Gabriel	73,143.00
Rosemead	<u>29,914.00</u>
Total	\$504,117.00

2. MAINTENANCE AND OPERATION EXPENSES.

Mr. Lippincott for the Water Company submitted the following estimate as a proper sum to be allowed for maintenance and operation:

Alhambra	\$ 26,063.00
Los Angeles County	1,506.00
San Marino and San Gabriel	2,682.00
Oak Knoll	4,548.00
Rosemead	<u>770.00</u>
Total	\$ 35,569.00

R. A. Pabst of the Accounting Department of this Commission examined the books of the Company and reported

maintenance and operation expenses and the revenue of the Company for the years 1913 and 1914. A synopsis of this report and of data filed with this Commission under General Order No. 38, follows:

ANNUAL MAINTENANCE AND OPERATION EXPENSE.

<u>Locality</u>	<u>1912</u>	<u>1913</u>	<u>1914</u>
Alhambra	\$24,791	\$26,063	\$25,002
Los Angeles County	4,227	1,506	606
Oak Knoll	3,986	4,548	3,979
San Marino and San Gabriel	#	2,682	5,542
Rosemead	<u>1,131</u>	<u>770</u>	<u>868</u>
Entire System	\$33,635	\$35,569	\$35,997

#Included in County.

The evidence shows that in February, 1914, a flood occurred which washed away a part of the plant which supplies San Marino and San Gabriel. The large increase in the operating expense of this plant during 1913 and 1914 is due to the extra expense of \$2100 incurred because of this flood and is an extraordinary expense which will not recur every year.

Of the amount reported for maintenance and operation expense approximately \$1100 annually has been included in the appraisal upon which the Company's returns are computed. It would, therefore, be erroneous to include this amount. Deducting these amounts from the maintenance and operation expense for 1914 leaves \$32,797. The segregation of these expenditures among the different divisions by the Company has been based upon the water used in each of these divisions. This use fluctuates from year to year because of variation in precipitation and climatic conditions. With the increase in the amount of water consumption and the corresponding increase in maintenance and operation expenses and apportioning the extraordinary expense over a period of years, I find as a fact that the fair sum to be allowed for maintenance and operation expense is \$33,600 annually. From the

segregation of this expense by the Company for 1912, 1913 and 1914 and from the data on water use submitted at the hearing, the distribution of expense to the different portions of the system will approximate the following if averaged over a period of years:

Alhambra	\$25,000
Los Angeles County	950
Oak Knoll	3,850
San Marino and San Gabriel	2,900
Rosemead	<u>900</u>
Entire System	\$33,600

A summary of the annual charges follows:

	<u>Maintenance & Operation</u>	<u>Sinking Fund Annuity @6%</u>	<u>Interest</u>	<u>Total</u>
Alhambra	\$25,000	\$ 6,234	\$25,638	\$56,870
Los Angeles County	950	322	1,230	2,502
Oak Knoll	3,850	824	5,217	9,891
San Marino & San Gabriel	3,000	1,557	5,850	10,407
Rosemead	<u>800</u>	<u>467</u>	<u>2,393</u>	<u>3,660</u>
Entire System	\$33,600	\$ 9,404	\$40,320	\$83,324

3. RATE SCHEDULE.

The income of this Company, as reported by R. A. Pabst, has been as follows:

<u>Location</u>	<u>1912</u>	<u>1913</u>	<u>1914</u>
Alhambra	\$46,008	\$48,136	\$47,805
Los Angeles County	7,035	2,528	1,068
San Marino and San Gabriel	#	5,487	7,305
Oak Knoll	7,974	10,957	9,082
Rosemead	<u>1,369</u>	<u>1,373</u>	<u>1,556</u>
	\$62,386	\$68,481	\$66,836 //

#Included in County.

Consumption increased 3.3 per cent in 1913 over 1912 and about .5 per cent in 1914 over 1913. The number of service

connections increased 8.6 per cent for 1914 over 1913. The use of water fluctuates, varying with precipitation and temperature.

All conditions and probable increase in revenue having been carefully considered, the revenue will not exceed \$70,000 annually if the present rates are continued in effect. It is therefore evident that the present rates are inadequate. It now remains to compute a rate that will admit of the utility's earning such compensation as under all the circumstances is just to it and to the public.

The following tabulation sets out a rate schedule and displays the resulting monthly returns when applied to the recorded use of water in the various divisions served by this Company, considering each as a separate and distinct system:

Quantity	<u>San Marino</u> & <u>San Gabriel</u>					<u>Rose-</u> <u>mead</u>	<u>Entire</u> <u>System</u>
	<u>Alhambra</u>	<u>Oak Knoll</u>	<u>L.A.Co.</u>				
500 Cu.Ft. or less			\$1.50	\$1.50	\$3.00		
600 " " " "	\$1.00	\$1.00					\$1.00
500 to 5000 Cu.Ft.			.25	.30	.75		
600 to 5000 " "	.12	.12					.12
Over 5000 " "	.10	.10	.20	.25	.50		.10
Flat rate minimum	1.00	1.00	1.50	1.50	3.00		1.00
Irrigation per 1000 Cu.Ft. or less	.50	.50	.50	.50	.50		.50
Hydrant Rental, each	2.00	2.00	2.00	2.00	2.00		2.00
Municipal use per 1000 Cu.Ft.	.10	.10	.20	.25	.50		.10
Estimated Annual revenue	\$57,000	\$10,300	\$11,000	\$2,500	\$3,400		\$80,000

Applicant asks that a uniform rate be established over the entire system, and I believe this advisable.

San Marino, San Gabriel, Rosemead and that portion of Los Angeles County served by this system are sparsely settled and have few consumers per mile of main. The following is a tabulation showing the number of consumers per mile of main and the investment in the pipe system per consumer:

DIVISION	NO. OF TAPS	MILES OF MAIN	INVESTMENT PER TAP	TAPS PER MILE OF MAIN
Alhambra	1706	74.6	\$ 98	23
Los Angeles Co.	34	2.4	153	14
Rosemead	32	3.4	388	9.4
San Marino & San Gabriel	92	12.4	378	7.7
Oak Knoll	100	8	292	12.5

As stated before, the Huntington Land and Improvement Company subdivided and marketed the real estate in the localities served by this system and is at present exploiting these lands, with Alhambra as a possible exception. Thus if a uniform rate high enough to pay interest on the entire plant is put into effect the consumers will be saddled with a part of the expense to the Huntington Company of marketing their subdivisions and the few consumers who are at present in the subdivisions will have a larger burden than is their fair share. In Los Angeles County and Rosemead, a district rate covering all charges would be so high as to be practically prohibitive.

In Southern Pacific Co. vs. Bartine, 170 Fed. 725, at page 767, the Court said:

"If a railroad is built into a new, sparsely settled territory, with a view of serving a large future population and developing business, the constitution does not require the few people and the small business of the present time to pay rates which will yield an income equal to the full return to be gathered when the country is populated and business developed to the full capacity of the road."

In Decision No. 2483, Case 597- W. J. Rogers and Central Pacific Land & Lumber Company vs. Sacramento Valley West Side Canal Co., and William F. Fowler, Receiver of the Property of Sacramento Valley West Side Canal Company, decided June 14, 1915, Commissioner Thelen says:

"In Covington & L. Turnpike Road Co. vs. Sanford, 164 U.S. 578, the Supreme Court of the United States was considering the reasonableness of maximum rates to be charged by the Covington & Lexington Turnpike Road, as established by the General Assembly of Kentucky. At page 596, Justice Harlan says:

"The public can not properly be subjected to unreasonable rates in order simply that stockholders may earn dividends."

"Again on the same page:

"If a corporation can not maintain such a highway and earn dividends for stockholders, it is a misfortune for it and then which the constitution does not require to be remedied by imposing unjust burdens upon the public."

"In the leading case of Smythe vs. Ames, 169 U.S. 464, the same learned justice, at page 547, says:

"What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience. On the other hand, what the public is entitled to demand is that no more be exacted from it for the use of a public highway than the services rendered by it are reasonably worth."

"These cases clearly establish the principle that the rates to be charged by a public utility must in no event be higher than the service is reasonably worth to the public. It is unnecessary for me to point out that they do not hold that the utility can charge up to the maximum of what the consumer can pay."

In recommending a rate I will not only consider the reasonable cost new of this plant, but will consider all the conditions obtaining during the original construction and subsequent operation, and such rate will provide an income on the fair value for rate making of the property being used for the convenience of the public.

At the time of the hearing this Commission had no jurisdiction over rates in Pasadena, and therefore while I recommend that a uniform rate be established for the entire system, I desire to point out that this order is not operative within the limits of that municipality.

I submit herewith the following form of order:

O R D E R .

A public hearing having been held, evidence submitted and briefs filed in the above entitled proceeding, and the Commission being fully apprised in the premises and the matter being now ready for decision,

IT IS HEREBY FOUND AS A FACT that the rates charged by the San Gabriel Valley Water Company for domestic and irrigation water in so far as they differ from the rates set out in this order are unremunerative and unjust rates, and the rates set out in this order are remunerative, just and reasonable.

And basing this order on the foregoing finding of fact and on the further findings of fact set out in the opinion preceding this order,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that the following be, and are hereby declared to be the rates to be charged by the San Gabriel Valley Water Company, to-wit:

DOMESTIC, INDUSTRIAL AND COMMERCIAL

600 Cu. Ft. or less	\$1.00 per month
600 to 5000 Cu. Ft.	.12 per 100 cu. ft.
Over 5000 Cu.Ft.	.10 per 100 cu. ft.

MUNICIPAL USE

<u>Alhambra</u> fire hydrant service, minimum	\$250.00 per month
Fire hydrants, each	2.00 " "
<u>Oak Knoll</u> fire hydrant service, minimum	20.00 " "
Fire hydrants, each	2.00 " "
<u>Other divisions</u> - each fire hydrant	2.00 " "
Water for municipal use	.10 per 100 Cu.Ft.

IRRIGATION

Per 1000 cubic feet or fraction	.50
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Flat rates shall remain the same as established by Ordinance No. 815 of the City of Alhambra, except the minimum charge for residences and stores, which is hereby fixed at \$1.00 per month.

IT IS FURTHER ORDERED that upon all tracts where distribution is effected by a group or association of consumers upon the tract, payment be made to the San Gabriel Valley Water Company in a lump sum, and in computing rates this group or association shall be considered as one consumer.

IT IS FURTHER ORDERED that San Gabriel Valley Water Company put into effect the foregoing schedule of rates, such rates to become effective as of and on December 1, 1915.

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 20th day of November, 1915.

Max Thelen
A. H. ...
...
Edwin C. Edgerton
Frank ...

Commissioners.