

Decision No. _____

ORIGINAL

Decision No. 3599

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of rates and service of Belvedere Water Company.) Case No. 908.)

Gibson, Dunn & Crutcher by S. M. Haskins, for Belvedere Water Company.

D. W. Garwood for Belvedere Civic Association.

BY THE COMMISSION:

O P I N I O N.

This proceeding was begun by an order of the Commission to the Belvedere Water Company hereinafter referred to as the Company, to show cause, if any it has, why the Commission should not prescribe reasonable rates, rules and regulations governing the service by it of domestic water to the inhabitants of Belvedere, which adjoins Los Angeles on the northeast. The proceeding is the result of numerous informal complaints concerning the manner in which the Company applies its minimum monthly charges to the conditions existing in Belvedere.

Complaint is made that in many instances there are separate services to as many as three small hou-

ses on one lot, a separate minimum being charged for each, although the consumption of water is less than the amount allowed under one minimum charge; that in other instances flats and stores in a single building pay a single minimum; that in many cases consistent minimum charges are not made and in other instances consumers protest and charges are not collected.

A change in the minimum would affect the company's income. It thus becomes necessary to investigate all rates.

History.

About 1905 Dr. Peter Janss began operating the nucleus of the present system of the company with service to five or six consumers. At that time he had a small interest in the adjacent Wellington Heights Tract. Soon afterward he began acquiring adjoining properties which he subdivided and sold, extending the water system from time to time to serve the original and new subdivisions. Extensions were made for long distances to serve consumers in new tracts, and in some instances a subdivision would be piped throughout very soon after it was opened, or before.

At the end of the first year the system had about 40 consumers, mostly on two tracts, and by the end of 1906 about one-third of the present system was installed. During 1907 extensions were made to four tracts and by the end of the year there were about 150 consumers. During 1908 four additional tracts were piped and at the close of the year there were between 700 and 1000 consumers. The company reports that the system began making money in 1909. Its growth has been steady ever since and it now has 2917 service connections, all of which are metered, and about 2442 of which are active.

In 1915 the utility part of the business was conveyed to Belvedere Water Company, following a hearing and authorization by the Commission. At the present hearing the company was unable to furnish any financial history of the development of the utility prior to the above transfer. In the early stages of the development no attempt was made to keep a separate set of books relating to the utility, and it was found at the hearing to be impossible to ascertain the amount of capital invested, receipts and disbursements, or cost of maintenance and operation, at either of the periods mentioned above.

Valuation.

Appraisals of the property of Belvedere Water Company were made by the Commission's engineers, R. W. Hawley and C. H. Loveland, and by J. B. Lippincott and Edward R. Bowen, engineers for the company. Each appraisal was explained by its makers, at the hearings. The results of these appraisals are compared in the following table:

Estimated Reproduction Cost New.

	Company's Engineers.	Commission's Engineers.
Buildings	\$ 9,557	\$ 5,896
Reservoirs	6,792	5,277
Pumping equipment	21,221	19,036
Wells	14,246	8,809
Distribution system	83,455	69,564
Stock and operating equipment	3,900	5,400
Real Estate	10,500	6,350
Development expense	3,736	4,726
Operating capital	4,000	
Going value	20,000	
Water rights	1,000	
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	\$178,405	\$125,058
 *Meters and services paid for by consumers	 53,473	 26,453
 *For replacing pavement	 8,000	 7,000

(*Appraised for basis of depreciation allowance only.)

The principal differences are in allowance for overhead expense, physical structures, valuation of real estate, going concern value, value of water rights and operating capital needed. These subjects will be discussed in the above sequence.

Overhead Expense

Great stress was placed by Mr. Lippincott upon the importance of suitable allowance for overhead expense. He estimates ^{overhead} at \$13,667. more than the Commission's engineers. His estimates are based largely upon his experience in connection with the Los Angeles aqueduct and his estimates of suitable allowance for the Denver Water Works. Both are very large installations and under conditions very different from those existing in Belvedere. He also cited as illustration certain estimates by the Commission for overhead in installing various water works, which were also under conditions dissimilar from those now under consideration.

Mr. Hawley explained that as a result of frequent and thorough analyses and study, the Commission's engineers are now adding costs of foremanship, use of tools, and sundry small items to unit costs, so that the express allowance now made for overhead is less than formerly; and he explained in considerable detail other reasons for his estimates of overhead allowances in this case, and why the installations referred to by Mr. Lippincott were not comparable with the work at Belvedere. He also presented a detailed tabulation showing the overhead used by the Commission's engineers for various classes of construction in 13 water systems, in some of which the conditions were similar to those found at Belvedere.

As the Belvedere system was constructed at a time when the street work in the subdivision was being

done, and many items usually carried by engineers in overhead are carried by the Commission's engineers in unit costs, after careful study of the testimony we find their percentages for overhead costs ample. In the subsequent discussion, overhead is excluded/mentioned unless

Physical Structures

The difference in appraisal of buildings was shown to be largely in the pumping station on Stephenson Avenue. The Commission's engineers showed that the company's appraisal in Application No. 1603, relating to the organization of applicant as a public utility, was \$3750, and that the appraisal by Mr. F. C. Finkle of the same property in 1911 for the owner was \$3300. The estimate by the Commission's engineers was \$3850 and that of Mr. Lippincott was \$6615. All of these figures include overhead.

The difference in reservoirs of \$804 is principally in the estimated cost of concrete work on the Rowan Avenue reservoir. Subsequent to hearing the Commission's engineer discovered an error of \$224, leaving a difference of \$580. No specific testimony was presented by them on cost of concrete, and the estimate of the company's engineer will be used.

The difference of \$646 on pumping equipment is due to the inclusion of a Gould's Triplex Pump, at Plant B, by the company's engineers, amounting to \$1100, which is excluded by the Commission's engineers as not used or useful. This is offset in part by a higher estimated cost of other equipment. This pump is used but seldom and

although the company contends it is of great value as an auxiliary, testimony disclosed that should the principal pump at Plant A be out of commission, this pump can provide only about 1/7th of the necessary supply at the reservoirs.

The difference of \$4598 on account of wells is due to exclusion by the Commission's engineers of a shaft approximately 100 feet in depth and a well located in the shaft, because the evidence shows that this property is not used and useful.

The Commission's engineers excess in stock and operating equipment represents an automobile overlooked in the other appraisal.

Their excess of \$600 in development expense is due to higher unit prices used by them.

The difference of \$4280 on account of distribution system is explained principally by difference in the unit prices used for pipe installed. The difference in the principal item, estimated cost

of 2 inch pipe installed, is typical. This cost without overhead is estimated by the company's engineers at 22.9¢ per foot, based upon experience with similar soils at Long Beach, and by the Commission's engineers at 19.5¢ per foot, based on experience with harder soils at San Diego, on proven cost of excavating and backfilling service trenches at Belvedere, and on actual cost of installing 2 inch pipe in other localities in southern California under conditions similar to those existing at Belvedere. The company produced some time slips for labor of installing 1100 feet of 2 inch pipe, about three-quarters of which was in hard red adobe soil and about one-fourth in soft soil, both being common in the company's territory. The slips do not show the job, amount of pipe laid, where laid, nor whether the service men who did the work were taken off that job for other work. These items were supplied from memory two years after the work was done. What proportion of the company's system is laid in the hard soil referred to does not appear. Under the circumstances, we believe the estimates of the Commission's engineers best supported.

Real Estate.

On real estate there was testimony by witnesses for the company and for Belvedere Civic Association as to values of lots without reference to possible peculiar fitness as sites for plants or reservoirs. The

company presented the testimony of a professional appraiser. His appraisal of \$10,500 is based on a study of each lot and market conditions, made four years ago, and a rather cursory re-examination made shortly before the hearing. It is 20% lower than the appraisal made by him four years ago. The company showed that it has made recent sales in this neighborhood at about the appraised prices. Belvedere Civic Association offered the testimony of three real estate agents of the vicinity, who testified as to appraisals by the joint bureau of appraisal of lots similarly located for purposes of taxation. Their highest aggregate appraisal, which they testify is about one-third less than the actual market value two years ago, is about \$1400 less than the company's appraisal. Considerable portions of the real estate, particularly at the sites of the reservoir and the Stephenson Avenue pumping plant, are not used and useful. As a basis for rates we use \$8250 as the value of the real estate used and useful.

Going concern value.

The position of the company is that it lost money while building up its business, that such losses are considered a fair measure of going concern value and that one year's gross revenue at the time of appraisal is often taken as a fair basis of estimate in the absence of exact data; but in this case only \$20,000 or less than half a current year's gross revenue is suggested as a proper allowance. As already indicated, the company could not show how much money had been lost in the early stages of the business but it showed that such losses had ceased in 1909 when the present system was partly constructed.

From the extent of the plant

and the number of consumers at the several periods of extension, the losses could not have been very great. It also appears that the system was considerably overbuilt; in several instances entire tracts being piped when there were but few houses to be served. In one instance 1100 feet of pipe was laid to serve two houses on lots sold by the real estate company. Such a course would probably not have been followed by a company engaged exclusively in any public utility business. The system was constructed as an incident to the development of real estate, and to add value to and aid in selling lands being subdivided. The owners no doubt considered the system part of the real estate investment. The company received large donations on account of extending its system, which tended to minimize or eliminate the losses complained of. The testimony does not satisfactorily show any going concern value which should be allowed for.

Water rights.

The company claims an arbitrary value of \$1000 for water rights, upon the theory that it has acquired prescriptive rights in such waters as underlie its locality in places and because several of its wells were not successful. Allowance has been made in development expense for dry wells, as shown on the appraisal. It does not appear from the testimony that any prescriptive rights to underground water have been established through use of water to such an extent or in such a manner as to make the use adverse to the rights of other land owners. (See City of Coalinga v. Coalinga

Consolidated Water Company, Vol. 6, Opinions and Orders Railroad Commission, State of California, p. 33.) No testimony was offered as to value of such alleged rights further than Mr. Lippincott's statement that \$1000 was considered by him a nominal value. In the absence of showing of such water rights or their value, we do not make any allowance therefor.

No sufficient showing was made of the necessity for keeping \$4000 on hand as operating capital. We think \$2000 should be more than sufficient for this purpose and we have included that sum in our valuation.

We have concluded to use for the purpose of computing rates a valuation of \$129,762.

Maintenance and operation.

The company has been charged for executive management other than superintendence, one-eighth of the \$24,000 in annual salaries paid for the management of the eight companies, of which it is one, operated from the same office.

While we have no doubt the company has had the benefit of high class business advice and of the engineering skill possessed by one of its officers, a continuance of such expense is not justified. The advice and skill referred to relate principally to the installation of the system which is properly chargeable to capital and is included in the overhead allowance in the above appraisal. We have allowed for executive management other than superintendence the sum of \$500 per year, which should be sufficient compensation for the

determination of questions of policy and administration relating to the management of the business.

The company's engineers show in their appraisal accrued depreciation of the property and an annual straight line depreciation allowance to cover a continuance of such depreciation. The Commission's engineers do not show in their appraisal any accrued depreciation but compute and show a sinking fund annuity, which compounded at 5% interest during the life of the property would be sufficient to replace it when its usefulness has ceased. Mr. Lippincott testified that these two methods had been shown by numerous tests to produce substantially the same results. We will, therefore, use the annuity computed by the Commission's engineers, which is \$4600 per annum.

The company's operating expenses, as shown by its books, amounted to \$24,395 in 1914, and \$24,925 in 1915. These amounts, however, included numerous items which were properly chargeable to capital installed rather than to maintenance and operation. A careful analysis of these expenditures for the last two years and estimates for the future show that \$19,000 will probably be ample for the annual cost of maintenance and operation. The annual reports of the company for the years 1913, 1914 and 1915, show an average annual increase in water sales of 6% per annum, which it is fair to assume will continue.

Minimum payments.

Of the \$42,118 collected in 1915 from water sales to individuals, \$37,389 was obtained from the minimum payments of \$1.25 per month per connection or from separate

dwellings or businesses. The Belvedere Civic Association filed as its Exhibit A, a map showing the location of all dwellings and business places served, which map was stipulated to be correct. We find thereon 2229 single establishments, occupying at least one lot, 428 establishments two on a lot, and 311 establishments three on a lot. Of those having two or three on a lot, 76 are not charged separate minima. It was reported at the time of hearing that there were 2436 active connections. The record of last year's operations shows the maximum number of services during the year to be 2519 and the minimum to be 2480. The appraisals show that there are 2728 meters and 2917 services. A number of services were installed with the mains and have never been used. The map shows 2692 premises served. It is apparent that there are 36 idle meters. The great number of consumer months use of small amounts of water shows an existing discrimination against consumers of small amounts. We have endeavored to provide relief by the rate fixed herein through a lower minimum, and yet allow an adequate return to the company upon its investment.

After a careful study of the tables of water use furnished by the company showing the monthly use in varying amounts from 100 cu. ft. or less to over 1000 cubic feet, we have provided a rate set forth in the order which, based up/^{on records of use} will produce an income amply sufficient to provide for maintenance and operation, depreciation and an adequate return to the company upon the fair value of its property.

O R D E R.

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA having by order of January 25, 1916 instituted an investigation into the matter of the rates and services of the Belvedere Water Company, and a public hearing having been held, and the matter being now ready for determination,

IT IS HEREBY FOUND AS A FACT by the Railroad Commission of the State of California that the rates for water charged by Belvedere Water Company in so far as they differ from the rates herein found to be reasonable are unreasonable and unjust; and the rates hereinafter set forth are hereby found to be just and reasonable rates to be charged by said company for the distribution of water to its consumers; and basing its order on the foregoing findings of fact and on the further findings of fact set forth in the opinion preceding this order,

IT IS HEREBY ORDERED that Belvedere Water Company be and it is hereby directed to establish and file with the Railroad Commission within 20 days from the date of this order the following rate schedule effective September 15, 1916, to be charged its consumers for water service in Belvedere and vicinity:

For water used up to 500 cu. ft.,
15¢ per 100 cu. ft.
Between 500 cu. ft. and 5000 cu. ft.
10¢ per 100 cu. ft.
Use in excess of 5000 cu. ft. at
6¢ per 100 cu. ft.

Monthly minimum payments to be:

Service 3/4" diameter and less,	\$.75
Service 1 " diameter	1.25
Service 1 1/2 " diameter	1.75
Service 2 " diameter	2.25

Fire hydrant rental \$1.50 per month per hydrant,
including water used for fires.

Public use, sprinkling charges and flushing
sewers and streets 6¢ per 100 cu. ft.

IT IS FURTHER ORDERED that Belvedere Water
Company file with the Railroad Commission within 20
days from the effective date of this order its rules
and regulations for the service of water, which rules
and regulations shall include the following rule:

Where water is supplied through one
connection and meter to more than one in-
dependent user each such user, when in a
separate building, may be required to make
separate payment, provided, however, that
upon application each such independent user,
when in a separate building, may demand and
must be furnished a separate meter and con-
nection to the property line or street or
alley nearest the point of use.

Dated at San Francisco, California, this 26th
day of August, 1916.

Max Thelen
H. H. Holland
Alvin Gordon
Edwin C. Edgerton
Francis P. Hulen

Commissioners.