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Decision No. \_\_\_\_\_

ORIGINAL

Decision No. 4137-

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA

In the matter of the application )  
of HUNTINGTON BEACH COMPANY to )  
sell its water plant and system )  
to HUNTINGTON BEACH WATER COM- )  
PANY, and of Huntington Beach )  
Water Company to issue stock. )

Application

No. 2375.

S. F. Macfarlane for applicant.  
A. P. Nelson for City of Hunt-  
ington Beach.

BY THE COMMISSION.

O P I N I O N

This is an application of Huntington Beach  
Company for authority to sell its water utility bus-  
iness in Euntington Beach, Orange County, to a new  
corporation to be known as Huntington Beach Water  
Company. The latter company asks for authority to  
issue stock in exchange for said properties.

A hearing in this matter was held at Huntington Beach on September 1, 1916, before Examiner Encell, at which time E. L. Heffner, vice-president and manager of Huntington Beach Company, testified as to the reasons for the application and gave a general description of the property.

Huntington Beach Company was incorporated under the laws of the State of California on May 4, 1903, primarily for the purpose of acquiring and marketing a large tract of land in Huntington Beach, Orange County. In connection with its other business it operates a water plant and system supplying water to approximately 780 consumers. The pipe system consists of approximately 30 miles of mains which cover generally the various tracts of land developed for residential purposes by Huntington Beach Company. Water is secured from wells near town and storage of slightly over 1,000,000 gallons is available in a reservoir located on a hill about one and one-half miles from the center of town.

The water system within the city limits of Huntington Beach is operated under a constitutional franchise. Operations outside the municipality are conducted under a franchise from the County of Orange. The cost of the latter franchise is represented to have been the sum of Eighty Dollars.

In Decision No. 1730, dated August 14, 1914, (Volume 5, Opinions and Orders of the Railroad Commis-

mission of California, page 237) the Commission passed upon the water rates of the Huntington Beach Company. This matter was brought before the Commission on the complaint of the City of Huntington Beach (Case No. 480) and upon the application of Huntington Beach Company for authority to raise its water rates (Application No. 791).

At that hearing the company presented a valuation made by P. E. Harroun, purporting to show a present value of \$80,815. for its water properties. At the same time the city presented a valuation made by E. C. Kellogg showing a present value for the same properties of \$54,056. The difference between the two valuations lay largely in the estimate of pipe laying and in the inclusion by one and the exclusion by the other of service connections and in the inadvertent omission of some items by the engineer employed by the City of Huntington Beach.

In its decision the Commission called attention to the fact that this system was constructed over a widely and sparsely settled territory and held that the entire cost of such construction should not be charged against the present consumers. The Commission, therefore, allowed a return upon approximately one-third of the plant cost as determined by applicant's engineer, or upon the sum of \$26,938.

The earnings of Huntington Beach Company's water system as reported to the Commission for the

years ending December 31, 1913, 1914 and 1915 are as follows:

	<u>1913</u>	<u>1914</u>	<u>1915</u>
Operating revenues .....	\$ 6,835.26	\$ 8,510.58	\$10,354.34
Operating expenses .....	<u>18,617.19</u>	<u>15,706.91</u>	<u>11,175.63</u>
Net operating loss .....	\$11,781.93	\$ 7,196.33	\$ 821.29

Huntington Beach Company now desires to separate its public utility business from its other business. To this end it caused to be incorporated on August 29, 1914, a corporation known as Huntington Beach Water Company. The latter company has an authorized capital stock issue of \$150,000, divided into 150,000 shares of common stock of the par value of One (\$1.) Dollar per share. None of said stock has been issued with the exception of five shares for the qualification of directors. The company has issued no notes, bonds or other evidences of indebtedness.

In connection with the application herein, Huntington Beach Company filed a valuation purporting to show that the reproduction cost new less depreciation of its water utility properties as of March 1, 1916, was the sum of \$109,680.

At the hearing H. F. Clark, assistant engineer of the Commission, presented a report showing a reproduction cost new less depreciation as of August 1, 1916, of \$84,299. The appraisal presented by Mr. Clark showed the unit cost of pipe but did not show the manner in which the cost had been determin-

ed, or what allowance had been made to cover installation, freight and hauling, et cetera. In consequence, applicants stated that they were unable to draw a fair comparison as between the Commission's valuation and that of the company until such figures could be obtained. Considerable differences of opinion existed also as to certain land values. The company, therefore, asked that Mr. Clark make a further investigation on behalf of the Commission. The hearing was therefore adjourned until such time as the Commission's engineer and the company's representatives should have had further time to investigate the value of the water utility properties. Such investigations have now been completed and Huntington Beach Company has informed the Commission that it is willing to have its application submitted and a decision rendered without further hearing providing that the following items are covered therein. These items are as follows:

1. Net additions to system from March 1,  
to August 1, 1916, ..... \$2,089.42

There appears to be no objection to the inclusion of these additions for the purpose of arriving at a proper valuation as of August 1, 1916.

2. Inclusion of Lots Number 25, 27, 28,  
29, 33 and 39 in the Garfield Street  
Addition at the value of ..... \$3,380.00

This property consists of ten foot strips

running in the rear of lots. The Commission's engineer considered these as easements in arriving at a valuation of the properties. Applicants now state that the land is owned in fee.

3. An increase in the estimate of value of five lots at well-sites Nos. 2 and 3 ..... \$7,200.00

At the hearing Charles R. Nutt, City Clerk and ex-officio City Assessor of Huntington Beach, testified that in his opinion this valuation was reasonable.

4. An increase in the valuation of 5.17 acres, comprising a reservoir site, to \$1,000. per acre .....\$5,170.00

The Commission's engineer previously estimated the value of this land at \$500. per acre. Applicants state that by reason of its commanding view the property would bring \$1,000. per acre if sold for residential purposes.

5. The inclusion of applicant's well No. 1 $\frac{1}{2}$  at its cost of ..... \$2,673.00

This well was drilled to a depth of nine hundred feet but subsequently failed and was cut off at the two hundred foot level. The Commission's engineer valued this well at \$616. Applicant claims that it should be allowed the entire amount as a development or exploration cost. For the purposes of this proceeding it appears that the actual cost of

this well to the Huntington Beach Company may reasonably be included.

A summary of the additions claimed by applicant is as follows:

Net additions and betterments, March 1 to August 1, 1916, not heretofore included .....	\$2,089.00
Land owned in fee (10 foot strips) ..	3,880.00
Increase in value of town lots .....	5,000.00
Increase in value of reservoir site .	2,585.00
Development expense, well No. 1 $\frac{1}{2}$ , ...	2,057.00
	<u>\$15,611.00</u>
Reproduction cost new less depreciation of properties as of August 1, 1916, as shown by Commission's Exhibit No. 1. ....	<u>\$84,299.00</u>
Reproduction cost new less depreciation as of August 1, 1916, .....	\$99,910.00

From a consideration of the evidence presented it appears that the revised figure of \$99,910. may be used as a basis for the transfer of the water utility properties of Huntington Beach Company to Huntington Beach Water Company.

#### O R D E R

HUNTINGTON BEACH COMPANY having applied to this Commission for authority to sell its properties to Huntington Beach Water Company, and the latter company having applied for authority to purchase said properties and to issue capital stock in payment therefor, and a hearing having been held and it appearing

to this Commission that the purposes for which it is proposed to issue said stock are not reasonably chargeable in whole or in part to operating expenses or to income,

IT IS HEREBY ORDERED that Huntington Beach Company be, and it is hereby, authorized to sell its water utility plant, system and franchises to Huntington Beach Water Company, a description of the real property so to be transferred being attached hereto as Exhibit No. 1.

IT IS HEREBY FURTHER ORDERED that Huntington Beach Water Company be, and it is hereby, authorized to issue \$99,910. par value of capital stock in full payment for said properties.

The authority herein granted is granted upon the following conditions and not otherwise:

1. The properties herein authorized to be transferred shall be transferred free from encumbrance.
2. The value of the stock herein authorized to be issued shall not be binding upon this Commission or any other public body as representing the value of the properties herein authorized to be transferred for rate making or other purposes.
3. Before acquiring the water utility plant, system and franchises of Huntington Beach Company, Huntington Beach Water Company shall file with this Commission a stipulation duly authorized by its Board of Directors declaring that Huntington Beach Water



Company, its successors and assigns, will never claim before the Railroad Commission or any court or other public body a value for the franchises to be acquired from Huntington Beach Company in excess of the actual cost to Huntington Beach Water Company of acquiring said franchises, and shall receive a supplemental order from this Commission declaring that such stipulation in satisfactory form has been filed with the Railroad Commission.

4. The authority herein granted to issue stock and transfer property shall apply only to such stock as shall have been issued and such property as shall have been transferred on or before October 31, 1917.

Dated at San Francisco, California, this 28th day of February, 1917.

Max Thelen  
H. J. Loveland  
W. J. Gordon  
Frank R. Dehn

Commissioners.

EXHIBIT NO. 1.

First. Reservoir site. All that piece and parcel of land lying in the NW $\frac{1}{2}$  of Section 2 and the NE $\frac{1}{2}$  of Section 3, T 6 S, R 11 W, S B B & M., more particularly described as enclosed by the following described boundary lines, to-wit:

Beginning at a point of compound curve, which point is N. 81° 56' 8" W, a distance of (300) Three Hundred Feet from the Northwesterly corner of Smeltzer Avenue and Clay Street, (now known as Summit Avenue) as shown on that certain map of the Garfield Tract, recorded on page 27-8 of Book 7 of Miscellaneous Maps, Records of Orange County, California, and running thence in a Westerly direction a distance of 445.058 feet from said point of beginning along the arc of a circle of a radius of 510 feet, the center of which circle bears South 31° 28' W, from the point of beginning, to a point of compound curve, thence Southerly along the arc of a circle of 135.362 feet radius, a distance of 240.03 feet to a point of compound curve, thence Southeasterly along the arc of a circle of 613.156 feet radius, through a distance of 222.950 feet to a point of compound curve, thence Easterly along the arc of a circle of 305.543 feet radius, through a distance of 470.41 feet to a point

of compound curve, thence Northeasterly along the arc of a circle of 149.52 feet radius, through a distance of 86.74 feet to a point of compound curve, thence Northwesterly along the arc of a circle of 205 feet radius, through a distance of 226.79 feet to the point of beginning.

Second. - No. 1 and  $1\frac{1}{2}$  Well Site. That parcel of land more particularly described as follows: Beginning at the point of intersection of the produced westerly line of Alabama Avenue with the southerly line of Atlanta Street, running thence south 140 feet to a point, thence west 21 feet to a point, thence north 140 feet to the southerly line of Atlanta Street, thence east along the southerly line of Atlanta Street 21 feet to the point of beginning, which parcel of land is situated in the  $NW\frac{1}{2}$  of the  $NE\frac{1}{2}$  of Section 14, T 6 S, R 11 W, S B B & M.

Third. No. 2 and 3 Well Site. Lots #2-4-6-8- and 10, Block 306, Main Street Section, city of Huntington Beach as delineated in the map thereof recorded on Page 43, Book 3 Miscellaneous Maps, Records of Orange County.

Fourth. - Private right of way lands. Lot 33 of Block A, Lot 39 of Block B, Lots 29 of Block C, Lot 28 of Block D, Lot 25 of Block E, Lot 27 of Block F, Garfield Street Addition, Huntington Beach, being subdivision  $N\frac{1}{2}$  of the  $NW\frac{1}{2}$  of Section 2, T 6 S, R 11 W, and a portion of the  $SW\frac{1}{2}$  of the  $SW\frac{1}{2}$  of Section 35 of T 5 S, R 11 W, S. B B & M, as recorded on Pages 27

and 28 of Book 7, Miscellaneous Maps, Records of Orange  
County, California.