

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of)
 J. Benton Van Nuys, Kate Van Nuys)
 Page, and Annis Van Nuys Schweppe,)
 a copartnership doing business under) Application 3303.
 the name Van Nuys Water System, TO)
 INCREASE RATES.)

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Oscar C. Mueller,
 for applicant.

H. S. Farrell, for
 City of San Gabriel.

LOVELAND, COMMISSIONER.

O P I N I O N

J. Benton Van Nuys, Kate Van Nuys Page and Annis Van Nuys Schweppe, a copartnership doing business under the name Van Nuys Water System, hereinafter referred to as applicant, owns and operate a public utility water system in and in the vicinity of San Gabriel, Los Angeles County.

This application, filed November 1st, 1917, alleges in effect that the present rate schedule does not provide a fair and adequate return on the investment, and the necessary depreciation, and operating expenses, and prays that fair and just rates be established. The present rate schedule follows:

Domestic and Commercial metered,			
Minimum - 1300 cu.ft. or less	-----	\$1.25	per month
Each additional 100 cu.ft.		.07½ "	"
Domestic and Commercial flat. Minimum 1.25 " "			
Stores and business places,		1.25	" "
Blacksmith shops, for each forge,		.50	" "
Irrigation - For each 1000 cu.ft. .41½ " "			
25 weir inches for ten hours		3.50	
(a weir inch being 1/25 of the amount of water passing 2" in depth over a weir having a crest length of 12½".)			

Public Hearing was held in the proceeding on November
1917
9th, in Los Angeles.

The water supply for this system is obtained from wells sunk in the water bearing strata of the Pasadena Mesa, above the Raymond Hill Dike, which is comprised of a soft miocene sand stone and extends from Arroyo Seco in a northeasterly direction past Oak Knoll to Monrovia. It is a barrier to the flow of the water and forms a natural underground reservoir. The principal stream draining into this basin is the Arroyo Seco with its tributary, Millard Canyon. The water shed of this stream is located in the San Gabriel mountains. Part of the water goes down Arroyo Seco to the Los Angeles River, while the balance goes underground to Pasadena Mesa.

A tunnel and pipe lines have been constructed extending from the wells to a small concrete lined distribution reservoir having a capacity of 1,095,000 gallons. The tunnel is constructed at such elevation that during the period of the year when the inflow of the underground reservoir is large, water is transmitted by gravity from the wells to the reservoir. At other periods of the year when the inflow is small and the extractions from the underground water supply lower the water plane, it is necessary to lift the water by pumping. From the reservoir water is transmitted and distributed by steel and iron pipes to the inhabitants of the City of San Gabriel and vicinity for domestic and irrigation uses.

For convenience the discussion will be divided as follows:

- I. Value.
- II. Maintenance and Operation Expense.
- III. The Rate.

I. VALUE OF SYSTEM.

Appraisals were submitted by George A. Damon for applicant and by C. H. Loveland and J. G. Walther for the Commission. A tabulated summary of these appraisals exclusive of Real Estate follows:

<u>I T E M</u>	Applicant's Engineers.	Commission's Engineers	
	Cost New	Present Value	Cost New
Wells and Pumping Equipment	\$ 11631.	\$7323.	\$ 17202.
Reservoir	4828.	3862.	4910.
Transmission & Distribution System	36408.	28449.	46452.
Services and meters	8950.	5585.	13797.
General Equipment	5827.	5263.	1050.
Easements	----	-----	550.
Additions to Capital 1915.	5527.	5527.	
" " " 1916.	4519.	4519.	
	<u>\$77690.</u>	<u>\$60528.</u>	<u>\$83961.</u>

No appraisal was made by Mr. Damon of additions to plant since January 1st, 1915. The actual cost is shown in applicant's Exhibit No. 4, and is added to the total of Mr. Damon's appraisal shown above. An arithmetical error has been corrected in the summary of Commission's Exhibit No. 1. Applicant's engineer stated that in his opinion a number of items in his report were appraised at less than cost of installation, but vouchsafed no information as to what sum should be included.

The Commission's engineers appraised the property on a basis of average prices for material and labor over the period of five years directly preceding the recent abnormal increase due to war conditions. After carefully considering these facts I am of the opinion that the estimate submitted by the Commission's engineers is fair.

Attention is called to the fact that the cost new of a utility property may not represent the value used in the service of the public. In the leading case of Smythe vs. Ames, 169 U. S. 464, page 547, the United States Supreme Court says "What a company is entitled to ask is a fair return upon the value of that which it employs for public convenience."

The Commission's Hydraulic Engineers testified that from the sum reported above they proposed to deduct the appraised cost of wells and pumping equipment, unnecessary in the operation of the system, and meters and services owned by the consumers.

The pumping records submitted in Commission's Exhibit No. 3, show that the utility's four wells are not operated at one time, the practice being to operate in pairs. If all the wells are operated at one time the draw down of the water plane is so large that two of the pumps lose their priming. Thus the utility has in reality only two effective wells. This shows that the wells are located in such proximity that each affects the water supply of the others. In view of this condition it is reasonable to assume that all the wells are not effective water producers, and the consumers should not bear this burden.

The service value of these wells and the tunnel by means of which water flows by gravity from the wells to the reservoir at certain periods of the year is measured by the saving in cost of pumping this water which now flows by gravity. Mr. Damon testified that the saving amounted to between \$400 and \$500 annually. The record shows that during 1916 44,696,730 cu. ft. of water flowed by gravity, or a saving of \$470 computed at the cost of pumping submitted by the utility. Capitalizing this at 8% we find a service value of these structures of \$5,870.

I recommend that this sum be included together with the annuity and such maintenance and operation expense as has heretofore been expended on this equipment. The estimated cost of these plants (Nos. 14 and 36) ^{and tunnel} is \$18,971.

Estimates of the value of Real Estate were submitted by Mr. Damon for the utility and Mr. G. Daken for the city of San

Gabriel. Mr. Damon contended for a value of \$2500. per acre, while Mr. Daken testified to a value of \$1000. per acre. Mr. Damon considered the value from a suburban residence standpoint, as well as agricultural and residential uses, Mr. Damon added \$1500. per acre for its strategic location for water bearing purposes. The Commission's engineers testified that on land similarly located, the water bearing lands above the Raymond Hill Dike sold for \$1500. per acre, while the same quality of land below the Dike sold for from five to six hundred dollars per acre or a differential of \$1000. per acre. Mr. Damon stated that in his belief the value for water rights is a function of the quantity of water flowing; that he made no appraisal of this item and that applicant at this time is not asking for their inclusion. In spite of this there is included the above mentioned sum of \$1500. per acre as a value of the land for water production purposes, which is undoubtedly a value for water rights. It has been clearly established by numerous decisions of Courts and Commissions that percolating water passing through the soil has no value separate and distinct from the land.

The five acres claimed as a part of the water property has been developed and now has bearing orchards and alfalfa on it. This improvement occurred subsequent to the construction of the water plant. The income from these trees is not included in the revenue of the water plant as shown herein. To sustain the value claimed by applicant it should at least pay the interest on that increment of value due to its uses for agricultural purposes. The only uses of the land which are being withheld from applicant due to its dedication to the public, is its uses for residential and water producing purposes. The evidence shows that approximately one-half of the area claimed is at present used for water property. No inclusion has been made by applicant of an amount for going concern, development of business, or franchise value.

After carefully considering all the evidence I find as a

fact that the value of applicant's water plant for the purposes of this proceeding is \$70158.

11.- MAINTENANCE AND OPERATION EXPENSE.

A tabulation of maintenance and operation expense from the annual reports of applicant follows:

	1914	1915	1916
Operating Labor & Expense	\$3241.	\$2357.	\$2967.
Distribution System, Labor and Expense		2286.	121.
Repairs to District and Transmission capital,	22.	100.	1066.
Collection & Promotion of business	1200.	1763.	2080.
General Expense	724.	1370.	2399.
Taxes	<u>736.</u>	<u>271.</u>	<u>252.</u>
TOTAL,	\$6000.	\$8147.	\$8885.

The report of the Commission's engineers shows that the maintenance and operation expenses for the year November, 1916, to October, 1917, inclusive, are \$8,477. After eliminating certain items not properly chargeable to this account, they report the sum of \$8,134. In view of the facts that additional State and Federal taxes have been levied and the increased cost of labor and materials, I am of the opinion that \$8,500. should be included in the annual charges for this element.

A summation of the annual charges follows:

Interest on \$70158. at 8% -----	\$5613.
Sinking Fund Annuity, -----	2214.
Maintenance and Operation Expense-----	<u>8500.</u>
Total -----	16327.

111. THE RATES

The revenue as shown by the annual reports of the Company follows:

	<u>OPERATING REVENUE</u>		
<u>I t e m</u>	<u>1914</u>	<u>1915</u>	<u>1916</u>
Commercial Earnings, Flat Rate)			
" " Metered ")	\$8693.	\$9362.	\$10352.
Irrigation,-----	<u>3268.</u>	<u>3626.</u>	<u>3648.</u>
	\$11961.	\$12988.	\$14000.

The income for the ten months of 1917 available as shown in Commission's Exhibit No. 3 is \$13,465. Adding to this the income for November and December, 1916, shows that the income for that twelve months period was at least \$15000.

Applicant owns and operates a ranch of some forty eight acres of which approximately thirty acres are planted in oranges, alfalfa and miscellaneous crops which are irrigated. No record of the use of water for the irrigation of this ranch is kept. The evidence shows that the probable annual use for this purpose will approximate 2,000,000 cubic feet, which at the present rates would produce a revenue of \$825.

The City of San Gabriel contemplates the installation of eighteen fire hydrants. Both applicant and the City ask that a rate be established for water used for fire fighting purposes. I shall recommend that a charge of \$25.00 per month be put into effect.

The total gross revenue which the company would receive if operating under its present schedule of rates is less than the total annual charges as set out herein. The existing rate schedule does not equitably distribute the charges among the various consumers and I recommend that the form of rates be changed. The rate schedule set out in the Order following will produce annually at least the sum of \$16,600.

O R D E R

Public hearing having been held in the above entitled proceeding and said proceeding having been submitted and being now ready for decision, it is hereby found as a fact that the rates charged by J. Benton Van Nuys, Kate Van Nuys Page, and Annie Van Nuys Schweppe, a copartnership, doing business under the name of Van Nuys Water System, for water used for domestic and irrigation purposes insofar as they differ from the rates set out in this Order are unremunerative and unjust, and the rates set out in this Order are remunerative, just and reasonable.

Basing this order on the foregoing finding of fact and on each statement of fact contained in the Opinion preceding this Order,

IT IS HEREBY ORDERED that the following be and the same are hereby declared to be the rates to be charged by the Van Nuys Water System, to-wit:

DOMESTIC INDUSTRIAL AND COMMERCIAL

Measured Rates:

First 2000 cu. ft.	\$.125 per 100 cu. ft.
Above 2000 cu. ft.	.09 " " " "

Flat Rate:

Residences, stores and business places,	1.25 per month
Blacksmith shops for each forge,	.50 per month
Fire Service City of San Gabriel,	25.00 per month.

IRRIGATION

For each 100 cu. ft. \$.04

MONTHLY MINIMUM ALL CLASSES OF USE

3/4" Service	-----	\$1.00
1" "	-----	1.25
2" "	-----	1.50

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 2nd day of February, 1918.

Max Thelen
H. H. ...
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