

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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Case No. 1068.

Charles Sherman for complainants,
Richard C. Goodspeed for defendant.

BY THE COMMISSION.

O P I N I O N

The complaint in this proceeding was made by twenty-eight residents of the so-called South Santa Anita Tract, Los Angeles County. These complainants are users of water from the system of the California-Michigan Land and Water Company hereinafter referred to as defendant.

The complaint alleges in effect that the rates charged by defendant are excessive, unreasonable and unjust and asks that a fair and reasonable rate schedule be established.

Defendant in its answer denies that the charges are excessive and alleges that the present rate schedule does not provide sufficient revenue to cover

operating expenses and depreciation charges and asks that a reasonable and just schedule of rates be established.

Public hearings were held in Los Angeles on July 28, and October 12, 1917, by Examiner Encell.

The California-Michigan Land & Water Company was organized December 21, 1910 primarily for the purpose of developing for residential uses some 167 acres of land lying a few miles directly east of Pasadena known as the Michillinda Tract. The water system was then constructed as an adjunct to the real estate business. In the early part of 1913, defendant began supplying water to such few residents as occupied its tract. Shortly thereafter defendant acquired the water system owned and operated by the Cribb-Brodek Light and Water Company for the sum of \$3,500.00 which system was then supplying water to the residents of the South Santa Anita Tract, a contiguous tract on the south and east of the Michillinda Tract. The transfer of this property was authorized by this Commission on January 15, 1913 in Decision No. 407 in Application No. 273, entitled "In the matter of the Application of the California-Michigan Land & Water Company for permission to exercise franchises and for extensions". (Vol. 2 Opinions and Orders of the Railroad Commission, - p. 31) Permission to extend into the South Santa Anita Tract was granted provided the rate to the residents of this tract would not exceed \$2.00 per month for 1333-1/3 cubic feet or less and 3-1/4 cents per 100 cubic feet for water used in excess. These are the rates now in effect.

Water supply for this system is obtained from six wells located on the northerly part of the Michillinda

Tract. From these wells the water is pumped into four concrete reservoirs and is thence distributed throughout the Michillinda and South Santa Anita Tracts. The average number of consumers in 1916 was 144. At present this has been increased to 179 taps practically all of which are active. Of these consumers seven only are on the Michillinda Tract.

For convenience the subject matter of this application will be considered under the following heads:- Appraisal, Service Value, Maintenance and Operation Expense, The Rate. These will be discussed in the order named.

APPRAISAL:

Appraisals were filed by Mr. Goodspeed for the Company and by Assistant Engineers C. E. Loveland and J. G. Walther for the Commission. A comparative tabulation of these appraisals follows:-

Designation	Commission	Goodspeed for company		
	Engineers	Reproduction	Original	Present
	Estimated Cost	Cost	Cost	Value
Distribution System	\$24036	\$51289.28**	\$23949	\$29036**
Meters and Services	3983	6690.00	3409	3429
Reservoirs	4649	5850.00	3900	3137
Pumping Equipment	2934	5725.00	3900	4015
Wells	6030	7100.00	7100	5000
Buildings.	148	*	*	*
Tanks.	171	*	*	*
Pumping Pits.	1036	*	*	*
Tools, etc.,	300	*	*	*
	<u>\$43287</u>	<u>\$76654.28</u>	<u>\$42258</u>	<u>\$44617</u>

*-Included in items above.

**-Franchise cost, engineering and legal Expense, included.

In the appraisal submitted by the company the prices of material are as of the date of the appraisal. The present

condition has resulted in abnormally high prices and makes the use of present prices in a reproduction new method of valuation manifestly unfair to the consumer. It was testified by Mr. Elmer Anderson, Superintendent of the company, that prices had increased 15% since the date of the appraisal and would continue to increase for a long period.

The Commission's engineers have used prices averaged over a period of years thus compensating for periods of abnormally low or high prices. The estimate of the Commission's engineers checks the estimate of original cost made by the company very closely. In view of these facts it is fair and is found as a fact that the Commission's engineers appraisal of \$43,287.00 is a fair amount for the estimated cost new of the physical structures of this system.

Real estate and water rights are not included in the above tabulation.

Defendant in Exhibit "3" contends that its water rights have a value of \$60,000.00 which sum is arrived at by assuming a use of 80 miner's inches continuous flow at \$750.00 per miner's inch.

The water is obtained from wells sunk directly behind the so-called Raymond Hill Dyke which is composed of a soft miocene sandstone. This dyke is a natural underground dam and forms a natural reservoir. The difference in the distance to the water plane from the ground surface, above and below the dyke on the Michillinda and South Santa Anita Tracts varies from 50 to 100 feet. Water is thus more readily obtainable in the area above the dyke from which this company obtains its water supply.

This Commission has repeatedly held that in the

case of percolating waters, these waters can have no value aside from the value of the land considered for all purposes including the pumping of water therefrom; and we shall in this instance consider the value of the lands to this company for all available uses that it might be put to including its use as water bearing land.

The testimony shows that the lots upon which are located the wells and reservoirs of defendant are used for agricultural and other purposes.

The maps of this system filed show that in most instances only a very small portion of the land reserved for water uses and which the defendant desires to have the Commission consider as a capital investment is actually used for defendant's water business.

Defendant herein claimed in its appraisal a value of \$10,500. for the lands which have been made unmarketable by reason of the location of wells and reservoirs thereupon. However, the land actually used for these purposes does not constitute more than one-third of the area of the lands upon which these water production facilities are located; nor would an allowance of the lands' full value take into consideration the fact that defendant is using the remaining two-thirds of these lands for agricultural and other purposes. Furthermore because defendant was the owner of the entire tract, it has scattered its plants and laid pipes on different portions of the tract without any regard to an economy of space such as would have been exercised had it been necessary for them to have purchased land for the location of these facilities from third parties.

Taking into consideration the scattered location of the wells and reservoirs and the further fact that the land is used for agricultural purposes without any interference or

diminution of its value as a water producer, we believe that if defendant herein is allowed a return upon the sum of \$5,550.00 that the Commission is giving to the utility a fair allowance for its capital invested in water bearing lands.

Defendant has included in its appraisal 25,000 feet of private right of way at \$150.00 per 1,000 feet or a total of \$3,750.00 for rights of way. This price is based upon the price paid by the defendant for one-half mile of right of way which was purchased from an adjacent property owner. Defendant has laid its water mains along the rear of the lots into which their tract has been subdivided instead of placing the same in the dedicated streets of the tract. This was done by them to avoid placing of meter boxes and service connections in the front of their lots. The right of way upon which this valuation was placed by the defendant is merely an easement and does not in anywise lessen the value of the property upon which it is laid. Taking this fact into consideration and the further fact that defendant could have secured a franchise to place its mains in the dedicated streets at practically no cost to itself, the amount claimed herein is not only excessive but taking into consideration the facts herein above set forth, we believe that these easements should not be capitalized in this proceeding.

Only one strip of right of way one-half mile in length was purchased. At the time of the installation of the 10" main to the South Santa Anita Tract it became necessary to purchase a right of way from the Chapman Ranch. This right of way one-half mile in length cost \$400.00.

SERVICE VALUE

As before stated the company purchased from the Cribb-Brodek Company that portion of its system which supplies the South Santa Anita Tract with water at a cost to

itself of \$3,500.00. The property purchased for this sum provided a water supply for the South Santa Anita Tract. In order, however to be able to better supply the South Santa Anita Tract and also to supply the Michillinda Tract a six inch and ten inch main were laid from the wells in the Michillinda Tract to the South Santa Anita Tract at a considerable cost. The Commission's Engineer reports that that portion of the system purchased from Cribb-Brodek Company would cost now \$10,803.00 exclusive of rights of way over private land. This large investment is ^{dis-}proportionate to the service rendered the water consumers in the South Santa Anita Tract.

At the time that the facilities of the defendant herein were connected with the South Santa Anita Tract, owners of approximately 525 acres in that tract paid to defendant the sum of \$20.00 per acre to assist in financing the extension of that service to their properties. In view of the fact that the Cribb-Brodek system was originally constructed for the purpose of aiding in the sale of real estate and that there was paid to defendant \$20.00 per acre as a deposit to cover the cost of installing additional facilities, we consider it fair for the purposes of this proceeding that the original cost to defendant of the equipment to supply the South Santa Anita Tract, namely \$3,500.00 ^{be regarded} as a fair sum to be capitalized.

It was contended by defendant that the portion of the system which supplies the South Santa Anita Tract should be segregated and a rate for that tract only computed. All of the complainants reside in that tract, there being only seven consumers in the Michillinda Tract.

As we have hereinabove stated, defendant has charged against the South Santa Anita Tract the six inch and ten inch pipe line extending through the Michillinda Tract from the wells and reservoirs located thereon. As was hereinabove

pointed out this line was installed in such a manner that it could supply a large portion of the Michillinda Tract and its location was chosen for that purpose. The wells and reservoirs served a similar purpose. We are of the opinion that it would be unfair under the circumstances to fix a different rate for the different tracts because in so doing it would place the burden of practically the entire system upon the consumers of the South Santa Anita Tract.

The Michillinda Tract was put on the market at approximately the same time as the water system was constructed but owing to the slump in real estate, sold very slowly. At present there are only seven consumers served in addition to the use of water by defendant for domestic and irrigation purposes on its property. Defendant has two domestic and eight irrigation connections. The use of water through the irrigation services for the year 1916 was reported to be 2,200,000 cubic feet. There are about 300 lots in this tract each approximately one-half acre in size within the area reached by this system.

The South Santa Anita Tract is divided into 105 lots of approximately 5 acres each and of these all but 18 were served in 1916 and it is reported by Mr. Anderson, defendant's superintendent that the entire tract is irrigated this year. On this tract each lot averages approximately two services and considering this as normal we find that under the whole system there are approximately 500 lots that can be served while the company is now serving only 167.

It therefore appears that while the South Santa Anita Tract is practically fully developed, the Michillinda Tract is still in its infancy as to development and it would be unfair to charge a pipe system of this extent to the present consumers.

We believe that in this instance it is fair to include that portion of the system used in the service of the present consumers with reasonable allowances for overbuilding such as occur in normal systems and for such additional short extensions and service connections as become necessary.

We will, therefore, assume that the pipe lines other than those purchased from the Cribb-Brodek Company are used in the proportion of 400 to 167 and thus include a liberal overbuilding allowance for 100 possible consumers. The Commission's Engineers appraised this pipe system at \$15,292.00 and using the above proportion we arrive at a service value for present consumers of \$6,380.00.

The testimony of Mr. Anderson, Superintendent of the company shows that the pumping plants of this company have a capacity of 145 miner's inches or 250,500 cubic feet per day. During July 1916 in which the maximum consumption occurred, the record shows an average daily use of 40,000 cubic feet or 23 miner's inch days.

The reservoirs of this company have a capacity of 69,000 cubic feet or more than sufficient for an average day's use in the maximum month. We find, therefore, that the present pumping system without considering storage is 6.2 times the capacity necessary for an average day's use.

It assuredly is treating this company liberally if this average use is doubled and used as the measure of proper capacity apart from the additional advantage which the utility has of being able to care for their peak loads from storage. Even after thus doubling the daily use, we find that the present pump capacity is 3.1 times that needed on the preceding basis.

This excess capacity was undoubtedly installed for the purpose of supplying the future use on the Michillinda tract and therefore the entire cost of the present system is not properly chargeable against present consumers. The amount we believe that is properly chargeable against the present con-

sumers should bear the same ratio to the present investment that the present maximum demand bears to the capacity of the system, together with a reasonable allowance for such over-sizing of its system ~~was~~ might under ordinary circumstances be made in anticipation of the normal development of a company's business. The ratio just suggested would give the sum of \$4,980.00 as that portion of the lands and pumps of defendant which is properly chargeable to the present consumers. This allowance will admit of a standby unit for emergencies, in addition to that reserve supply which is in storage ~~capacity~~.

A resume of the various items going to make up this service value, follows:

Purchase from Cribb-Brodek Co.	\$3,500.00
Pipe System in Michillinda Tract	6,380.00
Pumps and Equipment	4,980.00
Furniture and Tools	300.00
Reservoirs	3,390.00
Services and meters	<u>3,983.00</u>
Total	\$22,533.00

It is hereby found as a fact that the above sum is the fair service value of defendant's water plant used in the service of its present consumers.

MAINTENANCE AND OPERATION EXPENSE:

Following is a tabulation showing the maintenance and operation expenses for 1915 and 1916 and the amount

	**1915	1916	Estimate
Collections and meter reading,	\$ 620.00	\$ 188.54	*
Pumping Expense,	1101.20	1158.27	
Pumping Supplies,	40.15	000.00	
Fuel and Gasoline,	217.67	290.78	
Meter repairs,	1.94	41.97	
Well repairs,	27.50	000.00	
Distribution Main Repairs,	182.90	123.60	
Official Salaries,	1168.34	1336.72	
Office Salaries,	515.00	390.00	
Office Expense,	257.25	319.20	
Taxes,	16.20	102.69	
Office Rents	00.00	180.00	
Railroad Commission Expense	00.00	6.00	
Promotion of Business,	00.00	3.30	
Total	\$ 4058.15	\$ 4141.07	\$4834.28

*No details shown

**From records of company and Annual Reports.

These charges are a segregation of the charges of both the land and water business. The company maintains for its combined land and water business an office in Los Angeles and also on the tract. A superintendent is in charge at the tract handling both the real estate and water business and in addition a manager is employed who spends most of his time at the Los Angeles Office. In addition to this position the manager is also a practicing attorney. A charge of \$1,200.00 per year is included above in the item official salaries.

We are of the opinion that under the direction of the Board of Directors, the present superintendent can by confining his activities to the business of the water company make the maintenance of a Los Angeles Office and a superintendent unnecessary. Should the company, however, desire to continue its present arrangement in order to further its land operations, this Commission will not permit them to establish a rate against less than 200 consumers in order to pay the cost of maintaining such an organization.

The franchise granted by the County of Los Angeles provides that after July 1, 1917, this company pay a franchise tax which it is estimated by Mr. Goodspeed will be \$200.00 per annum. In addition to this increase there will be in 1917 a Federal tax which is estimated at \$100.00 per year. These should be added to the annual expense of the company. Correcting the above figures as shown above, we arrive at the sum of \$3,061.00 as the fair annual maintenance and operation charges.

TOTAL ANNUAL CHARGES

Summing the foregoing we arrive at the total sum which should be produced each year by the rates:	
Interest on \$22,533.00 at 7%	\$1,577
Annuity	862
Maintenance and Operation Expense	3,061.
Total	<u>\$5,500</u>

INCOME

The gross water revenue and water use follows:

	Water use in 100 cu.ft.	Gross Revenue
1913	40 290	\$2 864
1914	66 819	4 553
1915	81 408	5 767
1916	85 155	5 790
1917*	108 096	6 689

*Oct. 1916- Sept. 1917 inclusive.

Defendant has irrigated some 45 acres planted to alfalfa, oranges, and walnuts and has used during the past year 2,200,000 cubic feet for which it paid \$715.00. The company have eight irrigation and two domestic connections. If the same rate is charged for these including the minimum as other consumers pay this use would produce an income of at least \$905.00 annually or a difference of \$190.00. This gives a total corrected income for 1916 of \$5,980.

Attention is called to the increased income for 1917 over 1916. Correcting this as in 1916 there is a total income of \$7,001.00 or an increase of \$899.00 in income to balance against \$500.00 increase in maintenance and operation expense.

RATE SCHEDULE

It now remains to compute a rate that will admit of the utility earning such compensation as under all the circumstances is just to it and to the public.

The record of water used in 1916 filed in Commission's Exhibit No. 2 shows a total use of 6,497,200 cubic feet exclusive of 2,200,000 cubic feet used by the company on its own lands. After a careful study of the tables of water use filed in Commission's Exhibit No. 2 showing the monthly use in varying amounts from 500 cubic feet or less to over 30,000 cubic feet, we have provided a rate set forth in the order which, based upon the 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

Public hearings having been held and evidence submitted in the above entitled proceeding and the Commission being fully apprised in the premises and the matter now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the rates charged by the California-Michigan Land and Water Company for domestic and irrigation water insofar as they differ from the rates set out in this order are unjust and unreasonable and the rates set out herein are 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 which precedes this order,

IT IS HEREBY ORDERED that CALIFORNIA-MICHIGAN LAND & WATER COMPANY be, and it is authorized and directed to file with the Railroad Commission, the following schedule of rates, effective March 1, 1918, to be charged by the said California-Michigan Land & Water Company, a corporation, to-wit:-

600 Cu. ft or less	\$1.00 per month
Between 600 and 1600 cu. ft. .10	per 100 cu.ft
Over 1,600 cu.ft03 1/4 " " " "

Dated at San Francisco, California, this 7th day of Feb January, 1918.

Max Thelen
W. H. Leland
Alfred Gordon

Commissioners.