

Decision No. 6164

ORIGINAL

**BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.**

In the Matter of the Application of )  
HERMOSA BEACH WATER CORPORATION for ) Application No. 4132.  
an adjustment and increase of rates.)

F. D. Cornell for Hermosa Beach Water Corporation.  
W. W. Phelps for City of Hermosa.

LOVELAND, Commissioner.

O P I N I O N.

This is an application of the Hermosa Beach Water Corporation, a public utility engaged in the business of distributing and selling water for domestic and irrigation purposes in the City of Hermosa Beach and the adjacent territory, asking for authority to increase its rates.

Applicant alleges, in effect, that it has not since its organization been in receipt of sufficient income from its rates to equal operating expenses, interest on bonds and depreciation annuity, and that during the last two years operating charges have increased to such an extent that additional income is necessary for a continuation of service.

A public hearing in this proceeding was held in Los Angeles on December 10, 1918.

The present rates were in effect when the Hermosa Beach Water Corporation acquired the Hermosa Beach Water Company and were established by the latter company prior to the effective date of the Public Utilities Act.

These rates are as follows:

Minimum for 800 cu. ft. or less -----	\$1.50
From 800 cu.ft. to 3467 cu.ft., per 100 cu.ft.-----	.11 1/4
Over 3467 " per 100 " -----	.09

Applicant has been before the Commission in a number of proceedings, notably Application No.1346, entitled "In the Matter of the Application of Hermosa Beach Water Company to sell and of the Hermosa Beach Water Corporation to buy a certain water system, and of Hermosa Beach Water Corporation to issue bonds of the par value of eighty thousand dollars and stock in the sum of sixty thousand dollars." (Opinions and Orders of the Railroad Commission of California, Dec.No.1866, Vol. 5, p.577.) In this proceeding an appraisal of the water utility property was presented by Mr. Burdett Moody, for the Company. This totalled, as of January, 1914, an estimated cost now of \$122,252, and included the sum of \$6,000 for franchises and \$24,100 for real estate and water rights, but did not include the salvage of the Manhattan Beach Plant, which was estimated by applicant at \$5,500. Additions since that date as shown by the Company's records are \$19,113. The structural properties were carefully checked at the time by the Commission's engineers and the appraisal by Moody was found to be a fair estimate of the cost new of the plant, using average normal prices, and will be considered in this proceeding.

The Commission has authorized the applicant to issue \$77,000 of 6% bonds, of which \$5,000 have been retired and \$1,000 remain in the treasury, leaving \$71,000 outstanding. It is evident that the tangible property in the plant is sufficient security for the issuance of these bonds.

The evidence shows that the system is overbuilt and still in a development state. The greater portion of the area served is sparsely settled, necessitating long sections of pipe

between consumers. The system was originally constructed to promote real estate sales and not in response to the demands of the normal growth of the community.

Applicant asks interest at 6% on the sum of \$71,000, which is the amount of bonds outstanding. In addition he asks interest at the same rate on \$45,000, claimed as additional investment value. Not all of this should be charged against the established uses and I will recommend the portion that seems fairly chargeable in this proceeding.

The maintenance and operation expenditures, as shown by the annual reports filed with the Commission and the books of the Company, were checked and items not properly chargeable to this account have been deducted and do not appear in the following tabulation:

	<u>1915</u>	<u>1916</u>	<u>1917</u>	<u>*1917</u>	<u>*1918</u>
Operating Labor & Exp.....	\$ 4,007	\$ 5,335	\$ 5,223	\$ 3,836	\$ 3,586
Repairs to Operating Capital.....	438	401	352	268	902
Dis. System Labor and Expense.....	163	---	263	196	177
Repairs to Dist. & Trans. Capital.....	1,238	929	298	193	412
Col. and promotion of Business.....	595	---	626	478	519
General Expense.....	2,922	4,489	4,371	3,083	3,572
Taxes.....	518	834	1,037	**227	**361
	<u>\$ 9,882</u>	<u>\$11,988</u>	<u>\$12,176</u>	<u>\$ 8,081</u>	<u>\$ 9,529</u>
Operating Revenue.....	\$21,130	\$18,246	\$18,053	\$13,861	\$14,149

\*Nine months only

\*\*This is not a proportionate amount of the annual taxes.

The effects of increased salaries, wages and costs of materials are shown in the nine months period of 1917 and 1918. Due to the unsettled labor and material conditions brought about by the war, which is further complicated by the transition from war to peace conditions, it is difficult to estimate future charges on the basis of past expenditures. Considering the existing conditions, the sum of \$14,000 is thought to be a fair and just esti-

mate of the future operating expenditure and will be provided for in the estimated annual charges.

I find that fair returns annually should provide for the following charges:

Interest on \$15,000 clear investment at 8%	\$ 1,200
Interest on \$71,000 bonds at 6% .....	4,260
Annuity - 4% sinking fund basis .....	3,347
Maintenance and Operation .....	14,000
	<u>\$22,807</u>

Applicant serves a district that may be classed as a summer colony, in that the major number of the consumers own residences which are occupied for only a short period during the summer. Under the present form of rates these consumers pay for service only during the few months they occupy the premises, which gives the company no return to cover cost of maintenance and investment during the unoccupied period and unjustly places the burden of this expense upon the long term consumer. A minimum yearly charge established in the order herein will, in my opinion, more equitably distribute the expense of delivering water among the consumers.

The schedule of rates set out in the order herein are estimated to return to applicant at least the above estimated annual charges.

I recommend the following form of order:

O R D E R.

HERMOSA BEACH WATER CORPORATION having applied to the Railroad Commission for authority to increase its rates for water served in Hermosa Beach and vicinity, and a public hearing having been held and the Commission being fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the rates and charges of Hermosa Beach Water Corporation in so far as they differ from the rates herein established are unjust, unreasonable and unremunerative, and that the rates and charges herein established are just and reasonable rates, and basing its order on the foregoing finding of fact and on the further findings of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that Hermosa Beach Water Corporation be and it is hereby authorized to file with the Railroad Commission of the State of California the following schedule of rates, the same to become effective on and after February 1, 1919:

Initial annual charge--\$12.00 per year per service providing 600 cu. ft. per month for 4 months.

Monthly minimum for additional months--75¢ for 600 cu. ft. per month.

Between 600 cu. ft. and 2500 cu. ft. monthly, per 100 cu. ft., 16¢.

Over 2500 cu. ft. monthly, per 100 cu. ft. 10¢.

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 26<sup>th</sup> day of February 1919.

Edwin O. Edgerton

H. S. Loveland

H. M. Bondage

Irene Mather  
Commissioners.