

Decision No. 6490.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of California-Michigan Land and)
Water Company, for an increase in) Application No. 4327.
water rates.)

Gibson, Dunn & Crutcher by S. M. Haskins, and
R. C. Goodspeed, for Applicant.
Lewis Cruickshank for Consumers.

BY THE COMMISSION.

O P I N I O N

California-Michigan Land and Water Company, applicant herein, is applying in this proceeding for authority to increase its rates charged for water.

The application alleges, in effect, that applicant is a corporation organized under the laws of this state; that among other things, it owns and operates a public utility water system which delivers water for domestic and irrigation uses to the Michillinda Tract and Tract No. 1703 in East Pasadena, and the district known as South Santa Anita, all in Los Angeles County; that the present rates do not yield income sufficient to meet operating expenses, depreciation and interest on the fair value of the water plant; that the rate schedule does not produce the revenue which the Railroad Commission estimated it would

produce; and that the necessary maintenance and operation costs are substantially higher than at the time the present rate schedule was established. Wherefore, applicant asks for an order authorizing it to increase its rates so that it may obtain an income sufficient to meet all reasonable charges and yield some profit.

The present rate schedule was established by this Commission in its Decision No. 5119, Chas. Sherman et al., vs. California-Michigan Land & Water Company, Case No. 1068, and is as follows:

600 cu. ft. or less, per month..... \$ 1.00
Between 600 and 1600 cu. ft. 10¢ per 100 cu. ft.
Over 1600 cu. ft. 3½¢ per 100 cu. ft.

California-Michigan Land and Water Company was organized under the laws of this state and was incorporated January 20, 1911, for the purpose, among other things, of buying and selling lands, and acquiring, constructing and operating domestic and irrigation water systems. In 1911, applicant purchased what is now known as the Michillinda Tract, together with certain wells, reservoirs and other equipment. This tract was subdivided and placed on the market and in connection therewith, a water system was constructed, primarily for the purpose of selling water to purchasers of lots. Water was first delivered early in 1913. This tract is still being marketed, and the area served with water is still in its development stage.

This Commission, in its Decision No. 407, In the Matter of the Application of the California-Michigan Land and Water Company, a Corporation, for permission to exercise franchise, and for extensions, Application No. 273, Vol 2, Opinions and Orders Railroad Commission of California, p. 31, permitted applicant to extend its system and deliver water to the so-called Crib-Brodek Tract, also known as South Santa Anita. A six-inch main, and later a ten-inch main, were constructed and the distribution system in South Santa Anita was purchased from the Crib-Brodek Light and Water Company for the

sum of \$3,500. Water is now being delivered to approximately 160 consumers in South Santa Anita, and 14 in Michillinda and Tract No. 1703, East Pasadena.

The water supply for this system is obtained from six wells located on the northerly part of the Michillinda Tract, and is pumped into concrete reservoirs, whence it is distributed throughout the area served.

At the hearing of this application, Mr. Edward R. Bowen, engineer for applicant, submitted an estimated reproduction cost of physical plant of \$69,556.24, and a sinking fund annuity of \$1,568.76. To this reproduction cost he added an estimated value of real estate, water rights and intangibles, and arrived at a total estimated value of \$221,612. The Commission's engineers estimated the cost new of the physical plant to be \$46,411, and replacement fund \$801.

Inasmuch as a rate schedule established to produce a sum sufficient to pay interest upon the cost new of the property, would be so high as to require the consumers to pay more than the service is reasonably worth, it is unnecessary to discuss in detail the appraisements submitted.

Details of past operating expenses and estimated future expense were submitted by Mr. Bowen and by the Commission's engineers. The following tabulation shows the totals of operating expense and revenue for the past four years:

<u>Year</u>	<u>Operating Expense</u>	<u>Revenue</u>
1915	\$ 4,069.15	\$ 5,753.08
1916	4,179.61	5,789.84
1917	4,258.48	7,093.08
1918	6,158.17	5,883.10

Mr. Bowen also submitted in Applicant's Exhibit No. 3, an estimate of operating expenses for 1919 totalling \$5,391. Included in this estimate is the sum of \$1,240 for salary to Mr.

Goodspeed, manager of the Company. In addition to a manager, there is employed a superintendent, who operates the plant. It is uneconomical to employ two directing heads for a plant serving so few consumers, and in view of the fact that this company is not only a water utility, but is also operating as a real estate concern, it is unfair to the consumers to ask that they be burdened with so great an overhead expense. The operation of a system such as this does not require this expenditure. Owing to increased cost of material and labor, there is a greater necessary expenditure than occurred prior to 1918, which should be cared for in establishing rates. Basing future operating expenses on the cost during 1918, modified by averaging over a series of years those expenditures which do not recur annually in like amount, and such increases as will occur during 1919, it appears that a fair operating expense should not exceed \$4,400 annually.

The evidence shows that the Michillinda tract, which is the tract now being marketed by applicant in its real estate functions, is still in its development stage. The system as designed and constructed, was intended to deliver water to a residence district. In the tracts now being marketed by the California-Michigan Land and Water Company, there are some 225 lots and only fourteen consumers. Clearly, therefore, the tract is still in its infancy. On the other hand, the South Santa Anita Tract is practically fully developed as a citrus fruit producing district, the ranches being approximately five acres in size. Although there is a considerable portion of the Michillinda tract under irrigation at present, it would be unfair to make the consumers under the South Santa Anita Tract bear the burden for a system designed to serve a different character of service in the Michillinda Tract. As before stated herein, this plant prior to 1913, delivered water only to the tracts marketed by applicant. At that time this Commission authorized

an extension into the South Santa Anita Tract, with the express provision that the rate to be charged 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 all water used in excess.

A rate schedule which would produce interest upon the cost new, or the original cost of this system, would be unfair to the consumers. However, costs of operation have increased, and excessive drought has necessitated changes and improvements in the system. Therefore, applicant is entitled to have returned to it a revenue equal to what the service is reasonably worth, in view of these increased costs.

After giving careful consideration to all of the elements entering herein, among which are, cost of plant, value of plant as used, the history of the plant, and the reasonable value of the service to the consumers, it is found as a fact that the following rate schedule is fair and reasonable:

Monthly Minimum:

5/8" and 3/4" meters.....	\$1.00
1" meters	1.50
1-1/2" meters	2.00
2" meters and larger	2.50

Quantity Rates:

For use between 0 and 2000 cu. ft. 20¢ per 100 cu. ft.
 For use over 2000 cu. ft. 4¢ per 100 cu. ft.

Based upon water consumption for 1918, submitted at the hearing, it is estimated that this rate schedule will produce at least \$8,000 annually. The annual charges, exclusive of interest, are at least \$5,200, leaving a balance of \$2,800 to apply on interest. This capitalized at 6% will return interest on the sum of \$46,600.

Under the rates herein established, the consumers will pay approximately a like amount as is paid for similar service by consumers in other localities.

O R D E R

California-Michigan Land and Water Company, having applied to this Commission for authority to increase its rates, a public hearing having been held, and the Commission being fully apprised in the premises,

It is hereby found as a fact that the rates now charged by the California-Michigan Land and Water Company, in so far as they differ from the rates herein established, are unjust, unreasonable and unremunerative, and that the rates herein established are just and reasonable rates, and basing its order upon the foregoing finding of fact and upon the findings of fact in the opinion preceding this order,

IT IS HEREBY ORDERED that California-Michigan Land and Water Company be, and it is hereby authorized and directed to file with this Commission within twenty (20) days from the date of this order, and thereafter charge the following rate schedule for all meter readings subsequent to the date of filing:

Monthly Minimum:

5/8" and 3/4" meters	\$ 1.00
1" meters	1.50
1-1/2" meters	2.00
2" meters and larger	2.50

Quantity Rates:

For use between 0 and 2000 cu. ft.	20¢ per 100 cu.ft.
For use over 2000 cu. ft.	4¢ per 100 cu.ft.

IT IS HEREBY FURTHER ORDERED that California-Michigan

Land and Water Company file with this Commission for its approval,
amended rules and regulations, and shall put the same into effect
as amended and approved by this Commission.

Dated at San Francisco, California, this 11th
day of July, 1919.

W. D. Loveland
Francis R. Brown
David Maitin
Commissioners.