

Decision No. 34708

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	
San Gabriel Valley Water Service, a)	
corporation, to establish rates for)	Application
the service of water in the County)	No. 21756
of Los Angeles, State of California.)	

ORIGINAL

R. H. Nicholson for San Gabriel Valley Water Service.

Dempster and Dempster, by Charles W. Dempster, for "Water Consumers Association".

WAKEFIELD, COMMISSIONER

O P I N I O N

San Gabriel Valley Water Service, a corporation, engaged in the business of producing, distributing and selling water for domestic, irrigation and industrial purposes in the vicinity of El Monte, Los Angeles County, and in the city of Indio, Riverside County, asks the Commission to establish a uniform schedule of flat rates and to increase the metered rates for the service rendered throughout its El Monte system.

The application and the amended application allege that in 1937 applicant acquired, among other water properties in the El Monte area, the Union Mutual Water Company which system was not recognized as a public utility but had rates in effect that differed from the rates charged on the balance of the system. The Commission is asked to establish uniform flat and metered rates for all of the services rendered by applicant's El Monte system.

Public hearings were held in this matter at El Monte.

The present flat rates in effect except in the area served by Union Mutual Water Company, and the requested flat rates both maintain a monthly charge of \$1.50 for service rendered to a residence and a lot of one-half acre or less, with an additional charge of 50 cents per month for each additional one-quarter acre or less. The present rate schedule provides for a one-inch service connection which applicant proposed to reduce to three-fourths of an inch for one-half acre lots. It is also proposed to abandon a special irrigation rate that was effective on a portion of the system, but a request is made to add a flat rate schedule applicable for construction of roads, sidewalks and sewers.

A comparison of the measured rates in effect with the requested measured rates follows:

<u>Monthly Minimum Charges</u>	<u>Present Rates</u>	<u>Requested Rates</u>
For 5/8 x 3/4 inch meter	\$1.00	\$1.25
For 3/4 " "	1.50	1.50
For 1 " "	2.00	2.00
For 1-1/2 " "	3.00	3.00
For 2 " "	5.00	5.00

<u>Monthly Quantity Rates</u>		
First 1000 cubic feet	\$1.00	-
Next 1000 cu.ft. per 100 cu.ft.	.075	-
Over 2000 " " " 100 " "	.05	-
First 1000 cubic feet	-	\$1.25
Next 2000 cu.ft. per 100 cu. ft.	-	.10
Next 2000 " " " 100 " "	-	.08
Over 5000 " " " 100 " "	-	.06

Applicant serves a subdivided suburban area of approximately 4500 acres in the vicinity of El Monte. This area has been developed since 1932, by various subdividers who have independently built up certain tracts. These different tracts were at first served by about 30 water systems which were operated as separate units and were in the ownership of five different public utility companies.

The property of these five companies was finally acquired by applicant and the systems are now in the process of being interconnected and consolidated for operation as one unit.

The system as operated at present consists of eleven separate disconnected water systems which are each supplied with water from independent wells and pumping plants. There are a total of thirty-two wells and pumps installed in the area, of which twenty are used at present in producing water for delivery to the consumers.

The water is distributed through 322,760 lineal feet of mains which vary from two inches to ten inches in diameter. There are 2298 consumers being served by this system, of which number 125 premises are served on a measured basis while the remaining consumers are supplied with water at flat rates.

The consumers objected to the requested rate schedule, but their principal protest was directed against the measured rate. They were fearful that applicant would immediately proceed to install meters on all of the flat rate services and thereby increase the charges to the consumers. It was shown from a record of actual water deliveries that the average quantity of water delivered to each consumer per month during the summer was approximately 4400 cubic feet. The monthly charge for this quantity of water under the flat rate is \$1.50 per month, while under the existing meter rate the charge would be \$2.95 per month, and under the requested measured rate the charge would be \$4.37 per month. The users contended that the requested measured rate would result in exorbitant water bills and would discourage the planting of lawns and gardens in the area and thereby remove the advantage of cheap water which had been one of the principal items that had attracted the settlers to the area.

Mr. R. H. Nicholson, President and General Manager of the company, assured the users at the hearing and by written and verbal statements before the hearing that the flat rate service at the present rates in effect would be maintained for all domestic service except in instances where water is wasted, except that it was

proposed to meter commercial irrigation service, schools and other services where a flat rate was not applicable. Mr. Nicholson testified that the only reason for requesting an increased meter rate at this time was to remove the differential between the monthly \$1.50 flat rate and the \$1.00 minimum monthly meter rate, as this latter rate was more advantageous to small water users over a twelve-month period. He estimated that with the present number of meters installed, the requested measured rate would produce approximately \$300.00 additional annual revenue. He stated that only in the event of changed conditions would the measured rate be used except to prevent waste.

Mr. R. H. Nicholson presented verbal testimony in support of the application while Mr. James Singer, engineer for the Consumers Association, and Mr. Wm. Stava, an engineer of the Hydraulic Division of the Commission, submitted reports covering studies made of the company's operations. The testimony of the three witnesses covered fixed capital, maintenance and operation expenses and depreciation allowance and estimates of these items for the future. A comparison of these items as testified by each witness follows:

		<u>NICHOLSON</u>	<u>SINGER</u>	<u>STAVA</u>	
				<u>Company Books</u>	<u>Security Issue</u>
Fixed Capital	5/31/38	\$332,768	\$210,054	\$332,768	\$302,427
" "	Future	332,768	210,054	361,530	331,189
Operating Rev.	Present	39,773	40,251	39,773	39,773
" "	Future	50,260	51,550	51,550	51,550
" Expenses	Present	23,401	20,053	22,751	22,751
" "	Future	33,695	20,053	28,865	28,865
Depreciation	Present	10,866	4,483	6,593	5,993
" "	Future	10,866	4,483	7,510	6,910
Total Oper. Exp.	Present	34,267	24,536	29,344	28,744
" " "	Future	44,561	24,536	36,375	35,775
Net Oper. Rev.	Present	5,506	15,715	10,429	11,029
" " "	Future	5,699	27,014	15,175	15,775
Est. Return	Present	1.65%	7.48%	3.13%	3.65%
" "	Future	1.71%	12.86%	4.20%	4.76%

The differences in the three witnesses' fixed capital items are due to the sources from which it was taken. The company's books reflect its engineers' appraisal of the properties when acquired, plus net additions and betterments installed since the date of acquisition. Mr. Stava used the book figures and also the basis used by the Commission in authorizing the issuance of stocks and bonds. This latter basis was determined by an appraisal of the company's property by the Commission's engineers in other proceedings. Mr. Singer adopted the fragmentary figures shown on the books of applicant's predecessors in interest and added the net additions to capital installed since the date of acquisition of the property by applicant.

An attempt was made to obtain the purchase price of this property from unwilling witnesses. What information was obtained indicated that the purchase price might have been less than the value of the property found by the Commission in authorizing the issuance of securities. However, the record in the security proceedings shows that the fixed capital carried on the books by the former owners of the properties involved was incomplete and the Commission's engineers were required to make an independent inventory and appraisal of the properties to be conveyed.

The records of the company show that the fixed capital shown in the books includes consumers' advances for construction which total \$29,330.77 and that donations in the aid of construction total \$19,714.73. The difference in the maintenance and operating expenses as testified by the three witnesses is due to items deducted from this account by Mr. Stava and Mr. Singer. This latter witness deducted the sum of \$2,698.23 which contained items like purchase of water in the amount of \$684.78, which was an actual expenditure necessary during 1937, and other items as taxes and general office expenses which he considered should have been allocated to capital or to the water system serving the City of Indio. No allowance was made by Mr. Singer for increased taxes

in the future which applicant had shown would be payable, nor any increase in operating expenses by reason of new consumers being added to the system and a decrease in construction expense which had carried a portion of the 1937 operative expenditures. While an allocation was made by applicant for office employees between capital and operating expense, no segregation was made for the items of the Unemployment Tax and the Social Security Tax which totaled \$917.01. As the gross additions to capital from August 1, 1937, to May 31, 1938, totaled \$71,845.20, a large percentage of the Social Security and Unemployment Taxes should have been chargeable to capital as contended by Mr. Singer.

The record in this proceeding shows that area service is developing rapidly, but that owing to the extent of the area served it has been necessary to install pumping and distribution facilities of sufficient capacity to meet the future growth of the area served. The existing system is admittedly capable of supplying water to a larger number of consumers than at present served. Except in the area formerly served by Union Mutual Water Company, the application in this proceeding requests an increase in the measured rate only. According to applicant's president, this increased rate would produce only a comparatively small amount of additional revenue as it would be applied at the present time. Under the circumstances it is concluded that the increase in measured rates is not justified. If applicant finds in the future that on account of changed conditions or for other reasons the existing rate does not produce sufficient revenue to provide reasonable annual operating expenses and a return on the investment in physical properties used in furnishing water service, it should at that time apply to the Commission for an adjustment of its entire rate schedule.

One of the purposes of this proceeding was to establish uniform rates for the water delivered on a portion of applicant's El Monte system that was formerly owned and operated by the Union Mutual Water Company. This company was organized for the purpose of operating a water system on a mutual basis and some stock was

actually issued to the users. However, water was also sold to the general public and in 1936 an application was filed with the Commission for a certificate of public convenience and necessity to operate as a public utility. Before the matter could be determined, the system was sold to R. H. Nicholson and the application was withdrawn. Mr. Nicholson, in turn, sold the system to applicant in this proceeding and it obtained a certificate of public convenience and necessity to serve the area. (Decision No. 30348, dated November 22, 1937, in Application No. 21471.) In that proceeding it was shown that uniform charges were not made by the so-called Mutual Company for service rendered its consumers and that the charges differed from the rates in effect on applicant's system. Because of the protest of users against any change in rates without a hearing, the Commission in the above-mentioned decision included the following provision in its Order concerning the charges to be made after acquisition of the property by applicant:

"IT IS HEREBY FURTHER ORDERED that until otherwise authorized by the Commission, San Gabriel Valley Water Service may not..... charge in the area formerly served by Union Mutual Water Company a rate in excess of that charged by said Union Mutual Water Company, which rates shall be filed with the Commission."

The records of the Commission show that applicant did not file these rates and that it was claimed that the rate records of the Mutual Company were destroyed and were not available therefor. Applicant upon acquisition of the system proceeded to charge the rates in effect on the balance of its El Monte system which resulted in an increase in charges to some of the consumers and a number of these users deposited the disputed amounts with the Commission for adjustment. Where the consumers could show receipts for past charges by the Union Mutual Water Company which were less than applicant's bills, the deposits were adjusted on the basis of the past charges. However, as the Union Mutual Water Company system is now a unit of applicant's El Monte system and the water users receive the same

service as the other consumers, the following Order will provide for the establishment of a uniform rate that is also applicable on the former Mutual Water Company system.

Protest was also made by the consumers against applicant's requested rates in that no mention was made of the size of service to be installed to the premises from the mains. The rates in effect on a portion of the system that was acquired from Martin and Goold Water Company, which covered the largest proportion of the present property, provided for one-inch services for residences and lots of one-half acre or less. The testimony shows that the present policy of applicant is to install 3/4-inch service connections to all premises connected. The consumers contend that the 3/4-inch services have not sufficient capacity to deliver the quantity of water required within a reasonable period and have asked that the practice of installing one-inch service connections be maintained for all premises.

When applicant acquired these properties, it also acquired the obligation of providing water service to the users in the quantities that they had heretofore received and, while the Commission has no objection to the installation of 3/4-inch service connections to the city-lot type of premises, that is, where lots have a frontage of 50 or 60 feet, yet for the so-called one-half acre tracts or larger, it is felt that applicant should continue the practice of its predecessors in interest of installing one-inch services. Provision for the size of the services to the different premises should be included in the revised rules and regulations which the applicant will be required to file in the following order.

The following form of Order is submitted.

O R D E R

Application having been made as entitled above, public hearings having been held thereon, the matter having been submitted and the Commission now being fully advised in the premises,

It is hereby found as a fact that the rates now charged by San Gabriel Valley Water Service, a corporation, for water supplied to its consumers on its El Monte system in Los Angeles County are unjust and unreasonable in so far as they differ from the rates herein established and that the rates herein established are just and reasonable rates to be charged for the service rendered, and, basing its Order upon the foregoing finding of fact and upon the statements of fact contained in the Opinion preceding this Order,

IT IS HEREBY ORDERED that San Gabriel Valley Water Service, a corporation, be and it is hereby authorized and directed to file with the Railroad Commission, within thirty (30) days from the date of this Order, the following schedule of rates to be charged for all water delivered to consumers in its El Monte service area, Los Angeles County, same to be effective on and after the 30th day of September, 1938:

MONTHLY FLAT RATES

For each residence, including one lot of one-half acre or less, per service connection -----	\$1.50
For each additional one-quarter acre or less-----	.50
For each additional residence on a lot -----	1.00

Construction Work

For street paving, curb and sidewalk construction
where service is temporary during period of
construction.

Street Paving:

For street paving 5 inches thick, per 100 square feet---	\$.19
For street paving 6 inches thick, per 100 square feet---	.22

Curb Construction:

For street curb, per 100 lineal feet -----	\$.30
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Sidewalk Construction:

Per 100 square feet of sidewalk -----	\$.15
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Trench Settling:

For each lineal foot of section of trench 2'x 4' -----	\$.01
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Street and Roadway Construction:

For sprinkling sub-grade in application of oil or any form of patented oil paving or surfacing, or for rolling and/or settling sub-grade, per 3,000 square feet of roadway -----\$1.60

Monthly Fire Hydrant Rate

Each fire hydrant connected to a 4-inch main or larger -----\$1.50

Each fire hydrant connected to a main of less than four inches in diameter ----- 1.00

METER RATES

Monthly Minimum Charges:

For 5/8 x 3/4-inch meter -----	\$1.00
For 3/4-inch meter -----	1.50
For 1-inch meter -----	2.00
For 1 1/2-inch meter -----	3.00
For 2-inch meter -----	5.00

Each of the foregoing "Monthly Minimum Charges" will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the following Monthly Quantity Rates:

Monthly Quantity Rates:

First 1,000 cubic feet, or less -----	\$1.00
Next 1,000 cubic feet, per 100 cubic feet -----	.075
Over 2,000 cubic feet, per 100 cubic feet -----	.05

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IT IS HEREBY FURTHER ORDERED that San Gabriel Valley Water Service be and it is hereby directed to submit, within thirty (30) days from the date of this Order, to this Commission for its approval revised rules and regulations governing the service of water to its consumers in its El Monte service area.

For all other purposes, the effective date of this Order shall be twenty (20) days from and after the date hereof.

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 26th day of

September, 1938.

[Signature]
[Signature]
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