Decision No. 12004.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of Investigation on Commission's Own Motion, of Reasonableness of the Rates of the WESTERN WATER COMPANY.) Case No. 1743.

Chickering & Gregory, by Allen L. Chickering and W. E. Fox, for Western Water Company.

MARTIN, Commissioner:

OPINION

This is an investigation on the Commission's own motion of the reasonableness of the rates of the Western Water Company, a public utility supplying water for domestic and industrial use in and in the vicinity of Taft, Kern County.

Public hearings were held in Taft and in San Francisco, and all interested parties were duly notified and given an opportunity to be present and be heard. None of the utility's consumers were present to protest the prevailing rates, which are unusually high when compared with those in effect in other localities.

This utility has been before the Commission in rate proceedings on two previous occasions, first in 1915 and again in 1919.

Western Water Company supplies approximately 2100 domestic consumers in the City of Taft and about 290 oil companies and 170 domestic consumers in the oil fields in the vicinity. The water system consists of approximately 80 miles of pipe ranging from 3/4 inch to 16 inches in diameter. Storage is provided by means of several steel tanks and small reservoirs. Six pumping plants are used to develop and distribute the water supply, the main pumping plants working against pressures of from 400 to 530 pounds per square inch, which are abnormally high.

The present rates charged for water consumed are as follows:

Domestic Use in Taft and South Taft

Monthly minimum charge	$1.50
First 500 cubic feet, per 100 cubic feet	0.90
Next 2000 " " " 100 " "	0.75
All over 2500 cubic feet, per 100 cubic feet . .	0.60

Consumers Outside City of Taft and Town of South Taft

Monthly Minimum Charges:

Domestic Consumers on Wholesale Lines.	$2.50
Industrial Consumers	10.00

Meter Rates:

0 to 30,000 barrels, per barrel.	$0.03
Next 70,000 " " "	0.025
All over 100,000 barrels, per barrel	0.015

Provided, that the net rate from any consumer shall in no instance fall below an average of $0.0185 per barrel for all the water consumed by it in any one month.

Fire Service in the City of Taft

For all water supplied for fire purposes, $0.03 per barrel, or $0.536 per 100 cubic feet.
The minimum charge for fire purposes shall be $1.00 per month for each hydrant or connection.

Chester H. Loveland, consulting engineer, presented a report on behalf of Western Water Company which recommended the sum of $1,618,706 as a reasonable rate base for the purpose of this proceeding. This amount is made up as follows:

Capital installed as of December 31, 1922. .	$1,282,041
Working Capital.	46,902
Interest during construction on capital installed from 1915 to 1923.	20,737
Proposed additions to plant during 1923. . .	269,026
Total.	$1,618,706

M. E. Ready, one of the Commission's hydraulic engineers, presented a report which showed an estimate of original cost of the system, as of December 31, 1922, amounting to $1,234,790. This sum did not include any allowances for working capital, for interest during construction on plant installed from 1915 to 1923, or for proposed additions to capital during 1923. After making a reasonable allowance for these items it appears that the sum of $1,437,000 is a reasonable rate base for the purpose of this proceeding.

The recommendations of Mr. Loveland and Mr. Ready for reasonable maintenance and operation expense and for depreciation annuity are as follows:

	C.H.Loveland	M.E.Ready
Maintenance and Operation Expense	$313,409	$272,525
Depreciation Annuity	77,163	64,169

Mr. Loveland's estimate of reasonable maintenance and operation expense includes an item of $23,130 for federal income tax which is not included in Mr. Ready's estimate. It appears at this time from a careful study of court decisions and the act providing for this tax that it should not be included in operating expenses. Aside from the matter of income tax the principal differences between the recommendations of Mr. Loveland and Mr. Ready occur in the estimates for pumping and transmission and distribution expenses. It is claimed by the utility that the soil in the territory served is very destructive to pipe and that the water is of such quality that deposits on the inside of the pipe occur to such a degree that the diameter is greatly reduced and frequent cleaning is necessary.

All factors affecting maintenance and operating expense and a proper allowance for depreciation annuity have been carefully considered and it appears that the following are reasonable annual allowances for these items for the immediate future:

Maintenance and operating expense.	$280,000
Depreciation annuity	72,000

Total operating revenues from the sale of water and the total quantities delivered during the years 1919-1922 inclusive, are as follows:

	1919	1920	1921	1922
Operating Revenues. . . .	$345,048	$446,576	$505,957	$629,854
% Increase over 1919.	0.00	29.3	46.6	79.6
Barrels of water delivered . .	13,491,473	17,198,164	19,379,517	24,912,323
% Increase over 1919.	0.00	27.4	43.6	84.3

It was urged by Western Water Company that the business in which it is engaged is unusually hazardous in that there is no certainty of continued prosperity and that the future of the oil fields, which comprise the territory served, is exceedingly uncertain. The company claims that it is entitled to a higher rate of return upon the investment than is usually allowed utilities operating under more stable conditions. The claim is also made that the revenues received from the sale of water in the year 1922 are greatly in excess of normal and that future revenues will show a material decrease owing to the discontinuance of water use by certain large consumers and to other causes which vitally affect continued extensive operations in the oil fields.

There is merit in some of these claims made by the utility, and in the determination of reasonable rates careful consideration will be given to all material factors.

A study of the evidence and briefs submitted in this matter together with the peculiar conditions under which this utility operates leads to the conclusion that a reduction in rates should be made. The schedule established in the accompanying order is designed to yield revenues which will enable the utility to provide for reasonable maintenance and operating expense, depreciation annuity, and what under the circumstances, and making reasonable allowance for hazard, is a fair return upon its investment.

A careful consideration of the peculiar conditions under which this utility operates and the hazardous character of the business, due to the possible short life of the oil fields and to other vital factors, indicates the desirability of further study of the matter of amortization of the plant of the utility. In order that the matter can be intelligently considered further investigation of the methods used in determining depreciation annuities appears advisable and the accompanying order will provide that the utility submit revised estimates of ages, probable lives and accrued depreciation of the various structures comprising the system. At the conclusion of the investigation the Commission will make such further order as appears just and reasonable.

O R D E R

The Railroad Commission of the State of California having instituted an investigation on its own motion into the reasonableness of the rates of the Western Water Company, public hearings having been held thereon, briefs having been filed, and the matter having been submitted,

It Is Hereby Found as a Fact that the rates charged by the Western Water Company for water delivered in the City of Taft and adjacent territory, in so far as they differ from the rates herein established, are unjust and unreasonable and that the rates herein established are just and reasonable rates for such service.

And basing the order upon the foregoing finding of fact and upon the statements of fact contained in the preceding opinion,

IT IS HEREBY ORDERED that the Western Water Company be and the same is hereby authorized and directed to file with this Commission, within twenty (20) days from the date of this order, the following schedule of rates to be charged for water delivered to its consumers in and in the vicinity of the City of Taft, such rates to be effective for all service rendered subsequent to May 1, 1923:

Monthly Minimum Charges

Domestic Consumers in Taft and South Taft (Retail Lines)	$1.50
Domestic Consumers on Wholesale Lines	2.50
Industrial Consumers on Wholesale Lines	10.00

Monthly Meter Rates - Domestic Service

First 500 cubic feet, per 100 cubic feet	$0.60
Over 500 cubic feet, per 100 cubic feet	0.50

Monthly Meter Rates - Industrial Service

First 30,000 barrels, per barrel	$0.0275
Next 70,000 barrels, per barrel	0.020
Over 100,000 barrels, per barrel	0.015

Rates for Fire Service in the City of Taft

For all water supplied for fire purposes, $0.0275 per barrel, or $0.49 per 100 cubic feet.
The minimum monthly charge for fire purposes shall be $1.00 for each hydrant or connection.

IT IS HEREBY FURTHER ORDERED that Western Water Company be and the same is hereby directed to file with this Commission on or before November 30, 1923, revised estimates of ages, probable lives, and the accrued depreciation of the various structures comprising this water system.

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 2d day of May, 1923.

C L Seavey

H D Loveland

Irving Martin

J Whittlesey

Commissioners.