

Decision No. 12242

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the )  
CONSOLIDATED WATER COMPANY OF POMONA, )  
a Corporation, organized under the laws ) Application No. 6409.  
of the State of California, asking for )  
a hearing in regard to increasing the )  
rates. )

-----  
Haas and Dunnigan by  
Walter F. Haas, for applicant.

J. A. Allard, City Attorney,  
for the City of Pomona.

-----

ORIGINAL

BY THE COMMISSION:

OPINION AND ORDER ON REHEARING

By Decision No. 10177, dated March 11, 1922, this Commission granted the Consolidated Water Company of Pomona, authority to increase rates. Application for rehearing was filed on April 3, 1922, by the City of Pomona, which alleged in effect that the rates established by the Commission would yield the Utility an unreasonable and exorbitant return upon a fair value of the property.

On July 7, 1922, the Commission ordered a rehearing which was held before Examiner Satterwhite at Pomona. Briefs have been filed, the matter has been submitted and the Commission is now fully informed in the matter.

The testimony presented by A.L. Sonderegger, consulting engineer for the City of Pomona; by C.E. Loveland and Willis S. Jones, consulting engineers for Consolidated Water Company of Pomona; and by

James Whitaker, special accountant and F.M. Faude, assistant engineer, for the Railroad Commission, was unusually complete and exhaustive, in addition to being extremely contradictory in character, as is evidenced by the figures contained in the following paragraph.

The estimated fair value for rate fixing purposes of the property devoted to the public use, as of December 31, 1922, ranged from \$434,240 to \$807,159 in the various reports and exhibits presented at the hearing for the Commission's consideration. Estimates for depreciation annuity varied from \$7,020 to \$14,500, and maintenance and operation expense for the year 1922 was variously shown in amounts from \$42,790 to \$45,447. Total operating revenues for the year, including three months operation under the old rate schedule and nine months operation under the revised rates, were shown as \$115,918 and \$117,750. The data presented for the years previous to 1922 showed practically the same wide variation.

The situation is further complicated by the fact that this Utility secures its water supply from both gravity and underground sources, and that the conditions affecting the supply are constantly changing. In some years, due to abundant rainfall, the portion of the supply secured by gravity is greatly increased and the necessity for pumping is materially decreased. In years of deficient rainfall, the gravity supply diminishes and a very large portion of the supply must be secured by pumping from a water plane that is constantly receding. For this reason, the cost of securing the water supply varies widely from year to year and cannot be forecast with any degree of accuracy.

The evidence clearly shows that, owing to a very plentiful supply of gravity water during the year 1922, pumping expense was very materially reduced. Other costs were also below normal and the year 1922 was one of extremely favorable conditions from the standpoint of economical operation. Such favorable conditions cannot be expected to continue, and it is evident that future costs of operation will be in excess of those incurred during the year 1922.

Under the circumstances a decision which will impartially and equitably determine the various elements entering into the question of a fair return upon the utility's investment is, a very difficult matter. The evidence submitted clearly indicates that the results of operation in any single year are not truly indicative of the rate of return upon the fair value of the property, and that, in justice to both the consumers and the utility, average conditions experienced in operation over a period of years should be used in a final determination of the reasonableness of the utility's rate schedule.

The evidence covering the various items has been very carefully considered and it appears to the Commission that the following tabulation is a reasonable and equitable showing of the results of operation by this utility from 1918 to 1922 inclusive:

	: 1918	: 1919	: 1920	: 1921	: 1922
Fair Value for rate fixing purposes of the property devoted to the public use	\$602,000	\$608,000	\$630,000	\$658,000	\$700,000
Maintenance and operation Expense	\$ 24,998	\$ 35,771	\$ 48,006	\$ 43,859	\$ 45,447
Depreciation Annuity	8,600	8,700	9,000	9,400	10,000
Total Expense	\$ 33,598	\$ 44,471	\$ 57,006	\$ 53,259	\$ 55,447
Operating Revenues	\$ 68,020	\$ 75,394	\$ 81,437	\$ 83,352	\$117,750
Total Expense	33,598	44,471	57,006	53,259	55,447
Available for Return	\$ 34,422	\$ 30,923	\$ 24,431	\$ 30,093	\$ 62,303
Rate of return upon fair value for rate fixing purposes of the property devoted to the public use.	5.72%	5.09%	3.88%	4.56%	8.9%

The average rate of return for the five year period is 5.63 per cent.

Similar computations for the period from 1913 to 1917 inclusive show an average rate of return of 5.59 per cent.

While the rate of return earned in 1922 is somewhat higher than is usually allowed by the Commission in rate fixing proceedings of this character, the average rates of return for various periods, as shown below, indicate that the utility has for years enjoyed a return of considerably less than a theoretical fair return of 8 per cent which the Commission has allowed in many proceedings:

1918 - 1922 inclusive,	- - -	5.63	per cent	return
1919 - 1922	"	- - -	5.61	" " "
1920 - 1922	"	- - -	5.78	" " "
1921 - 1922	"	- - -	6.73	" " "

In view of the fact that the foregoing average rates of return cannot be considered unreasonable or exorbitant, and that the present rates of this utility are not in excess of those charged by other utilities rendering a comparable service in this general vicinity it does not appear advisable at this time to reduce the rates. It appears, however, that the Commission should be fully informed in the matter so that at any time in the future such changes in the Utility's rate schedule as are justified may be made without unnecessary delay. The Commission, will therefore, require that the Utility file monthly reports of revenues and operating expenses for use in checking results of operation.

#### ORDER

The City of Pomona, having filed<sup>a</sup> petition for rehearing in the above entitled matter, and a rehearing therein having been granted and a public hearing having been held thereon, briefs having been filed, the matter having been submitted, and the Commission being now fully informed in the matter,

It Is Hereby Found As a Fact that the rates fixed by this Commission in Decision No. 10177, dated March 11, 1922, to be charged by Consolidated Water Company of Pomona, a corporation, for water delivered to consumers in and in the vicinity of the City of Pomona, 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 opinion preceding this order,

IT IS HEREBY ORDERED that the rates established by this Commission, in Decision No. 10177, dated March 11, 1922, to be charged by Consolidated Water Company of Pomona, a corporation, for water delivered to consumers in and in the vicinity of the City of Pomona, shall continue in effect until further order of this Commission, and

IT IS HEREBY FURTHER ORDERED that Consolidated Water Company of Pomona, a corporation, be and the same is hereby directed to file with this Commission on or before the last day of each month, a complete statement of revenues, operating expenses and water delivered for the preceding month, in such form and detail as the Commission may, from time to time, direct.

Dated at San Francisco, California, this 21<sup>st</sup> day of June, 1923.

C. C. Seaver  
H. B. Brantley  
Dwight Martin  
Eugene Shore

Commissioners.