

ORIGINAL

Decision No. 12277

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
James A. Murray, William G. Henshaw )  
and Ed Fletcher, Co-partners, doing )  
business under the firm name and )  
style of CUYAMACA WATER COMPANY, )  
for an order authorizing and estab- )  
lishing a surcharge to pay for the )  
cost of operation of pumping from )  
underground reservoirs. )

Application No. 6767

In the Matter of the Application of )  
William G. Henshaw and Ed Fletcher, )  
surviving Co-partners, doing business )  
under the firm name and style of the )  
CUYAMACA WATER COMPANY, for an order )  
authorizing and permitting an increase )  
in the Rentals, Tolls and Charges for )  
water furnished by them and service )  
rendered by them in furnishing water )  
in the County of San Diego, State of )  
California. )

Application No. 8451

✓ Crouch and Sanders, by C.C. Crouch, for Applicant.

✓ J. W. Williams for the City of San Diego.

✓ Jesse George and Clarence S. Preston, for John C. Brewer, et al.

✓ Arthur G. French, City Attorney, for the City of East San Diego.

✓ E. E. Hendy for the Assembly of Normal Heights and for the citizens of Normal Heights and Kensington Park Districts.

✓ Haines & Haines for Lemon Grove Mutual Water Company and for J.M.C. Warren of Helix Mutual Water Company.

✓ George Russell and O.W. Cotton for Fairmount Water Co.

✓ A. E. Cook for Outlook Terrace Mutual Water Company.

✓ N. Tokuno for Union Fruit Company.

✓ P. S. Thatcher, City Attorney, for City of El Cajon.

SEORE, Commissioner.

## O P I N I O N

In the above entitled Application No. 6767 (filed April 25, 1921), the Cuyamaca Water Company requested authority to collect a surcharge of two and one-half cents per one hundred cubic feet of water to cover the cost of operating its certain pumping plants designated respectively as the La Mesa Booster and the El Monte pumping plants. The Commission denied this Application by its Decision No. 9454, dated September 1, 1921, and the Company on September 16, 1921 filed an application for rehearing which was granted. A further hearing was held, and the Commission by its Decision No. 9677, dated October 29, 1921, established new rates which in effect were a flat increase of one cent per one hundred cubic feet, on all water sold. Such additional rates were ordered impounded in a separate fund.

A petition requesting the reopening of the matter, signed by forty-eight of the flume line consumers, was filed on October 21, 1921. In this petition it was alleged that consumers had not been notified in time to prepare for the previous hearing and that the Company had inflated its expense account. The request was made that the Company's books be examined by an expert accountant selected by petitioners and that thereafter the proceeding be brought to a hearing. This the Commission agreed to do, the accountant representing petitioners to work with an accountant employed by the Commission. When the Commission's auditors began work on the Company's books, however, these petitioning consumers failed to take advantage of the opportunity, and the Commission's expert completed his audit alone, and made his report on May 15, 1922, copies being served upon all parties.

Subsequently, in Application No. 8451, (filed on November 27, 1922), the Company asked for an order establishing permanent rates which would return an amount equivalent to the

increase in its rates fixed by said Decision No. 9677. By stipulation the two matters were consolidated and public hearings thereon were held at San Diego. Briefs have been filed, the matters have been submitted, and the Commission is now fully informed in the matter.

Evidence was submitted by the Commission's engineer as to the expense of operating the El Monte and La Mesa Booster pumping plants and also as to the amount of money collected by the Company due to the establishment of the "surcharge" rates by Decision No. 9677. It was shown by this evidence that the pumping expense incurred in 1921 (the only season in which pumping was necessary) was more than one thousand dollars greater than the Company's revenues from the total "surcharge" collected from December 1, 1921, when it became effective, until December 31, 1922. The flume line consumers contended, that they had paid more than their share of the increase but their contention was based on certain tabulations which also included the amount paid by the Lemon Grove Mutual Water Company, whose service connection is located on the Company's pipe lines a considerable distance below the end of the flume. These computations are, therefore, inaccurate to that extent.

The reports of T.G. Hughes and George R. Zibbe, this Commission's accountants, show that the total capital expenditure of the Company from June 1, 1910 to December 31, 1922 was \$847,944. M.E. Ready, one of the Commission's hydraulic engineers, submitted a report which recommended as reasonable a rate base amounting to \$994,972. This figure included simple interest at eight per cent on capital expenditures from June 1, 1910 to June 30, 1915, which amounts to \$120,366 and the sum of \$25,000 to cover reasonable deficits in maintenance and operation expense over the same period. This method was the same as was used by the Commission in establishing rates for this utility in Decision No. 4058, dated

January 25, 1917, (12 C.R.C. 367) and again in Decision No. 8145, dated September 24, 1920 (18 C.R.C. 897).

In Decision No. 563 dated March 28, 1913, (2 C.R.C. 464) often termed the "Eshleman Decision", this Commission ordered the Company to replace its wooden flume. Later the Commission granted the Company permission to line the said flume with asphaltic roofing material instead of rebuilding it, believing that this change would benefit the consumers through an increased and more dependable supply at less expense. In practically every proceeding concerning this Company since the lining of the flume, it has been contended by some of the consumers that the Company had not complied with the Commission's order regarding rebuilding the flume; that it was a mistake to allow the Company to line the flume; that the cost of maintenance of the wooden flume has been exorbitant, and that if the flume had been replaced, the consumers would not have had to pay so much for their water.

The reports of the Commission's auditors show that the total expenditure on the flume, including original cost, subsequent capital expenditures and operating expense, from June 1, 1910, to December 31, 1922, was \$488,523, while the reports of the Commission's engineers indicates that interest on the original cost of a flume of permanent construction together with the operating cost thereof over the same period of time would have amounted to \$956,333, or practically double the amount actually expended on the wooden flume. The advantage to the consumers resulting from the Commission's action in thus allowing the continued use of the wooden flume could with difficulty be more conclusively demonstrated.

Protestants also contend that the so-called "Murray Dam" of this Company is located below their lands and is of no benefit to them and that, therefore, its cost should be excluded from the rate base which is used in establishing rates for service to consumers located above the dam. At first glance this may

appear to be the case, but the Murray Dam is of direct benefit to them even though they do not receive any of the water. This reservoir is filled during the winter when the water would otherwise run to waste and is used during the summer to supply all the consumers in the low service area, who, if it were not for the Murray Dam, would have to get their supply from Cuyamaca Lake and the natural flow in the San Diego River at the diversion dam, thereby reducing the amount available for the consumers along the flume and in the high service area.

The Lemon Grove Mutual Water Company asked that a new spread of rates be made and introduced evidence regarding its claim that it is entitled to a greater differential between the rate it pays and the rates paid by other consumers on the Cuyamaca system.

No other evidence regarding the spread of rates was presented, and in view of the absence of general testimony regarding this subject, and after a careful consideration of this claim, we are of the opinion that a modification in the general spread of rates is not justified.

The evidence presented by the auditors of the Commission (Commission's Exhibits 2 and 3) showed that the total net revenue of the Cuyamaca Company before deduction for depreciation from June 1, 1910, when the property was purchased by the present owners, to December 31, 1922, was \$168,942, or an average of but \$13515 per year available for <sup>depreciation and</sup> return upon an actual cash investment amounting, on December 31, 1922, to approximately \$850,000.

During the years from 1915 to 1919 the actual results of operation were shown to have been as follows: (Commission's Exhibit 2-A, Application 4515.)

<u>Year</u>	<u>Profit or Loss</u>	<u>% of Return on Investment</u>
1915 (July 1-Dec.31)	\$ 5,998 (loss)	0
1916	27,067	3.82
1917	12,855 (loss)	0
1918	6,986	0.87
1919 (Jan.1-Sept.30)	13,163	1.49

The Commission's engineer estimated the present normal annual maintenance and operation expense for the entire system to be \$77,105, and the proper depreciation annuity on the six percent sinking fund basis to be \$24,125, making a total of \$101,230. No other estimates of these items were submitted. The actual revenues of the Company during the years 1920, 1921 and 1922 were respectively, \$76,216, \$173,347 and \$116,341. It thus appears that during 1920 the Company suffered a loss of \$25,014; that in 1921 it obtained a profit of \$72,117, and in 1922 a profit of \$15,110, or a return over and above expenses of 0% in 1920, 7.2% in 1921 and 1.5% in 1922. These figures demonstrate that this Utility's revenues have not been exorbitant. Indeed, with the possible single exception of 1921, this Company has failed to earn a reasonable rate of return upon the actual capital invested, and during that year sales in the amount of \$78,869 were made to the City of San Diego. In the past such sales have been intermittent, and cannot be depended upon in the future.

After carefully considering all the evidence, it is apparent that the rates as established in Decision No. 9677 in application 6767 are not unreasonable and should be continued in effect.

I submit the following form of order:

O R D E R

James A. Murray, William G. Henshaw and Ed Fletcher, Co-partners, doing business under the firm name and style of the Cuyamaca Water Company having made application for authority to add

a surcharge to its rates to cover the expense of pumping, (Application No. 6767) and William G. Henshaw and Ed Fletcher surviving co-partners of the said co-partnership, having made application for authority to increase the rentals, tolls and charges for water, (Application No. 8451), public hearings having been held thereon, briefs having been filed, the matters having been submitted, and the Commission being now fully informed in the matter,

It is hereby found as a fact that the rates now charged by the Cuyamaca Water Company as established by the Commission in Decision No. 9677 in Application No. 6767, are just and reasonable rates to be charged for water delivered to its consumers.

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 Cuyamaca Water Company be and the same is hereby authorized and directed to charge for water delivered to consumers the rates now on file with, and established by this Commission in its Decision No. 9677, until further order of the Commission.

IT IS HEREBY FURTHER ORDERED that those sections in Decision No. 9677 reading as follows: "That all moneys collected hereunder in excess of the rates heretofore authorized shall be impounded and held intact by applicant, and the excess, if any, of the rates herein fixed above the rates to be hereafter fixed after further orders herein, shall be refunded to the consumers"; and, "That Applicant shall keep an exact account of all moneys collected hereunder from each consumer in excess of the rates hereinbefore established", be and the same are hereby vacated.

The effective date of this order is hereby fixed and designated as the first day of July, 1923.

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 June, 1923.

*C. Seaver*

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*Egerton Shore*

*J. H. Whittier*