

Decision No. 15506.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of  
SOUTH SAN FRANCISCO WATER COMPANY  
for an order increasing and estab-  
lishing its rates.

Application No. 10678.

McKinstry, Haber and Firebaugh, by Joseph  
Haber, Jr., for applicant.

John F. Davis, City Attorney of South San  
Francisco.

P. R. Thompson, for City of South San Fran-  
cisco Chamber of Commerce.

P. J. Walker, for the South San Francisco  
Manufacturers' Association.

BY THE COMMISSION:

O P I N I O N

This is an application for an increase in water rates by the South San Francisco Water Company, a corporation, engaged in the public utility business of supplying water for domestic, industrial and municipal purposes to consumers in the City of South San Francisco and adjacent territory in San Mateo County.

The application in this proceeding alleges in effect that the present rates charged are non-compensatory and inadequate to yield the revenue necessary to meet the maintenance and operation expenses of the system including a depreciation annuity and in addition provide for a fair and reasonable return upon the investment which applicant has made in the properties which it has devoted to the public use.

A public hearing in this matter was held at South San Francisco on May 8, 1925, before Examiner Satterwhite, after all interested parties had been duly notified and given an opportunity to be present and be heard.

This water system was originally installed by the South San Francisco Land and Water Company, a corporation affiliated with the Western Meat Company, to provide the water supply necessary for the latter's packing house and plant and for certain other industries in the vicinity. South San Francisco Land and Water Company was primarily engaged in the business of subdividing and marketing its industrial and residential properties, including the townsite of South San Francisco. Domestic water was first served in the community about 1893. South San Francisco was incorporated as a city about 1907.

South San Francisco Water Company, the applicant herein, acquired these water supply properties in October, 1907, having been organized and incorporated for the purpose of divorcing the public utility water business of the Land Company from its real estate operations. Subsequently the Land Company was reincorporated as the South San Francisco Land and Improvement Company.

The rapid growth of the community and of the industrial area, with the increased demand for water, has necessitated extensive additions and improvements to the system during the past five years, including the installation of new and more efficient pumping equipment. The water supply of this system is obtained from eleven operative wells drilled on a tract of water-bearing land located in the western end of the territory served. The water is raised from these wells mainly by air lift to the pumping plant, from which it is delivered through an 18" cast iron transmission main to the city distribution system, and thence through a considerable length of 18" cast iron pipe and 12" riveted pipe to serve

the main industrial center, located at the extreme eastern end of the system. The delivery of water is regulated by two concrete lined storage reservoirs, each of about one and a half million gallons capacity and located at opposite ends of the system.

For the past eight years the industrial and manufacturing plants have consumed over 80% of the entire water production of the system. The meter records for 1924 give the total number of consumers as 1091 and the total water consumption for the year as 48,575,200 cubic feet, of which 38,486,800 cubic feet was delivered to industries. In 1917 there were only 687 consumers and the total quantity of water delivered was 36,781,600 cubic feet.

Detailed appraisals of the physical properties of this utility at present used and useful were submitted by F. C. Herrmann, Consulting Engineer, for applicant, and by H. A. Noble, one of the Commission's hydraulic engineers. The lands and rights of way owned by the company were appraised by Philip P. Paschel, on behalf of the applicant, as having a market value of \$48,247, and by E. P. McAuliffe, the Commission's Land Expert, at \$44,674 as of April 9, 1925. The summaries of these appraisals as compiled for the purpose of comparison, are given in the following tabulation:

#### SUMMARY OF APPRAISALS

I t e m s	: By F.C.Herrmann		:By H.A.Noble
	:Estimated	: Est. Reprod.	: Estimated
	:Historical	: Cost new less	: Historical
	: Cost	: Depreciation	: Cost
Total Lands and Rights of Way	\$44,394	\$48,247	\$44,674
Total Physical Properties in use Jan.1, 1925	344,808	355,597	350,018
High Zone Constr.& Misc. Addtns.& Betterments	69,276	69,276	66,879
Organization	- - -	5,000	- - -
Working Capital	10,000	10,000	- - -
Total Appraisal as of April 1, 1925 . . . .	\$468,478	\$488,120	\$461,571

As indicated in the above table, applicant submitted two appraisals of the properties, one based on the estimated historical cost and the second showing a larger total sum based on an estimated reproduction cost less accrued depreciation. Applicant stated at the hearing that for the purpose of this proceeding it was not particularly concerned about the reproduction cost. There is but a small difference between the total values found in the two appraisals submitted upon the estimated original or historical cost of the physical properties, although a comparative analysis of the details of these appraisals shows considerable variation in the respective costs developed for certain items and groups of items.

Applicant has included in its appraisal a sum of \$10,000 for working capital, being approximately equivalent to the average gross income of the company for a period of one and one half months. All service rendered on this system is measured through meters and the water is necessarily delivered to the consumers for a period of one month in advance of payment for the service received. It appears reasonable therefore that some proper allowance for working capital should be made in the rate base. An analysis of the operating conditions existing on this system leads to the conclusion that for the purpose of this proceeding an amount based upon the average cost of operation and maintenance for a period of one and a half months will provide a fair and proper measure for the working capital. This amounts to approximately \$5,000, and as it appears reasonable under the circumstances will therefore be used therein.

There was no dispute as to the fair present market value of the lands and rights of way belonging to this water system. The difference of \$3,573 between the two appraisements submitted was attributed to the inclusion by Paschel for applicant of an addi-

al factor of 8% to cover the cost of acquisition of certain of the properties, such as surveys, commissions, abstracts, etc. The depreciation annuity for the purpose of providing for the replacement of the physical properties at the end of their useful lives was estimated by the Commission's engineer to be \$3,703, computed by the 5% sinking fund method. This amount was accepted as reasonable by the applicant at the hearing.

A consideration of the evidence presented in this matter relative to the value of the properties of this system devoted to the public use leads to the conclusion that a reasonable rate base for the purposes of this proceeding is \$465,000 and that the corresponding depreciation annuity may reasonably be accepted as the above agreed figure of \$3,703.

In the following tabulation will be found for the purpose of comparison the maintenance and operation expenses of the company for the past five years, exclusive of depreciation, as set out in the annual reports of this utility filed with the Commission.

#### SUMMARY OF MAINTENANCE AND OPERATION EXPENSES

Items	1920	1921	1922	1923	1924
Repairs to Well					
Source of Supply	\$129.59	\$761.48	\$78.14	\$244.89	\$233.19
<u>Pumping Expenses:</u>					
Pumping Labor	4790.82	5770.66	4849.48	4806.89	4858.90
Electric Power	20539.36	14410.27	17047.78	16191.58	14564.58
Supplies & Misc. Exp.	197.38	135.32	297.51	190.01	207.36
Repairs to Equip., Buildings, etc.	584.59	986.09	696.30	287.78	2611.44
<u>Purification:</u>					
Supplies & Expense	---	---	---	250.70	445.29
<u>Distribution System Expenses:</u>					
Repairs pipe mains, res- ervoirs, meters & serv- ices- labor & matl.	2734.25	2487.68	2269.35	3818.44	3220.72
<u>Collection Expenses:</u>	118.95	52.69	96.16	121.49	299.01
<u>Genl. &amp; Misc. Expenses:</u>					
Gen. Officers & Clerks, Salaries & Expenses	4108.51	4559.54	6718.52	12908.87	13878.60
Legal Expense	12.00	11.50	17.50	270.00	18.50
Insurance	623.87	617.18	359.31	559.80	529.61
Taxes	1183.32	960.78	1140.42	1176.21	2213.18
Injuries & Damages	---	---	---	---	3.50
Railroad Commn. Exp.	---	---	---	---	1500.00
<b>GRAND TOTALS</b>	<b>\$35020.64</b>	<b>\$30753.19</b>	<b>\$33570.47</b>	<b>\$40826.66</b>	<b>\$44583.88</b>

The operating and maintenance expenses submitted by Herrmann in his report were based upon the above mentioned annual reports of the company. In the Herrmann report the expenses for the year 1925 are estimated to be \$43,500.

The book accounts and vouchers covering the operating expenses for the past two years, 1923 and 1924, have been examined and analyzed in detail by the Hydraulic Division of the Commission. The total operating expenses for 1923 and 1924 show a considerable increase over preceding years. According to the evidence this increase may be attributed to increases in salaries and to the inclusion of certain items more properly chargeable to capital installed, together with certain charges of an extraordinary or abnormal nature which do not recur annually. The items of capital installation improperly charged to expenses amounted to \$1,128.75 in 1923 and \$4,545.68 in 1924. These charges are chiefly for certain replacements and improvements to wells, reservoirs and pumping equipment. The extraordinary expenses are mainly attributable to the costs of preparing appraisals of the company's properties for the instant proceedings and amount to \$3,111.04 for 1923 and \$1,920.10 for 1924. There is a further deduction of \$383.33 for 1924 to cover an accounting entry for taxes not finally transferred on the company's books at the date of investigation. The above amounts deducted from the 1923 and 1924 operating expenses give the normal cost of operation for these years as \$36,587 and \$37,734 respectively.

While the overhead expenses for the operation of this plant are greater than the conditions and size of the plant warrant, yet this fact is offset to a considerable extent by the increased cost of pumping and other expenses which will directly result from the rapid growth of the community served, together with the necessary and proper provision for the amortization of the extraordinary expenses heretofore incurred. A careful analysis of the evidence indicates that the sum of \$39,000 is a reasonable allowance for the cost of operation and maintenance for the imme-

diate future.

The gross operating revenues for the past four years produced from the rates at present in effect are as follows:

OPERATING REVENUES FOR PAST FOUR YEARS

Source of Income	1921	1922	1923	1924
Commercial - flat rate	\$18.00	\$18.00	\$13.50	---
Commercial - meter rate	18066.64	18538.31	21131.37	\$26457.23
Industrial - meter rate	25371.75	34821.34	43047.92	43118.79
Miscellaneous earnings	----	120.00	360.00	360.00
Total Revenues	\$43456.39	\$53497.65	\$54552.79	\$69936.02

The increased revenue in 1924 over that in 1921 indicates the growth of the system during this period, with the consequent increased demand and consumption of water.

The results of operation for the year 1924, using the allowance for operating expenses of \$39,000 as set out above, indicate a net earning for the year of slightly less than 5.9% upon the rate base of \$465,000. Making due allowance for a reasonable rate of business growth it appears that applicant is entitled to a slight increase in rates, which may be effected by a general re-adjustment in the spread of rates, especially as to the large industrial and manufacturing uses.

The rates at present in effect were established by an ordinance of the Board of Trustees of the City of South San Francisco on April 14, 1914, and are as follows:

METER RATES

Minimum charge, all use, per month . . . . .	\$1.00
Domestic use per 100 cubic feet per month. . . . .	0.23
For use of water by industries, per 1000 gallons per month \$0.15, which equals per 100 cu.ft.per month. . .	0.112
For use of water for street sprinkling or for general purposes by the City, per 100 cu.ft. per month . . .	0.08
For fire hydrants in the City. . . . .	no charge.

From a study of the above rate schedule in connection with the records of the monthly metered water use on the system for the past two years, it appears that it does not equitably and properly distribute the charges to the various consumers according to the character and the amount of their respective uses of water.

Heretofore the schedule of rates of this company has contained no provision for payment for the service rendered to the community for fire protection purposes. This service has been rendered free of all charges to the city. In order to provide for this class of service, it is apparent that the transmission and distribution system must be designed to carry a greater volume of water than generally required for normal domestic and industrial use. This additional investment in plant and equipment for fire service, together with the costs of maintenance thereof, in fairness should not be entirely assessed against the regular consumers but should more equitably be borne by the property owners in the territory served. The municipality will be reimbursed by revenue derived through general taxation. Accordingly a rate which we believe will be fair and reasonable under present conditions will be established in the following order providing for the payment by the City of South San Francisco for each public hydrant used for fire fighting purposes.

The rate schedule established in the following order has been designed to accomplish a more equitable distribution of the charges and has been computed to yield approximately a full return upon the investment, after due allowance has been made for the probable increase in the number of consumers and a consequent greater demand for water on the system in the near future.

#### O R D E R

South San Francisco Water Company, a corporation, having made application to this Commission for authority to increase the





MUNICIPAL USE

1. Water used for street sprinkling and sewer flushing, by computed or measured quantity, per 100 cubic feet. . . . . \$0.15
2. For each double fire hydrant, per month . . . . . 2.00  
For each single fire hydrant, per month . . . . . 1.50
3. All other municipal use of water, including public buildings, schools and irrigation of parks and grounds, to be charged for at the regular meter rates.

IT IS HEREBY FURTHER ORDERED that South San Francisco Water Company, a corporation, file with the Railroad Commission within thirty (30) days from the date of this order, revised rules and regulations governing service to its consumers, said rules and regulations to become effective upon their acceptance for filing by this Commission.

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

Dated at San Francisco, California, this 9th day of October, 1925.

W. H. R. Rindie  
C. S. Sauer  
T. J. S.  
Leon A. Whittell  
Commissioners.