

Decision No. 17338

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of

LOS ALTOS WATER COMPANY

for authority to increase its rates
for water.

Application No. 12393.

Robert M. Searles for applicant.
T. D. Landels for Los Altos Club.
L. P. Forestell in propria persona.
E. D. Landels for consumers.

BY THE COMMISSION:

O P I N I O N

Los Altos Water Company, a corporation, applicant in the above entitled proceeding, is engaged in the public utility business of supplying water for domestic and irrigation purposes in the unincorporated town of Los Altos and immediate vicinity, in Santa Clara County. The application alleges in effect that the present rates were established by the Railroad Commission in 1920 and that since that time a considerable sum of money has been expended in the improvement of the service and that the rates as established have not been sufficient to meet the operating expense, depreciation allowance, and a fair return on the investment. The Commission therefore is requested to authorize such increase in rates as will enable the company to realize a return of at least eight per cent. upon its investment, over and above the costs of operation and a reasonable allowance for depreciation.

A public hearing in this proceeding was held before Examiner Austin at Los Altos, after all interested parties had been duly notified and given an opportunity to appear and be heard.

The water supply of this system is obtained from wells, from which water is pumped by electrically driven deep well pumps into a 60,000 gallon steel tank, and then distributed by gravity through approximately 39,000 feet of distribution mains varying in size from two to eight inches in diameter. At present there are approximately 300 domestic consumers on the system. A small amount of water is furnished for irrigation purposes. All service is rendered upon a metered basis.

The present schedule of rates charged on this system was established by this Commission in its Decision No. 8854, dated April 14, 1921, and is as follows:

READINESS TO SERVE CHARGE FOR EACH METER IN USE

<u>Size Meter</u>	<u>Per month</u>
5/8 inch	\$0.50
3/4 "	1.00
1 "	1.50
1 1/4 "	2.50
2 "	4.50
3 "	8.00

FOR WATER DELIVERED

Between 0 and 400 cubic feet, at 25 cents per 100 cu.ft.
Between 400 and 10,000 cubic feet, at 20 cents per 100 cu.ft.
Over 10,000 cubic feet, at 16 cents per 100 cubic feet.

NOTE: The above quantity rates are in addition to the ready-to-serve charge.

R. E. Tremoureux, engineer for applicant, testified that the estimated original cost of the system as of December 31, 1925, amounted to \$69,841.37, exclusive of any allowance for intangibles or working capital, that the operating expense for the year 1925 as shown by the company's books amounted to \$7,793.41, and estimated the depreciation to be \$1,247, computed by the 5% sinking fund method.

A report was submitted by M. I. Reed, one of the Commission's hydraulic engineers, in which the original cost of the used and useful physical properties of the company was estimated to be \$70,491 as of December 31, 1925. This estimate was based upon the value of this company's properties of \$40,592 as of December 31, 1920, established by this Commission for rate fixing purposes in Decision No. 8854, to which were added the net betterments to capital installed subsequent to the end of the year 1925, amounting to \$29,899. The corresponding depreciation annuity was given as \$1,380.

The annual reports of this company as filed with the Railroad Commission set up the following figures for the operations during the years 1924 and 1925:

	<u>1924</u>	<u>1925</u>
Revenues.	\$11,087.45	\$10,858.16
Expenses (including Depreciation)	<u>11,404.03</u>	<u>9,917.24</u>
Net Revenues	\$316.58*	\$940.92

* Deficit.

In the report of the Commission's engineer an analysis was made of the operating expenses for the years 1924 and 1925, which resulted in certain revisions and reductions being made in the expenses as set out above, from the annual reports filed by the company. These reductions were made for costs incurred during the year previous to entry in the books, and to certain extraordinary expenses which should not reasonably recur annually. The revised operating expenses exclusive of depreciation for 1924 were found to be \$6,972, and \$7,848 for 1925. These amounts contemplated reductions in the charges heretofore made by the company for management and general supervision, which according to the testimony of the Commission's engineer, were considerably higher than warranted by the size of the plant and the number of consumers

served.

On behalf of the consumers evidence was presented showing that for the purpose of encouraging the formation of a local water district to acquire this water system the company recently had prepared and distributed to the public reports and data purporting to show that the proposed district could operate the properties at a profit and could possibly reduce the then existing rates in the near future. These claims made by the company were not supported by sufficient evidence for rate fixing purposes, and in addition contemplated the lower costs of operation possible by district or municipal ownership by reason of the elimination of taxes and other charges and assessments which a public utility must pay and cannot avoid.

It appears that the sum of \$70,500 is a reasonable value of the used and useful physical properties of this system for rate fixing purposes at this time, and that the corresponding annual depreciation fund should be \$1,300. We are convinced from the evidence that applicant has carried an excessive amount of overhead expense principally for general officers' salaries. It is unreasonable to expect the consumers of a utility supplying a small community to bear the burden of unnecessary official supervision. An allowance of \$6,800 will be ample to cover all reasonable costs of operation and plant maintenance, and will also provide for the necessary increased expense by reason of the normal expansion of business due to the growth of the community.

The revenues for 1924 were \$11,087, and \$10,858 for 1925. Based upon the figures as determined above, the operations in 1924 resulted in a return of about 4.2%, and in 1925 of approximately 3.9% upon a rate base of \$70,500.

The community served by this system includes many small tracts of land devoted mainly to fruit raising, as well as many fine homes with large lawns and gardens. The consumers therefore

in certain sections of the system are widely scattered, a condition requiring a more extensive installation of pipe lines and equipment than would be needed to supply a more completely developed area. In commenting upon this condition in the recent rate proceeding brought by this company, the Commission in its Decision No. 8854, dated April 14, 1921 (19 C.R.C., 695, 697, stated as follows:

"Attention is directed to the fact, however, that this system was constructed in connection with a land sales project, and the territory has not yet reached a development equal to that for which the system was designed. Under the circumstances it would be unfair to applicant's present consumers to require them to pay rates sufficient to yield interest upon the entire cost of the system."

Although this company is not at present connected with any land sales project but is an entirely independent company, having acquired all parts of the water system formerly owned by the land company, yet the evidence indicates that the growth since the above rate proceeding has not been sufficient to materially alter the above finding.

The tabulation of water consumption on this system shows that approximately 65% of the consumers use less than 1000 cubic feet per month, and that 77% do not use in excess of 1500 cubic feet per month. This shows that under the present type of service charge rate structure a large number of small consumers are receiving water service at less than the cost of production and distribution. This condition may be corrected either by material increase of the service charge or by modifying the present rate structure to the fixed monthly minimum standard. It is considered that the latter change is more advisable in this case.

The schedule of rates established in the following order is designed to produce revenue sufficient to meet maintenance and

operating expenses, depreciation annuity, and a reasonable return on the investment under the existing circumstances.

O R D E R

Los Altos Water Company, a corporation, having made application to the Railroad Commission as entitled above, a public hearing having been held thereon and the matter having been submitted,

It Is Hereby Found as a Fact that the rates now charged by the Los Altos Water Company, a corporation, for water supplied to its consumers in and in the vicinity of the unincorporated town of Los Altos, Santa Clara 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 on the foregoing findings of fact and on the further statements of fact contained in the preceding opinion,

IT IS HEREBY ORDERED that Los Altos Water Company, a corporation, be and it is hereby directed to file with this Commission within twenty (20) days from the date of this order the following schedule of rates for water delivered to consumers in and in the vicinity of Los Altos, Santa Clara County, subsequent to September 30, 1926.

MONTHLY MINIMUM

<u>Size Meter</u>	<u>Per Month</u>
5/8"	\$1.50
3/4"	2.00
1"	3.00
2"	4.00
3"	6.00
4"	10.00

The foregoing monthly minimum entitled the consumer to the amount of water which the monthly minimum purchases at the monthly metered rates set out as follows:

MONTHLY METER RATES

0 to 500 cubic feet, per 100 cu.ft.	\$.30
500 to 1500 " " " "	.25
1500 to 10000 " " " "	.20
Over 10000 " " " "	.16

IT IS HEREBY FURTHER ORDERED that Los Altos Water Company, a corporation, be and it is hereby directed to file with this Commission within thirty (30) days from the date of this order rules and regulations to govern its relations with consumers in and in the vicinity of Los Altos, Santa Clara County, such rules and regulations to become effective upon their acceptance by the 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 14th day ^{September} of ~~1925~~, 1926.

H. H. R. ...

Chase

Leon ...

Commissioners.