

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
PETALUMA POWER AND WATER COMPANY,  
a corporation, for an order of the  
Railroad Commission of the State of  
California, authorizing applicant  
to increase its rates and charges  
and to file and place in effect new  
schedules of rates and charges for  
water service furnished and supplied  
to its consumers in the City of Pet-  
aluma, Sonoma County, California, and  
in the territory adjacent to said  
City of Petaluma.

ORIGINAL

Application No. 11711.

Geary and Geary by W. F. Geary, for  
applicant.

F. S. Howell, City Attorney, for the  
City of Petaluma.

WHITSELL, Commissioner:

O P I N I O N

The Petaluma Power and Water Company, applicant herein, is an incorporated public utility engaged in the business of supplying water for domestic, industrial and municipal purposes in the City of Petaluma and adjacent territory, Sonoma County. In the application as filed in this proceeding, it is alleged in effect that the rates at present charged are non-compensatory and inadequate to yield sufficient revenue to meet the necessary and reasonable maintenance and operation expenses of the system, including a depreciation allowance and in addition provide for a just and compensatory interest return on the investment which applicant has made in rendering water service to its consumers.

Public hearings were held in this matter at Petaluma on January 8th and August 18th, 1926, 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 Petaluma Water Company, which obtained a franchise to lay water mains in the streets from the City of Petaluma through an ordinance adopted April 8, 1872. About 1882 the then existing plant was purchased by the Sonoma County Water Company, a corporation, which extended and enlarged the system progressively to meet the growing needs of the community. The Petaluma Power and Water Company, applicant herein, was incorporated January 12, 1900, and acquired all the properties of said Sonoma County Water Company by deed recorded May 1, 1900. The growth in consumption of water during the succeeding years has necessitated at intervals extensive enlargements and improvements of the system including the development of additional sources of supply. The system as at present installed consists of a gravity supply diverted directly from several small streams located in the Sonoma hills twelve miles northeasterly from Petaluma, the summer flow of these streams being supplemented by storage of run-off waters in Lawler Reservoir at elevation 1,030 feet with a capacity of 87½ million gallons. In addition to the stream flow, a supply is obtained by pumping from 11 drilled wells and then boosted into the transmission mains, which deliver from the creek sources into the distribution system and to the Oak Hill distributing and regulating reservoir with a capacity of 3 million gallons.

The distribution mains in the business and industrial area are largely cast iron pipe, 6 to 10 inches in diameter, and apparently provide adequate service and pressures with the present demands on the system.

Detailed appraisals of the value of the properties of this utility were submitted at the hearing by G. S. Strout, engineer for the company, and by E. A. Noble, one of the hydraulic engineers of the Commission. The results of these appraisals are set out below:

BY GALE S. STROUT:

Total value of the operative physical properties of the system, computed on basis of original cost, as of December 31, 1924. . . . . \$431,321.00

Water Rights and Rights of Way

Various payments in cash, plus 15% overhead . . . . . \$30,225  
Various payments in stock at \$100 par, plus 15% overhead . . . . . 9,430  
Lafferty Ranch (269.75 acres) purchased to control water shed and water rights at head waters Adobe Creek. . . . . 13,487  
Total Value of Water Rights & Rights of Way. . 53,142.00

Total estimated cost of service pipes installed and maintained by the company for delivery of free water as consideration for rights of way acquired, plus 15% overhead. . . . . 2,029.00  
\$486,492.00

Non-Operative Property

Cavanaugh Springs - located in City limits (abandoned) . . . . . \$100  
Hillside Reservoir site - 1907 construction work abandoned . . . . . 5,440  
Wet Wash Laundry well, McNear well and Cavanaugh Spring well, drilled in 1920 in the emergency of the water shortage of that year and abandoned - total cost plus 17% overhead . . . . 6,474  
Well #11 on Kresky Tract - drilled in 1922, a dry well and abandoned - cost plus 17% overhead . . . . . 1,004  
Total Non-Operative Property . . . . . 13,018.00

GRAND TOTAL OF APPRAISAL . . . . . \$499,510.00

Depreciation Annuity, computed on 4% Sinking Fund Basis . . . . . 5,739.41

BY E. A. NOBLE:

Total Estimated Historical Cost of the physical properties at present used and useful, exclusive of water rights and rights of way and certain non-operative and abandoned properties for which Mr. Strout, in his appraisal, gives a total value of \$68,189.00, as indicated above. . . . . \$411,891.00

6% Sinking Fund Depreciation Annuity . . . . . 3,455.72

Excluding the items for water rights, rights of way and non-operative property, the totals of the two appraisals submitted are not far apart, yet a comparative analysis made of the details of these appraisals shows a considerable variation in the respective

costs as affixed for certain items and groups of items. The principal difference may be attributed to the allowances for overhead expenses. It appears that the appraisal of the Commission's engineer includes a liberal allowance for such overhead expenses as were reasonably necessary and actually incurred in the construction of this system.

The evidence indicates that cash payments to the extent of \$26,282 were made to various individuals in exchange for water rights and rights of way. In addition thereto, about 1907 the company issued to five individuals a total of 82 shares of its common stock having a par value of \$100 per share, in consideration for certain water rights and rights of way on Copeland Creek. It is apparent, after considering the history of the installation of this system, that the worth of this common stock in 1907 was considerably less than \$100 per share, and accordingly the amount included for this item in Strout's appraisal is in excess of the actual cost of such rights to the company. In the absence of more definite information, we will allow for this item \$60 per share or a total of \$4,920 as representing the cost. Applicant stated that about \$2,000 of the purchase price of \$13,487 for the Lafferty Ranch, containing 269 acres, would cover the cost of the water rights and rights of way acquired in connection therewith, but that the land itself is non-operative and not now needed for the protection of the Adobe Creek watershed against pollution because the water is now all chlorinated before delivery into the transmission mains.

The total actual cost of acquisition of the rights of way and water rights from the figures given above amounts to \$35,231, which for the purpose of this proceeding appears to be a reasonable allowance for these items. This sum includes \$2,029 representing the cost of installing certain pipe lines for the delivery of free water in consideration of the transfer of certain of the above rights.

Three of the wells listed above as non-operative property

were drilled in 1920 to provide additional water during the emergency caused by the acute water shortage which occurred that year. These wells have since been abandoned and following an investigation of available underground sources of supply the present 40-acre Kresky tract of water-bearing land was purchased in 1921, upon which the existing wells and pumping plants were installed. The evidence indicates a certain degree of negligence on the part of applicant as to its obligations to the public in not having had prepared definite plans prior to the 1920 water shortage for increasing its available water supply to meet the rapid growth in the consumption and demand for water existing in the community at that time. The records of operations for the years subsequent to 1920 show that even during the years of normal rainfall the gravity supply from the stream sources as developed has been inadequate to meet properly the demands during the summer months. Under these circumstances it appears that the cost of said <sup>abandoned</sup> wells should be charged with the 1920 emergency water shortage expenses and not as a capital charge to be included in the rate base upon which interest will be returned from rates to be paid by present and future consumers. The item of \$1,004 as the cost of Kresky Well No. 11, drilled in 1922 and abandoned when it proved to be dry, may reasonably be allowed as a cost of developing the well sources of this supply.

After further consideration and analysis of the evidence regarding the value of the physical properties of this plant and making allowance for the amounts of the other items of value discussed above, it appears that the sum of \$448,126 is a reasonable rate base to be allowed for the purpose of this proceeding, and that the corresponding depreciation annuity of \$3,500, computed by the sinking fund method, will reasonably provide for the renewal of the various portions of the plant as they may become worn out through use or discarded by reason of inadequacy or otherwise.

The following tabulation, compiled from its annual reports

filed with the Commission, gives a comparison of the maintenance and operation expenses of this utility for the past five years, exclusive of depreciation:

SUMMARY OF MAINTENANCE AND OPERATION EXPENSES

Items	1921	1922	1923	1924	1925
<u>Sources of Water Supply:</u>					
Repairs - Labor & Materials	\$3,321.79	\$1,450.61	\$1,603.40	\$2,744.47	\$1,004.46
<u>Pumping Expenses:</u>					
Pumping Labor	-	\$311.10	-	\$1,938.90	\$2,631.59
Electric Power Purchased	\$28.25	217.62	\$1,434.50	3,958.29	2,880.75
Repairs to Equip. & Supplies	-	220.37	2,423.57	1,637.47	477.07
Total Pumping Expenses	\$28.25	\$749.09	\$3,858.07	\$7,535.56	\$5,989.41
<u>Purification Expenses:</u>					
Supplies & Repairs to Equip.	\$246.85	\$275.93	\$785.45	\$41.90	\$315.61
<u>Transmission &amp; Distribution Expenses:</u>					
Operating Labor & Expenses	\$1,178.74	\$814.04	\$613.53	\$2,418.19	\$2,650.47
Repairs to Pipe Mains and Services	1,579.25	1,668.35	3,194.81	3,269.86	2,436.23
Total Trans. & Distr. Exp.	\$2,757.99	\$2,482.39	\$3,808.34	\$5,688.05	\$5,086.70
<u>Commercial Expenses:</u>					
Collections, etc.	\$344.98	\$415.67	\$517.93	\$700.17	\$609.20
<u>General &amp; Misc. Expenses:</u>					
Gen. Officers & Clerks					
Salaries and Expenses	\$4,080.00	\$4,433.17	\$5,187.67	\$5,611.90	\$6,545.79
Law Expenses - General	-	26.86	127.50	-	90.00
Railroad Commission Exp.	-	-	-	-	462.50
Misc. General Expenses	1,040.88	1,325.75	1,325.26	2,366.26	2,761.99
Insurance	175.86	282.24	302.83	565.85	566.16
Extraordinary Repairs	242.25	229.50	267.75	250.75	597.16
Total Gen. & Misc. Exp.	\$5,538.99	\$6,297.52	\$7,211.01	\$8,794.76	\$11,023.60
<u>Taxes:</u>	\$3,293.39	\$4,323.62	\$6,194.08	\$5,248.08	\$6,265.15
<b>GRAND TOTALS</b>	<b>\$15,532.24</b>	<b>\$15,994.13</b>	<b>\$23,978.28</b>	<b>\$30,752.99</b>	<b>\$30,294.13</b>

The large increase in the total operating expenses for 1924 and 1925 over the totals shown for the previous years is largely accounted for by the pumping expenses incurred incident to the permanent well supply recently installed, by the large increase in the expenditures for repairs to the distribution system and by certain extraordinary general expenses which do not recur annually.

Analysis of the evidence submitted concerning the methods and costs of operating for the years 1924 and 1925 indicates that in 1925 an item amounting to \$1,186.76 had through inadvertence been entered twice, also that certain changes in the distribution system have been improperly charged to maintenance and operating expenses instead of to the fixed capital accounts. The items thus charged in 1925 amounted to over \$700. A further deduction of approximately \$142 should be made in 1925 for taxes paid on non-operative property. Extraordinary engineering and legal expenses, incurred in 1925 in connection with the preparation of evidence for the present proceeding, amounted to \$2,205. Past experience of this utility shows that such expenditures do not recur annually in like amounts. A careful analysis of all the evidence relating to operating expenses heretofore incurred, after taking into consideration the above corrections for 1925 and allowing for normal expenses for repairs to the distribution system and for pumping, and also a sum for above extraordinary expenses to cover their probable recurrence in the future, indicates that under present operating conditions the sum of \$28,500 is a reasonable allowance for maintenance and operation expenses for the immediate future.

Taking into consideration the facts set out herein together with all evidence submitted in regard to the value of the plant, the operating conditions obtaining and the present character and adequacy of the service rendered, it appears that the following annual charges are fair and reasonable amounts to be produced from the rates charged consumers.

Maintenance and Operation Expenses	\$28,500
6% Sinking Fund Depreciation Annuity	\$3,500
Interest Return on a Rate Base of	\$448,126

The rates at present in effect were established by an ordinance of the Board of Trustees of the City of Petaluma enacted June 11, 1913. Substantially the same rate schedule had been in effect and charged since 1902. These present rates for measured service are in part as follows:

For water where the amount used is to be determined by meter, the price per one thousand gallons per month shall be as follows:

For 5000 and less . . . . .	\$-.40
For more than 5,000 gallons and less than 15,000 gallons. . . . .	.30
For more than 15,000 gallons and less than 30,000 gallons. . . . .	.25
For more than 30,000 gallons. . . . .	.20
Minimum charge. . . . .	1.00

The present rate schedule produced for the year 1925 a total gross revenue of \$58,095.30 and in addition non-operating revenues during this year amounted to \$1,223.11.

Assuming that for the 1925 operation of this system the above allowance for operation expenses and depreciation of \$32,000 is applied, the resulting net revenue for this year available for interest return would have amounted to about 5.8 per cent. on the rate base of \$448,124. It is therefore apparent that applicant is entitled to a slight adjustment in its present schedule of rates.

The evidence submitted regarding water use on the system shows that there has been a considerable growth in the number of consumers and also in the consumption of water during the past five years. In 1925 the active consumers totalled 2,434 of which 2,248 were served on a metered basis. As indicating the character of the 1925 water use on this system, an average of 1,198 consumers or 57 per cent. of the total number used 400 cubic feet of water or less per month, and the use of the 17 industries served ranged from 10,000 to 70,000 cubic feet per month.

A study of the rate schedule at present in effect in connection with the tabulated record of the monthly metered water



use, shows that the present form of rate schedule does not effect an equitable distribution of the charges to the various consumers according to the character of their respective uses of water. It appears that the necessary increase in revenue may be largely realized by an adjustment of the form and spread of the present rate schedule rather than by a uniform increase for all consumers. Accordingly, after taking into consideration the probable growth in the number of consumers and consumption of water, the rate schedule set out in the following order has been designed to accomplish a more equitable distribution of the charges and should yield a fair return upon the rate base herein established, upon the findings set out above.

The following form of order is submitted:

O R D E R

Petaluma Power and Water Company, a corporation, having made application to this Commission for authority to increase the rates charged for water delivered to its consumers in the City of Petaluma and adjoining territory in Sonoma County, a public hearing having been held thereon, the matter having been submitted with the filing of briefs and the Commission being now fully informed thereon,

It Is Hereby Found as a Fact that the rates now being charged by the Petaluma Power and Water Company for water supplied its consumers are unjust and unreasonable in so far as they differ from the rates established herein, and that the rates herein established are just and reasonable rates to be charged for such service. And basing its order upon the foregoing findings of fact and on the statements of fact contained in the preceding opinion,

IT IS HEREBY ORDERED that Petaluma Power and Water Company be and it 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 for water delivered to its consumers, said rates to be charged for all service rendered subsequent to January 1st, 1927:

METER RATES

Minimum Monthly Charges:

For 5/8 inch meter . . . . .	\$1.25
For 3/4 inch meter . . . . .	1.75
For 1 inch meter . . . . .	2.50
For 1 1/2 inch meter . . . . .	4.50
For 2 inch meter . . . . .	6.00
For 3 inch meter . . . . .	10.00
For 4 inch meter . . . . .	16.00

Each of the foregoing "minimum monthly charges" will entitle the consumer to the quantity of water which that minimum monthly charge will purchase at the following "monthly quantity rates".

Monthly Quantity Rates:

From 0 to 800 cubic feet, per 100 cu.ft.	\$.35
From 800 to 3000 " " " " "	0.24
From 3000 to 15000 " " " " "	0.18
All over 15000 " " " " "	0.12

MUNICIPAL AND COUNTY USE

1. Water used for street sprinkling and sewer flushing, by computed or measured quantity, per 100 cubic feet . . . . . \$0.18
2. For each fire hydrant installed by the City . . . . . 2.50
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 or flat rates.

FLAT RATES

Where service connections are installed solely for use of automatic fire sprinkler systems or for private fire protection purposes:

For 6" service connection, per month. . . . .	\$9.00
For 4" service connection, per month. . . . .	5.00
For 2" service connection, per month. . . . .	2.50

Except as above modified the schedule of flat rates now charged shall be continued in effect.

For all other purposes the effective date of this order

shall be twenty (20) days from and after the date hereof.

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 23<sup>d</sup> day of December, 1926.

H. H. Bondage

O. Seavey

E. W. Roberts

Leon W. White

John S. Patten

Commissioners.