

ORIGINAL

Decision No. 18660

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Investigation on the Commission's own motion of the reasonableness of the rates, charges, practices, contracts, rules, regulations, schedules and conditions of service, or any of them, of the WESTERN WATER COMPANY, a corporation, operating a water system in the vicinity of Taft, Kern County, California.

Case No. 2256.

Chickering and Gregory,
by Allen E. Chickering and
Walter C. Fox, for Western Water Company.

Coker F. Rathbone, City Attorney,
for the City of Taft.

WHITSBELL, COMMISSIONER:

O P I N I O N

In this proceeding, the Commission has instituted on its own motion an investigation of the reasonableness of the rates, charges, practices, contracts rules, regulations and conditions of service of the Western Water Company, a corporation, which operates a public utility water system in and in the vicinity of Taft, Kern County, California.

Public hearings in this matter were held at Taft, after all interested parties had been notified and given an opportunity to appear and be heard.

The Western Water Company serves an area which includes Elk Hills, Buena Vista, Maricopa Flat, Midway and Sunset oil fields, and also includes the towns of Taft and Ford City. This company has installed facilities that practically cover the

entire oil field, although there are a few small public utilities and certain of the larger oil companies operating water systems in various sections of the oil field.

The rates now in effect were established by this Commission in its Decision No. 12004, dated May 2, 1923 (23 CRC 389) and are as follows:

MONTHLY MINIMUM CHARGES

Domestic Consumers in Taft and South Taft (retail lines)---	\$ 1.50
Domestic Consumers on wholesale lines-----	2.50
Industrial Consumers on wholesale lines-----	10.00

MONTHLY METER RATES - DOMESTIC SERVICE

First 500 cubic feet, per 100 cubic feet-----	\$.60
Over 500 cubic feet, per 100 cubic feet-----	.50

MONTHLY METER RATES - INDUSTRIAL SERVICE

First 30,000 barrels, per barrel-----	\$ 0.0275
Next 70,000 barrels, per barrel-----	.020
Over 100,000 barrels, per barrel-----	.015

RATES FOR FIRE SERVICE IN THE CITY OF TAFT

For all water supplied for fire purposes:	
Per barrel-----	\$ 0.0275
Per 100 cubic feet-----	.49
Minimum monthly charge for fire purposes for each hydrant or connection-----	\$ 1.00

Water is obtained from wells located on the Kern River bottom east of Elk Hills and conveyed through about 18,000 lineal feet of 30-inch riveted steel pipe to the first booster plant. This plant lifts the water through about twelve and one-half miles of 12 and 16-inch transmission mains at a working pressure of about 450 pounds per square inch to the Taft pumping plant, and also delivers water to the Elk Hills area at a pumping pressure of 530 pounds per square inch. Water for use in Taft and areas above the elevation of the city is again lifted to two 55,000-barrel

steel tanks at a working pressure of about 400 pounds per square inch. There are three other pump stations on the system which are operated during periods of heavy draft, two of which boost water from the main transmission line to the oil fields south of Taft, and one plant supplies a small area at the north end of the Midway oil field.

The distribution and transmission system consists of about 533,000 lineal feet of pipe varying from two to thirty inches in diameter. There are about 3,900 service connections and all of the water sold is measured. During 1925, about 91% of the water sold was for industrial use in the oil fields and the remaining 9% was sold for domestic use in the towns of Taft and Ford City. Water is also sold in wholesale quantities for redistribution in Fellows and other small communities located on the transmission lines.

At the hearings, William Stava, one of the Commission's hydraulic engineers, presented reports based on a thorough field and office investigation of the company's water system and operations. These reports showed an analysis of the company's operating accounts for the years 1923, 1924, 1925 and 1926, and also set out the fixed capital installed for each year as shown by the company's books, as well as the fixed capital installed, based on the findings of the Commission in its Decision No. 12004, dated May 2, 1923, brought up to date by net additions and betterments. The analysis of the operating expenses showed that the company had included therein many items that more properly should have been charged to capital accounts. These items were deducted and added to the fixed capital.

The results of operation for the four years, based upon the average capital installed and using the revised operating and

maintenance figures referred to above, together with the depreciation allowance as carried on the company's records, were as follows:

	<u>1923</u>	<u>1924</u>	<u>1925</u>	<u>1926</u>
Revenues	\$ 508,362	\$ 634,342	\$ 743,960	\$ 702,211
Corrected M & O Expense	277,178	297,999	342,551	350,453
Depreciation	66,510	74,594	82,212	89,418
Total Expense	343,688	372,593	424,763	439,871
Net Revenue	164,674	261,749	319,197	262,340
Average Capital Installed	1,308,300	1,441,947	1,608,959	1,940,953
Net Return	12.6%	18.1%	19.9%	13.5%

The above capital installed does not include material and supplies or any allowance for working capital or going concern. Allowing the sum of \$100,000. to cover materials and supplies and working capital would reduce the above return to the following:

<u>1923</u>	<u>1924</u>	<u>1925</u>	<u>1926</u>
11.7%	16.9%	18.7%	12.9%

The evidence shows that the allowance for depreciation of the physical property has been computed at rates varying from 10% to 5% per annum, which is equivalent to a life of from 8½ to 14 years, if the depreciation annuity is computed on a 5% sinking fund basis. According to the testimony, the average life of the various facilities of a water system operating under normal conditions is approximately 25 years. The high rate of depreciation has been maintained by this utility to cover the somewhat severe soil conditions obtaining in many parts of the area served and also, to a considerable extent, to cover what it claims to be the uncertainty of the continued demand for water in the oil fields. The depreciation reserve from the company's records, as of December, 1926, shows a total of \$713,684.33, as compared to the average capital installed for 1926 of \$1,940,953.

Mr. C.I. Rhodes presented a report for the company giv-

ing the fixed capital installed, as of December 31, 1926, as \$1,933,794.96., to which was added capital adjustments from operating expenses, an additional allowance for organization expenses, working capital interest during construction, and cost of developing the source of water supply, making a total rate base of \$2,152,619.41. The depreciation annuity set up by the company for the year 1926 was given as \$89,418.36, and an annuity was also estimated on a 5% sinking fund basis for the same property, amounting to \$90,947.83. The replacement annuity to cover the adjusted rate base amounted to \$98,170.

The operating expenses for 1926 were estimated by Rhodes to be \$357,855., resulting in the operations for 1926 producing a net return of 11.4% on the estimated rate base of \$2,152,619.41. The company's engineer estimated that the necessary additions and betterments to capital for 1927 would result in increasing the above rate base to \$2,220,826., upon which he further estimated that a net return of 8.3% should be realized for 1927, giving due consideration to his estimated probable loss of business for the remaining part of the year.

Considerable testimony was offered by the engineers for the company and the Commission relative to the probable loss of future revenues which will occur because some of the oil companies, large users of water, have installed their own facilities to supply water to their properties. The utility contends that its future earning power is seriously affected by the curtailed use of water by the Pan American Petroleum Company in the Elk Hills area through the recent action of the Federal Government in cancelling the lease of the properties, and also claims that a

possible further reduction in oil field operations is in immediate prospect generally throughout the field because of a present alleged over-production of oil, with a consequent reduction in demands for water.

The evidence shows that the Standard Oil Company maintains and operates a complete water system to supply its properties and plants in the oil fields and only buys water from the Western Water Company at a few isolated points not reached by its own system. Recently the Standard Oil Company acquired the entire holdings of the Pacific Oil Company, which was one of the largest consumers of the Western Water Company, and is now extending its own water system to supply the properties of this consumer, resulting in a very material reduction in revenues to the utility.

The Honolulu Oil Company, in connection with the Pacific Gasoline Company, has incorporated the Honolulu Pacific Company which has installed an independent and private water system to serve both properties. These two companies are, at present, users of large quantities of water from the Western Water Company.

The Standard Oil Company has also acquired the Pacific Gasoline Company, together with the latter's holdings in the Honolulu Pacific Company's water system.

A comparison of the gross revenues for the years of 1925 and 1926 shows a decrease in revenues of \$50,744., which was largely due to the restricted use of water by the Honolulu Oil Company and the Pacific Gasoline Company. In the first three months of 1927, the utility received a gross revenue of \$129,857.98, which is a decrease of \$32,672.45 over the first three months of 1926. While the testimony and figures showing the actual and probable loss of business for 1926 and 1927 indicate that the Western Water Company will not realize the revenues for the year 1927 that it has in each

of the last three or four years, yet it is extremely improbable that the revenues will decline to such an extent that they will fail to produce a reasonable return on the investment.

Unquestionably this utility has in the past received in excess of a fair rate of return upon its investment when measured by any reasonable standard of depreciation. However, the evidence clearly shows that the revenues formerly received from industrial service have very seriously declined during the latter part of 1926 and the first part of 1927 and, by reason of the present unsettled conditions in the oil fields, a reduction in the rates for industrial service is not warranted at this time.

A number of consumers appeared at the hearing and requested the Commission to adjust the rates for the sales of domestic water in the Taft and Ford City areas to provide the consumers with more water at a price that will allow the planting of lawns, flowers and gardens about their homes, which now is not possible under the existing rates for such service. The charges for water in Taft and Ford City are not upon the same basis, although the cities are now adjoining, and it is requested that these rates be equalized.

The testimony shows that Ford City is immediately adjacent to the City of Taft and, as a matter of fact, the two cities may be considered as one community. When the rates now in effect were established, Ford City was more or less of a tent colony with no certainty as to future permanency and the rates applied were those charged in undeveloped domestic territory. Ford City is now a well-settled and permanent community and there no longer exists any necessity for a rate different from that charged to the consumers residing in Taft.

The area which this utility serves with water is some-

what arid and there is no adequate local supply that will produce a potable water. These conditions have made it necessary to bring in water from a considerable distance through long transmission mains and, because of the rolling nature of the country, it is also necessary to lift the water at least twice by high duty pumps after bringing the water to the surface at the wells. The magnitude of this water system has been determined primarily by the demands for large quantities of water for oil operations throughout the area served, as is indicated by the fact that approximately 91% of the revenues is derived from this class of wholesale use. Although it is equally true that the domestic service now rendered could not be maintained at its present cost and standard except for the large deliveries for industrial purposes, it is apparent from the evidence that the domestic rates do not provide sufficient water for the price paid and that there should be an adjustment made therein to eliminate this inequality and to remove certain discrimination now existing in the application of the charges for domestic use.

The following form of order is recommended:

O R D E R

The Railroad Commission having instituted an investigation on its own motion into the reasonableness of the rates, practices, contracts, rules and regulations, and conditions of the service of the Western Water Company, a corporation, public hearings having been held thereon and the Commission being fully informed in the matter,

IT IS HEREBY FOUND AS A FACT that the rates charged by the Western Water Company, a corporation, for water delivered to its consumers in Kern County, in so far as they differ from the rates herein established, are unjust and unreasonable and that

the rates herein established are just and reasonable rates for such service.

And basing the order upon the foregoing findings of fact and upon the statements of fact contained in the preceding opinion,

IT IS HEREBY ORDERED that the Western Water Company, a corporation, be and the same is hereby authorized and directed to file with this Commission, within thirty (30) days from the date of this order, the following schedule of rates to be charged for water delivered to its consumers on and after the first day of August, 1927.

MONTHLY MINIMUM CHARGES

Domestic Consumers in Taft, South Taft and Ford City (retail lines)-----	\$ 1.50
Domestic Consumers on wholesale lines-----	2.50
Industrial Consumers on wholesale lines-----	10.00

MONTHLY METER RATES - DOMESTIC SERVICE

First 400 cubic feet-----	\$ 1.50
Over 400 cubic feet, per 100 cubic feet-----	.35

MONTHLY METER RATES - INDUSTRIAL SERVICE

First 30,000 barrels, per barrel-----	\$ 0.0275
Next 70,000 barrels, per barrel-----	.02
Over 100,000 barrels, per barrel-----	.015

RATES FOR FIRE SERVICE
IN THE CITY OF TAFT
and
FORD CITY

For all water supplied for fire purposes:	
Per barrel-----	\$ 0.0275
Per 100 cubic feet-----	.49

Minimum monthly charge for fire purposes for each hydrant or connection-----	\$ 1.00
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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 21st day of July, 1927.

Ernest J. Codd

W. S. Seavey

Leon Whitell

Thos. S. Kautz

Commissioners.