

Decision No. 19888

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of  
The Monterey County Water Works for  
an increase in rates.

ORIGINAL

Application No. 13212.

Orrick, Palmer & Dahlquist, by T.W. Dahlquist,  
for Applicant.

Argyll Campbell, City Attorney, and W.G. Hudson, Mayor,  
of the City of Monterey, for the City of Monterey,  
and Argyll Campbell, for the City of Carmel,  
Protestants.

H.G. Jorgensen, City Attorney, for the City of Pacific  
Grove, Protestant.

C.M. Brown, for the Monterey Sardine Canaries Associa-  
tion, Protestant.

Perry Newberry, in propria persona, Protestant.

A.G. Metz, in propria persona, Protestant.

Edward Robling, in propria persona, Protestant.

LOUTTIT, COMMISSIONER:

O P I N I O N

In this proceeding, The Monterey County Water Works, a corporation, engaged in the business of storing and distributing water to the inhabitants of the cities of Monterey, Pacific Grove and Carmel and to the unincorporatory territory in the vicinity, in Monterey County, asks the Railroad Commission for authority to increase its rates.

The application alleges in effect that the company has recently acquired, at a cost of \$328,043., a sixty-five per cent

interest in certain water-producing and transmission properties heretofore owned by Del Monte Properties Company, a corporation; that the fair value of all its property devoted to public use as of May 31, 1926, was at least \$1,500,000.; that the revenues received during the twelve-months' period ending May 31, 1926, resulted in a net return of 4.76% upon the said sum of \$1,500,000., which return is alleged to be inadequate and less than the amount applicant is entitled to receive. It is further alleged that applicant will be required to install additional facilities in order that adequate service may be rendered to its consumers and this expenditure will increase the investment in physical property. The Commission therefore is requested to authorize an increased schedule of rates.

Public hearings in this proceeding were held at Monterey.

The rates at present in effect were established by this Commission in its Decision No. 5997, dated December 21, 1918, (16 C.R.C. 293), and are as follows:

MONTHLY MINIMUM PAYMENTS

1/2-inch and 3/4-inch services-----	\$1.10
1-inch services-----	1.50
1 1/2-inch services-----	2.25
2-inch services-----	3.00
3-inch services-----	4.00

MONTHLY METER RATES

First 300 cubic feet, or less-----	\$1.10
Next 700 cubic feet, per 100 cubic feet-----	.30
Over 1,000 cubic feet, per 100 cubic feet-----	.25

PUBLIC USE

Fire service, per month per hydrant-----	\$3.00
For sprinkling streets and roads, per 100 cubic feet-----	.25
Other use at meter rates.	

*CORRECTION*

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THIS DOCUMENT  
HAS BEEN REPHOTOGRAPHED  
TO ASSURE LEGIBILITY

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PRESIDIO AT MONTEREY

(Rates as per contract with United States Government)

For water delivered by gravity-----\$0.17 per 1000 gallons  
 For water delivered into reservoir----- .27½ per 1000 gallons

This company has appeared before this Commission in other proceedings and reference is made to the following decisions for a more detailed description of the system, its history and method of operation:

: Decision:	:	:	:	:	:	: Nature :
: No. :	:	Date	:	Citation	:	: of Proceeding:
1855	:	October 8, 1914	:	5 C.R.C. 530	:	Rates
3059	:	January 25, 1916	:	9 C.R.C. 91	:	Transfer
5997	:	December 21, 1918	:	16 C.R.C. 293	:	Rates
14193	:	October 23, 1924	:	25 C.R.C. 942	:	Stocks
18450	:	April 9, 1926	:	28 C.R.C. 11	:	Bonds

Water is obtained from the Carmel River by diversion at San Clemente Dam, which also provides for storage of approximately 2,000 acre feet of water. Transmission mains, varying from thirty to twelve inches in diameter, convey the water from the diversion point to Forest Lake Reservoir, located on the highland near Pacific Grove. The distribution system consists of 603,114 lineal feet of mains, ranging from sixteen to one inch in diameter. There are about 6,067 services, practically all of which are metered.

The water company owns a 65/100 interest in the water rights on the Carmel River, San Clemente Dam and the thirty and eighteen-inch portions of the transmission main, the remainder of these properties being owned by the Del Monte Properties Company, which owns all of the stock of the water company and also owns and operates an independent transmission and distribution system serving certain of its own properties, including the Del Monte Hotel.

Estimates of the historical cost of applicant's prop-

erties and also the cost of reproduction new less accrued depreciation were submitted by engineers for the applicant and the Commission. In the estimates based upon historical cost, the lands were appraised at the present fair market value. A summary of this evidence is set out in the following table:

	: Organization :	: Water Rights :	: Land :	: Physical Property :	: Total :
<u>Original Cost:</u>					
Co.'s Engrs.	\$8,000	\$92,500	\$111,843	\$1,511,469	\$1,723,812
Comm.'s Engrs.	5,000	34,580	96,762*	1,431,342	1,567,684
<u>Reproduction Cost:</u>					
Co.'s Engrs.	8,000	92,500	172,309	2,084,121	2,356,930
Comm.'s Engrs.	8,000	34,580	91,061	1,893,007	2,026,648
<u>Reproduction Cost less Depreciation:</u>					
Co.'s Engrs.	8,000	92,500	172,309	1,749,304	2,022,113
Comm.'s Engrs.					
Inspection	8,000	34,580	91,061	1,394,586	1,528,227
5% Sinking Fund	8,000	34,580	91,061	1,583,681	1,717,322

\*Includes \$5,701. as portion of \$61,458. interest and maintenance charge allocated to lands.

The evidence also shows that the following items should be deducted from the above estimates of historical cost and reproduction cost for the purpose of arriving at a reasonable rate base for the purpose of this proceeding:

	: Original Cost :	: Reproduction Cost :
Overbuilt Facilities	\$ 88,600.	\$ 88,600.
Carmel Dam	13,325.	25,739.
San Clemente Dam Charges for 4.2 years	61,458.	-
Miscellaneous pumping equipment	1,329.	-
<b>Total Deductions</b>	<b>\$164,712.</b>	<b>\$114,339.</b>

The overbuilt facilities include a complete distribution system installed to serve the Peninsula Country Club property. This distribution system was given outright to the company but practically the only service performed by it at present is the supplying of a golf and country club project and an adjoining subdivided area owned and now being developed by the Del Monte Properties Company. There is also included under this item certain consumers' advances covering extensions to serve tracts and projects only recently subdivided and very sparsely inhabited or built-up. These overbuilt facilities do not represent any present actual cost to the company. It would be unfair to require the remaining consumers on the system to pay a return upon these overbuilt facilities installed in territory as yet practically undeveloped and from which negligibly small revenues are being received.

The Carmel Diversion Dam was rendered non-operative through the installation of San Clemente Dam and the installation of a pipe line connecting the dam with the transmission main at Carmel Dam. In view of the fact that the existence of this structure under present operating conditions adds nothing to the value of the system and is no longer necessary in the rendition of public utility service, the cost thereof should be excluded from operative capital.

In connection with the San Clemente Dam and Reservoir, the company claims, in addition to the actual cost of its present interest therein, the sum of \$61,458., which it alleges to be the reasonable value of the use of said dam and storage facilities, together with the operating costs therewith for a period of 4.2 years in the past, prior to acquisition of an actual interest in



said properties. However, such a charge does not represent any value in existing fixed capital property and cannot be properly included in the rate base. Considering the reservoir lands at present market value, the sum of \$204,602. is hereby found to be the fair value of the company's interest in said dam and reservoir lands for the purposes of this proceeding and is included in the rate base hereinafter determined.

The miscellaneous pumping equipment was shown to be non-operative and therefore will be excluded from operative property.

The company makes a claim for \$100,000. for going value. This amount has not been included in the rate base herein. The only evidence introduced by applicant in this regard showed merely an arbitrary and unsupported assumption that the utility's water rights and going value together were equivalent to ten per cent of the value of the physical properties, resulting in \$100,000. being allocated to going value. This is unquestionably insufficient evidence to permit with any reasonable degree of certainty the establishment of any amount for this intangible element.

The figures above stated do not include any allowance for material and supplies or for working capital, and the evidence justified the conclusion that there should be properly included the sums of \$26,909. and \$12,000. for these items, respectively.

Consideration of the evidence, both oral and documentary, presented in this proceeding and due weight being given to all of the various appraisements of physical and intangible elements of property value submitted herein, together with a study of the many local circumstances and conditions affecting said values, leads to the conclusion that the sum of \$1,442,000. is a fair and reasonable rate base chargeable against the present consumers of this

water system.

Somewhat conflicting figures of revenues and expenses were presented, a study of which indicates that the financial results of operation for the year 1926 may be fairly stated as follows:

Operating Revenue-----	\$177,830.
Operating Expense-----	82,881.
(Including \$13,881. for depreciation computed on 5% sinking fund basis.)	
Net Income-----	\$ 94,949.
Return on rate base of \$1,442,000.---	6.58%

The evidence clearly shows that the cities and communities served are all in a prosperous and flourishing condition and all indications point to a continuation of the past residential and industrial growth and progress.

That applicant is sharing in the prosperity of this community it serves is shown by the following tabulation of growth in business for the past ten years:

: Year :	Number of Consumers	: Operating Revenues :
1916	3,722	\$ 76,069
1917	3,846	77,323
1918	3,926	79,751
1919	4,064	99,423
1920	4,218	113,635*
1921	4,435	109,753
1922	4,658	114,133
1923	4,881	130,404
1924	5,165	147,229
1925	5,529	155,864
1926	6,067	177,830

\*Rates increased--Decision No. 5997, dated December 21, 1918.

After full consideration of all the evidence submitted in this matter relating to value, operating methods and requirements, the area supplied and the various types of service provided and the many other elements involved in this proceeding, I am of the opinion that applicant is now enjoying, under its ex-

isting schedule of rates, a fair and reasonable return upon the fair value of its property, reasonably necessary and useful in fulfilling its public utility duties and obligations, and that said rate of return should be materially increased in the immediate future by reason of the normal growth of the territory served. The application herein therefore should be denied.

The following Order is recommended:

O R D E R

The Monterey County Water Works, a corporation, having applied to the Railroad Commission for authority to increase its rates, public hearings having been held thereon, the matter having been submitted and the Commission being now fully advised in the premises,

IT IS HEREBY ORDERED that the above entitled proceeding be and is hereby denied.

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 13<sup>th</sup> day of June, 1928.

Leon O'Connell  
W. J. Seaver  
W. M. W. [unclear]  
Thos. B. [unclear]  
W. J. [unclear]  
 Commissioners