

ORIGINAL

Decision No. 21110

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of
SONOMA WATER AND IRRIGATION COMPANY
for authority to amend rates.

Application No. 12946
(Further hearing)

In the Matter of the Investigation
on the Commission's own motion of the
reasonableness of the rates, charges,
contracts, rules, regulations, sched-
ules, and conditions of service, or
any of them, of SONOMA WATER AND IRRI-
GATION COMPANY, a corporation, engaged
in the business of supplying water to
the City of Sonoma, Boyes Springs,
Agua Caliente, Sonoma Vista and El
Verano, in the County of Sonoma, Cal-
ifornia.

Case No. 2619

A.R. Grinstead, for the Consumers.
H.A. Postlethwaite, for the City of Sonoma.
L.F. Cowan, for Applicant and Defendant.

WHITSELL, COMMISSIONER:

O P I N I O N

On the sixth (6th) day of November, 1926, the Railroad Commission issued its Decision No. 17579 in Application No. 12946 herein, establishing a new schedule of rates to be charged by Sonoma Water and Irrigation Company, a corporation, for all water sold to consumers in and in the vicinity of the City of Sonoma and the communities of El Verano and Sonoma Vista in Sonoma County. A petition for rehearing filed by applicant having been granted,

the Commission, in Decision No. 18419 dated June 1, 1927, established a modified and amended schedule of rates and, among other things, directed that certain improvements to cost in the neighborhood of \$25,000, which sum applicant had voluntarily agreed to expend, be installed on the systems serving the above three communities on or before August 1, 1927. Thereafter, on June 25, 1928, a large number of consumers residing in Sonoma filed a petition with this Commission alleging that, although the increased schedule of rates authorized by the Commission had been put into effect, none of the improvements as ordered in the decision and as approved by the Commission had been installed. The Commission was asked to reopen the proceedings for further hearing and to direct the company, applicant herein, to refund to the consumers all charges collected in excess of the rates superseded by those established in Decision No. 18419. Further request is made by said petitioners that the rates established in Decision No. 18419 be suspended until the improvements are installed within the City of Sonoma as set out in the plans thereof approved by the Commission. A petition similar in all substantial respects was also filed by the City of Sonoma, a municipal corporation, on July 16, 1928. Accordingly, the Commission issued its Order on October 15, 1928, reopening the instant proceedings and at the same time also issued an order instituting an investigation on its own motion into the affairs of said company.

A public hearing in these matters was held at Sonoma on December 14, 1928, and, by stipulation of all parties concerned, the application and the case herein were consolidated for hearing and decision.

This company now owns and operates under a single management five water systems, each of which was formerly under separate

and individual ownership. Water is furnished to the City of Sonoma and the unincorporated communities of El Verano, Sonoma Vista, Boyes Springs and Agua Caliente, located immediately adjacent thereto. The latter two plants were acquired subsequent to the filing of Application No. 12946 herein by authority of the Commission granted February 2, 1927, in Decision No. 17950, and therefore are not involved in the fixing of rates in this proceeding. Rates for the Boyes Springs and Agua Caliente systems were established by the Commission in Decision No. 19616 decided April 17, 1928, Application No. 14226, but, as these rates were made contingent upon the installation of certain specified improvements not as yet made, the rates so established have never become effective.

Petitioners contend that, in the establishment of rates for the three systems serving Sonoma, El Verano and Sonoma Vista, the Commission, in its Decision No. 18419, established a rate base of \$85,000 which included \$25,000 for physical properties not then in place but which represented a sum which the company had agreed to expend and was directed to install in improvements on or before August 1, 1927; that, of this amount, no more than \$940 has ever been expended within the City of Sonoma, none of which was in accordance with the plans approved by the Commission; and that, by reason of this failure to fully comply with the Order of the Commission in making said improvements, the collection of the rates established by the Commission is unauthorized and therefore the excess charges over the former and superseded rate schedule should be refunded to the water users.

In Application No. 14226, involving the fixing of rates on the Agua Caliente and Boyes Springs systems, the Commission, in its Decision No. 19616, stated that the estimated original

cost of all of the physical properties in place for all five plants combined and including water rights was \$79,868, as of December 31, 1927. The evidence herein indicates the estimated original cost of these combined properties to be \$82,087, as of December 31, 1928. The following tabulation shows the estimated original cost of fixed capital installed on the various systems, together with the additions and betterments installed subsequent to the Commission's Decision No. 18419 directing the installation of the \$25,000 in improvements:

	Systems		
	Sonoma City	El Verano	Sonoma Vista
Appraisalment, Decision No. 18419, as of June 30, 1926	\$41,335	\$ 5,140	\$13,525
Net Additions and Betterments, June 30, 1926, to Dec. 31, 1928	<u>1,972</u>	<u>-</u>	<u>5,019</u>
<u>Sub-Total</u>	\$43,307	\$ 5,140	\$18,544
<u>GRAND TOTAL APPRAISAL</u> of three systems combined, as of Dec. 31, 1928		\$66,991	
Appraisalment of Boyes Springs and Agua Caliente systems as of date of purchase (Jan. 1926)		\$ 8,088	
Net Additions and Betterments, Jan. 1926, to Dec. 31, 1928		<u>\$ 7,008</u>	
<u>Sub-Total</u>		\$15,096	
<u>GRAND TOTAL</u> Five Combined Systems as of Dec. 31, 1928		\$82,087	

All systems with the exception of the one serving the City of Sonoma are interconnected, but the entire group is operated as a unit under a single management with the company office in Sonoma. For this reason, it is extremely difficult to segregate

the operating and maintenance expenses and properly allocate them to each separate system. Such allocation as is set out herein therefore is approximate only. The evidence shows the following results of the operation of the systems for 1927 and 1928:

	1927	1928
Gross Revenues, Sonoma	\$ 9,253	\$ 9,405
Gross Revenues, Sonoma Vista & El Verano	\$ 1,865	\$ 2,492
Gross Revenues, Agua Caliente	1,455	1,480
Gross Revenues, Boyes Springs	800	839
Gross Revenues, Total Outside Sonoma	\$ 4,120	\$ 4,811
Gross Revenues, All Systems	\$13,373	\$14,216
Operating Expenses, All Systems	\$ 9,181*	\$ 9,043*
Net Operating Revenue	\$ 4,192	\$ 5,173
Fixed Capital Installed	\$79,868	\$82,087
Net Return on Investment	5.2%	6.3%
Estimated Operating Expenses, Sonoma System		\$ 5,935*
Estimated Operating Expenses, Outside Systems		3,108*
Fixed Capital Installed, Sonoma System		43,307
Fixed Capital Installed, Outside Systems		38,780
Net Return on Sonoma System		8.0%
Net Return on Outside Systems		4.3+%

*Including Depreciation--5% Annuity Basis.

NOTE: Increase in Revenues for year 1928 mainly attributable to fact that increased rates did not become effective until June 1, 1927.

Counsel, for both the consumers and the City of Sonoma, contended that the water users in Sonoma were paying more than their fair portion of the revenues and were penalized by being

forced to assist in carrying the burden of the less profitable systems outside of the city and further contended that, taken separately and independently, the Sonoma City system under present rates was earning considerably in excess of a fair return. Petitioners urged that the Sonoma system be entirely divorced and segregated from the other systems as to management and operation. In this connection, it should be pointed out that in the original decision establishing rates for these three systems it is specifically stated therein that the utility did not request a full return upon the combined properties but desired only a reasonable rate for the City of Sonoma and a rate which could be reasonably applied in the El Verano and Sonoma Vista areas. In view of the fact that the Sonoma system was a separate entity and supplied a stable and permanent population, whereas the service demand in the other two districts was almost wholly summer resort in character, the Commission fixed one type of rate for service within Sonoma and provided a summer resort class of rate structure for the other two communities. These rates were necessarily determined upon the separate systems and in no manner was it contemplated that the rates so fixed should yield a full return upon the combined systems at the expense of placing an unfair burden upon those consumers residing in Sonoma, to make up for the lack of revenues in the outside and less developed territory. In a similar manner, the rates recently established for the newly acquired Agua Caliente and Boyes Springs systems were fixed entirely independently of the other water systems. The evidence now before the Commission shows that for 1928 the utility has not earned in excess of 8% upon the actual investment in the Sonoma City plant taken as a single unit, and on the other four outside systems it received 4.3% for the same period. The net return realized on the combined operations

for 1928 was 6.3% on the actual investment. In view of the fact that the class of service demand in the City of Sonoma is so essentially different from that existing throughout the other communities supplied with water and in view of the present isolation of the Sonoma plant from the other systems, and for the further purpose of avoiding any possibility of the operating methods of this utility resulting in placing an unfair burden upon the consumers in Sonoma at some future time, it appears that the utility hereafter should conduct its affairs so as to reflect in its books and records the operations of the Sonoma City system as a separate water works, distinct from its other water plants.

The petitioners also contend that, as this company has not installed the improvements in Sonoma as directed by the Commission, the collection of the rates established by the Commission is unauthorized. The evidence clearly shows, as set out in the Reporter's Transcript (partial) of one of the earlier proceedings held in connection with the application herein, that L.F. Cowan, President of the company, definitely and positively stated that the company had on hand the sum of twenty-five thousand dollars which it was ready and willing and which he agreed to spend in improvements throughout the El Verano, Sonoma Vista and Sonoma City systems upon the fixing of reasonable rates by the Commission for the service. Of this sum, Mr. Cowan stated that approximately \$15,000 would be spent on the Sonoma City system. It was for this reason and upon the strength of this statement that the Commission included the sum of \$25,000 in the rate base and directed the expenditure of the said sum in improvements. Inspection of the transcript, however, also shows that the above statement of Mr. Cowan was qualified by his counsel, Mr. Dudley D. Sales, who, in his closing remarks, stated that the company would not make the proposed expenditure of \$25,000 unless the Commission fixed a

rate which would give a fair return also on said sum.

The testimony shows that, since the purchase of the Agua Caliente and Boyes Springs plants in January of 1926, this company has spent \$7,008 in enlarging the pipe lines and improving pumping equipment and since June 30, 1926, to December 31, 1928, the sum of \$5,019 has been expended in Sonoma Vista and \$1,972 in the City of Sonoma, a total of \$6,991 on the plants embraced within the Commission's Decision No. 18419. This makes a total expenditure of \$13,999 for fixed capital to December 31, 1928, for the combined systems. It is true that somewhat less than \$2,000 of the total additions and betterments of approximately \$14,000 has been spent in the City of Sonoma and not over \$7,000 on the systems involved in the Commission's Order directing the expenditure of the \$25,000. The overhauling of the pumping equipment and installation of meters in Sonoma has undoubtedly resulted in giving a greatly improved and more dependable service for domestic purposes in the city than heretofore existed, although the working pressures are still too low and the main capacities too small to meet accepted standards of service, especially for fire protection requirements in a community the size of Sonoma. The evidence shows that the past increase in the number of consumers has been very small and present indications show little, if any, prospect of substantial growth in the immediate future in any part of the service area of this company. Under these circumstances, it is apparent that, if the Commission is to insist at this time upon the installation of the unexpended \$18,009 for the proposed improvements, there will be a reduction in the net return considerably below the bare financial requirements of the company. On the other hand, the increase in rates which would be required to yield a fair return on the investment after the expenditure of the above \$18,009 would result in a pro-

hibitive rate considerably higher than the service would be reasonably worth and unquestionably would drive away a very large number of consumers in Sonoma, forcing them to obtain their water supplies from private or other sources.

The testimony and evidence throughout all the proceeding involving the fixing of rates for this utility indicate that those responsible for the operating and managerial policies of the company have at various times made extravagant and, to some extent, misleading promises for the installation of large scale improvements which later conditions made either impracticable or inadvisable to carry out. Such acts have very seriously damaged the utility's relations with those members of the public it serves and have resulted not only in the loss of their good will but have destroyed their confidence in its good faith as well. Primarily, the improvements approved by the Commission for installation in Sonoma were designed to remedy the inadequate fire protection facilities now existing on the system. The capacities of the feeder mains are so limited and the pressure afforded by the present storage tanks because of their lack of elevation is so low that little, if any, practical benefit from a fire-fighting standpoint can be derived under present conditions. The former rate of fifty cents per month per fire hydrant was increased to \$1.50 in the last rate schedule established by the Commission for Sonoma in the belief that the inadequate fire service would be remedied to some extent by the immediate relocation of the storage tanks at a higher elevation, and that, in the event that a reasonable standard of volume and pressure for fire service was provided, the established rate could be proportionately increased by subsequent negotiations. In view of the fact that the company has made no substantial improvements in the fire

protection service and that the testimony of the city officials shows that this service is not now reasonably worth the sum of \$1.50 per month per hydrant, it appears that this rate should be canceled and reduced in the City of Sonoma to the rate originally in effect for this service and so remain until such time as the utility has furnished increased fire protection facilities through the raising of the storage tanks to create proper pressure, or by installing feeder mains of larger capacity, or by some other equally efficient means or method, whereupon the rate for fire hydrant service may be readjusted by Supplemental Order herein.

I suggest the following form of Order:

O R D E R

The above entitled application having been reopened for further hearing and the Commission, on its own motion, having ordered an investigation into the reasonableness of the rates, charges, contracts, rules, regulations, schedules and conditions of service, or any of them, of Sonoma Water and Irrigation Company, a corporation, a public hearing having been held thereon, the matters having been submitted and the Commission being now fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the rate now charged for fire hydrant service within the City of Sonoma and throughout the territory covered by the Sonoma City water plant of the Sonoma Water and Irrigation Company is unjust and unreasonable and that the rate herein established is a just and reasonable rate to be charged for such service, and

IT IS HEREBY ORDERED that Sonoma Water and Irrigation Company file with this Commission, within thirty (30) days from the date of this Order, the following rate for fire hydrant ser-

vice, applicable within the corporate limits of the City of Sonoma and throughout the territory supplied with water through and by means of said company's so-called Sonoma City Water Plant, said rate to be charged for all fire hydrant service rendered on and after the first day of May, 1929:

Fire Hydrants, each per month--\$0.50

IT IS HEREBY FURTHER ORDERED that within sixty (60) days from the date of this decision Sonoma Water and Irrigation Company shall set up as of January 1, 1929, a plant ledger containing the fixed capital accounts prescribed by this Commission, and to which accounts shall be charged the company's investment in its Sonoma City Water System as of January 1, 1929, and the cost of additions and betterments to said system subsequent to said date of January 1, 1929; said company shall also keep a separate record for 1929 and subsequent years of its operating revenues and operating expenses applicable to said Sonoma City Water System, and file for said Sonoma City Water System an annual report which shall be supplemental and in addition to the company's annual report.

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 16th day of May, 1929.

Paul D. Lovitt
Glenn
Leon White
M. J. Ann
Commissioners.