

MRM/GEE

Decision No. 34211

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
Suburban Development Co., a corpora-
tion, for an increase in rates.

Application No. 17523.

Young, Hudson and Rabinowitz,
by H.S. Young, for applicant.
Emrie B. Smith and J.H. Cooper,
for themselves and other pro-
testants.

ORIGINAL

BY THE COMMISSION:

O P I N I O N

In this proceeding Suburban Development Co., a corpora-
tion engaged in the sale of water for domestic and irrigation pur-
poses in Hayward Highlands, Alameda County, asks for authority to
increase its rates.

The petition alleges that the rates now established and
in effect are unreasonably low and do not return to applicant the
revenue to which it is entitled and that applicant is entitled to
an increase in rates sufficient to absorb the alleged operating
loss, to provide for depreciation and to pay a reasonable profit
upon investment.

A public hearing in this proceeding was held at Hayward
before Examiner Satterwhite.

This corporation and one of its predecessors in interest
have been before this Commission in two prior proceedings: Case
No. 1105, Decision No. 6998, decided December 31, 1919, Ethel Ellis,

et al., vs. George Schmidt and Hayward Heath Water Association, and Case No. 2773, Decision No. 22010, decided January 14, 1930, Horace Conyers vs. Suburban Development Company. At the hearing of this application the records of these two prior cases were admitted in evidence as a part of the record of the instant proceeding.

The evidence shows that the predecessors in interest of the present company constructed this system for the purpose of supplying water for domestic and irrigation purposes to a tract of about 500 acres of land, subdivided into lots owned by the same interests. Purchasers of lots under the original sales contracts were to be furnished water "at cost, including cost of maintenance and operation." About February 23, 1917, the original owners sold their interests in the tract and water system to George Schmidt. The rate for water charged by Schmidt was one dollar (\$1.00) for 2,100 gallons and ten cents (\$.10) per 1,000 gallons additional for water over 2,100 gallons. In April, 1926, Suburban Development Co., applicant herein, acquired 274 lots within the tract, aggregating about 180 acres, together with the water system. The number of consumers served at this time is unknown. The rate charged for water was one dollar and fifty cents (\$1.50) minimum for the first 300 cubic feet, and over 300 cubic feet, thirty cents (\$.30) per 100 cubic feet. On February 1, 1928, the minimum rate was raised to two dollars (\$2.00) with no change in the quantity rate. In October, 1929, a proceeding was instituted before this Commission, Case No. 2773, Horace Conyers vs. Suburban Development Co., in which complainant asked that defendant be declared a public utility and be required to furnish him water. The Commission found that defendant was a public utility and it was

ordered to file its rates, rules and regulations with the Commission, which order was complied with. At this time there were about fifty-two consumers served.

The water supply is purchased by applicant from the City of Hayward, delivery being made from the mains of the city's system in the vicinity of County Road and Marguerite Drive near the southeast limits of the city. No other adequate supply is available in this territory. The rate paid to the City of Hayward for this water is as follows:

MONTHLY CHARGES

First	300 cubic feet-----	\$1.00
Next	4,700 cubic feet, per 100 cubic feet-----	0.30
Over	5,000 cubic feet, per 100 cubic feet-----	0.25

The rates charged by the company are as follows:

MONTHLY CHARGES

First	300 cubic feet-----	\$2.00
Over	300 cubic feet, per 100 cubic feet-----	0.30

The water is boosted by applicant into its system through a pumping plant located about 600 feet from the mains of the City of Hayward. From this booster plant a 4-inch transmission line, 5,225 feet long, carries the water to the northeast boundary of Hayward Highlands for service within that tract. The distribution system within the tract comprises about 27,000 feet of pipe from three-quarters of an inch to three inches in diameter, a second pumping plant boosting water to a high zone not reached by the main pumping plant, and four storage tanks aggregating 100,000 gallons. There are now sixty-eight consumers on the system, all metered.

No estimate of value of the system or of the depreciation annuity was presented by applicant. P.E. Harroun, one of the Commission's hydraulic engineers, presented an estimate of the historical cost of the system as \$19,731 with a depreciation annuity

of \$414.56. These estimates were accepted by applicant.

Analysis of the accounts from the evidence presented shows the following conditions for the two years ending September 1, 1931:

	<u>1929-30</u>	<u>1930-31</u>
Water purchased, maintenance, operation and taxes (exclusive of depreciation)---	\$3,743.61	\$3,248.66
Revenue - water sales-----	<u>1,789.35</u>	<u>1,797.94</u>
Net Operating Loss-----	-\$1,954.61	\$1,450.72

It was shown that during the year 1929-30 a large amount of water was furnished without charge to the Robbins Construction Company, an organization owned by the same interests as Suburban Development Co., and in consequence thereof the net operating loss for this year, as set out above, is much in excess of the true sum and cannot be taken as indicative. The accounts for the year 1930-31, showing a deficit of approximately \$1,450, are not subject to this criticism and may be accepted as representative of average conditions. In this deficit of \$1,450, no inclusion has been made for interest on the value of the property nor to provide for annual depreciation.

Applicant asks that the rates be increased such as to absorb the operating loss and provide a sum sufficient to meet annual depreciation and interest on the value of the property. The principal business of applicant company is the selling of lots in the tract it serves with water, without which such lots of course could not be sold. It was expected that losses would occur due to the construction and operation of this water system but that these losses would be absorbed in the profits derived from the sale of lots. The system covers an area and has a service capacity greatly in excess of that required at the present

time, there being about 400 feet of pipe to each consumer, clearly indicating an excessively overbuilt system upon the cost of which present water users could not reasonably be expected to pay a rate which would insure a full return thereon.

The evidence shows that for the two years ending September 1, 1931, the unaccounted-for water was in excess of forty per cent and that such loss should not exceed twenty per cent. If these system losses were to be reduced to twenty per cent, a saving in water purchased from the City of Hayward and power for pumping would be effected which would amount to about \$470 per annum.

Analysis of the use of water by consumers under the rate charged at this time shows that fifty-one per cent of the consumers use 300 cubic feet per month or less at the minimum monthly rate of two dollars (\$2.00) and about eighty-five per cent of the consumers use 600 cubic feet or less. The testimony of the consumers indicates that they consider the present rate to be as high as they are able to pay, a situation confirmed by the very low use of the water per consumer throughout the entire system.

At the hearing considerable discussion arose over the proper cost of operating this system. The largest single item was for purchased water, amounting to \$1,181.91 for the year ending September 1, 1931. The suggestion was made that, if the City of Hayward could be prevailed upon to reduce the rates which it charges for purchased water, such reduction would operate alike for the benefit both of applicant and consumers. With this object in view, a committee was appointed to confer with the city officials and it was stipulated by all interested parties that the Commission's decision in this proceeding be held in abeyance pending the result of this conference. The City of Hayward very generously

has agreed to a reduction of fifty per cent of the present rate charged for water delivered to Suburban Development Co. for use on this system, provided such reduction be reflected in a reduction of the rate now charged by Suburban Development Co. to its consumers. Specifically, this proposal contemplates that the rate now charged by applicant be reduced from two dollars (\$2.00) minimum monthly charge for the first 300 cubic feet to one dollar and fifty cents (\$1.50) minimum monthly charge for the same amount, with no change in the quantity rate for amounts over 300 cubic feet per month. The effect of such reduction in rates charged by the City of Hayward can be clearly shown by comparison of conditions on this system during the year ending September 1, 1931. During this period the cost of water purchased from the City of Hayward aggregated \$1,181.91. A fifty per cent reduction therein would have resulted in a saving of \$590.95 on the cost of water. The reduction in the minimum monthly rate from two dollars (\$2.00) to one dollar and fifty cents (\$1.50), as proposed, would have benefited the consumers to the extent of \$371.50, at the same time actually increasing the net income of the Suburban Development Co. to the extent of \$219.45.

The Commission has given careful consideration to all the facts involved in this proceeding and is of the opinion that the agreement of the City of Hayward to grant a reduction of fifty per cent in the rate charged Suburban Development Co. for water, provided a reduction is made in the rates charged its consumers as explained above, will result in a fair and reasonable rate to both the consumers and the company under the circumstances and conditions now existing on this system.

The above mentioned agreement between the committee ap-

pointed at the instant hearing and the city officials of Hayward is verbal only. To make this rate effective will require formal action on the part of the City Council through ordinance or otherwise. Following such action, the present minimum monthly rate of two dollars (\$2.00) for the first 300 cubic feet very properly should be reduced to one dollar and fifty cents (\$1.50), a rate which should return to applicant herein a reasonable revenue for the service rendered as long as present conditions obtain.

O R D E R

Suburban Development Co., a corporation, having made application for an increase in rates, a public hearing having been held thereon and the matter having been duly submitted and the Commission being now fully advised in the premises,

IT IS HEREBY ORDERED that this application be and the same is hereby denied, and

IT IS HEREBY FURTHER ORDERED that, if within three months from the date hereof the City of Hayward grants to Suburban Development Co. a reduced rate for water used on this system of fifty per cent of the present rate, then, and in that case only, Suburban Development Co. be and it is hereby directed to file with this Commission the following schedule of rates to be charged for all service rendered subsequent to the first day of the month immediately succeeding the effective date of the reduction of the rate charged by the City of Hayward to Suburban Development Co.

RATES

First 300 cubic feet, minimum monthly charge-----\$1.50
Over 300 cubic feet, per month, per 100 cubic feet-- 0.30

oOo

IT IS HEREBY FURTHER ORDERED that, in the event the City Council of Hayward fails or refuses to grant to Suburban Development Co. the reduction of fifty per cent of the present water rate within three months from the date of this Order, said Suburban Development Co. may file with this Commission a petition so stating and asking that a rate be established by supplemental order upon the evidence presented herein.

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 23^d day of November, 1931.

C. C. Seaver
Leon W. W. W.
W. J. W.
W. B. W.
Fred G. Stevens
Commissioners.