

Decision No. 24975

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of C.H. HOLT REALTY COMPANY for an emergency order authorizing an increase in rates.

Application No. 18113.

ORIGINAL

J. E. Morris, for applicant.

Gilbert D. Ferrel, for protestant.

BY THE COMMISSION:

O P I N I O N

C.H. Holt Realty Company, a corporation, owns and operates a water system serving water for domestic purposes in the subdivision known as Emerald Lake, in San Mateo County, and in this proceeding asks the Commission to establish emergency rates for water service.

The application alleges that the revenues produced by the rates in effect are not sufficient to cover operating expenses. The Commission is asked to establish the following rates which include an emergency rate to be effective for a period of six months.

1. Monthly Surcharge Rate to Apply to all Services for a period of Six Months:

| | |
|---------------------------|---------|
| 5/8 x 3/4-inch meter----- | \$ 1.00 |
| 3/4-inch meter----- | 1.50 |
| 1-inch meter----- | 2.00 |
| 1 1/2-inch meter----- | 3.00 |
| 2-inch meter----- | 4.00 |
| 3-inch meter----- | 7.50 |
| 4-inch meter----- | 10.00 |

2. Monthly Minimum Rates:

| | |
|---------------------------|---------|
| 5/8 x 3/4-inch meter----- | \$ 2.00 |
| 3/4-inch meter----- | 2.75 |
| 1-inch meter----- | 3.00 |
| 1 1/2-inch meter----- | 5.00 |
| 2-inch meter----- | 7.50 |
| 3-inch meter----- | 15.00 |
| 4-inch meter----- | 30.00 |

The foregoing "Monthly Minimum Rates" will entitle the consumer to the quantity of water which that minimum monthly rate will purchase at the following "Monthly Quantity Rates."

3. Monthly Quantity Rates:

| | |
|---|--------|
| 0 to 2,000 cubic feet, per 100 cubic feet----- | \$0.50 |
| Next 8,000 cubic feet, per 100 cubic feet----- | .45 |
| Over 10,000 cubic feet, per 100 cubic feet----- | .40 |

4. Annual or Summer Home Rate:

Applicable only to consumers who are residents of homes occupied for intermittent periods during each year.

Annual charge payable in advance on January 1st of each year, entitling each consumer to 400 cubic feet of water for any period of six consecutive months, 5/8 x 3/4-inch meter-----\$12.00

When the quantity of water exceeds 400 cubic feet in any month or service is rendered for more than the six months referred to above, the regular minimum charges and quantity rates shall apply.

5. Irrigation Rates:

Rates for agricultural or golf links irrigation of more than one-half acre in extent shall be fixed by special contract, such rates, in no event, however, to be less than the quantity rates set out in Paragraphs 2 and 3 above.

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Public hearings in this proceeding were held in Redwood City before Examiner Satterwhite.

The rates at present in effect were established by the Commission in its Decision No. 9805 dated November 23, 1921, and

are as follows:

FLAT RATES

Minimum annual charge, payable in advance,
which entitles consumer to six months'
service-----\$12.00
For each additional month----- 2.00

METER RATES

Minimum annual charge, payable in advance,
which entitles consumer to a maximum of
400 cubic feet of water per month for six
months-----\$ 9.00
All use during other months, 400 cubic feet
or less, per month----- 1.50
All use above 400 cubic feet in each month,
per 100 cubic feet----- .30

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Water is obtained by purchase from the Redwood Municipal Water System and also from the San Francisco Water Department. A small quantity of water is obtained from springs. The total area of the tract approximates 1,400 acres and the subdivided portion thereof served by the system has an area of approximately 800 acres, varying in elevation from 150 to 1,000 feet above sea level. The difference in elevation makes it necessary to establish four separate zones of pressure in the distribution system, requiring three pumping lifts. The major portion of consumers is located in the first and second zones. The distribution system consists of approximately 98,350 lineal feet of pipe varying from four inches to one inch in diameter. There are 330 consumers being served, of which all but twenty-five are metered.

Water is purchased from the City of Redwood at the following quantity rates:

Monthly Quantity Rates:

| | | | |
|------|------------------------------|---|---------|
| From | 0 to | 2,000 cubic feet, per 100 cubic feet-- | \$0.255 |
| From | 2,000 to | 5,000 cubic feet, per 100 cubic feet-- | 0.235 |
| From | 5,000 to | 10,000 cubic feet, per 100 cubic feet-- | 0.210 |
| From | 10,000 to | 20,000 cubic feet, per 100 cubic feet-- | 0.190 |
| From | 20,000 to | 50,000 cubic feet, per 100 cubic feet-- | 0.170 |
| | 50,000 cubic feet, and over, | per 100 cubic feet-- | 0.15 |

The prevailing rates of San Francisco Water Department to purchases of water for use outside the city limits of Redwood City apply during all periods that said city must augment its own water supply by purchase from the San Francisco Water Department costing in excess of one thousand dollars (\$1,000) per month.

The following rates apply to water purchased by applicant directly from San Francisco Water Department:

Monthly Quantity Rates:

| | | | |
|--------------|---|--|---------|
| From | 0 to | 3,000 cubic feet, per 100 cubic feet-- | \$0.288 |
| For the next | 30,000 cubic feet, per 100 cubic feet-- | | 0.252 |
| All over | 33,000 cubic feet, per 100 cubic feet-- | | 0.216 |

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The testimony shows that applicant is engaged principally in the real estate business and installed the water system on this tract to aid in the sale of lots. The revenues from the sales of water have never at any time in the past equalled the operating expenses but during the period prior to the present general business depression the profits from land sales have been sufficient to make up whatever deficits occurred in the water operations. Land sales have now practically ceased and the company is unable or unwilling to advance funds to cover the expenses or even to provide for the installation of such small items as service connections for new consumers. The principal items of expense are the cost of water purchased and the cost of power for pumping. Owing to a shortage in funds, applicant has been threatened with discontinu-

ance of both water and power service and this threat is stated to be the immediate cause of the filing of this petition.

Representatives of applicant testified that the estimated cost of reproducing the system is \$115,332. and that its present value is \$46,133. In addition to this item, there is claimed a value of \$16,350 for lands and rights of way and \$18,976 for the water rights incident to the springs on the property. These springs, however, have produced no water during the dry years. The operating revenues and expenses, exclusive of depreciation, for the three years last past were presented by applicant as follows:

| | <u>1929</u> | <u>1930</u> | <u>1931</u> |
|--------------------|---------------|---------------|---------------|
| Operating Revenues | \$ 7,006 | \$ 9,253 | \$10,243 |
| Operating Expenses | <u>13,425</u> | <u>13,980</u> | <u>15,257</u> |
| Operating Deficit | \$6,419 | \$4,727 | \$5,014 |

The consumers contended that the water service rendered by applicant in the past had been inadequate and insufficient and that the alleged operating deficit was largely due to careless and inefficient management and sales of water at preferential rates to various parties on the tract. It was also alleged by certain consumers that the system losses are out of all reasonable proportion to the water sold and are due to waste of water by flat rate users and to leaks in the main. The consumers contend that they should not be penalized with an increase in rates as a result of the incompetent management shown by applicant.

A report was submitted by Mr. R. E. Savage, one of the Commission's engineers, which contained an appraisal of the physical properties and an analysis of the operating expenses. The estimated historical cost of the property as of May 1, 1932,

totalled \$64,331. A replacement annuity computed by the five per cent sinking fund method totalled \$1,284. An estimate of reasonable annual expenses was shown to be \$14,100 and the revenues for the year 1931 were \$10,243. The results of 1931 operations based on the above figures show a deficit of \$3,857 in operating expenses alone, exclusive of depreciation. Mr. Savage further testified that the operating expenses could be materially reduced and the service improved by controlling the excessive distribution losses, by the installation of more adequate pumping equipment, automatically controlled, mains and storage facilities, and that by securing a greater amount of water from the San Francisco source a very substantial amount of the pumpage under present operating methods could be eliminated.

Applicant contended that the cost of the plant exceeded the appraisement submitted by the Commission's engineer but was willing, however, to accept it for the purposes of this proceeding. Mr. Leonard testified that applicant was willing to install the additional facilities recommended by the Commission's engineer provided rates were established which would yield operating expenses including depreciation and, further, that he would make a sincere effort to reduce excessive water losses in the distribution system. No return was asked on the investment in physical properties.

The results of operation show that applicant is supplying water at a loss and is entitled to an increase in rates to meet at least the reasonable out-of-pocket charges. The fact that applicant heretofore has absorbed these losses in the past has given the present consumers the advantage of a lower rate

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for a period of several years and, while such rates undoubtedly greatly aided the real estate firm in selling lots, yet sooner or later the real cost of service must be met by the consumers. Practically all the water supply is purchased from other water works at comparatively high rates and must be elevated thereafter several times by booster pumping plants. It is clear that these factors materially increase the cost of delivering the water to the users who cannot therefore avoid paying a rate higher than that paid by the consumers supplied directly by the systems from which applicant itself obtains its water. The rates set out in the following Order are designed to produce sufficient revenue to provide for reasonable maintenance and operating expenses and depreciation charges and will be made effective for a period of six months only as requested by applicant. Applicant will be required to file monthly reports of operating revenues and expenses in order that the Commission may be informed of the results of operations under the new schedule.

The rates applied for by applicant have not been established as they had the effect of improperly loading the burden of charges upon the smaller consumers while the users of large quantities of water would have escaped contributing their fair share of the additional revenues which should be produced by the schedule established below.

The evidence shows that this entire water works is improper and inadequate in design and of very low operating efficiency. The consumers in all fairness should not be penalized for such conditions. Applicant will be expected to make, without

delay and as soon as its financial conditions will permit, the improvements necessary to eliminate the above unsatisfactory conditions, the financing of which should be made entirely feasible through and by reason of the increased schedule of rates established in the following Order.

In connection with the alleged waste of water by flat rate consumers, it should be pointed out that in the operation of this particular system the service rendered under flat rates has produced an unfair discrimination against the metered users and is subject to the criticism of possible exploitation. Applicant therefore will be required to meter all services supplying water for any purposes whatsoever. Unmetered service connections shall be metered within sixty (60) days from the date of the Order herein.

O R D E R

C.H. Holt Realty Company, a corporation, having made application to the Railroad Commission for an order authorizing an emergency increase in 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 found as a fact that the present rates of C.H. Holt Realty Company, a corporation, in so far as they differ from the rates herein established, are unjust, unreasonable and discriminatory and that the rates herein established are just and reasonable rates to be charged by said company for the service rendered, and

Basing this Order upon the foregoing findings of fact

and upon the further statements of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that C.H. Holt Realty Company be and it 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 all service rendered subsequent to the date of the Order herein, said schedule of rates to continue in effect only until December 31, 1932, at which time the present schedule of rates shall again become effective unless otherwise ordered by this Commission.

Monthly Minimum Charges:

| | |
|---------------------------|---------|
| 5/8 x 3/4-inch meter----- | \$ 2.50 |
| 3/4-inch meter----- | 2.75 |
| 1-inch meter----- | 3.50 |
| 1 1/2-inch meter----- | 5.00 |
| 2-inch meter----- | 8.00 |
| 3-inch meter----- | 15.00 |

Each of the foregoing "Monthly Minimum Charges" will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the following "Monthly Quantity Rates."

Monthly Quantity Rates:

| | |
|--|--------|
| From 0 to 500 cubic feet----- | \$2.50 |
| Next 7,500 cubic feet, per 100 cubic feet----- | 0.45 |
| Over 8,000 cubic feet, per 100 cubic feet----- | 0.40 |

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IT IS HEREBY FURTHER ORDERED that C.H. Holt Realty Company, a corporation, shall file with this Commission, not later than the fifteenth day of each month, a detailed statement setting forth the following information:

1. The total quantity and cost of water purchased in each preceding month, segregated as to each source of supply.
2. The total quantity of water sold.

3. The total maintenance and operating expense of each preceding month.
4. The total operating revenues in each preceding month.

IT IS HEREBY FURTHER ORDERED that C.H. Holt Realty Company, a corporation, within sixty (60) days from the date of this Order, shall meter all service connections used to supply water for any and all purposes other than for fire hydrant uses and thereafter shall deliver no water through unmetered service connections without the written consent of this Commission, and within sixty (60) days from the date of this Order said C.H. Holt Realty Company shall file with this Commission a certified statement to the effect that the system has been fully and completely metered.

IT IS HEREBY FURTHER ORDERED that the rates herein established shall automatically be cancelled and rescinded and the present rates thereupon again become effective in the event the provisions relative to metering set out above have not been complied with within sixty (60) days from the date of this Order.

IT IS HEREBY FURTHER ORDERED that C.H. Holt Realty Company be and it is hereby directed to file, within thirty (30) days from the date of this Order, revised rules and regulations governing its relations with its consumers, said rules and regulations to become effective upon their acceptance for filing by this Commission.

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 9th day of July, 1932.

C. C. [Signature]
W. J. [Signature]
Fred G. [Signature]
Commissioners.