

Decision No. 25874

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
Hillsborough Water Company to in-  
crease rates.

Application No. 18186.

Brobeck, Phleger and Harrison,  
by James S. Moore, Jr., for applicant.

Arthur H. Redington, City Attorney,  
for the Town of Hillsborough.

Arthur H. Redington and Albert J. Dibblee,  
for certain consumers.

SEAVEY, COMMISSIONER:

O P I N I O N

In this proceeding, Hillsborough Water Company, a corporation engaged in distributing water for domestic purposes in a portion of the Town of Hillsborough, San Mateo County, California, asks that the Commission authorize an increase in rates.

Applicant alleges that it has completed and placed in operation the filtration facilities in compliance with the Order of this Commission in its Decision No. 24106, dated October 5, 1931; that said improvement has increased the investment of the company in excess of sixteen thousand dollars (\$16,000) and also has resulted in increasing the operating expenses; and that the revenues for 1932 under the existing rates will produce a net return of less than two per cent (2%) upon the fair value of the property of applicant devoted to public service.

Public hearings were held in this proceeding at Hillsborough and San Francisco.

The rates at present in effect on this system were established by the Board of Trustees of Hillsborough prior to the enactment of the Public Utilities Act and are as follows:

Monthly Meter Minimums:

5/8-inch meter-----	\$ 1.50
3/4-inch meter-----	2.25
1-inch meter-----	2.75
1 1/2-inch meter-----	4.25
2-inch meter-----	6.00
3-inch meter-----	12.00
4-inch meter-----	20.00

Quantity Rates to Regular Consumers:

Per 1,000 gallons-----\$00.30  
(Equivalent to 22 cents per 100 cubic feet)

Municipal Use:

Fire hydrants, each per month-----\$ 1.50

Rates to Holders of Contracts:

First 10,000 gallons, daily----- 5¢ per 1,000 gallons  
5,000 gallons additional, daily- 15¢ per 1,000 gallons

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Hillsborough Water Company was originally incorporated in 1906 under the name of Cherry Canyon Water Company. In 1916 the name was changed to Hillsborough Water Company. There are approximately two hundred consumers supplied with water, all residing within that certain section of the incorporated Town of Hillsborough lying westerly of the El Camino Real. While a part of the utility's water supply is obtained from its own wells, most of it is obtained by purchase. The company is the holder of certain contracts with the San Francisco Water Department which provide for the sale and delivery to it of certain quantities of water at

rates substantially lower than the schedule charged by the Department to its regular consumers. The transmission and distribution system consists of over 40,000 feet of pipe ranging from two inches to six inches in diameter and a total of 350,000 gallons of storage. All water delivered to consumers is pumped. The distribution mains are segregated into three pressure zones by reason of the hilly and rolling nature of the service area.

VALUATION:

Appraisals of the physical and intangible properties of this utility were presented in behalf of applicant by W.C. Hammatt, Consulting Engineer, and J.E. Cooper, Valuation Engineer of this Commission. While both appraisements were based upon the historical cost of physical properties, Mr. Hammatt pursued the method of using direct book costs, from which were deducted the estimated retirements from the system. The Commission's Valuation Engineer based his appraisal upon an inventory of the operative properties using, where available and reasonable, actual cost records of the company and estimating the reasonable construction costs thereof where necessary. The company's valuation includes lands at cost and the valuation presented by the Commission's staff includes lands at their present fair market value. A summary of the estimates presented by the above engineers, exclusive of contract rights, is as follows:

<u>I t e m s</u>	<u>Company's Engineer</u>	<u>Commission's Engineer</u>
Organization	-	\$ 500
Lands	\$11,136	12,800
Physical Property	82,590	72,200
Working Capital, Materials and Supplies	4,000	2,500
Additions and Betterments for ensuing year	-	1,500
Total	<u>\$97,726</u>	<u>\$89,500</u>

CONTRACTS:

This water company holds certain contract rights to water from the San Francisco Water Department arising through two agreements to which Mrs. Agnes Bowie was a party. Mrs. Bowie and her son, Mr. William H. Howard, were the owners of San Mateo Rancho which, prior to 1884, was supplied with water from San Mateo Creek. In exchange for certain rights of way, water rights and lands, a contract was entered into by the above parties under date of May 5, 1884, wherein the Spring Valley Water Works (predecessor of the Water Department) agreed to deliver to said parties, in addition to a cash consideration, five hundred thousand (500,000) gallons of water per day at the rate of fifteen cents (15¢) per one thousand (1,000) gallons and, on December 14, 1886, another agreement was entered into for similar considerations, whereby the Spring Valley Water Works agreed to furnish seventy-five thousand (75,000) gallons of water per day to Mrs. Bowie and the same amount to William H. Howard, at the rate of five cents (5¢) per one thousand (1,000) gallons. On the death of Mrs. Bowie, in 1893, her interests<sup>(1)</sup> in the two aforesaid contracts were divided among her five heirs who, during the year 1906, organized the Cherry Canyon Water Company, now known as Hillsborough Water Company, applicant herein, and assigned to it all of their rights under the contracts of 1884 and 1886, in consideration for which transfer the newly organized water company caused to be issued and delivered to each of the five heirs, in equal shares, its en-

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(1) Mrs. Bowie's interests consisted of the right to receive 250,000 gallons a day under the contract of May 5, 1884, and 75,000 gallons a day under the contract of December 14, 1886.

tire authorized capital stock, less shares qualifying directors, and also obligated itself to furnish to each of said heirs, severally and to their assigns, water not to exceed in amount ten thousand (10,000) gallons daily at the rate of five cents (5¢) per one thousand (1,000) gallons, and not to exceed five thousand (5,000) gallons daily additional, at the rate of fifteen cents (15¢) per one thousand (1,000) gallons. As successor in interest of Mrs. Bowie, applicant company therefore is now entitled to the delivery of two hundred and fifty thousand (250,000) gallons of water daily at fifteen cents (15¢) per one thousand (1,000) gallons, and seventy-five thousand (75,000) gallons of water daily at the rate of five cents (5¢) per one thousand (1,000) gallons, all subject to deliveries made under the sales contracts above described.

In 1930, the company acquired from E.D. Beylard and Agnes N. Hayne, respective holders of the interests of two of the original heirs, their contract rights for a consideration of seventy-two hundred dollars (\$7,200). There is remaining, therefore, an obligation on the part of the company to sell and deliver, at the preferential rate, water to the successors of three of the original five heirs.

In connection with the valuation, J.E. Cooper, for the Commission, appraised the contract rights which the company controls by reason of succeeding to the original interest of Mrs. Bowie upon an historical basis at eighty-two hundred dollars (\$8,200); Mr. Hammatt appraised these same rights on the basis of present day reproduction value at one hundred and fifty thousand dollars (\$150,000). In view of the fact that the rates re-

requested to be established by applicant will not result in more than a fair return on a rate base of eighty-nine thousand five hundred dollars (\$89,500), which excludes any allowance for contract rights, it does not appear necessary for the determination of this case to pass upon the question of what, if any, value attaches to these contract rights.

REVENUES AND EXPENSES:

Reports on operating revenues and expenses were presented by W.C. Hammatt, Consulting Engineer for applicant, by M.E. Ready, Consulting Engineer for the Town of Hillsborough, and R.E. Savage and B.E. Travis, Assistant Engineers for the Commission. These reports, covering operations for the year 1931, may be summarized and compared as follows:

	<u>Company's Engineer</u>	<u>City's Engineer</u>	<u>Commission's Engineers</u>
Operating Revenue	\$25,815	\$25,815	\$25,815
Operating Expense, exclusive of depreciation	17,663	17,184	17,294
Depreciation	<u>3,966</u>	<u>1,085</u>	<u>1,085</u>
Total Expense	\$21,629	\$18,269	\$18,379
Net available for return	\$ 4,186	\$ 7,546	\$ 7,436

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The above figures are in substantial agreement except for the item of depreciation. The company's figure for depreciation is based upon a straight line method of computation. Mr. Travis of the Commission's staff based his study upon a reasonable use to be derived from existing facilities under present and expected normal future conditions. He used the five per cent sinking fund basis

of computation. His figure was accepted by the City's Engineer.

These same engineers presented estimates of the revenues and expenses for 1932 as follows:

	<u>Company's Engineer</u>	<u>City's Engineer</u>	<u>Commission's Engineers</u>
Operating Revenues	\$26,015	\$27,745	\$28,400
Operating Expenses, exclusive of depreciation	20,665	20,317	23,870
Depreciation	<u>2,448</u>	<u>1,320</u>	<u>1,320</u>
Total Expenses	\$23,113	\$21,637	\$25,190
Available for return	\$ 2,902	\$ 6,108	\$ 3,210

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The differences in the estimates of the revenues to be derived under existing rates for the year 1932 arise principally from the respective allowances made for the increased business which might be expected from the growth of the community. Although for some years in the past this company has enjoyed a steady and healthy increment through new business, the record reveals the fact that for the past two years prevailing conditions have been such that no substantial increase in new customers can reasonably be anticipated for the immediate future. It appears therefore that twenty-six thousand dollars (\$26,000) is a reasonable estimate of the revenues which can be expected under present rates for the year 1932 and that twenty-seven thousand dollars (\$27,000) may be assumed as a fair estimate of revenues to be anticipated under existing rates in the immediate future.

In connection with costs of operation, it appears that the major portion of the increase in expenses for 1932 over the similar charges for the preceding year is attributable to the additional expenditures incurred through the operation by the company of its

filtration plant which, as a result of a complaint by the consumers against the quality of water then being served by this utility, was ordered to be installed by the company. (Commission's Decision No. 24106, dated October 5, 1931.) At the time of the hearing of that complaint, the fact was recognized by the consumers and the utility that compliance with the terms of the Commission's Order necessarily would result in increasing the capital investment of the utility, together with the cost of operation.

It is concluded from the evidence presented that twenty-three thousand five hundred dollars (\$23,500) represents the reasonable cost of operation for the year 1932 and that the sum of twenty-four thousand three hundred dollars (\$24,300) is a fair allowance for operation and maintenance expenses, including depreciation, for the immediate future. These conclusions as to the results of operation, together with the results that might be anticipated under the rates requested by applicant, are shown in the following tabulation:

	Year 1932	Ensuing Year	Ensuing Year
	Existing Rates	Existing Rates	Applicant's Proposed Rates
Rate Base	\$88,000	\$89,500	\$89,500
Operating Revenue	\$26,000	\$27,000	\$31,160
Operating Expenses, including depreciation	<u>23,500</u>	<u>24,300</u>	<u>24,860</u>
Available for return	\$ 2,500	\$ 2,700	\$ 6,300
Rate of return (per cent)	2.84	3.02	7.04

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Under this showing, the Commission has no alternative other than to authorize rates substantially as proposed by applicant. The



quantity rate sought by applicant, when stated in terms of cubic feet, is 25.4 cents per 100 cubic feet. The quantity rates herein authorized are 25.0 cents per 100 cubic feet and should yield a return to the company of approximately 6.6 per cent on a rate base of eighty-nine thousand five hundred dollars (\$89,500).

In this particular case, it should be borne in mind that during the hearings held in connection with the complaint against turbid water the consumers indicated a willingness to pay a fair and reasonable increase in rates in the event the installation of the filtration plant, together with its future operation, should result in a serious loss in net revenue to the utility. The company in good faith expended in the neighborhood of sixteen thousand dollars (\$16,000) in complying with the demand of the users for filtered water and necessarily has and will incur increased operating costs and greater depreciation charges. The rates established in the following Order are designed to yield applicant an increased revenue which will be fair under existing conditions and will compare favorably with the rates in effect in neighboring communities served by public utility water companies.

The following form of Order is suggested.

O R D E R

Hillsborough Water Company, a corporation, having made application to the Railroad Commission for an order authorizing an 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 Hillsborough Water Company, 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 its Order upon the foregoing finding of facts and upon the further statements of fact contained in the Opinion preceding this Order,

IT IS HEREBY ORDERED that Hillsborough Water 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 thirty-first day of December, 1932.

METERED RATE SCHEDULE

Monthly Ready-To-Serve Charge to apply to all metered services.

5/8 x 3/4-inch meters-----	\$0.50 per month
3/4-inch meters-----	0.75 per month
1-inch meters-----	1.25 per month
1 1/2-inch meters-----	1.75 per month
2-inch meters-----	3.00 per month
3-inch meters-----	4.50 per month
4-inch meters-----	6.00 per month

Quantity Rates, in addition to the above service charge, to apply to all water used monthly.

Per 100 cubic feet-----\$0.25

Fire hydrants, owned and maintained by the Town of Hillsborough, each per month-----\$1.50

Special rates to holders of contracts as recorded in Volume 24, p. 134, Miscellaneous Records, San Mateo County, and by Exhibit 5, Case No. 3089.

TO EACH CONTRACT HOLDER

Hillsborough Water Company, its successors or assigns, shall furnish ten thousand (10,000) gallons of water daily (or so much thereof as demanded) at a price of five cents (5¢) for each one thousand (1,000) gallons and

an additional five thousand (5,000) gallons of water daily at a price of fifteen cents (15¢) for each one thousand (1,000) gallons, said water to be confined in use to land described in the contracts as recorded.

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IT IS HEREBY FURTHER ORDERED that Hillsborough Water Company be and it is hereby directed to file with this Commission, within sixty (60) days from the date of this Order, revised rules and regulations governing 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.

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 21<sup>st</sup> day of November, 1932.

C. C. Seamy  
Leon Whitely  
M. A. C.  
N. B. Harris  
Fred G. Stewart  
Commissioners.