

Decision No. 10576.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of)
WILLITS WATER AND POWER COMPANY)
for an order establishing rates to) Application No. 7069.
be charged by Willits Water and)
Power Company and regulating its)
service.)

Lilienthal, McKinstry, Raymond, Haber and
Firebaugh, by Joseph Haber, Jr., for applicant.
M. L. Gillogly, for Northwestern Pacific Railroad.
F. W. Tart, for Town of Willits.

BY THE COMMISSION.

O P I N I O N

This is an application of Willits Water and Power Company for the establishment of meter rates to be charged for water supplied consumers in the Town of Willits, Mendocino County, and to regulate service to the Northwestern Pacific Railroad.

The application alleges in effect that the present flat rates are non-compensatory and that the unrestricted use of water by the Railroad Company, in certain periods during the year, endangers the supply to the company's domestic consumers.

Public hearings in this matter were held in Willits and in San Francisco before Examiner Satterwhite. All interested parties were duly notified of the hearings and were given an opportunity to be present and to be heard.

This water system consists of a small diversion dam on James Creek; a 6-inch transmission pipe line, approximately

13,500 feet long; a storage reservoir of 18,000 gallons capacity; approximately 33,000 feet of distribution mains ranging from 3/4 inch to eight inches in diameter; and about 300 active services, practically all of which are metered.

The present flat rate schedule was established by this Commission in Decision No. 382, dated December 30, 1912. At that time none of the services were metered but owing to shortage of supply during the dry years of 1918, 1919 and 1920, it was decided that every means of preventing waste and conserving the supply should be adopted. Meters were therefore installed in 1921 as a means of accomplishing this result, and the utility now desires that a schedule of meter rates be established which will cover maintenance and operating expense and depreciation, and yield a reasonable return upon the investment.

Mr. J. T. Ryan, engineer for the applicant, presented a report which set forth the original cost of the property, on April 30, 1921, as \$66,842. This amount was later revised to show a cost of \$68,137 on November 30, 1921, and includes an estimate of necessary working capital of \$1,500, also an estimate of the cost of extensions required in the near future amounting to \$1,000.

Mr. C. E. Monett, one of the Commission's hydraulic engineers, presented a report which showed the cost of the system, on August 31, 1921, as \$65,045. This amount does not include any allowance for working capital nor for materials and supplies.

It appears that the utility owns 1037.65 acres of land below the diverting dam on James Creek which cost \$4,957. Applicant claims that it was necessary to purchase this land in order to acquire the appurtenant water rights and that the property is worthless when divested of these rights. It is also urged that portions of the land are required in order to afford access to the diverting dam and for right of way for the transmission pipe

line. It is therefore contended that the entire cost of this property should be included in the rate base.

On the other hand Mr. Monett recommends that the cost of this property be deducted from the rate base for the reason that it is not a portion of the watershed tributary to the diverting dam.

While it is apparent that a portion of this land should be retained by applicant to afford access to its dam and for pipe line right of way, it is also clearly evident that the area required for these purposes is a comparatively small portion of the entire tract. The evidence submitted does not conclusively indicate that the area below the dam is worthless when divested of the appurtenant water rights, and it is evident that some deduction from rate base should be made to cover a reasonable value for this non-operative property.

A careful consideration of all the evidence leads to the conclusion that an allowance of \$66,500 for rate base will at this time be fair to both the utility and the consumers.

Applicant claimed that an allowance of \$10,000 per annum is necessary for the proper maintenance and operation of the system, or an average of approximately \$33.33 per consumer. Mr. Monett's recommended allowance for this purpose was \$6,374 per year, or about \$21.25 per consumer.

Although the allowance for maintenance and operating expense as recommended by Mr. Monett was vigorously contested by applicant, it will be unnecessary to enter into an extended discussion of the various elements involved, for the reason that the evidence clearly shows that the amount recommended by Mr. Monett is greater than the actual costs of maintenance and operation on water systems fairly comparable with applicant's plant, and also that the amount

claimed by the utility is far in excess of similar costs on comparable systems.

Applicant's claim that Federal Income Tax should be allowed as an operating expense is not well founded, as has been established by recent decisions by the courts and by this Commission. Reference is made to this Commission's Decision No. 10348, dated April 24, 1922, in Application No. 6651 and Case No. 1544, involving electric rates of San Joaquin Light and Power Corporation, in which Commissioner Rowell said:

"It appears at this time from a careful study of court decisions and the act providing for this tax that this tax is not to be included in operating expenses."

After a careful review of the evidence submitted the conclusion is reached that a reasonable allowance for maintenance and operating expense for this water system is \$6,374 per annum.

Testimony submitted by applicant was to the effect that the revenues received from the operation of the system have not been sufficient to permit the establishment of a reserve to provide for the replacement of worn-out elements of the plant, although the company has from 1902 to 1917 declared dividends of six per cent. on capital stock of \$44,200, and dividends of eight per cent. subsequent to 1917. It further appears that applicant has never made application to this Commission for increased rates, although it was privileged to do so at any time subsequent to the acquisition of jurisdiction over water utilities by the Commission.

The successful and continued operation of any utility requires the setting aside of sufficient funds to cover depreciation of the various structures comprising its plant, and the evidence submitted in the present proceeding indicates that the sum of \$1,400 per annum, computed by the 6% sinking fund method, will

be a reasonable allowance for this purpose.

Annual charges based upon the foregoing items are as follows:

Return at 8% upon \$66,500	\$5,320
Maintenance and Operating Expense	6,374
Depreciation Annuity.	1,400
Total.	<u>\$13,094</u>

Operating revenues for 1920 were \$10,026 and for 1921 were \$11,963, the 1921 revenues being sufficient to cover maintenance and operating expense, depreciation annuity, and a return of 6.3 per cent. upon an investment of \$66,500. A study of the evidence submitted shows that operating revenues for 1921 were 32 per cent. in excess of those for 1918 and 19 per cent. in excess of those for 1920, thus indicating a substantial growth in the utility's business which, if continued, would in a short time equal the foregoing annual charges.

The utility has now installed meters upon practically all services and desires the establishment of a metered rate for service rendered. Data pertaining to the actual quantities of water used by consumers on this system are so incomplete as to make the computations of reasonable rates extremely difficult, and such computations must of necessity be based upon estimates of water use.

Applicant desires the establishment of a form of rate which consists of two separate charges, one a service charge and the other a charge for water consumed. Such a form of rate, while theoretically logical and entirely equitable, is not generally understood by consumers and has in some instances resulted in distrust and discord. The rate established herein will, therefore, follow the customary practice in such cases.

Applicant estimates that the average daily use of water on the system amounts to 166,656 gallons, with a maximum daily use of 270,000 gallons. It was also estimated that the Northwestern

Pacific Railroad Company used about 42 per cent. of all water delivered and paid therefor approximately 10 per cent. of the total revenue, at an average rate of less than four cents per 100 cubic feet, compared with an average rate of approximately twenty-three cents for all other consumers.

While purchasers of large quantities of water are entitled to a somewhat lower rate than are the ordinary domestic consumers, it is apparent that so great a differential as is indicated above is not only illogical but is also unjust, and the rates set out in the accompanying order are designed to remove such discrimination.

Applicant claims that the heavy draft upon the system by the Northwestern Pacific Railroad in the summer months has at times seriously affected proper service to the domestic consumers, and the Commission is asked to permit applicant to regulate the use of water for railroad purposes so as to safeguard the supply for other consumers. The testimony clearly shows, however, that the installation of meters and the establishment of a metered rate will prevent waste and conserve the water supply to a very material extent, and that, in all probability, no fears as to shortage of supply need be entertained for several years to come.

O R D E R

Willits Water and Power Company having made application as entitled above, public hearings having been held thereon, and the matter having been submitted,

It Is Hereby Found as a Fact that the rates now charged by Willits Water and Power Company for water delivered to consumers in and in the vicinity of Willits, Mendocino County, are unjust and unreasonable in so far as they differ from the rates herein

established, and that the rates herein established are just and reasonable rates for such service;

And basing the order upon the foregoing finding of fact and upon the statements of fact contained in the preceding opinion,

IT IS HEREBY ORDERED that Willits Water and Power Company be and the same is hereby authorized and directed to file with this Commission, within twenty (20) days from the date of this order, the following schedule of rates to be charged for water supplied to consumers, effective for all water delivered subsequent to July 1, 1922, or the meter reading period immediately preceding that date.

MINIMUM MONTHLY CHARGES

For 5/8 inch meter	\$1.25
" 3/4 " "	1.50
" 1 " "	2.00
" 1 1/2 " "	3.00
" 2 " "	4.00
" 3 " "	7.00
" 4 " "	10.00

MONTHLY METER RATES

From 0 to 5000 cubic feet, per 100 cubic feet	\$0.25
" 5000 to 50000 " " " " " "	0.20
" 50000 to 100000 " " " " " "	0.15
Over 100000 " " " " " "	0.10

MUNICIPAL USES

For each 4-inch fire hydrant, per month.	\$2.00
" " 3- " " " " " "	1.00
" " sewer flusher, " " " " " "	2.00
All other municipal uses to be charged for at the meter rates.	

MISCELLANEOUS USES

For each private fire service connection, per month	\$2.00
" " public watering trough, " " " "	1.75
All other charges to remain as at present in effect.	

IT IS HEREBY FURTHER ORDERED that Willits Water and Power Company be and the same is hereby directed to file with this Commission, within thirty (30) days from the date of this order,

rules and regulations to govern relations with consumers, such rules and regulations to become effective upon their acceptance by the Commission.

Dated at San Francisco, California, this 12th day of June, 1922.

H. B. Brundage

J. W. Martin

Charles H. Towne

L. J. Brown
Commissioners.