Decision No. 11525.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of PORT COSTA WATER COMPANY, a corporation, for permission to increase the rates for water furnished by said corporation. ) Application No. 7671.

A. E. Shaw, for applicant.

A. F. Bray, City Attorney of Martinez, for City of Martinez.

E. E. Gogarty, for Southern Pacific Company.

BY THE COMMISSION:

## OPINION

Port Costa Water Company, a public utility water supply corporation, makes application for an order of the Commission permitting an increase in the rates charged.

The application alleges in effect that the existing rate schedule is non-compensatory and inadequate to yield the annual revenue necessary to meet the expenses incurred for maintenance and operation, and also provide for a depreciation allowance and a fair interest return upon the reasonable value of its plant at present used and useful in furnishing water to its consumers.

Public hearings were held in this proceeding at Martinez and San Francisco before Examiner Satterwhite.

The rates at present in effect were established by this Commission in its Decision No. 8238, rendered October 15, 1920, in



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Application No. 4965. For the purpose of establishing a rate base in that proceeding a complete valuation of the properties of this utility was made as of March 1, 1920. At the hearing herein a stipulation was entered that all the records and files of the Commission in the above mentioned rate proceeding may be considered as evidence in this proceeding so far as they may be relevant.

Compilations of data on invested capital were presented by the applicant and by the Commission's engineering department. As there existed a considerable variance between these presentations, they are discussed at some length in this opinion.

An appraisal of properties used and useful as of March 1, 1922, compiled by Mr. E. H. Shibley, Manager, was submitted by applicant. A summary of this appraisal follows:

| Item | Amount |
|---|---|
| Rate base, March 1, 1920, as allowed in this Commission's Decision No. 8238, above mentioned. . . . . . . . . . . . . . | $650,000.00 |
| Total additions and betterments March 1, 1920, to March 1, 1922 . . . . . . . . . . . | 174,290.76 |
| Sub-Total . . . . . . . . . . . . | $824,290.76 |
| Deduct total retirements from capital account subsequent to March 1, 1920. . . . . | 18,511.30 |
| Mr. Shibley's net total appraisal as of March 1,1922. . | $805,779.46 |

In the computation of the above total for additions and betterments Mr. Shibley used the book entries of cost where possible to segregate same, and for all items where book costs were indeterminate or where entries had not been made he resorted to estimates of cost. In each case a percentage to cover general overhead expense was added for the various structural items. The following analysis of Mr. Shibley's appraisal of additions and betterments affords a comparison with that submitted by the Commission's engineer, compiled from actual book accounts and discussed later:

ANALYSIS OF SHIBLEY'S APPRAISAL OF ADDITIONS AND BETTERMENTS

| | Amount | Total |
|---|---|---|
| Total from capital accounts subsequent to March 1, 1920 . . . . . | $73,450.87 | |
| Portion Christopher & Bisso land purchase, non-operative in 1920. | 32,134.40 | |
| Estimated cost pumps and equipment, non-operative in 1920. . . . . . | 3,666.20 | |
| Estimated cost services and meters omitted in 1920 appraisal. . . . | 1,334.00 | |
| Present value pumps and equipment retired from service and placed in store house . . . . . . . . . . | 5,724.00 | |
| Total, largely from book entries. . . . . . | | $116,309.47 |
| Total overhead added to appraisal of construction costs. . . . . . | $10,532.19 | |
| Estimated cost of certain property donated to the company, including overhead. . . . . . . . . . | 11,651.10 | |
| Bills for equipment remaining unpaid March 1, 1922 . . . . . . . | 1,532.00 | |
| Credit on two old autos allowed on purchase of two new autos. . . . | 1,150.00 | |
| Total of items not entered in capital accounts. . . . . . . . . . . . . . | | 24,865.29 |
| Water right litigation charged subsequent to March 1, 1920. . . . | $25,660.20 | |
| Bills for water right litigation remaining unpaid March 1, 1922 . | 7,455.80 | |
| Total water right litigation. . . . . . . . . | | 33,116.00 |
| GRAND TOTAL - Additions and betterments . . | | $174,290.76 |

Mr. H. A. Noble, one of the Commission's hydraulic engineers, made a field investigation of the system and an examination of the vouchers for capital expenditures and the book entries of same for the period March 1, 1920, to May 1, 1922, which period is sub-



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sequent to the date of the prior valuation fixed by this Commission as mentioned above. The results were compiled and included in his report and submitted in evidence at the hearing. The appraisal made for the purpose of this proceeding includes an adjustment and correction of the rate base heretofore fixed by this Commission as of March 1, 1920, in Decision No.8238, by deducting therefrom for retirements and including the additions and betterments as obtained from the book records subsequent to that date. It may be summarized as follows:

APPRAISAL BY COMMISSION'S ENGINEER

| | Amount | Total |
|---|---|---|
| Rate base allowed by the Commission as of March 1, 1920. . . . . . . . . . . . . . . . . . | | $650,000.00 |
| Deduct for: | | |
| Overestimate hi-tensile C.I.pipe jobs Nos.1, 2 and 3, as disclosed by book entries of cost . . . | $4,798.76 | |
| Overestimate water right litigation expense . . . . . . . . . . | 2,785.94 | |
| Total materials and supplies on hand as of March 1, 1920 . . . . | 3,755.00 | |
| Structural properties retired from use March 1, 1920, to March 1, 1922. . . . . . . . . . . . . | 18,511.30 | |
| Total deductions. . . . . . . . . . . . . | | 29,851.00 |
| Sub-Total . . . . . . . . . . . . . . . . | | $620,149.00 |
| Add additions and betterments subsequent to March 1, 1920, compiled from book records with certain corrections: | | |
| From Mar.1,1920, to Dec.31,1920, | $11,932.39 | |
| " Jan.1,1921, to Dec.31,1921, | 49,570.81 | |
| " Jan.1,1922, to May 1,1922, | 542.99 | |
| Construction work in progress April 30, 1922 . . . . . . . . . . | 6,332.51 | |
| Bills rendered, amount unpaid at this date . . . . . . . . . . . | 1,532.00 | |
| Estimate of equipment in use, non-operative in March, 1920 . . | 3,682.20 | |
| Sub-total . . . . . . . . . . . | $73,592.90 | |
| Deduct for improper book entries | 1,096.40 | |
| Total additions and betterments . . . . | | 72,496.00 |
| Total appraisal submitted as of May 1,1922, | | $692,645.50 |

A comparison of the above appraisals as tabulated discloses that Mr. Shibley's appraisal is considerably greater in amount by reason of the inclusion of certain items, of which a total of $24,864.29 does not appear in the book entries of capital accounts. From the evidence the rate base as of March 1, 1920, included an estimate of $65,000 to cover the total expense of water right litigation then current. This litigation has now been terminated, and the company records show $62,214.06 as the actual expense of the litigation, including bills as yet unpaid of $7,455.80. The inclusion of $33,116.00 for this item creates a duplication.

Applicant contends that the cost of the portion of Christopher and Bisso lands, heretofore considered non-operative property, amounting to $32,134.00, should now be included as operative property. Mr. Shibley testified that this is water-bearing land available for additional development of well sources of supply, which will be needed in the future to meet the gradual increase in the demand for water on the system. In this view the Commission concurs.

The book accounts show $1,843.95 as the purchase price for two new automobiles. It appears that this sum does not include $1,150 allowed as a credit for two old automobiles taken in exchange.

Applicant acquired certain properties by gift and no entries of same appear in the book accounts. Mr. Shibley submitted an estimated cost of these properties, totaling $11,651.10, which will be allowed.

The evidence shows that the item of overhead expense included in applicant's appraisal was computed theoretically, without proper regard to the amount actually incurred during the construction. The percentages arbitrarily added by Mr. Shibley for the items in this expense were based on those heretofore used by the Commission's engineer in his appraisal of the system as of March, 1920, wherein was employed the estimated reproduction cost method, book costs not being available. With the possible exception of interest during construction, it appears that the overhead expense incurred must be already included in the book accounts, but a segregation of same had not been made. After a careful consideration of the evidence regarding overhead, it is believed that an allowance of $5,700 will cover any expense so incurred and not included in the actual book costs of additions and betterments subsequent to March 1, 1920, or in those of the hi-tensile pipe mains laid in 1919 and known as Jobs Nos.1, 2 and 3.

Applicant submitted an inventory, compiled from a survey, of the materials and supplies on hand as of June, 1922, totaling $5,696.55. In addition Mr. Shibley's appraisal includes $5,386.00 as the second-hand value of certain pumps and equipment taken out of service and placed in storage upon the installation of the air lift system of pumping. The above totals for materials and supplies on hand are not included in the appraisal submitted by the Commission's engineer, but should be allowed.

It is shown by the evidence that the prior rate base of $650,000 included the sum of $5,000 as working capital and also an allowance for omissions in that rate base ample to cover the items for meters and services which had, at the time, apparently not been included in the schedule of properties as of March 1, 1920. No further allowance will be necessary at this time because of these matters.

The evidence shows that various additional items, totaling approximately $3,700, were included in the operating expense of 1921 which should have been carried in capital account.

Summing the items indicated above which were not included in the valuation compiled by the Commission's engineer from book records of additions and betterments, there results the total of $65,417.

After very careful consideration of the matters indicated above and all other evidence submitted, the Commission is satisfied that the applicant is entitled to a return upon $758,000 as fairly representing the investment in property used and useful in serving the public, as of May 1, 1922.

In Decision No. 8238 the Commission allowed a depreciation or replacement annuity, computed by the 6 per cent. sinking fund method, of $5,075. Applicant submitted in this proceeding a revision of that sum based on the additions and retirements up to March 1, 1922. The Commission is of the opinion that the sum of $6,700 is the proper allowance for replacement annuity when all the depreciable property in service on May 1, 1922, is taken into consideration, the 6 per cent. sinking fund method of computation being used as a basis.

Following is a comparative tabulation of operating expenditures and revenues for the past three years as given by applicant in the annual reports which have been filed with this Commission. The totals for operating expenses are exclusive of the amounts charged for water right litigation and for depreciation, consideration having been given same elsewhere herein.

| Item | 1919 | 1920 | 1921 |
|---|---|---|---|
| Total Operating Revenues . | $91,743.07 | $101,824.04 | $128,844.66 |
| Total Maintenance and Operation Expenses . . . | 59,650.88 | 62,715.81 | 76,909.94 |
| Differences . . . . . | $32,092.19 | $39,108.23 | $51,934.72 |

The above differences represent, for these respective years, the sums which have apparently been available for depreciation allowance and return upon the investment.

The increase of approximately 27 per cent. shown in the 1921 revenues over those for the year 1920 is largely the result of the rate increase granted by this Commission in Decision No. 8238, which was effective for two months of 1920 and for the entire year 1921.

The total maintenance and operation expense as charged by applicant for the year 1921, namely, $76,909.94, represents an increase of $14,194.13 over that charged for 1920. A comparison of the details shows that this difference may in general be accounted for by salary increases which were effective the latter part of 1920, by an increase in the quantity of electric power purchased and by the amount of extraordinary repairs to pumping equipment, wells and pipe mains. Applicant submitted an estimate of $79,000 to cover future operating expenses, using as a basis the total given for 1921 increased by the amount of the salary of an additional operator proposed for the Crockett pump.

The evidence clearly shows that 1921 operating expense, considered as a measure of future cost of operation, is subject to certain corrections for items not properly included and also to a modification of certain expenditures which do not recur annually in like amounts or which only occur at irregular intervals. It appears that certain expenses incurred in making replacements on the system have been charged to operating expenses instead of to depreciation reserve, but an exact segregation of the items so charged and included in the 1921 operating expense would be difficult, since book accounts of replacements and abandonments have not been kept.

It is believed that a considerable saving might be made and greater efficiency obtained were the affairs of this utility administered and directed from a single office in the territory served, rather than from a separate office in San Francisco together with a local office as at present.

This applicant is to be commended for its efforts toward increasing and cheapening the production of water at certain of its wells, by installing improved equipment. It seems reasonable to anticipate noticeable success in this connection.

Very careful study and consideration have been given to the evidence submitted regarding the proper and reasonable cost of maintaining and operating this system. Not only have the expenses incurred in 1921 been reviewed, but also the expenses of preceding years, for the purpose of determining the proper allowance for this item of annual expense in the future for inclusion in the sum which should be produced from the application of the rate schedule. In this study the Commission has carefully considered and made allowance for the adjustment of costs previously incurred in the light of future necessity and is convinced that the sum of $70,000 annually should be ample to meet the necessary and reasonable expense of maintaining and operating the system of this applicant.

Based upon the foregoing, the following tabulation summarizes the annual charges to which the applicant is entitled from rates:

| | |
|---|---|
| Return on investment. . . . . . . . . . | $60,640 |
| Maintenance and operation expense . . | 70,000 |
| Replacement annuity . . . . . . . . . . . | 6,700 |
| Total annual charges . . . | $137,340 |

The record of monthly water use shows a total consumption of 59,166,339 cubic feet in 1919, of 63,486,373 cubic feet in 1920 and of 67,046,603 cubic feet in 1921. Therefore the rate of increase of water consumption in both 1920 and 1921 was over 5 per cent. Of the total water consumed in 1921 about 87 per cent. was delivered to industries and other large users having a monthly use of over 12,000 cubic feet. Based on the 1921 water use the rate schedule as set out in the accompanying order would yield approximately $5,630 additional revenue, or a total of



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$134,474. This would indicate a deficit for 1921 based upon the allowed annual charges - viz., $137,340 - of only $2,866, which is less than 2½ per cent. The normal growth in two years can be counted upon to more than offset this small amount and the economies already begun and suggested should result in additional profit to the company.

It appears that applicant may receive some revenue from leasing or farming water-bearing lands included in the rate base. If such lands are leased, or if they are used by applicant for farming purposes, the revenues, as required by the Commission's uniform system of accounts, should be reported under "non-operating revenues". The expenses incurred to obtain such revenues should be reported as "non-operating revenue deductions".

## O R D E R

Port Costa Water Company having made application to this Commission for authority to increase its rates, public hearings having been held and the matter being submitted,

It Is Hereby Found as a Fact that the present rates of the Port Costa Water Company in so far as they differ from the rates herein established, are unjust and unreasonable, and that the rates herein established are just and reasonable rates to be charged by said company for water service.

And basing its order upon the foregoing findings of fact and upon the other statements of fact in the opinion preceding this order,

IT IS HEREBY ORDERED that Port Costa Water Company be and it 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, said rates to be charged for all service rendered subsequent to February 28, 1923:

MONTHLY RATES

1. Minimum payments for metered service:

| | |
|---|---|
| For 3/4 inch and 5/8 inch meters . . . . . . . . . | $1.25 |
| For 1 inch meter . . . . . . . . . . . . . . . . . . | 2.50 |
| For 1½ " " . . . . . . . . . . . . . . . . . . | 3.75 |
| For 2 " " . . . . . . . . . . . . . . . . . . | 5.00 |
| For 3 " " . . . . . . . . . . . . . . . . . . | 6.00 |
| For 4 " " . . . . . . . . . . . . . . . . . . | 8.00 |
| For 6 " " . . . . . . . . . . . . . . . . . . | 12.00 |

2. Quantity Rates:

| | |
|---|---|
| From 0 to 2000 cubic feet, per 100 cu.ft. . . . | .35 |
| From 2000 to 6000 " " " " " " . . . | .30 |
| From 6000 to 12000 " " " " " " . . . | .25 |
| All over 12000 " " " " " " . . . | .175 |

3. Shipping Use:

| | |
|---|---|
| For all boats, per 100 cubic feet delivered. . . | 1.75 |
| Minimum charge . . . . . . . . . . . . . . . . | 3.00 |

4. Municipal and County Use:

1. For fire hydrants:

| | |
|---|---|
| 3 inch, each per month. . . . . . . . . . . . | 1.75 |
| 2 " " " " . . . . . . . . . . . | 1.25 |

2. For sprinkling roads and streets by the City or County, measured by tank wagon capacity, per 100 cubic feet. . . . . . . . .17

All other public use at regular meter rates.

5. Flat Rates:

The flat rates at present in effect shall remain unchanged.

IT IS HEREBY FURTHER ORDERED that the effective date of this order be and the same is hereby designated as February 10, 1923.

Dated at San Francisco, California, this 18th day of January, 1923.

C. L. Seavey
H. W. Brundige
Irving Martin
Egerton Shore
J. F. Eshleman

Commissioners.



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