

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 1327

In the matter of the application
of LOS ALTOS WATER COMPANY for
authority to increase its rates
for water.

Application No. 976.

C. E. Miner for applicant.

THELEN, Commissioner.

O P I N I O N.

This is an application for authority to increase water rates approximately 25% over the existing rates.

The Los Altos Water Company was incorporated under the laws of this State on October 19, 1907, for the purpose of constructing, operating and maintaining a system of water works to supply water to the unincorporated town of Los Altos and adjacent territory in Santa Clara county. The corporation was incorporated by the owners of the Altos Land Company, for the purpose of supplying water to lands which that company had purchased and was placing on the market. The company's water system was completed in March, 1908. Its capital stock is still owned by people who are interested in the Land Company.

The applicant pumps water from two wells located within the Los Altos tract and supplies water to some 90 customers, of whom 87 are under meter and 3 without meter. The latter three take such small amounts of water that they would pay only the minimum in any event, even if meters were installed.

The applicant claims that the original cost of its water system was \$30,366.52, and that it installed during 1913, new equipment costing \$2,424.43, thus making the total cost of the system \$32,791.00. This amount is probably somewhat less than it would cost to reproduce the system, for the reason that no charge has been made for services performed during construction by

engineers and superintendents of the Land Company. Mr. James Armstrong, one of this Commission's hydraulic engineers, testified that it would cost \$35,755.00 to reproduce the property new, and that its depreciated reproduction value is about \$33,271.00. He estimated an annual depreciation amounting to \$772.55.

The rates at present charged by Los Altos Water Company are as follows:

For the first 4,000 gallons.....	\$1.00
For each additional 1000 Gals.....	.20 per 1000 Gals.
Minimum charge per month.....	1.00

The rates which applicant desires to establish are as follows:

For the first 4,000 gallons.....	\$1.25
Over 4,000 gallons to and including	
10,000 "25 per 1000 Gals.
Over 10,000 "20 " " "
Minimum charge per month.....	1.25

The application for authority to increase the rates is based on the claim that the revenue produced by the existing rates is not sufficient to pay even operating expenses and maintenance. Applicant asks rates high enough only to pay operating expenses and maintenance, with no allowance for return on the investment or for depreciation. This claim is apparently made on the theory that the payments made for the land bought from the Land Company have been sufficient to pay for the investment of the Water Company made by or through the Land Company.

The hearing on this application was held in Los Altos on March 20, 1914. At the hearing applicant submitted the following estimated operating charge for the year 1914:

Pump labor @ \$75 per month (of which sum \$250 per year is chargeable to work for the Land Company, leaving to be charged against the Water Company \$650).....	\$650.00
Lubricants.....	30.00
Electric power for pumping.....	600.00
Ordinary repairs to pump equipment and wells.....	150.00
Extraordinary repairs to pump equipment and wells (being the sum of \$1140.47, expended in the year 1913, distributed over a period of 5 years)	228.10
Repairs to distributing mains	5.00

Forward, \$1663.10

Bro't forward \$1663.10

Lease for pipe line to Peninsular R.R.Co.,	2.00
Advertising, telephone, stamps, drayage, freight, and express.....	67.50
Insurance.....	25.00
Office rent @ \$10.00 per month.....	120.00
Taxes.....	122.95
Superintendent, General Manager, Bookkeeper @ \$100.00 per month.....	1200.00
	<hr/>
	\$3200.55

I consider that the item of \$5.00 for repairs to distributing mains is too small and that at least \$25.00 should be allowed for this item. This would make a total of \$3220.55. All of these items have been carefully examined and are reasonable, with the possible exception of the salary allowed to the superintendent, general manager and bookkeeper. Mr. Miner, who performs these functions, also conducts a real estate, loan and insurance business and is the local agent of the Land Company. He testified that he receives a salary of \$125.00 per month, of which \$25.00 is paid by the Land Company for keeping its books and attending to its affairs other than the sale of property, and that \$100.00 is paid by the Water Company. It will appear hereafter that even if the sum of \$75.00 per month only is allowed for his services to the Water Company, so that the total operating expenses would be reduced to \$2900.55 per year, the rates now asked for would appear to be fair and reasonable rates.

The applicant submitted the following statement of its income from water sales in the past under the existing rates:

July 1910 to December 31, 1910.....	\$701.41
1911.....	1367.20
1912.....	1883.68
1913.....	2115.36

Mr. Miner testified that the proposed rates would result in a revenue of approximately \$2800.00 during 1914, but that in reaching this conclusion, he had not taken into consideration any increase in the business. The average number of consumers for 1910 to 1913, inclusive, is as follows:

Last six months of 1910.....	36
1911.....	43 3/10
1912.....	62 4/10
1913.....	78 2/10

It thus appears that the percentage of growth in 1912 over 1911 was 44 1/10%, and that the percentage of growth in 1913 over 1912 was 25 3/10%. Mr. Miner estimated that during the year 1914, the rate of increase would be approximately 15%. The proposed rate amounts to an increase of approximately 25% over the existing rates. Estimated on this basis, the rate of return for 1913 and 1914, under the existing rates and under the proposed rates, would be ~~about~~ as follows:

	<u>Existing Rates</u>	<u>Proposed Rates</u>
1913.....	\$2115.36	\$2644.20
1914 (15% increase).....	2432.66	3040.83

It will thus be seen that if the proposed increase is allowed, and if we estimate an increase of 15% in the business for the year 1914, the total resultant revenue, being \$3040.83, will be \$280.67 less than the operating and maintenance expenses, if a salary of \$100.00 per month is allowed to the superintendent, general manager and bookkeeper. If the allowance for salary is reduced to \$75.00, the revenue will be somewhat in excess of the operating and maintenance charges, but if an allowance is made for contingencies, or if the expected increase in business is not realized the revenue will barely be sufficient to meet even the operating expenses, even though the allowance for the manager's salary is reduced to \$75.00 per month.

From a careful examination of all the facts bearing on the question, I am of the opinion that the request to increase the rates is reasonable and that it should be granted. It should be borne in mind in this connection that no allowance whatsoever is being made for return on the investment or for depreciation. Although notice of the hearing was sent to each consumer, no one appeared in opposition thereto. Mr. J. S. Merrill appeared to secure information but did not oppose the granting of the application.

While this inquiry is primarily one of rates, I desire to

draw attention to the practice of this company in charging the sum of \$12.50 for tapping and installing each new service connection. As this Commission has held in City of Glendale vs. Title Guarantee and Trust Company, Trustee for the Glendale Consolidated Water Company, (Vol. 2, Opinions and Orders of Railroad Commission of California, p. 989, and the cases therein referred to), we believe it is as much the duty of a water company to install the service connections as to install its pumps and reservoirs and mains. The cost of such connection is a proper charge to capital account, and should be considered in establishing the rate. While we do not desire to make any order in this case on this subject, we would suggest to the applicant that it give due consideration to this question, with a view of eliminating this charge unless some very good reason appears to the contrary.

I submit herewith the following form of order:

O R D E R:

LOS ALTOS WATER COMPANY having applied for authority to increase its rates charged for water to a rate of \$1.25 for the first 4,000 gallons, 25¢ for all water over 4,000 gallons up to and including 10,000 gallons, and 20¢ per thousand gallons for all water over 10,000 gallons, with a minimum charge of \$1.25 per month, and a public hearing having been held upon said application, and the Commission finding that the rates which applicant desires to charge are just and reasonable rates,

IT IS HEREBY ORDERED that said application be and the same is hereby granted, and applicant is hereby authorized

to file with this Commission a schedule showing said rates, to become effective on and after April 1, 1914.

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 28th day of March, 1914.

John M. Eschman

H. B. Loveland

W. H. [illegible]

Wm. J. [illegible]

Edwin O. Edgerton

Commissioners.