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Decision No. 1677

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application of the CLAREMONT DOMESTIC WATER COMPANY for order authorizing an advance in rates for domestic water in the City of Claremont, California, and in the rates for irrigation water used adjacent thereto.	Application No. 1144.

Geo. S. Sumner for applicant.
Russell K. Pitzer for City of Claremont.

LOVELAND, Commissioner.

O P I N I O N.

The Claremont Domestic Water Company is engaged in the business of supplying water for domestic and irrigation purposes to residents of the City of Claremont, California, and in territory adjacent thereto and also of supplying the City of Claremont water for street sprinkling and fire protection.

The present rates of applicant within the City of Claremont were fixed by the Board of Trustees of said city and became effective on the 19th day of May, 1913, as shown in Ordinance No. 88 of said City, such rates being on file with the Railroad Commission of the State of California. Under these rates the consumer was required to pay a minimum rate for the first 500 cubic feet, or less, of $1.25 per month. For each additional 100 cubic feet to 2500 cubic feet, 15¢ per month. For each 100 cubic feet over 2500 cubic feet 12½¢ per month, with the discount on the above prices of 20% if bills were paid on or before the 15th of each month.

Applicant asks that the minimum rate for the first 500 cubic feet be made $1.50 per month; that for additional use over 500 cubic feet the additional price remain the same as at present but that the discount for payment before the 15th of each month be made 10% instead of 20%, as at present.

Applicant also asks that for the purpose of these rates

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each store, office, house, apartment or separate household shall be counted as a separate user and pay not less than the minimum rate hereinbefore stated; and further asks that a rate for irrigation water outside the city be fixed at 4¢ per miner's inch per hour; and that the rate for fire hydrants and street sprinkling for the City of Claremont be fixed by the Railroad Commission of the State of California at such rate as the Commission considers equitable and just.

On the 6th day of February, 1914, the City of Claremont voted to turn over to the Railroad Commission jurisdiction as to public utilities formerly vested in the city. At the hearing held for this application, the City asked that the Commission ascertain and fix just rates, whatever they might be; so in the consideration of this application of the Claremont Domestic Water Company it may be considered that the Commission is acting on the request of both parties in interest.

The Claremont Domestic Water Company alleges in its application that the present rates as quoted above have not produced a reasonable income on the capital invested.

Historically, the Claremont Domestic Water Company is successor to the Citizens Light and Water Company, which company made application to the Commission in June, 1913, for permission to sell to the Claremont Domestic Water Company 7005 shares of stock at $10 par value, alleging that the value of the property had been appraised jointly by the City and the Citizens Light and Water Company at $89,645.00. By stipulation, the testimony and exhibits introduced at that time under Application No. 501 have been made a part of the proceedings in this application.

The present application was heard in the City of Claremont, California, on June 20, 1914, and the history of applicant was reviewed from the time it was first established. Testimony showed that by the usual steps which occur with small water companies the dividends from year to year were declared in the form of additional stock and the net income invested in the system.

It appears that about $37,000.00 or $38,000.00 was the actual cash investment, although it was claimed that services of of-

ficers had been gratis to the company to the amount of several thousands of dollars. Little by little the amount of outstanding stock increased until the Citizens Light and Water Company had about 5400 shares outstanding, representing an alleged investment of $54,000.00. In addition to this, applicant, the Claremont Domestic Water Company, as successor in interest to the Citizens Light & Water Company, claims an additional investment of $15,000.00, which claim arises from an alleged expense by applicant, or its predecessor, of said amount of $15,000.00 to protect their wells from possible reduction in the flow of said wells due to other wells being drilled nearby. Adding to this the alleged value of water developed and undeveloped, applicant, the Claremont Domestic Water Company, claims the value of its properties in excess of $100,000.00, although it does not ask that that value be used for rate fixing purposes.

At the hearing the valuation which was presented to the Commission by the Citizens Light and Water Company in June, 1913, under Application No. 501, was again presented to the Commission by the Claremont Domestic Water Company as the valuation of applicant's property, and this valuation plus additions to the plant subsequent to June, 1913, was offered as a basis for rate fixing purposes. The valuation presented by applicant, other than as to the valuation of water and water rights was not contested, and the testimony at the hearing was principally directed to an effort to prove the value of water and water rights.

It appeared that applicant, the Claremont Domestic Water Company, had purchased of Mr. C. T. Naftel forty acres of water bearing land in the southeast quarter of Section 33, township 1 north, range 8 west, S.B.M., for the sum of approximately Eleven Hundred (1100) Dollars; that thereafter applicant had sold all but about seven acres of said forty acres at about Three Hundred and Fifty (350) Dollars per acre.

Realizing or believing that the channel of the underground flow of water ran underneath the remainder of said southeast quarter of Section 33, as above described, the Claremont Domestic Water Company

secured from Mr. Naftel the right to develop water in the northeast quarter of said southeast quarter in such quantities as it desired, Mr. Naftel retaining the privilege of developing water, but only for use on said northeast quarter of said southeast quarter of Section 33.

Applicant obligated itself to sink a 14 inch well on said northeast quarter of said southeast quarter of Section 33 and to furnish to said Naftel water to irrigate said northeast quarter of said southeast quarter of Section 33 at cost, cost being defined as to include all items of expense in connection with the operation of the plant, including depreciation and engineer's salary. This agreement with said Naftel, applicant desires to capitalize for $15,000.00, such amount being the $15,000.00 above mentioned as having been spent to protect its water rights.

It may be said in passing that it will be difficult to justify this claim for the reason that applicant, under the agreement, receives from said Naftel the cost of producing the water used by said Naftel, and a liberal interpretation of the term "cost" would place said Naftel in about the same position as any outside user of water.

The agreement further binds applicant, subject to its having the water, to furnish water at the same price, to-wit: cost and under the same conditions and in such quantities as may be necessary to properly irrigate the northwest quarter and the southeast quarter of the southeast quarter of Section 33, township one north, range 8 west, S.B.M., the consideration named in the contract for such service being $1.00.

It was stipulated in the agreement between the Claremont Domestic Water Company and said Naftel that the cost which should be charged to said Naftel should be adjusted at different periods and as the present was the time for such adjustment the Commission was asked to fix the cost or price to be paid by said Naftel for the ensuing period.

It developed at the hearing that there is a disagreement in the interpretation of the contract between applicant and said Naftel and as the whole matter between applicant and said Naftel is comprehended in the contract heretofore entered into and under which said parties have been operating, I do not believe that the jurisdiction of the Railroad Commission should be extended to cover contractual relations entered into long previous to the effective date of the Public Utilities Act, unless the Commission finds that public necessity requires the setting aside or modification of such contract.

The Claremont Domestic Water Company furnished our Engineering Department with a tabulated record of the water pumped and the water sold. It was found that an average of 22 miner's inches has been pumped for domestic use, but that only about 13 miner's inches were actually delivered, showing a loss of 42% of the water pumped. This loss is abnormal and has added to the pumping expense which the City has to bear. Such a condition should be remedied at once by the company and steps taken to locate the loss.

The Claremont Domestic Water Company, through its president, Mr. Gillett, stated that applicant was satisfied with the present rates for water providing applicant was not asked to hold any surplus water in reserve for the future necessities of the City of Claremont.

Applicant therefore asked that the City of Claremont specify the quantity of water which the City desired to have held in reserve for future growth of the city's needs and to agree that applicant dispose of the surplus as it saw fit. The members of the Council were unwilling to pass upon that point, preferring to leave it to the judgment of the Railroad Commission.

From an analysis of the expenses of maintenance and operation of applicant's property as will appear later in detail, I have found, after allowing interest on investment, depreciation and expense of maintenance, an apparent profit of $1511.05. This sum of $1511.05 when capitalized at 7% shows that interest has been received on a sum of at least $21,600. Using the value of $600 per

miner's inch which was suggested by the company and embodied in the valuation of their water rights, I find that this sum, $21,600 would represent the inclusion in capital account of a value for about 36 miner's inches of water. I therefore find that the present rates charged for water are sufficient to return the necessary revenue upon the property used and useful in the operation of this utility, and also interest at 7% on the value of 36 miner's inches, and this sum of 36 miner's inches is the quantity of water which I shall state to be the maximum amount under the present rates which shall be reserved for domestic use for the City of Claremont. I do not think that the City should be required to pay rates on any greater amount of water than this which I have found herein, and the company should have the privilege of marketing their surplus to the best advantage among irrigation users adjacent to Claremont.

Applicant has asked that each store, office, house, apartment or separate household shall be counted as a separate user and pay not less than the minimum rate as fixed. Such a rule, with somewhat different wording, appears in Ordinance No. 88 of the City of Claremont. If applicant is willing to provide independent services and meter each store, etc. from which the minimum charge is collected, I see no injustice in such a rule.

The City of Claremont should awaken to the importance of owning its own water system if it expects to have need, in the future, for the total yield of the wells which applicant owns. At some future date, however, if the City finds that its domestic needs will soon exceed the supply of 36 inches, it would be possible for the city to apply to the Commission to have enforced the State Amendment passed in 1913, which authorizes this Commission, upon due investigation, to order any utility to cease adding customers to its system.

My reason for believing that the present rates are amply remunerative upon the investment will appear from the following: The Hydraulic Engineering Department of the Commission made an extensive investigation of the situation examining carefully the books of the company and the condition of the system. The value

of the physical property was found to be $45,964.00 without any deduction for accrued depreciation. In this amount, only such property was included as is used and useful to the operation of the system, and an allowance for overhead expenses has been made therein. Our engineers found from the books of the company the following conditions:

(A) Total Receipts: 12 months ending June 1, 1914.

Commercial sales,	$11,257.13	
Fire Hydrants,	204.00	
Street sprinkling,	25.25	
Irrigation use,	1,132.20	
		$12,618.58

(B) Total Expenses, same period

Maintenance and operation	$ 6,651.27	
7% interest on investment	3,217.48	
Sinking fund, 4%	1,238.78	
		$ 11,107.53
Apparent Profit,		1,511.05

It was found that two items, one of interest on a $8500 note and another an amount which was properly new capital invested, had been erroneously included in the operating expenses, and these were accordingly removed.

The request of the Claremont Domestic Water Company to be allowed to charge 4 cents per hour-inch for irrigation was opposed by irrigation users upon the ground that the prevailing rate for irrigation water in that vicinity was three cents per hour-inch.

The Claremont Domestic Water Company admitted under cross-examination that it did not have to maintain any system of irrigation mains but sold water at an outlet from the reservoir, so that in fixing such rates the investment in the pumping plant would be the main consideration.

The testimony introduced tended to show that irrigation water was sold in the vicinity of Claremont for three cents per inch-hour. The average power cost per miner's inch per hour for the water which is secured from pumping plant #1, has averaged from two-thirds to one cent. Experience in the segregation of expenses

of many water companies has shown that the maintenance and operation expense should average 40% of the gross income of a water utility. Applying this percentage to the cost at one cent per inch-hour for power, it is found that two and one-half cents per inch-hour would be sufficient to make the usual return necessary to a water company. The capital upon which a reasonable return should be received for the supply of irrigation water only is merely the cost of the wells and pumping plant, as no item of expense has been incurred for irrigation pipe lines. Therefore, I am not inclined to allow the larger rate of four cents per inch which the applicant has asked.

In the matter of the fire hydrant rental, the Commission has been asked to set a fair rate. An analysis of the pipe system in Claremont has been made by our Engineering Department, and we find that the pipe system, as a whole, is of small diameter. The City has been paying $4.00 per year for each of the fire hydrants in the past. The usual rate in similar cities for fire hydrant rental is between $1.50 and $2.50 per hydrant per month, but when such payment is secured, the supply of water is sufficient to furnish two or more fire streams simultaneously.

The Company has undertaken the responsibility of furnishing fire protection to the City of Claremont, as evidenced by the revenue received from the City therefor, and applicant having assumed this responsibility, it is now the duty of this Commission to see that proper service is rendered. I will recommend that applicant construct a new pipe line from its reservoir to the business district of town, thereby re-enforcing the supply of water available throughout the City for fire protection. For each fire hydrant which is supplied from a four inch pipe, or larger, after this new main is laid, I will recommend

the rate at $2.00 per month. If the fifty hydrants now on the system be used on the new system, the revenue therefrom will exceed the annual interest on the investment.

The rate for water used in street sprinkling has been $1.50 per day for each sprinkling wagon in use. There is no record of the amount of water used and no measure by which to justify this rate. I consider that a rate of fifteen (15) cents per thousand gallons for the water used for street sprinkling will be commensurate under the conditions existing in Claremont.

The Commission received a letter from Mr. Naftel on June 11, 1914, asking that the Commission fix the rate which he should pay for water, when the other rates were adjusted. The agreement with Mr. Naftel called for an adjustment of the rates every five (5) years, and the time was near for a re-adjustment. Applicant has been charging Mr. Naftel one dollar ($1.00) per hour for the use of the pumping plant. There has been no measurement of the water. The water is pumped up hill to the corner of the tract and is used directly from the pipes. When pumping for the lower districts, a stream of 35 miner's inches is secured but this amount is not the quantity discharged when pumped for the greater lift. A total of 622 hours is the record of hours pumped during the last 12 months, bringing an income of $622. The power cost has been about 35¢ per hour, or a total of $217, leaving $405 to cover the expense of operation, such as attendance, depreciation, etc. During the year just past, the same plant was used 1041 hours for pumping water for the city system, and therefore 63% of the sinking fund annuity of $271.65 is chargeable to other users than Mr. Naftel. The share which Mr. Naftel should bear is only about $100, leaving $305 to care for the attendant's wages at the plant and miscellaneous expenses, which

I consider reasonable. I therefore do not find it necessary to change the rate for the water used by Mr. Naftel.

For these reasons, I recommend the disposition of this application as shown in the Order following.

O R D E R.

IT IS HEREBY ORDERED that the application for an increase in the rates for domestic water be and the same is denied.

IT IS HEREBY FURTHER ORDERED that the application to increase the rate for water furnished for irrigation outside the City of Claremont be and the same is hereby denied.

IT IS FURTHER ORDERED that the rate for water used for street sprinkling purposes be hereafter measured and that the rate therefor be 15¢ per thousand gallons.

IT IS HEREBY FURTHER ORDERED that applicant construct a new pipe main from its reservoir to the business district of the City to insure adequate fire protection; that said main be not less than 10" in diameter.

IT IS HEREBY FURTHER ORDERED that the rate for each fire hydrant served from mains of not less than 4" in diameter be $2.00 per month, the charging of such rate to commence upon the completion and placing in service of the 10" main referred to above in this Order.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission.

Dated at San Francisco, California, this 18th day of July, 1914.

John M. Eshleman
H. D. Loveland
Alex Gordon
Max Thelen
Edwin O. Edgerton
Commissioners.