

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

ORIGINAL

Decision No. 1855

CITY OF MONTEREY,

Complainant,

v.

Case No. 500.

THE MONTEREY COUNTY WATER WORKS,

Defendant.

In the Matter of the Application of
the MONTEREY COUNTY WATER WORKS for
permission to increase rates for water
service.

Application No. 950.

Fred A. Treat and Arthur R. Kelley for City of Monterey.
Richard Bayne, J. P. Langhorn and J. P. O'Brien for
The Monterey County Water Works.
H. G. Jorgensen for City of Pacific Grove.

ESHELEMAN, Commissioner.

O P I N I O N

The City of Monterey filed its complaint against the rates of the Monterey County Water Works, attacking the rates as unjust and unreasonable and asking that reasonable rates be established. Subsequently the Monterey County Water Works, hereinafter designated as the Water Company, filed its application asking to have its rates increased. By agreement the two proceedings were carried on together and likewise by stipulation all of the rates of this Water Company, both in the City of Monterey, City of Pacific Grove and elsewhere, were considered in issue in this case.

By reason of the great amount of work now before the water department of this Commission it has been impossible up to this time for that department to furnish an analysis of the technical testimony presented in this case. Such analysis is now completed and the case is ready for decision.

case. In 1906 the water utility business was incorporated by the

The rates in effect at the time these actions were taken, Improvement Company under the name of Monterey County Waterworks",

instituted, together with the higher rates asked to be fixed by which issued 10,000 shares of stock at \$100 per share, by

the Water Company, appear in the following table, and the Commission has reduced the present rates per thousand gallons to corresponding rates per hundred cubic feet, for purposes of comparison

organization of the water company and the rates asked for the

responding rates per hundred cubic feet, for purposes of comparison utility corporation, the Monterey County Waterworks",

in the discussion of the case: The capital stock authorized was 30,000 shares of the

DISTRICT	CLASS OF SERVICE	Present Rates per 1000 Gal. Per 100 cu.ft.	Rates Asked For Company. Per 1000 Gal. Per 100 Cu.ft.
Soon after completion of the water system supply			

City of Monterey	Domestic	\$0.36	\$0.27	\$0.41	\$0.30
"	Municipal	0.25	0.18	0.41	0.30
Monterey and Pacific	Charity	Free	----	0.41	0.30
City of Pacific	Domestic	0.36	0.27	0.41	0.30
"	Municipal	0.25	0.18	0.41	0.30
Miscellaneous	Domestic	0.36	0.27	0.41	0.30
"	Municipal	0.25	0.18	0.41	0.30
Del Monte (Contract)	Gravity	0.12	0.09	0.41	0.30
Presidio	Gravity	0.175	0.13-1/8	0.41	0.30
From the Carmel River	Pumped	0.275	0.20	0.51	0.38
Light House	Sprinkling	0.25	0.18	0.41	0.30
Monterey County	Sprinkling	0.25	0.18	0.41	0.30

the Water Company which was described in the report of the engineer. It appears in the testimony that the Pacific Improvement

Company, hereinafter referred to as the Improvement Company, is and

has been at all times the owner of all the stock of the Water Company

except qualifying shares for directors. The Improvement Company was

incorporated in 1879, and the main purpose of the incorporation in

its operation in this vicinity was to deal in real estate. In line

with the general plan of the Company, it built and completed, subse-

quent to 1879, the Hotel at Del Monte and a restaurant and cottages

on the site of the City of Pacific Grove. The Hotel Del Monte,

when first constructed, was supplied with water from wells on the

premises, which proved inadequate, and the Improvement Company pro-

ceeded to the construction during 1883 and 1884 of the dam on the

Carmel River, the Pacific Grove reservoir and a single pipe line

leading to the Hotel Del Monte. This line passed through Pacific

Grove. From that time water was furnished to some consumers in

Pacific Grove and to the Hotel Del Monte. Earlier in its history

the Improvement Company purchased the Los Laureles Ranch, the delivery of water to which is one of the issues in this

Subsequent to 1885, the system of the Water Company has grown gradually as the population in Pacific Grove and Monterey increased. The principal expense for construction has been incurred in the building of the Clay Pits Reservoir in 1892; the construction of an additional pipe line from the Clay Pits Reservoir to the Pacific Grove Reservoir in 1892, and the construction of a main parallel to the original Carmel pipe line from a point near the Los Laureles Ranch to the Clay Pits Reservoir. This main was constructed in 1906 and 1907. The Carmel distribution system was purchased in 1913.

In addition to the free use of water to the Los Laureles Ranch, there are several other consumers along the right of way of the pipe line who likewise are given free water or water at reduced rates. Also, a contract has been entered into whereby the Hotel Del Monte and grounds receive water under a flat rate of \$10,000 per year, which is very much less than the prevailing rate charged to the other consumers from this system.

It is the contention of the City that the Water Company was brought into being as a side-issue and was used for the purpose of selling the property of the Improvement Company in Pacific Grove and elsewhere in this vicinity, and that the Improvement Company, the owner through stock of the Water Company, has actually received a return for its expenditure by an enhanced value of real estate.

The abuses incident to the operation of land and water companies together have been often pointed out in other cases. The tendency, of course, always is to value the properties owned by the parties who own the water works, and in the present case admittedly a discrimination has been worked in favor of the Hotel Del Monte, and it is my opinion that a discrimination is worked in favor of the Los Laureles Ranch.

There was considerable contention in regard to the amounts of water consumed by the Los Laureles Ranch and the other users of,

water who make no payments; likewise, whether the amount of water consumed under these free uses in arriving at the proper income of this Company should be considered as though paid for at the prevailing rates and then this amount deducted from the revenue actually allowed from the remaining consumers, or whether this amount of water should be considered as a payment for the rights of way and the water rights that have been obtained and be considered as representing a part of the cost of the system. In commenting upon a similar situation affecting the Cuyamaca Water Company (2 C.R.C. 464) it was pointed out that the necessity of that company to deliver water free to the Indian Reservation in return for a right of way was in effect a servitude upon the property and made it by so much the less valuable. It is my belief that when free use of any commodity is furnished in return for property used by a public utility, which free use is a continuous use, the ultimate and final value of which cannot be determined any more than the total cost of the property acquired can be determined, a value should be placed upon the property or privilege acquired by the utility independent of and not affected by the arrangement for such continuing use in payment for such property or such privilege. When such value is obtained, if the properties or the privileges involved are needful and necessary to the operation of the utility they should be considered as a part of the total determining the entire value of the utility; then the amount of the commodity delivered or the service rendered annually under such arrangement should be computed and considered as bearing the same rate as other services of like nature in determining the total amount the utility shall be permitted to earn.

Further in this opinion will be shown an analysis of the amounts actually paid for the properties here under discussion and an endeavor will be made to supply proper valuations to be placed on the property secured in return for free water or water furnished at a reduced rate.

Valuations of the property of the Water Company were prepared by Hunter and Hudson for the Water Company, by G. Chester Brown for the City of Monterey, and by the Hydraulic Department of this Commission. Just as in another case affecting valuations of utility property in the City of Monterey, much to my regret, it became necessary for me to comment upon the inflated valuations urged not by the engineer making the report but by the financial engineers figuring the overhead, in this case I feel it proper that I likewise comment upon the attitude of the engineer and to compliment Mr. Hunter, engineer for the Water Company, for his very fair and reasonable valuation. I was impressed that while this engineer desired to secure for his company all that it could legitimately claim, yet this desire did not lead him to unreasonable loadings and exaggerations.

The following table shows the valuations found by the three engineers of the physical property:

HYDRAULIC		Water Works		CITY
DEPT. R.R. Com.				
Depreciation by	Straight Line	4% S.F.	3% Sink- ing Fund	Straight Line
Reproduction Cost, \$1302691	\$1302691	\$1408875	\$1155763	
Present Value 1040710	1196546	1319888	888754	
Annual Depreciation 19024	7732	10736	21091	

The rights of way are almost inseparably combined in the report of the engineer for the Water Company. This is presented by Mr. Hunter at \$114,727, (Defendant's Exhibit 1, Table 39) and stated to be the actual cost of diversion rights, riparian rights on Carmel River and rights of way for pipe lines. This includes the \$75,000 transferred on the books from the Improvement Company for rights derived through the purchase of the ^{Los} Laureles Ranch, already discussed.

The excessive cost of the right of way for the 22-inch main through Carmel, listed at \$12,000, is disallowed because the amount allowed as the value of the Carmel water system is greater than the payment for right of way and for the physical property combined.

The actual amounts paid for water rights along the Carmel River, in a number of instances, have been determined. Applying the unit cost per river front foot, as determined by actual purchases, to the entire river frontage controlled or claimed to be controlled by this Company of 166,252 feet, we get an estimated total cost of \$53,200.

The amount of \$83,000 is presented by the engineer for the Water Company as the cost of developing the business. No claim is made for going concern value or any other of the intangible values usually urged by engineers representing utilities. This development cost is based upon such book records as are in existence, as shown graphically on Plat 1, page 47, of Defendant's Exhibit 1. In this it is shown that the sum of all surplusage amounts to \$45,000, and the sum of all deficits to \$304,500, leaving a net deficit of \$259,500. It is admitted by the Company that the Del Monte properties do not pay to the Water Company a proper rate, and that there is some free use of water where payment ought properly have been rendered. The engineer, therefore, places a charge that he considers might properly have been borne throughout the period by the Del Monte Hotel at \$42,000 per year, or \$32,000 more than was actually charged in recent years, and by applying this rate he decreases the deficit to \$83,000, and suggests a further decrease to \$73,000 provided the straight line method of depreciation be applied. He, however, does not admit the contention of engineer Brown for the City and Hawley for the Commission that a part should have been borne by the Los Laureles Ranch and other users under the free water contracts, and that this should be computed and deducted from the otherwise deficit.

As is shown by "Table A" in the brief of the Water Company and given below, there is substantial agreement upon the cost estimate of the distribution system as a whole, between the three estimates of engineers presented. By comparison with original book cost of property in the unincorporated territory, the estimates are high, due principally to the fact that the Carmel system was purchased at a price decidedly below the estimate for this property.

Table "B" in the Water Company's brief shows the principal items in which there is a difference of opinion. In the Carmel dam the difference is in the use by Hunter of an abstract segregation of incomplete reports and accounts, by Brown of strict reproduction cost at one time of construction, and by Hawley of an estimate of cost by alleged reasonable methods but constructed piecemeal.

The body of the dam was built in or about 1884, but not carried to a proper depth and did not intercept all the flow, therefore a curtain wall was sunk to bedrock at the upstream face of the dam in 1913. This required an excavation deeper than in the initial building, due to the raising of the stream bed by the dam itself.

The 22-inch main was assumed at the cost as shown by Hunter's derivation from books of that company. I have no doubt upon investigation that the records are reasonably accurate or that the company made other than the best effort to prosecute their plans economically. The overhead not then carried to this account was added by Hunter at 10% and by Hawley at 6½%. The items are only

for overhead value to this work, or service rendered it, by the San Francisco office of the Improvement Company, and interest during construction. All other overhead is included in the book costs.

A year and a half, the time used by the Commission's engineers, seems an adequate length of time for the completion of the works as the average time the money was invested before completion, and 2% of the cost or \$4423 seems adequate to cover all indirect service of the San Francisco office. It is a fact on construction work generally that it is carried on after acceptance of plans entirely under the direction of the engineer and all charges placed directly. This is true of purchases, bookkeeping and preparation of vouchers. The accounts show that there was a very considerable part of otherwise overhead carried in the unit costs.

Items 39 to 45, Table 4, Exhibit #1 of Utility appear to be overhead accounts and these total \$13,407.71. Above the book costs Hawley added \$14,134; in all for all overhead \$27,542. In this manner the unloaded cost is \$204,041 and overhead 13.5%. While this may seem low, anything in the form of contingencies is already included other than the known delay, and any contract, profit or parallel expense for supervision, tool and camp cost, is also included in the separate items.

Hunter on page 11 of his brief did not use items 39-42 as overhead. Overhead comparison, using these items is then,

Hunter,	\$35,153	#17.2%
Hawley,	27,542	#13.5%
Brown,	24,136	#12.0%

(# Assuming same value)

The Carmel main was constructed according to incomplete records in about the same length of time, 1½ years as assumed here, and cost ^{very} nearly one and one-half times the amount of the 22-inch main. The work was in 1884 when greater difficulties might reasonably have been met.

In referring to the Carmel main, the brief of the utility admits that the Hawley valuation of this item "represents a reasonable cost of this pipe line." The estimate by Brown is much lower but ^{it} is not correct in that a heavier pipe line was constructed actually and this fact was admitted by Brown, also Hunter and Hawley each included road construction necessary in constructing the line which was omitted by Brown.

In the valuation of the Clay Pits reservoir the correction referred to in the Utility Brief on page 13, changing the Hawley report on this item from \$169,535 to \$176,999 I believe is proper, this being correction of a clerical error. This, as noted, checks closely with the so-called book cost, and I cannot see that this book cost does not contain overhead charges.

The unit cost of earth in embankment is placed by Hunter at 60¢, by Brown at 25¢ and 20¢ and by Hawley at 50¢. Brown assumed the use of steam shovel for part and scraper for part of the work.

Without going into an analysis of the testimony of the various engineers upon this point, it should be noted that there are numerous instances of similar structures built at very nearly the estimate presented by the Commission's engineers. The brief of the defendant calls particular attention to the statement of Mr. Hunter that the road work of the Improvement Company cost about 68¢. This I do not think a proper comparison, as the conditions under which a construction outfit would work in constructing the roads would be in no way comparable to the system to be followed in constructing this dam. Here there is but a single camp and a definite method for the handling of materials and the opportunity to obtain the materials best fitted for the purpose under probably the most satisfactory conditions. The site of the reservoir is on a saddle but also is essentially ^{ly} a depression where probably the material excavated from the reservoir basin, did not necessarily extend into hard materials. The borrow pits once opened would excavate much more easily than the average of materials along the

roads where there would be a continuous opening of fresh borrow pits and the difficulty of encountering roots and boulders. On this particular point there is no exact method of determining the reasonable cost, and it resolves itself largely to judgment of the various witnesses.

Very nearly the same difference of opinion exists in the estimates of cost upon the Pacific Grove reservoir. The actual cost shown by Hunter is not a particularly safe guide, there having been a complication introduced through the work done jointly by outside parties and the Water Company, in enlarging this reservoir in 1912 and 1913.

The estimate presented by the Commission's engineers does not make any deduction for the amount received by the Water Company, either in assistance or in funds, from the use by outside parties of this material for street ballast. The total estimate \$75,284.00 is purely the measure of reasonable cost of the work as it stands, using the agreed amounts of materials and classification. Attention is called in the brief of the Company to the fact that the water works paid about fifty cents per cubic yard for moving materials in 1905 for a part only of the material then moved. However, it might be relevant that the material taken from the reservoir at that time was rock and was used largely for road ballast. An equivalent increased capacity could probably have been obtained without cutting into the rock, and would probably have cost no more than, had the company borne all the expense.

The lands, other than rights of way, are placed by the engineers for the City and Commission at approximately cost price, and by Hunter at an estimate of present value. The several witnesses brought on to establish a present market value differ very ~~considerably~~ consid-

erably. The brief for the defendant agrees that the original cost should be used provided the sinking fund method were adopted.

Reverting to the question of development of business cost, the amounts that would be added to the total income from the beginning of operations to the present day, according to the estimate of the Commission's engineer, would be \$124,250. The estimate under the same head of Brown for the City of Monterey would be very much in excess of this amount, but in either case this would be sufficient to eliminate the same estimate by Hunter. Hunter did not include in this statement any amount for sinking fund, which, according to Hunter's determination, should amount to very nearly \$89,000. It is stated that the amount actually in this fund on deposit with the International Banking Corporation on January 1st, 1914, amounted to \$110,157.

The question of the propriety of a large portion of the property as constructed, was raised during the hearing, and Hawley and Brown each proposed either elimination or substitution of the reasonable cost of other structures. This also would have a direct bearing upon the determination of the reasonable "development of business" cost. The following is the recommended estimate of reasonable cost or probable investment in the existing system, without the possible eliminations or substitutions:

DISTRIBUTION SYSTEM	C O S T	4% SINKING FUND ANNUITY.
Monterey,	\$136,272	\$1,703
Pacific Grove	130,163	1,789
Unincorporated	45,266	1,250
12-inch Main	16,876	178
Carried Forward	\$328,577	\$4,920

DISTRIBUTION SYSTEM	COST	4% SINKING FUND ANNUITY
Brought Forward,	\$ 328,577	\$ 4,920
16-inch Main	96,102	94
Buildings,	8,363	96
Tanks,	227	8
Pumping Equipment,	9,547	186
Ventura Meters,	2,938	19
General Stock, Etc.,	31,064	
Tularcitors Surveys,	2,950	
Carmel Dam,	20,500	7
22-inch Main,	231,582	1,518
Carmel Main,	313,900	791
Clay Pits Reservoir,	176,999	61
Pacific Grove Reservoir,	75,284	32
Rights of Way,	20,646	
Riparian and Diversion Rights,	53,200	
Lands other than above,	<u>10,473</u>	
	\$1,382,552	\$ 7,732

In Brown's report, complainant's exhibit #7, on pages 65 to 70, are listed the properties which Engineer Brown considers to be not used and useful, and these include the Laureles Pumping Plant site, Wither's addition pumping plant site, Johnson Addition pumping plant site, the 22-inch main entire with right of way, the Pacific Grove Reservoir entire with lands and supply lines, the Monterey Heights Pumping plant site and building, various lots and buildings on the distribution system; in all, the total that it is recommended be deducted from the valuation otherwise established is, reproduction cost, \$288,014, present value, \$252,319, and from the annual depreciation allowance \$5,192. The Commission's engineer agrees in the elimination of the Laureles Pumping Plant site and of the Monterey Heights Pumping Plant entire, and recommended reducing the value of the Carmel River Pumping Plant and transmission main to scrap value, but did not agree that the 22-inch main and the Pacific Grove reservoir, the items which the engineer for the City proposes to eliminate, could be withdrawn from service outright.

The substitution in the valuation upon which consumers should pay rates, of a storage and transmission system that is capable of giving service equivalent to that possible with the present plant was suggested by the Commission's engineer, in which it was assumed that instead of building the Clay Pits reservoir in 1892, a reservoir

with equal or greater capacity should have been built above the intake of the Carmel main. The cost of this reservoir should not have been more than that of the Clay Pits reservoir, and it would have been possible to use the Carmel main to full capacity or to increase the capacity by extending this main up river and connecting direct with the reservoir so that the main could be operated at capacity at all times.

During 1913 there was a period of several months during which practically no water supply was available from Carmel River. Previous to that period it was essential that a greater capacity than that furnished by the Carmel main be in existence to fill the Clay Pits reservoir, which through the combined capacity of the Carmel and the 22-inch mains, was actually full at the beginning of the period of drought. With the reservoir constructed above the Carmel dam, there would have been no reason for the construction of the 22-inch main, and the entire investment estimated at \$231,582, as given above, would have been unnecessary. At this time, for about seven miles above the Clay Pits reservoir, there are in existence a 22 and a 12-inch pipe line. One 24-inch pipe line would have the capacity of the two, and would cost very considerably less than the sum of the two lines, or as is stated in the evidence of Messrs. Brown and Hawley, a single 18-inch line throughout the entire length of the Carmel main would be adequate for the present service. Had this been built of the same material as that used in the upper end, between the Carmel dam and the Los Laureles Ranch, the initial cost would have been considerably less than for the present pipe line of varying size and character of materials. The average cost of the 18-inch main per foot by the Commission's engineers' estimate was \$2.76. The total length of this main, being 102,599 feet, the approximate total cost of the line would apparently have been \$283,173. This, however, is in excess of the probable actual cost as the 18-inch pipe actually laid was the most remote and difficult portion of the work. This shows a possible reduction in cost from the actual Carmel main of about

\$30,000. However, there would be a slight increase in the annuity necessary for the replacement of this main, due to the shorter life of the riveted iron pipe than of the 12-inch cast iron. It is probable that the two items would practically counterbalance, that is, that interest on the reduction of cost would about equal the increase in annuity. Although very improbable, it is possible that the reservoir in the canyon would have cost more than the Clay Pits reservoir, therefore, instead of suggesting the elimination of the entire cost of the 22-inch main, a reduction of \$200,000 was proposed during the hearing, with the further elimination from the sinking fund annuity of \$1,200, this being practically $\frac{4}{5}$ ths of the addition to this fund set over against the 22-inch main.

While it seems proper that the Monterey Heights Pumping Plant and the Johnson Addition Pumping Plants should be eliminated, it was stated during the hearing to be the plan of the Water Company to erect a tank of adequate capacity on the Wither's tract to the north and Monterey Heights to the south of the United States Military Reservation for the service of these tracts. The investment in this additional equipment will not be far from the amounts charged against these pumping plants and plant sites. The installation now proposed and probably under way seems a reasonable and proper installation to provide for emergencies, whereas the small separate pumping plants and small tanks installed and available for emergency operation, do not seem proper. The amount that will have to be set aside in rates will be practically the same in either case, and, therefore, I will not eliminate these properties.

The possible reduction from the tabulation of values and sinking fund annuities^{fund} will then be

<u>Item</u>	<u>Cost</u>	<u>Annuity</u>
Carmel Pumping Plant, etc.,	\$ 7,000	\$ 150
22-inch Main,	200,000	1000
Total	\$ 207,000	\$ 1150
Total cost actual plant,	1,382,552	7732
	\$1,175,552	\$ 6582

The maintenance and operation expense was made the subject of special investigation by Accountant Burns of the Commission, whose report is filed with the Commission as its Exhibit #1. The years 1911 to 1913 inclusive, were considered in detail, and the expenses of these years analyzed. It was found difficult to segregate the actual maintenance from replacement of portions of the property, particularly in the distribution systems in Monterey, Pacific Grove and Carmel. According to the testimony there has been considerable expense thrust upon the company by the final establishment of street grades and lines, requiring the shifting of a number of mains and connections. Undoubtedly a large part of the lines changed have been renewed or replaced with larger sizes, but it is impossible to get details of what has actually been accomplished. An estimate of the expense actually incurred and to be incurred under this head, will be included in the estimate of proper maintenance and operation account, and this will be carried as an extraordinary expense to be distributed over a period of years. The expense of pumping under deduction of what the accountant has called extraordinary maintenance, shows a comparatively uniform amount. The extraordinary pumping expense was found to be in part due to the establishment of the Laureles Pumping Plant below the flood level of Carmel River, and in 1913 this plant was much damaged. In 1914, the plant was entirely destroyed. It does not seem proper, due to the location of this plant and to the fact that this point was known to be endangered, that any particular sum should be allowed for past repairs. There is a possibility of recurrence of dry years such as 1912 and 1913, and it is believed that the \$6500 allowed for pumping expense will be entirely adequate to cover both the excess pumping in recurring dry periods, and all repairs that are necessary upon the pumping plants. There is some doubt in my mind whether so great a sum should be allowed.

The only expense for pumping, necessary with adequate storage supply, is in lifting water at Plant #1 for use in the Wither's tract, Monterey Heights and the higher portion of the Presidio grounds.

The general expense found on the books of the company includes \$285 per month charged by the Improvement Company for services at its principal office. This is arbitrary and seems placed at too high a value, and I will use \$100 per month as an estimate of the expense through the meetings of the Board of Directors. The general superintendent, Mr. Shepard, gives the service in the actual operation and conduct of the business of his company that would be given by a resident manager operating this company separately, and, as established in testimony, all the books are kept at Monterey and all collections made by employes of the Monterey office. During construction work there may have been some particular advantage in having a purchasing agent at the San Francisco office of the Improvement Company. However, during recent years, there has been little construction work, and under no conditions should this be charged against the maintenance and operation account.

There also is some portion of the time of employes at the Monterey office actually employed upon the business of the Improvement Company direct. In part, this is covered by the payment of \$25.00 on the salary of Mr. Olmsted, superintendent of the Water Company, by the Improvement Company, and the statement in testimony of the officers of both companies that the Improvement Company makes payment to the Water Company for any services rendered. This does not show definitely on the books of the utility company.

The following is the final estimate of a proper maintenance and operation account:

OPERATION:	
Pumping Expenses	\$6,500
Distribution Expenses	3,000
Commercial Expenses	6,000
Central Plant Maintenance	1,500
GENERAL:	
Officers and clerks	5,600
Salaries and expenses	
Insurance	400
Taxes	5,100
	<hr/>
	\$28,100

Brought forward

\$28,100

EXTRAORDINARY:

Water Analysis (1913)	\$812
Fighting fire (1913)	106
Acc. Street changes, (based on Mean 1911-13)	5000
Expense before Commission as per statement,	9479
	<u>\$15397</u>

One tenth per year,

1,540

Total Maintenance and Operation,

\$29,640

Total annual revenues actually obtained by the Water Company have been in 1911, \$67,272, in 1912, \$72,763, and in 1913, \$81,323. This amount should properly be increased by \$32,000 in each year by the amount admitted by the utility to be a proper addition to the \$10,000 already paid by Hotel Del Monte and grounds. There would also be some further payment properly added for water delivered free of charge, although not to the extent claimed by the City. Assuming the total additional charge that might properly have been collected to be \$33,000, the income for the three years becomes, 1911, \$100,272; 1912, \$105,763; and 1913, \$114,323.

The actual revenue that will be received during 1914 cannot be forecast by that of 1913, first, because of the natural growth of the communities, and second, due to the fact that the Carmel system was obtained by this company during the year, and its rates were collected for only the last six months of the year. The rates suggested will be based upon the amounts actually used in 1913 and before; the use at Carmel being estimated by the records obtained for the last half of 1913 and the first half of 1914. The rate of increase in water use is shown by the records of income set forth above, in part only. The point at which the use occurred and the rate at which the increasing amounts may have been delivered also have a direct bearing, and in establishing a uniform rate this is to be considered.

In computing a rate, it is assumed that the safe yield of the system is adequate for all present and immediate future demands, and that this condition would not be changed had the projected substitution of a reservoir supply above the intake of the Carmel main been constructed. The present rate in effect is expressed on part of the system in gallons, and on part in cubic feet. It seems desirable that either one unit or the other be used exclusively, and as the meters in use by this company and manufactured for the general market read in cubic feet, that unit of measure will be used.

Very considerable fluctuation in use has been recorded on the Del Monte grounds and at the Presidio. The amount of water used for street sprinkling and for use on the County roads is not possible of close enough determination to give an exact measure of the consumption to be expected in the future, and the amounts set forth in the tabulation are based upon the evidence of the last two years rather than extending further into the past. The use at Del Monte in the last seven years has varied between 26,200,000 cubic feet and 15,700,000 cubic feet, the latter amount being the use of 1913.

In the year 1906, the use was about 13,000,000 cubic feet, but there is no reason to suppose that it will again fall to that figure. The free use of water in the canyon, other than that on the Los Laureles Ranch, has been estimated on the basis presented by engineer Brown for the City, and modified in amount of use somewhat in accordance with that shown by the Company's testimony of actual amounts used in 1910 in some of these places. This is included in the general tabulation of individual use of water. The use by the towns for public purposes is also included with the assumption that each building and park connection will pay its regular rate just as would an individual. The rate for water for street sprinkling, however, which is taken from the public hydrants, on which it is presumed that rental will be paid, and measured by tank measurement without nec-

essity for a meter can be fixed at a flat wholesale price without payment of nil. The water used at Los Laureles Ranch for irrigation is taken at the round figure of 5,000,000 cubic feet or 3,000,000 gallons per annum, and the rate per hundred cubic feet placed at about what can reasonably be paid for irrigation water delivered through a pipe system, and presumes that a somewhat lower rate may be proper on account of the shorter distance water is carried, and because there is no storage proved. The rate of three cents per hundred cubic feet is equivalent to four cents per thousand gallons or 2.2 cents per miner's inch hour.

A fire hydrant rental will be placed tentatively at \$1.00 per month per hydrant where there is now no payment established. It is established in testimony that the towns of Pacific Grove and Monterey have each contributed sums to the installation of fire hydrants, and of certain mains. These, however, are now in the control of the company and can hardly be considered other than its property. Should the company be improperly in possession of property or funds for the purpose of installing this equipment, these should be returned to the municipalities, or payment made therefor.

CORRECTION

CORRECTION

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A fire hydrant rent will be placed tentatively at \$1.00 per month per hydrant where there is now no payment established. It is established in testimony that the towns of Pacific Grove and Monterey have each contributed sums to the installation of fire hydrants, and of certain mains. These, however, are now in the control of the company and can hardly be considered other than its property. Should the company be improperly in possession of property or funds for the purpose of installing this equipment, these should be returned to the municipalities, or payment made therefor.

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I have gone somewhat into detail in discussing the evidence in this case and shall fix a rate which, in my view, will pay all of the legitimate expenses of this company, provide a sufficient amount for depreciation and a reasonable return upon the value of the property.

It has not been possible, of course, to decide definitely the effect of the rate or definitely the return because it is impossible to make a direct comparison between the return which will be received during the next year and that which has been received during the past year. These communities are growing and the surrounding country developing; several years past have been quite dry and the consumption of water not normal; ^{the} order, however, I shall fix rates which will yield, if applied properly to the Hotel Del Monte and the free uses which may be legitimately required to bear their proportion of the burden of conducting this system, an adequate revenue for this company from which it may receive a return upon its property, continue its depreciation fund, and pay all of its operating and other legitimate expenses. If, after trial, it be found that these rates do not substantially meet with my expectations, which are based upon the evidence in this case, the Commission will be very glad, on the matter being brought to its attention, either by the company or the city, again to investigate and revise them, if found necessary.

As has already been suggested, the present basis of rates is both per thousand gallons and per hundred cubic feet, bringing about inconsistencies in the rates. The rates imposed will be stated in cubic feet, applying to all users. I am impressed with the fact that the minimum is too high thus being unduly burdensome to the small user.

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While it may appear that the rate paid by the cities for fire hydrants and for street sprinkling is, comparatively speaking, low, yet it is very difficult to figure this kind of service. For the present, therefore, this rate will not be substantially changed; subsequently, if it be found necessary this may be the subject of a further investigation.

I submit the following order:

O R D E R

The city of Monterey having filed its complaint against the Monterey County Water Works, alleging the rates of that company are unjust and unreasonable, and the Monterey County Water Works having answered and denied the material allegations of the complaint and subsequently having filed an application to increase the rates charged by said Monterey County Water Works to its consumers and, by agreement the two cases being combined and a hearing having been held and it being stipulated that the rates applying in the city of Pacific Grove and within the entire territory served by this utility should be in issue in this case and being fully apprised in the premises, the Commission hereby finds as a fact:

That the rates now charged by the Monterey County Water Works are unjust, unreasonable and discriminatory and the Commission further finds as a fact that the following rates are just and reasonable rates to be charged by the Monterey County Water Works to its patrons in the cities of Monterey, Pacific Grove and in other territory served by said Monterey County Water Works:

GENERAL USE, TO APPLY UPON ALL USERS ON SEPARATE PREMISES,
IN WHATEVER OWNERSHIP.

For minimum payment of ninety cents per month
300 cubic feet;

For use between 300 cubic feet and 1,000 cubic feet
per month, twenty-five cents per hundred cubic feet;

And for all use above 1,000 cubic feet per month,
twenty-one cents per hundred cubic feet.

SPECIAL USE.

Del Monte Hotel and grounds at twenty-one cents
per hundred cubic feet;

The Presidio of Monterey, twenty-one cents per
hundred cubic feet;

For sprinkling streets and roads, present rates;

Irrigation on the Los Laureles Rancho, ~~three~~ cents
per hundred cubic feet;

Fire hydrant rental, present rates.

The company to install all meters and service
connections at its own expense and to extend to all
applicants within the cities of Monterey and Pacific
Grove whenever application is made. If in any case
application be made for service and those in charge of
this utility think such extension ought not to be made on
account of peculiarly expensive construction, the matter
may be laid before the Commission, in which event it
will be determined whether or not the extension shall
be made and at whose cost.

Basing this order on the foregoing findings of fact and the findings of fact in the opinion hereto, --

IT IS HEREBY ORDERED:

1. That the rates found to be reasonable herein are hereby established to be charged by the Monterey County Water Works to its respective classes of patrons as set out in the schedule found to be reasonable.

2. The foregoing rates to become effective twenty days from 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 8th day of October, 1914.

John M. Eastman
H. D. Loveland
E. D. Edgerton

Commissioners.