

Decision No. _____.

ORIGINAL

Decision No. 2546

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

In the Matter of the Rates, Rules and Regulations of Consumers Water Company.) Case No. 776.

In the Matter of the Rates, Rules and Regulations of Domestic Water Company.) Case No. 777.

In the Matter of the Rates, Rules and Regulations of Western Water Company.) Case No. 778.

In the Matter of the Application of Consumers Water Company for permission to sell to Western Water Company all and singular its property, business and assets and of Western Water Company for permission to purchase the same.) Application No. 1735.

In the Matter of the Application of W. A. Fischer for permission to sell to Western Water Company all and singular his property, business and assets owned and operated by him under the firm name and style of Domestic Water Company, and of Western Water Company for permission to purchase the same.) Application No. 1736.

Joseph Haber, Jr., for Consumers Water Company, Domestic Water Company and Western Water Company.
Barclay McCowan for consumers.

REBURN, Commissioner.

O P I N I O N

Upon complaint from various consumers of water, the Railroad Commission, on February 11, 1915, instituted on its own motion an investigation into the rates, rules and regulations of Consumers Water Company, Domestic Water Company and

Western Water Company. To these investigations Case Numbers 776, 777 and 778, respectively, were assigned.

Public hearings were held in Taft on May 27 and 28, 1915, and in San Francisco on June 26, 1915.

Western Water Company pumps water from two wells on land leased from Kern County Land Company, being all that portion of the Northeast quarter of the Southeast quarter of Section 5, Township 51 South, Range 25 East, M.D.B. and M. lying 100 feet West of the "Outlet Canal." This property is located some twelve and one half miles northeast of Taft. Water is conveyed to Taft through a 12-inch ~~xxxx~~ lap-welded wrought-iron pipe. At a point about 9 miles from the pumps, one principal branch line takes off toward the south and supplies the district in the vicinity of Maricopa. From Taft, main transmission lines extend into the Midway Oil Fields. Western Water Company supplies water to Consumers Water Company for distribution in Taft, to W. A. Fischer, doing business under the name of Domestic Water Company, for distribution in South Taft and to Heck Brothers for distribution in Fellows. In addition to these three consumers, Western Water Company in 1914 supplied water to 94 consumers in the Oil Fields, nearly all of whom are oil companies. The principal use of water in the Oil Fields is for ~~xxx~~ drilling ^{oil} wells and pumping oil.

Consumers Water Company buys its water from Western Water Company and retails it in Taft. W. A. Fischer does the same in South Taft.

At the hearing in Taft, estimates of the reproduction cost of Western Water Company's physical property were presented on behalf of the Water Company by J. E. Ryan and on behalf of the Railroad Commission by R. W. Hawley. These estimates are as follows:

J. E. Ryan.....	\$725,342.00
R. W. Hawley.....	685,698.00

Mr. Ryan's estimate includes \$34,770 for working capital, which item was not included in Mr. Hawley's Report.

Mr. Hawley also presented an estimate of \$555,154 as representing the depreciated reproduction value of the physical property as of January 1, 1915, on the straight line basis.

Western Water Company has issued capital stock of the par value of \$200,000, of which \$149,000 par value was sold for cash at par and \$51,000 was issued to C. B. Colby for promoting the company. The company has no bonded indebtedness. On April 30, 1915, the company had outstanding \$54,471.19 in promissory notes and \$16,000 to \$17,000 in open accounts. All the remaining moneys which have been invested in the property have come, directly or indirectly, from earnings. The company paid \$58,000 dividends in 1913, \$28,000 in 1914 and \$12,000 in 1915. All its earnings in excess of these amounts have been invested in the property.

Water Company's Exhibit No. 11 shows revenues, expenses, dividends and surplus for the years 1912, 1913 and 1914 as follows:

TABLE No. I
INCOME ACCOUNT

	<u>1912</u>	<u>1913</u>	<u>1914</u>
Revenues:			
Water Sales	291,621.32	316,919.15	248,182.94
Less Uncollectible Accounts		538.17	580.97
Gross Revenue	291,621.32	316,580.98	247,801.97
Operating Expenses:			
Royalties	21,042.80	20,947.11	16,282.49
Pumping Expenses	48,214.21	56,957.93	43,769.50
Distribution Expenses	15,972.84	20,582.04	21,974.60
Commercial Expenses	3,586.48	5,592.49	5,370.69
General Expenses	18,722.11	16,869.45	25,431.32
Total Operating Expenses	105,538.44	120,949.00	112,828.60
Taxes	2,408.87	3,353.47	4,236.06
Total Operating Expenses and Taxes	107,947.31	124,302.47	117,064.66
Net Operating Revenue	183,674.01	192,278.51	130,737.31
Other Income:			
Rentals	560.00	660.00	965.70
Discount	263.49	981.06	809.49
Miscellaneous	1,111.44	213.60	925.70
Total Other Income	1,734.93	1,854.66	2,700.89
Gross Income	185,408.94	194,133.17	133,438.20
Deductions:			
Interest	607.13	3,401.52	6,770.65
Depreciation of Plant and Equipment	34,242.00	41,923.00	52,227.00
Total Deductions:	34,849.13	45,324.52	58,997.65
Surplus	150,559.81	148,808.65	74,440.55
Dividends:			
Surplus Unappropriated	150,559.81	90,808.65	46,440.55

It thus appears that the company earned a surplus of \$150,559.81 in 1912, \$148,808.85 in 1913 and \$74,440.55 in 1914. The company also invested in its plant the amounts shown in the foregoing table under the head of depreciation.

The evidence shows that the business of the Water Company has fallen off considerably recently, due to a diminution of activity in the Oil Fields. Whereas the revenue for the first four months in 1914 was approximately \$88,000, the revenue during the corresponding period in 1915 decreased to approximately \$61,000. If the same proportion of reduction in revenue continues throughout the year 1915, the total gross revenue for the year would amount to approximately \$173,000 as compared with \$248,000 in 1914. Assuming annual operating expenses of \$100,000 and an annual depreciation of \$41,000, as estimated by the Railroad Commission's engineers, it is quite evident that the surplus earnings for 1915 available for the payment of a return on the investment would yield a return of somewhat less than 6 per cent on the depreciated reproduction value of the plant as estimated by Mr. Hawley.

The rates of Western Water Company are as follows:

TABLE NO. II

WESTERN WATER COMPANY'S RATES.

RATES PER BARREL ON DAILY QUANTITY (5-year contract)

1 to 1500 bbls.		1500 to 3500 bbls.		3500 to 10000 bbls.	
	Per bbl.		Per bbl.		Per bbl.
1st year.....	.03	1st year.....	.03	1st year.....	.02 $\frac{3}{4}$
2d year.....	.03	2d year.....	.02 $\frac{3}{4}$	2d year.....	.02 $\frac{1}{2}$
3d year.....	.03	3d year.....	.02 $\frac{1}{2}$	3d year.....	.02 $\frac{1}{4}$
4th year.....	.02 $\frac{1}{2}$	4th year.....	.02 $\frac{1}{4}$	4th year.....	.02
5th year.....	.02 $\frac{1}{4}$	5th year.....	.02	5th year.....	.01 $\frac{3}{4}$

The company has a minimum charge of \$2.50 per month.

It will be observed that these water rates provide for reductions, from time to time. A number of the company's consumers will soon be able to avail themselves of the reduced rates under this schedule.

In view of the decrease in Western Water Company's business hereinbefore referred to, the problematic life of the Oil Fields, the uncertainty of the term of the company's profitable business and the automatic reductions in rates provided for in the company's schedule of rates, I can not at present recommend any decrease in Western Water Company's rates in the Oil Fields.

The property of Consumers Water Company, serving Taft, was bought by its present owners in 1912 for \$7,600. In its annual report for the year ending December 31, 1914, the company reports a total investment as of December 31, 1914, of \$19,777. Mr. Ryan estimates a reproduction cost new of \$25,670 and Mr. C. I. Rhodes, one of the Railroad Commission's assistant hydraulic engineers, an estimated reproduction cost new of \$19,776.23 and a depreciated reproduction ^{cost} ~~value~~ of \$13,869. Neither of these engineers made a thorough study and inspection of this system.

W. A. Fischer testified that he paid \$3,500, in February, 1913, for the water system which serves South Taft, or Jamison. Of this amount, \$1,500 was paid in cash and indebtedness amounting to \$2,000 was assumed. Mr. Fischer's annual report for the year ending December 31, 1914, claims an investment to date of \$7,786. Mr. Ryan estimated a reproduction cost of \$10,846 and Mr. Rhodes an estimated reproduction cost of \$7,838 and a depreciated reproduction cost of \$6,139.

Careful inquiry was made at the hearing into the operating expenses of these two companies. It appeared that certain of these expenses, particularly the salaries of general officers, have been unduly high and that the interest of the public would be best served by a consolidation of Western Water Company, Consumers Water Company and Domestic Water Company and by the consequent elimination of two out of the three existing groups of officers' salaries.

The rates at present charged by Consumers Water Company and Domestic Water Company are as follows:

TABLE NO. III

RATES-- CONSUMERS WATER COMPANY.

Minimum	\$1.50
1st 533 cu. ft. at \$1.30 per 100 cubic feet,	
Next 267 cu. ft. at \$1.17 per 100 cubic feet,	
All above 800 cu. ft. \$1.11 per 100 cu. ft.	

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

TABLE NO. IV.

RATES-- DOMESTIC WATER COMPANY.

Minimum	\$1.50
All water used \$2.25 per 100 cubic feet.	

Consumers Water Company allows a discount of 10 per cent for water used between 4,000 and 5,000 cubic feet per month, and of 15 per cent for water used above 5,000 cubic feet, if payments are made before the 10th day of the month following use. Domestic Water Company allows a discount ranging from 25 per cent for use under 800 cubic feet per month to 50 per cent for amounts used above 5,333 cubic feet if bills are paid before the 10th day of the month following use.

The water rates charged in East and South East are the

highest rates charged for domestic water in California in so far as domestic water rates have come under the Railroad Commission's investigation. On the other hand, Western Water Company claims that still higher rates are charged in other portions of the Oil Fields.

After careful consideration, I find as a fact that the rates at present charged for domestic water by Consumers Water Company and Domestic Water Company are unjust and unreasonable in so far as they differ from the rates herein established, and I further find as a fact that the following rates are just and reasonable rates to be charged for water supplied for domestic use in Taft and South Taft:

TABLE NO. V.

DOMESTIC RATES TO BE CHARGED IN TAFT AND SOUTH TAFT.

1st 500 cu. ft. 90¢ per 100 cu. ft.
Next 2000 cu. ft. 75¢ per 100 cu. ft.
All use over 2500 cu. ft. 60¢ per 100 cu. ft.
Minimum \$1.50 monthly.

Under these rates, consumers in Taft will receive 52 ~~xxxx~~ cubic feet of water more than hitherto for the minimum payment of \$1.50 and for amounts of water used in excess of the minimum the reductions in rates will be between 25 and 46 per cent. Consumers in South Taft will receive 100 cubic feet of water more than hitherto for the minimum payment of \$1.50 and for amounts of water used in excess of the minimum the reductions in rates will be between 60 and 73 per cent. These percentages will be reduced in cases in which the discount is now received for prompt payment.

Domestic Water Company, in addition to operating a pipe distributing system, sells water from a tank wagon for 30¢ for the first barrel and 25¢ for each additional barrel. This rate may continue.

Western Water Company has been providing water for fire service in Taft, through a master meter separate from that supplying Consumers Water Company and Domestic Water Company. The company has recently billed the city at the rate of 3¢ per barrel for the water so used but has not received any payment. The city, of course, can not expect to continue to receive this service free. I shall recommend that Western Water Company be authorized to make a minimum charge of \$30 per month for water supplied to the Town of Taft for fire purposes, with payment for all water used at the rate of 3¢ per barrel, or 53.6¢ per 100 cubic feet.

Subsequent to the hearings at Taft, the Water Companies apparently became convinced that it would be better to consolidate the three systems in the ownership of Western Water Company, so as to save unnecessary operating expenses. The companies accordingly presented petitions in Applications No. 1735 and 1736, asking that such transfers of property be authorized.

In Application No. 1735, Consumers Water Company asks authority to sell its entire water system to Western Water Company and the latter company asks authority to purchase the same. The property is to be sold for \$18,000, and is to be paid for by the issue by Western Water Company of twelve non-interest bearing promissory notes, each in the sum of \$1,500, payable at intervals of one month, beginning one month after the date of the Railroad Commission's order.

In Application No. 1736, Domestic Water Company asks authority to sell its entire water system to Western

Water Company and the latter company asks authority to purchase the same. The property is to be sold for \$6,000 and is to be paid for by the issue by Western Water Company of twelve non-interest bearing promissory notes, each in the sum of \$500, payable at intervals of one month, beginning one month after the date of the Railroad Commission's order.

These two applications as well as additional evidence as to depreciation in pipe lines, in the cases brought on the Railroad Commission's own motion, were presented in San Francisco on June 26, 1915.

I find that public convenience and necessity will be served by the transfer of the properties of Consumers Water Company and Domestic Water Company to Western Water Company and recommend that these two applications be granted.

Certain questions concerning deposits required by these water companies will be disposed of when the Railroad Commission renders its decision in Case No. 683, being a general investigation on the Railroad Commission's own motion into deposits and all other charges as conditions precedent to service, required by water, gas, electric and telephone utilities.

I submit the following form of order:

O R D E R

The Railroad Commission having instituted an investigation on its own motion into the rates, rules and regulations of Western Water Company, Consumers Water Company and Domestic Water Company, and Consumers Water Company having applied for an order authorizing it to sell its entire property to Western Water Company, and Domestic Water Company having applied for an order authorizing it to sell its entire property to Western Water Company, and Western Water

Company having applied for an order authorizing it to purchase the properties of Consumers Water Company and Domestic Water Company, and public hearings having been held in said proceedings and the same being now ready for decision,

The Railroad Commission hereby finds as a fact:

(1) That the rates now charged for water by Consumers Water Company and Domestic Water Company are unjust and unreasonable in so far as they differ from the rates herein established;

(2) That the rates herein established, to be charged for water by Consumers Water Company and Domestic Water Company, their successors and assigns, are just and reasonable;

(3) That the public convenience and necessity require the transfer of the properties of Consumers Water Company and Domestic Water Company to Western Water Company and the subsequent operation of the same by Western Water Company.

Basing its order upon the foregoing findings of fact and upon the additional findings which are contained in the opinion which precedes this order,

IT IS HEREBY ORDERED AS FOLLOWS:

(1) The rates to be charged by Consumers Water Company and by W. A. Fischer, doing business under the name of Domestic Water Company, their successors and assigns, for water delivered in Taft and South Taft through their pipe lines for domestic use are as follows:

1st 500 cu.ft. 90¢ per 100 cu.ft.
Next 2000 cu.ft. 75¢ per 100 cu.ft.
All use over 2500 cu.ft. 60¢ per 100 cu.ft.
Minimum \$1.50 monthly.

(2) The rate to be charged by Western Water Company for water supplied to the Town of Taft for fire purposes shall be a minimum charge of \$30 per month, with payment for all water used at the rate of 5¢ per barrel or 53.6¢ per 100 cubic feet.

(3) Consumers Water Company and W. A. Fischer, doing business under the name of Domestic Water Company, are hereby authorized to sell and transfer their respective water properties to Western Water Company and Western Water Company is hereby authorized to purchase and operate said properties, at a price of \$18,000 for the property of Consumers Water Company and \$6,000 for the property of Domestic Water Company on the following conditions and not otherwise:

(a) Said price shall not be taken before the Railroad Commission or other public authority as representing for rate-fixing or any other purpose the fair value of the property.

(b) Within 10 days after the execution of the deeds of conveyance, the parties shall file certified copies thereof with the Railroad Commission.

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 30th day of June, 1915.

Max Wheeler
H. B. ...
...
Edwin O. Edgerton
Frazer R. ...
Commissioners.