

Decision No. \_\_\_\_\_

ORIGINAL

Decision No. 2976

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Commission's )  
investigation on its own motion, )  
of the rates, rules, regulations, )  
and service of the MURPHY WATER, )  
ICE AND LIGHT COMPANY. )

Case No. 817-

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S. M. Haskins of Gibson, Dunn & Crutcher,  
representing Murphy Water, Ice and Light  
Company.

GORDON, Commissioner.

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O P I N I O N

The Murphy Water, Ice and Light Company is a public utility engaged in the furnishing of water in wholesale quantities to the Atchison, Topeka & Santa Fe Railway Company, and for domestic and commercial use to the inhabitants of the town of Needles, California. The property consists of a pumping plant, about six miles of transmission and distribution mains, and the necessary meters, connections, and miscellaneous equipment. At the present time there are about 580 consumers. The system is entirely metered and the serving area is small and com-

fact. The pumping plant is located on the banks of the Colorado River about one-third of a mile from the center of town. Water is obtained through two duplex pumps operated by steam power, from fourteen shallow wells each fifty-six feet deep, the average pumping lift being about seventeen feet. No definite measurements have ever been made of the maximum sustained capacity of the plant. The pumps have a rated capacity of one million gallons daily, each. It is claimed by the Company however, that the operation of one pump taxes the supply of the wells. The records of the Company concerning water use, show that a little over three hundred and eleven million gallons of water were delivered during 1914, of which the Atchison, Topeka & Santa Fe Railway Company received 77.51 per cent, the Needles Ice Company 4.97 per cent, and the residents of the town the remaining 17.42 per cent. The Railway Company is so situated, in relation to the pumping plant, that it is the first consumer to receive service through the transmission and distribution mains.

This investigation is the result of numerous and constant informal complaints on the part of the patrons of this utility, as to certain of its rates, rules and regulations, and in particular, the quality of service rendered by it.

In all twenty-seven informal complaints from various consumers receiving service from this Company's plant, have been filed with this Commission. This statement however, conveys but little idea of the time, labor and expense involved in these complaints through correspondence and informal field investigations.

In this regard, I wish to call particular attention to the failure to settle these complaints informally, for I am convinced the Commission has made unusual efforts in the case of this particular utility, to adjust matters quickly and equitably, and that, had the utility been so inclined, many of these complaints could and should have been speedily settled, and the necessity of formal investigation obviated.

In order that the situation may be entirely clear, and before proceeding to the matters directly involved in this case, I will set forth briefly the financial history of this Company as reported by the Commission's Auditing Department after a thorough examination of such records of the utility's operations as now exist.

The Murphy Water, Ice and Light Company was incorporated February 23rd, 1904, with an authorized capital of \$250,000.00 divided into 2500 shares of a par value of \$100. each. The property of this Company, consisting of a pumping plant, water mains, meters, and other property used in connection with same as a water system, also an ice plant, including real estate, machinery equipment, and personal property used in connection therewith, was built and owned by Mr. Dan Murphy. This property was conveyed to the Murphy Water, Ice and Light Company by Mr. Murphy, in accordance with a proposition submitted by him

under date of March 9th, 1904, for and in consideration of an issue to him of 2495 shares of the capital stock of that Company. In consideration of the transfer of physical property, Mr. Dan Murphy also agreed to assign all his rights and interests in two valuable contracts with the Atchison, Topeka & Santa Fe Railway Company, for supplying that Company with water and ice.

In January 1912 the Needles Ice Company was incorporated with an authorized capital of \$125,000.00, divided into 1250 shares of the par value of \$100. each, all of which stock was issued in consideration of the transfer of all physical property held by the Murphy Water, Ice and Light Company applicable to the ice business. The stock issued in connection with the transfer of this particular property pertaining to the ice business, was not issued to the Murphy Water, Ice and Light Company, but instead to the stockholders of record of that Company. The physical property transferred in this respect was appraised at \$132,921.38.

The contracts of the Atchison, Topeka & Santa Fe Railway Company, heretofore referred to, and assigned by Mr. Dan Murphy to the Murphy Water, Ice and Light Company, are still in effect. The contract for water has been renewed twice since the original assignment by Mr. Dan Murphy in 1904. The first renewal was of March 1st, 1909, and the second renewal on May 26th, 1914. However, regardless of the assignment of this particular contract by Mr. Dan Murphy, the renewal in 1909 was not with the Murphy Water, Ice and Light Company, but with Dan Murphy. By reference

to the Atchison, Topeka & Santa Fe Railway Company vouchers in payment for the services rendered under this contract, it was found that all vouchers were made payable to Dan Murphy up to and including the service furnished for June 1914, indicating that the Atchison, Topeka & Santa Fe Railway Company had not been advised, nor were they a party to original assignments in 1904, nor the renewal of 1909. The contract of May 26th, 1914, was however, with the Needles Ice Company. Up to and including March 1912, the revenue received from the Atchison, Topeka & Santa Fe Railway Company, for water furnished under the contract, was accounted for and paid to the Murphy Water, Ice and Light Company. Subsequent to April 1912 this revenue was diverted and paid to the Needles Ice Company in accordance with an agreement <sup>understanding</sup> or between the Water Company and the Ice Company, in consideration of which the Ice Company paid the service of one pump man, three-fifths of the fuel oil used, and certain small items of miscellaneous labor. The net revenue diverted from the Water Company to the Ice Company, in accordance with this agreement, for the period April 1912 to August 1915 inclusive, amounts to \$46,692.96.

In view of the fact that the Needles Ice Company has no investment whatsoever in the Murphy Water, Ice and Light Company, (though it is true certain of the stock holders in one Company are also stock holders in the other Company) nor does it own any portion of the pumping plant, transmission and distribution mains, nor is it actually and physically engaged in using these facilities in the production and delivery of water sold to the Atchison, Topeka & Santa Fe Railway Company, I am totally unable to properly account for any reasoning which would justify this diversion of revenues, particularly when the earnings of the

Water Company are claimed to have been so impaired as a result, that the consumers have had to suffer from inadequate service. The Murphy Water, Ice and Light Company contends to the effect that owing to the low rates for service, it is not earning sufficient revenue, (exclusive of that diverted from the Atchison, Topeka & Santa Fe Railway Company to the Needles Ice Company) to make necessary improvements in order to better this service. If we separate entirely from the remainder of the system all operations relating to the delivery of water to the Railway Company, this contention may have some merit, but I have no patience with this argument, for it assumes the arbitrary elimination, with no logical explanation therefor, of this Company's largest and most profitable customer, and one who provides approximately sixty per cent of its total revenue. Even if the Atchison, Topeka & Santa Fe Railway Company is to be eliminated as one of the consumers of the Murphy plant, as was indicated at the hearings held on this matter in Needles on the 21st and 22nd days of September, 1915, we are confronted by an entirely different situation than has existed in the past, or any time during the period in which complaints have been made, and one which, in my opinion, has no connection with, and utterly fails to satisfactorily explain such conditions as did, and still do obtain under this water system. At this hearing the Secretary of this Company, Mr. T. J. Murphy, stated plans were under way by which the Railway Company would definitely cease to become a customer of their plant. The Needles Ice Company uses from 500,000 to 700,000 gallons per day in the cooling and condensing of its ammonia coils. At the present time the water used for this purpose is produced locally at the Ice Plant, and

is unfit for any other purpose. The plan proposed by Mr. T. J. Murphy is the production of a supply of water for this purpose, independent of the supply now produced by the Ice Company, of such a quality that after it has passed over these coils, it may again be used, upon proper treatment, by the Atchison, Topeka & Santa Fe Railway Company. In regard to this proposed supply Mr. A. W. Silver, Chief Clerk to the Superintendent of the Atchison, Topeka & Santa Fe Railway Company at Needles, testified that even after treatment it would be totally unfit for the domestic uses of his Company, such uses constituting approximately 20 per cent of the total amount now used. He further testified that up until a short time before the hearings on September 21st and 22nd, 1915, no satisfactory supply had been discovered, though very recently tests of certain waters had produced very satisfactory results.

While there is no doubt but what the elimination from the Murphy plant of the Atchison, Topeka & Santa Fe Railway's water use, consuming as it does the greater portion of the plant's production, would relieve the strain on this admittedly greatly overtaxed system, and, as a consequence, better service would result to the remaining consumers, no definite evidence, beyond such general statements similar to those just set forth, has been submitted by the Water Company indicating such a change was to take place in the immediate future. Neither have any results, beyond a few preliminary operations relating to the drilling of wells, been completed, nor is there anything in the evidence to either convince or indicate to me that when such wells have actually

been drilled the supply obtained will be, either in quantity or in quality, such that the plan proposed will produce the results anticipated. I do not wish to be understood as taking the stand that this plan will not be put into effect if it is physically possible to do so, for, quite to the contrary, I have been considerably impressed by the very possibilities of these plans, but nevertheless I am of the opinion that certain improvements, which will not in any way conflict with this proposed change, can be and should be immediately installed. If however, the plans relative to the water used by the Atchison, Topeka & Santa Fe Railway Company are eventually and successfully carried out, we will then have something tangible upon which to base our conclusions, and can deal with the situation clearly. At any rate, I do not feel it incumbent upon me to further consider a condition which at the present time is so much a matter of conjecture.

If, as I have indicated in the discussion heretofore given, the operations of this plant are to be considered as a whole, investigation shows that a liberal rate of return is being earned upon the investment involved.

Appraisals of this property have been made by both the Commission's engineers, and those representing the Company, and a detailed examination of the utility's books have been made by the Commission's Auditing Department. The following tabulation shows the results of these appraisals and investigations:



	Estimated Cost	Annual Deprecia- tion Allowance	Total Accrued Deprecia- tion	Estimated Cost less Accrued De- preciation
Water Company's Engineers as of December 31, 1914.	\$91,302.	\$3,087.	\$24,523.	\$66,779.
Water Company's Engineers as of December 31, 1915.*	91,302.	3,087.	27,610.	63,692.
Commission's Engineers as of September 1st, 1915.	76,415.	1,593.	_____	_____
Water Company's Books as of December 31st, 1914.	82,431.	2,761.	_____	76,909.
Water Company's Books as of December 31st, 1915.*	82,431.	2,761.	_____	74,148.

\* Computed on the basis of the prior year. The amounts shown should be corrected by such amounts as have been installed during the year 1915.

The Company's engineers have computed depreciation allowance by the straight line method, while Mr. James Armstrong, one of this Commission's Engineers, has estimated an annuity upon a six per cent sinking fund basis. For the purpose of this investigation it is not necessary to enter upon a discussion of the merits of these two methods of computing depreciation, but I do desire to call particular attention to the result which will be obtained if the theory of depreciation advanced by the Company's engineers is applied to the Cost New, estimated by Mr. Armstrong for the Commission. Prior to the hearing the Commission's representatives were unable to obtain any correct data as to the ages of the various elements entering into the system, and as a consequence did not compute any accrued depreciation. If the probable useful lives and ages shown by the Company's engineers are applied to the Armstrong estimate of cost, and accrued depreciation is measured by the straight line method, I conclude that the total estimated cost, less accrued depreciation, would be \$55,890. on December 31st, 1914, and \$53,306. on December 31st, 1915, subject of course to such additions to, and subtractions from investment, as have been made during the year 1915. However, it will be appar-

ent, upon an examination of the tabulations immediately following, that any further analysis of these matters is unnecessary.

The Commission's Auditing Department under Commission's Exhibit No. 2, reports Operating Expenses and Revenues of this plant, considering the operations of the Murphy Water, Ice & Light Co., and of the Needles Ice Co. in connection therewith, as a whole, as follows:

	1914	First 8 months of 1915
	<u>                    </u>	<u>                    </u>
Gross Operating Revenue	\$31,834.59	\$22,365.54
Total Operation Expenses including Depreciation	<u>23,788.49</u>	<u>13,130.93</u>
Net Operating Revenue	<u>\$ 8,046.10</u>	<u>\$ 9,234.61</u>

The total net revenue shown by the table above, for the period of twenty months ending September 1st, 1915, is sufficient to provide a return of 6 per cent on an investment of \$172,807. or 10 per cent on \$103,684. In the statements of operating expenses, not only is there included the sum of nearly \$2000. incurred annually in connection with these complaints (and which should properly be distributed over a term of years), and an allowance for depreciation exceeding by \$1168. annually, that estimated by the Commission's engineer, but also charges for repairs to mains and equipment which seem unusually heavy for a plant of this size, and in excess of what would be incurred normally, and on an average. It is my opinion that if a careful investigation and segregation of the expenses of this Company was made over a long period of operation, a much greater rate of return than has been indicated, would be shown to have been received.

Bearing in mind all the matters which have heretofore been set forth, I am firmly convinced that this Utility can well afford to, and should make such betterments and extensions as are necessary, at this time, for proper service to these consumers. I also find that certain of its rates are unequitable, and not consistent with certain other of its rates, and that certain of its practices are not in conformity with the Rules and Regulations applicable to water utilities approved by this Commission in the past, and more recently set forth in Decision No. 2879, in Case 683, of this Commission, effective December 1st, 1915.

The present effective rates of the Murphy Water, Ice and Light Company were established by the Board of Supervisors of San Bernardino County in May 1911, and are as follows:

15¢ for each 1000 gallons delivered, with the following schedule of minimum charges:

For each and every store, shop, mercantile establishment, or place of amusement, or residence ..... \$ 1.50 per month.

Provided, where two or more families occupy the same residence, the water company shall have the right to make the minimum charge of \$1.50 per month for each family.

For saloons .....	6.00 per month.
For restaurants .....	6.00 " "
For laundries .....	10.00 " "
For lodging houses of 10 rooms or more .....	5.00 " "
For offices containing only 1 wash basin .....	1.00 " "
For offices with street hydrant, or more than 1 wash basin .....	1.50 " "

While I do not propose to go fully into the matter of rates, at this time,

I do desire to indicate certain of the inconsistencies resulting from the application of these rates.

Such records of water use as have been made available, show that during the winter months of the year, such as December, January and February, nearly 75 per cent of the total number of consumers do not individually use in excess of 500 cubic feet per month; while about 80 per cent of them use less than 700 cubic feet, and over 90 per cent use less than 1000 cubic feet, although such consumers are entitled to 1333 cubic feet per month under the present rates, upon the payment of the minimum of \$1.50. A somewhat different situation exists however during the hot weather season, something over half of the consumers using in excess of 1000 cubic feet per month, for instance records for the month of June 1914 show that only 25 per cent used less than 500 cubic feet per month, 33 per cent less than 700 cubic feet per month, and 45 per cent less than 1000 cubic feet per month. A slight study of these records of use would seem to indicate that probably half, on an average, of these consumers do not use the quantity, or any where near the quantity, to which they are entitled under the minimum rate, and that they will be advantageously effected by any reduction in the minimum rate, and the quantity of water allowed therefore. This situation is manifestly inequitable to these consumers, and should be remedied, provided it does not work any injustice to the utility in question.

I also desire to call particular attention to the minimum rates, heretofore shown, for laundries, saloons, restaurants, and similar classes of service. I can see no logical reason for the segregation of such classes of services from the consumers as a whole, provided that the physical equipment for these classes of consumers, refer-

ring in particular to the meter and service connections, is in uniformity with that provided, and necessary for the remaining consumers. If these classes of service make considerable use of water, the utility will receive a return commensurate with the amount used, and if they are not large consumers, it is manifestly unjust, beyond the minimum charge necessary to support their particular service, that they pay for what they do not use. However, if it is necessary to install larger meter and service connections for these particular users, I am of the opinion that the minimum charge should be correspondingly advanced.

The rates which I shall recommend are for the purpose of meeting conditions as they now exist, and in my opinion are just and reasonable, in view of the present situation, and if, due to any change in this Company's methods of operations, they, under different conditions, become unjust and unreasonable, the possibility of which I have already indicated, matters can then be brought to the attention of this Commission for readjustment.

I shall recommend the following form of order:

#### O R D E R

The Railroad Commission of the State of California, having on its own initiative called into question the rates, rules, regulations and service of the Murphy Water, Ice and Light Company; An investigation of such matters having been made, and the hearing having been duly held, and the Commission being duly apprised in the premises, it is hereby found as a fact:

That the rates herein established are just and reasonable rates to be charged by the Murphy Water, Ice

and Light Company, and that the existing rates of said Company are unjust and unreasonable, insofar as they differ from the rates so established.

And the Commission further find as a fact, that certain improvements and betterments are immediately necessary to the rendering of good service to the consumers of the Murphy Water, Ice and Light Company, and that the revenues which said Company should properly receive through its operations, including therein such revenues heretofore referred to, and derived from the sale of water to the Atchison, Topeka & Santa Fe Railway Company, are sufficient to reasonably warrant immediate installation of such improvements and betterments, at the expense of said Company.

Basing its Order on the foregoing findings of fact, and the further finding of fact contained in the Opinion preceding this Order;

IT IS HEREBY ORDERED by the Railroad Commission of the State of California,

1st- That the Murphy Water, Ice and Light Company establish and file with the Railroad Commission, within thirty days from the date of the Order herein, the following monthly rates for water:

Within the first 2000 cubic feet at  $12\frac{1}{2}\%$  per hundred cubic feet.

Within the next 48,000 cubic feet at  $10\%$  per hundred cubic feet.

For use in excess of 50,000 cubic feet at  $5.0625\%$  per hundred cubic feet, for all water used.

Minimum monthly payments, regardless of character of use, shall be as follows:

For $3/4"$ meter and service, or smaller	\$1.25
For $1"$ " " "	2.50
For $1\frac{1}{2}"$ " " "	3.50
For $2"$ " " "	4.50
For $2\frac{1}{2}"$ " " "	5.50
For $3"$ " " "	6.50

For meters and service connections larger than shown herein, minimum monthly rates in proportion.

2nd- That the Murphy Water, Ice and Light Company shall immediately proceed to lay and construct, and upon completion thereafter operate and maintain as a portion of its water plant, the following described water pipes:

Beginning at a point where the line of Walnut Street produced easterly intersects said Company's present 8 inch transmission main, leading from its pumping plant, a 6 inch main westerly along the line of said Walnut Street to its intersection with "K" Street; A 4 inch main southerly along said "K" Street from Chestnut Street to Second Street, thence easterly a 4 inch main along Second Street from "K" Street to "I" Street; A 4 inch main easterly along Front Street from said 4 inch main on "K" Street hereinbefore mentioned, to a connection with the present 4 inch main on Front Street, now ending approximately at the intersection of Front and "J" Streets; A 4 inch main along Walnut Street from "K" to "M" Streets; A 4 inch main along Spruce Street from "K" Street to "M" Street; A 2 inch main westerly along Fourth Street from "E" Street to the intersection of said Fourth Street with "F" Street extended southerly, thence on "F" Street so extended, southerly from Fourth Street 250 feet; And contingent upon demand therefor from bona fide prospective customers of water, a 2 inch main on Market Street from "K" Street to "L" Street, and a 2 inch main on Arch Street from "K" Street to "L" Street.

3rd- That the Murphy Water, Ice and Light Company properly connect with the remainder of its water system, and with each other, all the above mentioned water pipe

extensions, and that the services of the present consumers of said Water Company's system, and of such consumers as make proper application therefore, in the territory served by the extensions hereinbefore provided, be connected, at the expense of the said Company, with such of the water pipes hereinbefore ordered, as are most convenient for the delivery of water.

4th- That the Murphy Water, Ice and Light Company place in full operation, as a portion of its Water System, said extensions and betterments hereinbefore ordered, within 60 days from the effective date of this Order, and shall make two written reports to this Commission of progress in connection with the construction of said extensions hereinbefore ordered, the first report to be rendered at the end of thirty days from the effective date of this Order, and the second report upon full completion and operation of said extensions and betterments.

5th- That said Murphy Water, Ice and Light Company shall prepare a schedule of Rules and Regulations, relating to the conduct of its business, in conformity with this Commission's Decision No. 2879 in Case 683, entitled, "In the Matter of the Practice of Water, Gas, Electric, and Telephone Utilities requiring deposits before rendering service", and file for approval, said schedule, with the Railroad Commission of the State of California, within thirty days from the effective date of this Order.

6th- This Order shall become effective on December 23, 1915.



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 November, 1915.

Max Thelen  
H. B. ...  
...  
Edwin O. Edgerton  
Frank ...  
Commissioners.

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