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Decision No.      ✓

ORIGINAL

Decision No. 3257

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA.

City of Pittsburg,  
Complainant,

v.

Black Diamond Water  
Company,  
Defendant.

Case No. 870.

B. D. Marx Greene for Complainant.

H. J. Brodsky for Defendant.

BY THE COMMISSION.

O P I N I O N

This is an action on the part of the City of Pittsburg, Contra Costa County, for the fixing of rates for water service charged the municipality and inhabitants thereof.

The defendant, Black Diamond Water Company, is a public utility engaged in the distribution and sale of water to the City of Pittsburg and its inhabi-

tants, and is the sole public agency for that purpose. Controversy as to the rates to be charged by the water company arose on June 16, 1914, when the City Board of Trustees passed Ordinance No. 31 A, fixing water rates for the fiscal year commencing July 1st, 1914. That ordinance effected a reduction of 15 per cent. in the basic flat rate for domestic consumers, and increased the number of irrigating hours. On June 29, 1914, Black Diamond Water Company, upon complaint filed with the Superior Court of Contra Costa County, secured an injunction pendente lite, restraining its enforcement. This cause of action is now pending in the Superior Court, and the water company continues to operate under Ordinance No. 17, an ordinance fixing water rates in the City of Pittsburg for the fiscal year commencing July 1st, 1913. On October 6th, 1915, shortly after this Commission acquired jurisdiction, the Board of Trustees filed formal complaint, alleging that the water rates established for the fiscal year commencing July 1st, 1915, were unjust and unreasonable, and requested this Commission to fix just and reasonable rates. Defendant's answer to this complaint alleges that not only are such rates just and reasonable, but that they are insufficient to afford a fair return on its investment. Public hearing was held on this matter at Pittsburg on February 1st, 1916.

For many years prior to 1906, the City of Pittsburg, then known as the town of Black Diamond, was supplied with water by the Sacramento River Packing As-

sociation, a private corporation engaged in packing and various other enterprises, and having its plant located in the town of Black Diamond.

Black Diamond Water Company was incorporated January 25, 1906, with a capital stock of 500 shares, of the par value of \$100. each. Mr. F. E. Booth, defendant's President, holds 498 of these shares, and also controls the Packing Association. On or about February 1, 1906. Black Diamond Water Company acquired for the sum of \$25,000. all the property of the Sacramento River Packing Association pertaining to the water business.

The water supply is pumped from New York Slough, an arm of the Sacramento River, which swings inland some distance from the main river. The water is treated with aluminum sulphate, and delivered into settling tanks, from which, after a sufficient lapse of time to allow for coagulation and settlement, it is at present pumped directly into a 100,000 gallon redwood tank, on a seventy foot tower, and from this tank delivered after filtration to the distributing system.

The company has practically completed arrangements for bettering the present methods of handling the supply. Upon completion of these plans, the water, after receiving preliminary treatment with aluminum sulphate in the two old redwood settling tanks, located at the pumping plant, which have a combined capacity of 133,000 gallons, will be pumped into two new redwood tanks of a

capacity of 100,000 gallons each, erected during 1915 at the filtration plant, and re-treated. From these tanks it will then be forced up through the filters, and into the distribution reservoir, after being treated with liquid chlorine, thus reversing the present filtration process. It is also planned to reorganize and improve the pumping equipment some time during the year 1916.

The total aggregate length of the distributing mains is approximately 33,000 lineal feet, of which about 41 per cent. consists of 2-1/2 inch, or less, Standard Screw Galvanized pipe; 16 per cent. 4 and 6 inch Converse Lock Joint pipe; and 43 per cent. 4 and 6 inch machine banded wood stave pipe.

There are 602 services on the system, of which 60 are inactive. Of these services, only 40, or less than 7 per cent. of the total number, are metered. There are 36 fire hydrants situated principally in the business section of the town. The total population served is approximately 3,000. In 1914 about 98,000,000 gallons of water were delivered through the settling tanks, of which about 500,000 were for public use, the remainder being for domestic purposes.

Mr. James Armstrong, one of this Commission's hydraulic engineers, presented a report on water use, operating expenses, and revenues, and submitted an appraisal of the physical properties, based upon the original cost thereof to the company. He shows the probable

original cost of the plant as of January 1, 1916, to be \$61,477; its depreciated cost by the sinking fund method at \$47,905; with a four per cent. sinking fund annuity of \$1,848. These figures are based upon records of actual cost of the different portions of the property, installed as they were at different periods of its growth, and probably fairly approximate the actual cash investment made therefor. He further testified that the plant could be reproduced as a whole, at the present time, for between 20 and 25 per cent. less than the amount shown. His estimate of the probable reasonable and proper operating expenses, exclusive of depreciation, for the year 1916 was \$10,000. and was based upon an examination of the company's operations for a period of five years. Mr. Armstrong drew no conclusions as to the fair value of this property for rate fixing or any other purposes, but pointed out that a system capable of rendering the same quality of service as is now rendered, could be installed at the present time at a much lower figure than has actually been invested.

The engineer for the water company testified that the value of the property for rate fixing purposes, as of January 1, 1915, as measured by its probable original cost, was not less than \$60,540; that the value of this property for rate fixing purposes, as measured by its depreciated value, as of January 1, 1915, was not less than \$46,700; and that the reason-

able allowance for depreciation which would accrue during the calendar year 1915 should not be less than \$2,470. Included in these figures is the sum of \$2,000. for going concern value. In order to bring the company's estimate down to January 1, 1916, it is, of course, necessary to add fixed capital installed during the year 1915 of \$5,633.57, and deduct accrued depreciation for the same period.

At the hearing held in this matter it was stipulated that the annual reports of defendant company, on file with this Commission, were to be considered in evidence, and the following tables have been compiled from such records.

TABLE NO. I.

	Operating Expenses, excluding Depreciation	Depreciation	Total Operating Expenses	Total Operating Revenue
1912	\$6,692.24	\$2,048.86	\$8,741.10	\$10,960.41
1913	7,344.19	2,114.57	9,458.76	11,947.37
1914	9,528.43	2,200.00	11,728.43	12,057.43
1915	10,378.70	2,443.64	12,822.34	13,251.01

TABLE NO. 2.

	Net Operating Revenue	Fixed Capital at end of year	Total Water used in 1000 gals.	Gross return per 1000 gals. used
1912	\$2,219.31	\$52,864.55	No record	-----
1913	2,488.61	53,253.86	101293	0.0968
1914	329.00	56,820.19	97645	0.1225
1915	428.67	62,453.76	120095	0.0865

The following indicates the amount of fixed capital installed annually since 1909 in the form of additions and betterments:

1910, \$7,033.05; 1911, \$3,308.74; 1912, \$2,522.76; 1913, \$389.31; 1914, \$3,566.33; 1915, \$5,633.57 - a total for the six years of \$22,453.76, or an average of \$3,742.30 per annum. It will be noticed that in every year but one these amounts are in excess of the net operating revenue for the corresponding year.

While the data preceding might indicate that defendant is not earning any large return upon the investment claimed by it, a careful study of this data, together with a full consideration of the testimony, causes us to reach the conclusion that the unsatisfactory condition arises, not as much from a lack of proper proportion between the amount of the investment and the service rendered, nor from an excessive rate, as from the form of rate charged. A flat rate tends to an excessive use of a commodity, whereas metered rates not only effect an economy in the use but result in an equitable distribution of the expense of production among the users.

The average return per 1,000 gallons of water used in the last three years, is only about 10-1/2 cents, while the lowest meter rate is fifteen cents, applicable to municipal use, with a twenty cent rate for commercial use - this latter use constituting by

far the larger portion of the metered supply.

The flat rates now in effect, particularly the basic one of \$1.75 per month for the ordinary family, are among the highest in the State, and that their application in many instances is unjust, is shown by the policy of the company in enforcing them. Mr. W. G. H. Croxon, defendant's superintendent, testified, for instance that no charge was made for horses or cows kept in private stables, and indicated that in many cases where there were only one or two in the family, and the use of water was evidently very small, payment lower than the ordinance rate was accepted. There is no doubt but that the converse of this situation is also true, and that in many cases where the correct ordinance rate is charged the use of water is excessive, in the sense heretofore indicated. The advantages and disadvantages of metering are not always evident until put to the test. The benefits to be derived from a metered system are fairly well established. They result in a conservation of the supply, an equitable distribution of the charges, and a saving in operating expenses, in this particular case chiefly in pumping and purification costs.

While the disadvantages of metering in relation to this plant will not be fully evident until the system has been established for some time, there are several phases which may, or many not, prove to be faults, that should be considered.



The installation of meters calls for an additional capital investment, the returns for which must be derived through rates. The action of the water itself upon the meters after being subjected to treatment by sulphate of aluminum and liquid chlorine, and the impossibility of removing all the fine particles of sand from the river water, may result in an unusually heavy meter maintenance expense. Under any supply where the use has been almost entirely unmetered this Commission is confronted with an uncertainty in the results to be derived from any rate, or form of rate, which contemplates a metered system. It can only apply its judgment and experience gained in other cases to the particular case at hand, and if later further consideration proves necessary, profiting by the knowledge gained, effect readjustment with full protection to both the consumers, and the utility.

Before proceeding to the order it is desired to point out one phase of this situation which will undoubtedly result in an increase in the gross operating revenues of this company without any particular increase in the expense. The City of Pittsburg has enjoyed an unusually rapid growth during the last few years, and all indications point to a continuance of this activity. The establishment of manufacturing plants in the vicinity of Pittsburg, and the resulting influx of population, will add many consumers to the system with but slight additional expense.

O R D E R

Complaint having been made by the City of Pittsburg against the rates charged by Black Diamond Water Company,

And a public hearing having been held in this proceeding and the same being now ready for decision, the Railroad Commission hereby finds as a fact:

That the rates now being charged by Black Diamond Water Company for water delivered to its consumers are unjust and unreasonable, and that the rates hereinafter set out in this order as the rates to be charged by said Black Diamond Water Company for water delivered to its consumers are just and reasonable rates, and, basing its order upon its findings of fact and the further findings of fact contained in the opinion preceding this order,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that Black Diamond Water Company establish and charge the following schedule of rates for water:

Municipal:

Fire hydrants, \$1.50 per month, per hydrant.

Street sprinkling and sewer flushing, 12¢ per 100 cubic feet for all water used.

Municipal buildings and departments at regular commercial rates.

Commercial:

Flat Rates:

To buildings containing one toilet and occupied by a family of two adults and children under age .....	\$1.25 per mo.
Each additional toilet .....	.20 per mo.
To small stores and offices .....	1.00 per mo.
To warehouses .....	1.50 per mo.
To saloons .....	2.00 per mo.
To bakeries for monthly use of flour, for each 25 barrels or less .....	1.50 per mo.
To wagon and blacksmith shops .....	1.50 per mo.
To livery stables, including carriage washing, not less than .....	3.00 per mo.
To persons slacking lime, for each barrel	.10 cents.
To persons slacking cement, " " "	.10 cents.
To persons wetting brick, per thousand	.10 cents.
To persons keeping horses or cows, in private stables or sheds, for one horse, including water for washing vehicles .....	.15 per mo.
For each additional horse so kept .....	.10 per mo.
For each additional cow .....	.10 per mo.
To barber shops, for single chair .....	1.00 per mo.
For each additional chair .....	.20 per mo.
To water troughs on sidewalk .....	1.00 per mo.
To bath tubs in barber shops, hotels, boarding or lodging houses, accessible to the public, per tub, .....	.50 per mo.
To horses and cows, not provided for above	.10 per mo.
To hotels, boarding and lodging houses containing ten rooms and over, taverns and seminaries, in addition to rate for saloon if saloon is operated in conjunction with hotel, .....	3.00 per mo.
For irrigating gardens and grounds, for every lot not exceeding 50 feet, .....	.50 per mo.
Hours for irrigating lawns, gardens, or grounds, 5:00 A. M. to 8:30 A. M. and 5:00 P. M. to 8:00 P. M.	

Metered Rates:

\$1.25 per month for 500 cubic feet or less.

Next 500 cubic feet at 20¢ per 100 cubic feet.

Use in excess of 1,000 cubic feet at 15¢ per 100 cubic feet.

Special contract rates for large consumers and industrial users, to be approved by the Railroad Commission. Meters to be installed at the expense of the company, at either the option of the company or upon request by the consumer.

IT IS HEREBY FURTHER ORDERED that Black Diamond Water Company file with this Commission within thirty (30) days from date of this order a schedule of the rates as herein set out, together with rules and regulations compiled in accordance with this Commission's Decision No. 2879, in Case No. 683.

This order shall become effective on May 1st, 1916.

Dated at San Francisco, California, this 17<sup>th</sup> day of April, 1916.

Max Thelen  
Howard  
W. Gordon  
Edwin O. Edgerton  
Francis R. Owen

Commissioners.