

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application)
of Fairmount Water Company for an)
order authorizing an increase in) Application No. 2059.
rates charged for water.)
)

Sweet, Stearns & Forward for Fairmount Water Company.
H. D. Hicker for Sierra Vista Improvement Club.
F. G. Blood for East San Diego Civic League.
C. J. Noel for Tax Payers Protective League.

THELLEN, Commissioner.

O P I N I O N.

This is an application by Fairmount Water Company for an order authorizing an increase in the rates charged for water sold by petitioner in a portion of East San Diego and in certain unincorporated territory adjacent to East San Diego.

The territory served by Fairmount Water Company is referred to in the evidence herein as being divided into four districts, namely, the Cuyamaca District, the City District, the Mountain View District and the Sierra Vista District. The Cuyamaca District is located in the City of East San Diego and is supplied by Fairmount Water Company with water purchased from the Cuyamaca Water Company, and is not included in the present proceeding. The other three districts are supplied by Fairmount Water Company with water purchased from the City of San Diego. The Cuyamaca, City and Mountain View Districts are connected by a pipe line, so that in cases of emergency, water from the system of Cuyamaca Water Company may be supplied to each of these districts. The Sierra Vista District is entirely disconnected from the other three districts. It is located in unincorporated territory about one mile south from the southerly limits of the City of San Diego and is served with water secured from the City of San Diego through an independent tap.

Public hearings in this proceeding were held in the City of San Diego on April 12 and 13, 1916. Evidence was presented by petitioner herein and in behalf of the citizens of East San Diego and of the Sierra Vista District.

Fairmount Water Company pays to Cuyamaca Water Company 15 cents per 1000 gallons, except that during the summer time, it purchases certain flood waters at 10 cents per 1000 gallons. Fairmount Water Company pays to the City of San Diego an average rate of approximately 10 cents per 1000 gallons for the water sold in the City and Mountain View districts and 8 cents per 100 cubic feet for the water sold in the Sierra Vista district.

The rates at present charged by Fairmount Water Company to its customers in the four districts hereinbefore referred to are as follows:

In the City District, 20 cents per 1000 gallons, with a monthly minimum of \$1.00.

In the Mountain View District, 10 cents per 1000 gallons, with a monthly minimum of \$1.00.

In the Sierra Vista District, 15 cents per 1000 gallons, with a monthly minimum of \$1.25.

In the Cuyamaca District, 25 cents per 1000 gallons, with a monthly minimum of \$1.25.

Petitioner asks authority to establish in the City, Mountain View and Sierra Vista Districts the uniform rate of 25 cents per 1000 gallons for each 1000 gallons of water delivered, with a monthly minimum charge of \$1.25 if paid on or before the 10th day of the month following the month in which the service is rendered, with some appropriate penalty for failure to pay by 10th day of the month.

During the year 1915, Fairmount Water Company had an average of 768 customers in the City and Mountain View Districts, 445 customers in the Cuyamaca District and 51 customers

in the Sierra Vista District.

The subject matter of this opinion will now be considered under the following heads:

- (1) Value of Property.
- (2) Rate of Return.
- (3) Depreciation Annuity.
- (4) Maintenance and Operating Expenses.
- (5) The Rate.
- (6) Service.

1. VALUE OF PROPERTY.

There is no satisfactory evidence herein with reference to the original cost to date of the property of Fairmount Water Company now under consideration.

Estimates of the cost to reproduce said property as of April 1, 1916, and also of the estimated cost to reproduce less accrued depreciation were presented on behalf of Fairmount Water Company by Mr. F. M. Faude and on behalf of the Railroad Commission by Assistant Hydraulic Engineer M. E. Brinkley.

The following table shows a summary of Mr. Faude's report:

Table No. I

Estimated Reproduction Cost and Depreciated Reproduction
Cost-Fairmount Water Company's Property - F.M.Faude.

| | <u>Reproduction</u> <u>Cost</u> | <u>Accrued</u> <u>Depreciation</u> | <u>Depreciated</u> <u>Reproduction Cost</u> |
|---|------------------------------------|---------------------------------------|--|
| City and Mountain View Districts | \$40,737.00 | \$9,040.00 | \$31,697.00 |
| Sierra Vista District | 1,963.00 | 356.00 | 1,607.00 |
| Miscellaneous Structures-- 65 1/4% of Totals | 1,770.00 | 188.00 | 1,582.00 |
| Stock and Materials on Hand--65% of Totals | <u>1,660.00</u> | <u>0</u> | <u>1,660.00</u> |
| Grand Totals | \$46,130.00 | \$9,584.00 | \$36,546.00 |

Mr. Faude testified that the average of the water sold by the City of San Diego and paid for in the City, Mountain View and Sierra Vista Districts is 65 1/4% of the average of the water purchased from the City of San Diego and sold over the Fairmount Water Company's entire system. In order to ascertain the portion of miscellaneous structures and of stock and materials on hand properly chargeable to the City, Mountain View and Sierra Vista Districts, Mr. Faude accordingly applies the percentage of 65 1/4 to the total sums applicable to miscellaneous structures, stock and materials on hand for Fairmount Water Company's entire system.

The following table shows Mr. Brinkley's estimate of the cost to reproduce the entire system with accrued depreciation and estimated reproduction cost less accrued depreciation:

Table No. II.

Estimated Reproduction Cost, Accrued Depreciation and
Estimated Reproduction Cost Less Depreciation--
Fairmount Water Company - M. H. Brinkley.

| | <u>Estimated Reproduction Cost</u> | <u>Accrued Depreciation</u> | <u>Estimated Reproduc- tion Cost Less Accrued Depreciation</u> |
|---|--|---------------------------------|--|
| City and Mountain View Districts | \$36,596.00 | \$7,925.00 | \$28,661.00 |
| Cuyamaca District | 17,912.00 | 4,831.00 | 13,081.00 |
| Sierra Vista District | 1,820.00 | ,323.00 | 1,497.00 |
| Miscellaneous Structures and Real Estate | 2,358.00 | 272.00 | 2,086.00 |
| Inventory of Tools, Equipment and Supplies | <u>2,544.00</u> | <u> </u> | <u>2,544.00</u> |
| Totals | \$61,230.00 | \$13,351.00 | 47,869.00 |

By applying to miscellaneous structures and real estate and tools, equipment and supplies a percentage of 67.14 for the City and Mountain View Districts, and 32.86 for the Cuyamaca District, ~~was~~ Mr. Brinkley estimates a reproduction cost new of the entire property used and useful in connection with the City and Mountain View Districts of \$39,887.00, with a depreciated reproduction cost of \$31,770.00 and an estimated reproduction cost new for the Cuyamaca District of \$19,523.00, with estimated reproduction cost new less accrued depreciation of \$14,602.00. Mr. Brinkley made no charge for these items to the Sierra Vista District, on the ground that these items were practically of no service in connection with the Sierra Vista District.

The chief differences between the estimates of Mr. Faude and Mr. Brinkley are with reference to the unit prices for standard screw pipe having a diameter of two inches and less, the overhead percentages and the real estate. Mr. Brinkley used average prices for pipe ranging over the last five years and took the actual conditions with reference to the necessary depth of trenches. Mr. Faude applied an overhead percentage of 14%, except as to real estate, as to which he applied 10%. Mr. Brinkley applied an overhead of 12%, except as to real estate, with reference to which he applied 5%. It is difficult to reach a satisfactory conclusion with reference to the value of the Fairmount Water Company's real estate. The testimony presented by a number of witnesses for Fairmount Water Company and the consumers shows that very little real estate has been sold in East San Diego during the last two or three years and that there is at the present time a decided slump in the market. The estimates presented by Fairmount Water Company seem to be based largely on the prices which prevailed a number of years ago while real estate was moving freely in East San Diego.

An item of \$100.00 should be added to the estimates of both Mr. Faude and Mr. Brinkley to cover improvements which are being made to better the service in the Sierra Vista District.

The testimony shows that the entire system of Fairmount Water Company was offered to the City of East San Diego a year or so ago for bonds of the City of East San Diego of the face value of \$41,000.00, which bonds the officers of Fairmount Water Company expected to sell at 105% of their face value. At an election called to consider this proposition, the citizens of East San Diego declined to vote the bonds.

2. RATE OF RETURN.

The evidence shows that the major portion of the water system of Fairmount Water Company was purchased or constructed by Pacific Building Company for the purpose of assisting Pacific Building Company to sell real estate. The testimony shows that while no definite amount was added by Pacific Building Company to the price of its lands to represent the cost of installing the water system, the prices asked included ^{a sufficient amount for} reimbursement for the water system, as is usually the case in such subdivisions. While it was contended by the consumers herein that the legal title to portions of the water system of Fairmount Water Company had passed to the purchasers of lands sold by Pacific Building Company, the evidence does not justify this claim. On June 1, 1914, Pacific Building Company separated its water operations from its land operations and transferred its water properties to the petitioner herein. Pacific Building Company owns all the stock of Fairmount Water Company with the exception of directors' shares. Testimony was presented herein to the effect that certain purchasers of lands from the Pacific Building Company in the Sierra Vista District were told by the agents of Pacific Building Company, at the time of their respective purchases, that the water rate would be a flat monthly payment of \$1.25 until the last installment on the price of the property purchased had been paid, while other consumers testified that they had been told that the water rental would continue to be the flat rate of \$1.25 indefinitely. Subsequently, due to excessive use of water by the residents of this district, meters were installed by Pacific Building Company and the rate was changed to the present meter rate.

In view of the circumstances surrounding the operations

of this water system, I find that the sum of \$2,393.00 is a fair annual return on the value of the property of Fairmount Water Company and devoted to the service of the City, Mountain View Districts, and that the sum of \$115.00 is a fair^{annual} return on the property devoted to the service of the Sierra Vista District.

5. DEPRECIATION ANNUITY.

Fairmount Water Company asks an annual allowance for depreciation of \$2,959.00, apparently based on the straight line method. I find that on the 4% sinking fund basis, a reasonable annual allowance under the head of depreciation annuity is the sum of \$1,537.00 for the City and Mountain View Districts and \$64.00 for the Sierra Vista District.

4. MAINTENANCE AND OPERATING EXPENSES.

The following table shows the operating revenues and operating expenses of Fairmount Water Company in the year 1915, as reported by Mr. Brinkley:

Table No. III.

Operating Revenues and Expenses-- Fairmount
Water Company-1915.

Operating Revenues.

| | | |
|---------------------------------|-------------|--------------------|
| Commercial Sales Metered | | |
| City and Mountain View District | \$11,320.65 | |
| Cuyamaca District | 8,033.35 | |
| Sierra Vista District | 808.75 | |
| Miscellaneous Revenues | 474.01 | |
| | | <u>\$20,636.96</u> |
| Total | | \$20,636.96 |

(Table No. III cont'd)

Bro't forward

\$20,636.96

Operating Expenses

Maintenance
Repairs to Mains, Services
and Meters 4,044.06

Operation
Water Purchased
City and Mountain View Districts
 = 4103.65
Cuyamaca District = 3342.44
Sierra Vista " = 407.50

Total
Distributing Expenses 7,853.59
 670.00
Commercial Expenses 1,191.56
General Expenses 998.25

Total Operating Expenses 14,757.46

Insurance 186.56
Taxes 332.19

Grand Total Operation \$15,276.21

\$150.00 has been taken out of operating expenses on account of being chargeable to additions and betterments to the property.

The foregoing table gives the results for the entire system of Fairmount Water Company.

The testimony shows that the expenditures for repairs to mains were abnormal in 1915 by reason of the grading of streets and continual repairs to the Klauber Street main. The superintendent of Fairmount Water Company testified that, in his opinion, the average cost of repairs to mains during the last seven months of 1914 would be a fair estimate per month for 1916. After considering the various items of maintenance and operating expenses concerning which testimony was produced at the hearing, I find that a reasonable allowance for maintenance and operating expenses for the year 1916, apart from the payments for water to be purchased from the City of San Diego, will be the sum of \$7,084.00, on the assumption that the business for 1916 will be

the same as the business for 1915. The testimony seems to show that an increase of business is not to be expected in 1916. Various segregations were suggested for the purpose of apportioning the maintenance and operating expenses, apart from the cost of water purchased from the City of San Diego, to the four districts of Fairmount Water Company. On the basis of the estimated reproduction cost new of the property in each of the four districts, the percentages to be applied to the various districts to determine their fair share of such maintenance and operating expenses, would be 65.1% to the City and the Mountain View Districts, 31.9% to the Cuyamaca District and 3% to the Sierra Vista District. On the basis of the average number of consumers, the percentages would be 60.8% to the City and Mountain View Districts, 35.2% to the Cuyamaca District and 4% to the Sierra Vista District. On the basis of the cubic feet of water used annually, the percentages would be 59.8% to the City and Mountain View Districts, 35.1% to the Cuyamaca District and 5.1% to the Sierra Vista District. Due to the compactness of the Sierra Vista District, the operating expenses properly chargeable to that district should not be proportionately as large as in the other districts. I am of the opinion that a fair percentage of apportionment of all maintenance and operating expenses, apart from the cost of water purchased from the City of San Diego, which cost should be charged ^{separately} to each district, is 61% to the City and Mountain View Districts, 35% to the Cuyamaca District and 4% to the Sierra Vista District. On this basis I find that the sum of \$4,321.00 should be allowed under the head of maintenance and operating expenses, apart from the cost of water purchased, for the City and Mountain View Districts and \$283.00 for the Sierra Vista District. Adding to these sums \$4,104.00 for water to be purchased for the City and Mountain View Districts and \$408.00 for the Sierra Vista District,

being the amounts paid in 1915, I conclude that the total amount fairly chargeable to the City and Mountain View Districts under the head of maintenance and operating expenses will be \$8,425.00 and to the Sierra Vista District, \$691.00.

5. THE RATE.

The following table shows the annual gross income which Fairmount Water Company should receive from the City and Mountain View Districts and the Sierra Vista District under the allowances herein found ^{to be} reasonable:

Table No. IV.

Annual Gross Income to be Secured by Fairmount
Water Company from City, Mountain View and
Sierra Vista Districts.

| | <u>City and Mountain View Districts.</u> | <u>Sierra Vista District.</u> |
|--|--|-----------------------------------|
| Fair return on value of property | \$2,393.00 | \$ 115.00 |
| Depreciation annuity | 1,537.00 | 64.00 |
| Maintenance and operat- ing expense | <u>8,425.00</u> | <u>691.00</u> |
| Total | \$12,355.00 | \$ 870.00 |

In establishing the form of rate to yield this annual gross revenue, attention is at once directed to the fact that an unusually large number of consumers of the Fairmount Water Company use materially less than 500 cubic feet of water ^{per month.} I have given careful consideration to Fairmount Water Company's request that the minimum monthly rate be established at \$1.25, but have reached the conclusion that the present monthly minimum rate of \$1.00 in effect in the City and Mountain View Districts is more

appropriate to the use under this particular system, and that this rate should also be extended to the Sierra Vista District.

After a careful review of all the testimony herein, I find that the following rates are just and reasonable rates to be charged by Fairmount Water Company in the City, Mountain View and Sierra Vista Districts:

| | |
|--|-----------------------|
| Minimum, | \$1.00 Monthly |
| First 500 cubic feet | .20 per 100 cubic ft. |
| Next 2500. " " | .16 " " " " |
| All water used in excess of 3000 cubic feet | .12 " " " " |

The application of this rate to the Fairmount Water Company's business for the year 1915, which business it is agreed shall be taken as the basis for the rates herein established, will yield the annual gross income herein found to be reasonable.

6. SERVICE.

Residents of Sierra Vista District testified that difficulty has been experienced by them, particularly by the residents on the higher elevations during the summer time, in securing an adequate supply of water. Representatives of Fairmount Water Company admit/^{ted} that the conditions have not been satisfactory and presented testimony to show/^{that} the improvements which the company is now making will remedy this condition. I am satisfied that Fairmount Water Company is using its best efforts to improve the service and that no order under this head is now necessary.

I submit the following form of order:

O R D E R .

FAIRMOUNT WATER COMPANY having applied to the Railroad Commission for an order authorizing an increase in the rates charged by said company for water sold in its City, Mountain View and Sierra Vista Districts, in and adjacent to the City of East San Diego, and a public hearing having been held herein,

THE RAILROAD COMMISSION HEREBY FINDS AS A FACT that the rates now charged by Fairmount Water Company in said districts are unjust and unreasonable in so far as they differ from the rates herein established, and that the rates herein established are just and reasonable rates to be charged by Fairmount Water Company in said districts.

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

IT IS HEREBY ORDERED that Fairmount Water Company be and the same is hereby authorized to file with the Railroad Commission, effective for the meter readings to be made in the latter part of the month of May, 1916, the following schedule of rates to be charged by Fairmount Water Company in its City, Mountain View and Sierra Vista Districts:

| | |
|-----------------------------|-----------------------------|
| Minimum..... | \$1.00 monthly |
| First 500 cubic feet..... | 20 cents per 100 cubic feet |
| Next 2500 " " | 16 " " " " " |
| All water used in excess of | |
| 3000 cubic feet..... | 12 " " " " " |

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 May, 1916.

Max Thelen

Geo Gordon

Edwin O. Edgerton

Frank R. DeWine

Commissioners.