

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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ORIGINAL

P. J. MURPHY, et al, )

-vs- )

Case No. 979 )

REDONDO WATER CO. )

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Harry Polglase for complainants,  
Gibson, Dunn & Crutcher, by S. M. Haskins,  
for Redondo Water Co.

LOVELAND, Commissioner.

O P I N I O N

This is a complaint of some thirty (30) water consumers in the City of Redondo, who are dissatisfied with certain practices of Redondo Water Co. They allege that (a) Redondo Water Co. is charging excessive rates, (b) that the minimum monthly charge is too high, (c) that several minimum charges are sometimes made with but one service installed, (d) that no regular date for reading meters has been established, (e) that no credit is given consumers who fail to use the quantity of water permitted under the minimum charge and (f) that there is no rate established for vacant premises. Complainants ask relief in all these particulars, especially praying for relief in rates and from the multiple minimum charges assessed to premises supporting more than one building.

In the answer to the complaint, defendant company admits certain of the allegations but denies that the rates are excessive or even yield a reasonable profit on the fair valuation of the defendant's property. Defendant asks for an increase in rates.

General metering of the system and consequent changes from flat rates to meter schedule has precipitated this complaint.

In several instances this change has caused an increase in water bills, especially among those consumers who have more than one occupied structure upon their premises.

There were two hearings in this matter, one at Redondo on October 16, 1916 and the second in Los Angeles on November 11, 1916.

This Commission, under a former proceeding entitled "Application of the City of Redondo for an order fixing the value of certain property of the Redondo Water Company, a public utility corporation", (Opinions and Orders of California Railroad Commission, Vol. 6, p's 260 and 435), caused an investigation to be made of the property of the Redondo Water Co. and this Commission's hydraulic engineers reported upon the estimated reasonable cost new of the properties of Redondo Water Co. as of date January 1, 1915, as follows: -

Real Estate,	\$ 9225
Buildings,	6793
Wells,	7377
Pump Pits,	6268
Tunnel,	1399
Motors,	2034
Pumps,	12145
Reservoir,	9275
Weir Box,	421
Paving cut to lay mains,	836
Distribution System,	92629
Services,	8849
Sprinkling standards,	1916
Meters,	1808
Organization expense,	515
Material on hand,	1986
Operating equipment,	1673
Office equipment,	1500
	<u>\$166,649</u>

Since the date of the above appraisal, the water system has been metered, there have been additions to the pipe system and the reservoir has been reinforced with steel and concrete. The total additions to capital aggregate \$20,039 as shown by page 3 of exhibit #1 filed by this Commission's engineers. This sum, however, includes \$1486 for material and supplies already

allowed in former inventory. We find that the following deductions should be made: -

Prospective well sites,	\$ 1820	Not used and useful,
Prospective reservoir site,	2225	Not used and useful,
Portion of Clifton Heights pipe,	4889	Over built,
Pipe removed,	894	Withdrawals,
Duplication on material account,	1486	
Total,	<u>\$11314</u>	

The net addition to capital is, therefore, the difference between \$20,039 and the deductions above listed, or \$8725.

Previously reported,	\$166,649
Net additions,	<u>8,725</u>
Commission's Engineer's suggested base for net return,	\$175,374

The company, through its engineer, E. R. Bowen, presented an exhibit explaining development cost of \$19,056 asked in addition to above. This amount was computed by considering the losses as shown by yearly statements of the company. Should this item be included, the gross total would be \$194,430, since there was practically an agreement between the engineers as to the other items of the appraisal. However, the history of this utility shows it to have been started as an aid to the sale of Redondo property and to allow for losses incurred in the utility business while lots were being marketed would be placing an unjust burden upon present consumers. We cannot allow this item.

Allowance must be made in rates to provide funds for the renewal of parts of the water system, as they become worn out through use or are discarded due to obsolescence. There are two general methods of estimating the annual allowance to provide for those expenses. One is known as the "Sinking Fund Method", whereby a certain sum is set aside each year and bears compound interest thereafter, until at the expiration of the term of anticipated useful life of the item, there is a total sufficient to reimburse the utility for the expenditure made

for that item.

The other method is known as the "Straight Line Method", and provides for the retirement of capital at a uniform rate each year, the original investment being returned to the utility at the expiration of the estimated useful life. When the former method of computing depreciation allowance is used, interest annually on full investment is generally allowed. With the latter, interest is allowed upon the residual value of the system as determined by deducting accrued depreciation payments from estimated cost new. These two methods are in themselves radically different but in fact result in practically the same return on a growing system. I will recommend in this case that the sinking fund method be adopted.

Analysis of the proper amount to be set aside annually to retire the depreciable property has been computed by this Commission's engineers at \$2347.44. This sum includes a liberal allowance for the retirement of the operating equipment such as automobile, etc.

One of the Assistant Auditors of this Commission made a thorough examination of the books of Redondo Water Co., and presented as Railroad Commission's exhibit #2, a report upon this investigation. The Commission's engineers presented an exhibit known as Commission's exhibit #3, showing a comparison between (1) the actual expenses charged to the various accounts during 1915, (2) the estimates made by the company's engineer for the coming year and (3) schedule which Commission's engineers recommended. It will be noticed from this exhibit that the expenses of Redondo Water Co. for the year 1915 have generally been accepted as reasonable. Deductions have been made in the allowance for power on account of the installation of meters. The saving in pumped water has been almost 66% of former pumpage. The installation of meters will add to the operating expenses,

however, for the next year.

Defendant company presented an exhibit tabulating the payroll on maintenance and operation for the last three years as follows: -

1914 -	\$ 8097.09
1915 -	7996.08
1916 - (based on 9 months)	8237.96
	<u>\$24331.13</u>
Average,	8110.38

Defendant contended that the average labor cost should be allowed in fixing rates. An analysis of the data on this subject shows \$8620.00 asked by defendant's engineer, while \$7448.48 is shown as the actual labor cost in 1915 taken from an earlier exhibit. There has evidently been some duplication in the segregation of some of the accounts. We shall use \$7448.48.

The automobile expense was found by the Commission's engineers to have been segregated on the company's books to various operating and construction accounts. Depreciation upon the automobile is provided for in the annuity heretofore mentioned. It will be necessary to remove an item of \$600 from the company's engineer's estimate of operation expense for automobile. The insurance on employees has likewise been eliminated because of duplication in accounts.

Several extraordinary expenses occurred during 1915, part of which expense should be amortized over several years. Such an item as the reservoir repair, denominated by the company an extraordinary expense, seems properly added, as has been done to capital account. The other items appear reasonable.

The gross amounts estimated by the Company's engineer and the Commission's engineers as sufficient to pay maintenance and operation expense were: -

Estimate by Company's engineer,	\$15,182.00
" " Commission's engineer,	12,875.35
Actual expense 1915,	16,082.42

The main differences between this Commission's engineers' estimate and the company's engineer's estimate is: -

Deduction in allowable extraordinary expense,	\$ 300
Duplication of Auto expense,	600
Duplication of insurance,	150
Excess labor allowed by Company's engineer over 1915 labor items shown in Exhibit "A-1",	<u>1171</u>
	\$2220

Counsel for complainants criticized the expenses as shown by the company for 1915 but although permitted to file with the Commission his estimate of a proper allowance for operating the plant, no estimate was made and we infer that he has left his case in the hands of this Commission, Counsel, however, did protest, in a closing brief, against the multiple minimum charges assessed against property upon which there is more than one dwelling.

The matter of the charge made by water utilities in cases where more than one house is supplied through the same service has been before this Commission in several formal cases and in many informal controversies. See Freeman vs. Irwin Heights Water Company, Vol. 7 Opinions and Orders of the Railroad Commission of the State of California, 418. Strickler vs City Water Company of Ocean Park, Opinions and Orders of the Railroad Commission of the State of California, 423, and Decision No. 3599, Case 908, Belvedere Water Company, rates and service rendered August 26, 1916.

In Redondo we find a group of ten bungalows furnished with water through one service and meter. These bungalows are all under one ownership and the company has been making a minimum charge for at least six occupied houses.

The reduction of returns to the utility, if the rule is adopted of making but one charge for each service installed, has been computed by the Commission's engineers from exhibit "E"

filed by the company. It is therein found that there would have been \$203 less revenue collected during five summer months of 1916 if the multiple minima had not been demanded. Admittedly these premises have their business at a maximum in the summer, with little, if any, in winter. The Commission's engineers estimate that there would not be over \$300 reduction annually in the revenue if the multiple minima were not insisted upon by the company.

If the rates as outlined herein are sufficient to return to the utility the sum which we find necessary to be received, the number of users upon a service will not be relevant inasmuch as the use of water will be the basis of the revenue collected. The meter rates herein established presuppose only one minimum meter charge for each service connection with the utility's mains.

It is necessary to provide the revenue of the company from metered services, inasmuch as there are but few flat rates remaining in effect.

One difficulty to be met is that there are but four months records of use in Redondo under the meter system. It was necessary to use data of comparable communities. The Company's engineer took Santa Monica as typical and the Commission's engineers examined the records of use at Hermosa Beach immediately adjoining Redondo on the north. From charts supplied by the engineers, it was shown that the four months water use at Redondo exceeded the yearly averages of Santa Monica or of Hermosa Beach, and that use in Santa Monica was more liberal than at Hermosa Beach. The estimate of use applied in establishing the rate herein recognizes as many of the features of all the estimates as can properly be adopted.

I find that the defendant utility is entitled to receive in rates the following revenue:-

M & O expense as per exhibit	\$12,875.35
Annuity	2,347.44
7% Interest on \$175,374.	12,276.18
	<u>\$27,498.97</u>
Revenues as per year 1915	23,101.43
Necessary Increase.	<u>\$ 4,397.54</u>

To return this necessary revenue, I find the following schedule of rates just and reasonable to be collected by Redondo Water Co. for water delivered to consumers.

For water used up to 300 cubic feet,	33-1/3¢	per 100 cu.ft.
Between 300 cubic feet and 1000 cubic feet,	20¢	per 100 cu.ft.
Between 1000 cubic feet and 2000 cubic feet,	17½¢	per 100 cu.ft.
For use in excess of 2000 cubic feet,	15¢	per 100 cu.ft.

Service 1/2" diameter or less,	\$1.00	monthly minimum,
Service 3/4" diameter,	1.50	monthly minimum,
Service 1" diameter,	2.00	monthly minimum,
Service 1½" diameter,	2.50	monthly minimum,
Service 2" diameter or larger,	3.00	monthly minimum.

Tent City in Block 216, \$60.00 per season, as previously collected for the service rendered to this variable community.

MUNICIPAL RATES: -

15¢ per 100 cubic feet for public use including sprinkling charges, and flushing sewers and streets,

\$2000.00 per year for fire protection, including water used for fires, said payment to be for not more than 70 fire hydrants,

\$1.50 per month for each additional fire hydrant over 70.

Other flat rates as heretofore in effect.

The meter rates heretofore in effect have been \$1.50 monthly minimum and 17½¢ per 100 cubic feet for water up to 2000 cubic feet, with excess at 10¢.

O R D E R

P. J. Murray, et al, having made complaint against Redondo Water Co., alleging unjust practices of said utility, and a hearing having been held and being fully apprised in the premises,

IT IS HEREBY FOUND AS A FACT by the California Railroad Commission that the rates heretofore collected by Redondo Water Co., insofar as they differ from the rates hereinafter set out in this order, are unjust and unreasonable and that the rates set out in this order are just and reasonable rates to be charged by applicant to its consumers for water.

Basing its order upon the foregoing finding of fact and the further findings of fact contained in the opinion



preceding this order.

IT IS HEREBY ORDERED by the California Railroad Commission that Redondo Water Co. is authorized to file with this Commission the following schedule of rates, said rates to become effective on and after February 1, 1917: -

For water used up to 300 cubic feet,	33-1/3¢	per 100 cu.ft.
Between 300 cubic feet and 1000 cubic feet,	20¢	per 100 cu.ft.
Between 1000 cubic feet and 2000 cubic feet,	17¢	per 100 cu.ft.
For use in excess of 2000 cubic feet,	15¢	per 100 cu.ft.

Each Service 1/2" diameter or less,	\$1.00 monthly minimum,
Each Service 3/4" diameter,	1.50 monthly minimum,
Each Service 1" diameter,	2.00 monthly minimum,
Each Service 1 1/2" diameter,	2.50 monthly minimum,
Each Service 2" diameter,	3.00 monthly minimum.

Services to be installed upon application of consumers.

Tent City in Block 216, \$60.00 per season.

MUNICIPAL RATES: -

15¢ per 100 cubic feet for public use including sprinkling charges, and flushing sewers and streets,

\$2000.00 per year for fire protection, including water used for fires, said payment to be for not more than 70 fire hydrants.

\$1.50 per month for each additional fire hydrant over 70.

Other flat rates as heretofore in effect.

IT IS HEREBY FURTHER ORDERED that the complaint shall be dismissed in all respects not specifically provided for in this opinion and order.

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, this 11-04 day of January, 1917.

Max Shellen  
H. S. Howard  
Eliz. Gordon

Frank R. Deane

Commissioners.