

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

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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ORIGINAL

Decision No. 4900

In the matter of the application  
of SAN JOSE WATER WORKS to buy  
and of J. D. FARWELL to sell the  
water system of J. D. Farwell; and  
of San Jose Water Works for an  
order fixing rates to be charged by  
it on its new "High Line" to be  
built by it, and for rules and regu-  
lations concerning the same.

Application No. 2892.

S. F. Leib for applicant.

BY THE COMMISSION:

SUPPLEMENTAL OPINION.

SAN JOSE WATER WORKS applies for authority to charge specified rates for water served for domestic purposes upon the high ridge between Saratoga and Los Gatos in Santa Clara County through its new high line, to require patrons to advance the cost of installing pressure regulators to be returned to them in rates, and to provide that where service is through private streets or rights of way the service connection to be supplied by the utility need not exceed 10 feet in length. The reasons given for constructing the high line are to develop new business and to provide a secondary source of water supply for petitioner's Saratoga system.

Public hearings herein were held by Examiner Westover at San Jose and Saratoga.

On August 30, 1917, in Decision No. 4600, this Commission authorized J. D. Farwell, one of the applicants herein, to convey to San Jose Water Works a small water system

owned by him, said water system having for a number of years past supplied a portion of the territory now reached by the proposed extension, decision relative to rates, rules and regulations governing the sale of water to consumers of this extension being reserved, however, until later date and pending further investigation. The Commission having completed its investigation, these matters are now ready for determination.

Applicant serves the cities of San Jose, Los Gatos and Saratoga under the same rates, rules and regulations. The territory which it proposes to serve by its new high line is a series of wooded ridges overlooking the Santa Clara Valley and well adapted to country homes and estates and considerably in demand for such purposes, but at present sparsely settled, without water service, and apt to build up slowly and never thickly.

The rates which applicant wishes to establish on its high line are higher and its rules and regulations which it seeks to establish are more onerous than those in effect upon its other systems. It urges that as it is pioneering and developing new territory, and has no chance for earning a return upon its investment except through increase in water business, it should be given a rate which will reduce its losses during the period of development.

The estimated cost of the high line being installed at the time of the first hearing was \$41,740.00 without certain reservoirs which applicant plans to add to the system in the future. Its experience in installing the high line indicates that it will cost approximately the amount of the estimate.

The estimated gross revenue which may hereafter be expected from new business during the first year at the rates requested is about \$36.00 per month, including that derived from the three to six patrons formerly served by J. D. Farwell, whose pipe lines it purchased under authority contained in Decision No. 4600 of August 30, 1917. These patrons formerly

paid to Mr. Farwell rates considerably higher than those which applicant now seeks to establish on its high line. Applicant has transferred to the new high line its 14 patrons on Oak Street, Saratoga, where pressure was formerly poor, and has made an extension from it to certain patrons who can be served only through the high line. They guaranteeing a gross income for five years from that extension of \$150 per year. (See Decision No. 4748 of October 11, 1917). This guaranty is based on the cost of the extension, and will probably not directly affect the return on the investment in the high line. The rates which it wishes to establish on the high line are higher than those which the Oak Street patrons have been paying. It appears from the testimony that the people in the territory to be served do not object to paying the rates proposed, with the exception of one man who is now served through the Oak Street line and whose rate would be increased. His position is that he is now paying a fair rate and is entitled to adequate service.

A question which naturally arises in connection with this application is whether the applicant should be permitted to charge a higher rate for this high line service than its present San Jose rates. We have several times held that a utility cannot fairly expect each branch or department of its service to prove independently remunerative. The adequacy of a rate should generally be tested by the earnings which it produces from the entire system. Under the facts in this case should applicant's San Jose, Saratoga and high line systems be treated as parts of the same system, but with some parts remunerative and other parts unremunerative; or as a group of independent properties owned by the same stockholders but separately operated?

Applicant's main gravity water supply is derived from the hills southwest of San Jose where water is impounded in a series of reservoirs and transmitted through Los Gatos by pipes to San Jose, where its gravity supply is supplemented by pumps. There is also a small pumping plant at Los Gatos to lift gravity water to the higher parts of the town.

Saratoga lies several miles to the northwest of Los Gatos and is supplied by water from Saratoga Reservoir which is fed by Saratoga Creek. Prior to the construction of the high line, the Saratoga system was entirely separate from the San Jose-Los Gatos system. An auxiliary water supply for the Los Gatos system originates at Beckwith Springs and was conducted into Mountain Springs Reservoir and thence to the distributing system in Los Gatos. The high line diverts this supply from a point above Mountain Springs Reservoir. The surplus, after the high line is supplied, goes into the Los Gatos system.

Applicant still operates its Saratoga system with its separate water supply independently. Its new high line and its San Jose-Los Gatos system are operated as two independent systems except that the surplus water from Beckwith Springs goes into the Los Gatos system. There is a physical connection at the northerly end of the high line with the Saratoga system, and at its southerly end with the Beckwith Springs pipe line. The gate valves at these points are kept closed. The high line supply could be used as an auxiliary supply for Saratoga and Los Gatos if desired by using proper pressure regulators, but high line water has not been so used.

Applicant's property, including the Saratoga system, was under consideration by the Commission in the case of Monahan v. San Jose Water Company, in Decision No. 1515 of May 18, 1914, (Vol. 4, Opinions and Orders of the Railroad Commission, p. 1101). In that case the Commission's engineers found the estimated reproduction cost new less depreciation to be \$1,639,527.00 for the entire property. The annual reports of applicant and its predecessor show net operating revenue for 1914, 1915 and 1916 of \$88,646.80, \$93,927.23 and \$103,374.58 respectively. Without considering extensions and improvements added since the above appraisal in 1914, or the high line built in 1917, the net operating

revenue represents about 5½% to 6½% upon the appraisal, as found by the Commission's engineers.

We conclude that for the purposes of the present application the high line is a distinct and separate system, and one on which different rates from those in force in San Jose, Los Gatos and Saratoga may properly be applied. The service along the high line is of greater value and greater cost to supply, and the rates may properly be higher.

Applicant's present minimum rate in force in San Jose is 90¢ for 4000 gallons of water. The rates which it wishes to establish in its "high line" territory are those found in the order herein, except that applicant proposed a minimum of \$1.50 for 4000 gallons of water, and for lawns and sewer flushing.

Provisions relating to payments for pressure regulators, extension through private rights of way and payments of minima where water is not used may be covered by rules and regulations to be submitted with the schedule of rates for the approval of the Commission before filing. As patrons on the Oak Street line are receiving an improved service and the group of patrons now being served by an extension of that line could not be served from the Saratoga system because their homes are located above the Saratoga reservoir, patrons on the Oak Street line should pay the high line rates.

#### O R D E R

SAN JOSE WATER WORKS having applied to the Railroad Commission for authority to establish special rates, rules and regulations governing the service of water along its new so-called "high line" between Saratoga and Los Gatos, in Santa Clara County, and public hearings having been held thereon and the Commission being now fully advised,

IT IS HEREBY FOUND AS A FACT by the Railroad Commission of the State of California that the rates set forth in this order are just and reasonable rates to be charged by applicant to its patrons along its said "high line", and basing its order on the foregoing finding of fact and the further findings of facts contained in the opinion preceding this order.

IT IS HEREBY ORDERED that applicant be and it is hereby authorized to file with the Commission the schedule of rates shown below and to submit for the approval of the Commission rules and regulations governing extensions in private property, installation and payment for pressure regulators and collection of monthly minimum charges whether water is used or not, all of said rules and regulations to apply to patrons in the territory served by applicant's said "high line".

METER RATES.

No. 1.

Commercial.

Monthly minimum for 3000 gallons or less, \$1.00  
Between 3000 and 10,000 gallons, \$.25 for each 1000 gallons.  
Between 10,000 and 100,000 gallons, \$.20 for each 1000 gallons.  
Above 100,000 gallons, \$.15 for each 1000 gallons.

No. 2.

Rates for meters larger than 3/4 inch, as follows:

|                 |                |
|-----------------|----------------|
| 1 inch.....     | \$2.00 minimum |
| 1 1/2 inch..... | 2.50 minimum   |
| 2 inch.....     | 3.00 minimum   |

For these minimums the consumers are allowed \$2.00, \$2.50 and \$3.00 worth of water respectively at above rates.

No. 3.

Municipal and County.

Schools, and other governmental department buildings at commercial rates.

No. 4.

Parks and lawns-- each meter minimum monthly.....\$1.00  
All water used \$.15 per thousand gallons.

No. 5.

Sprinkling--measured by tanks and record by county. \$.15 per thousand gallons.

No. 6.

Sewer flushing--each meter minimum monthly----- \$1.00.  
All water used, \$.15 per thousand gallons.

(27) Dated at San Francisco, California, this  
~~27th~~ day of ~~October~~ <sup>November</sup>, 1917.

Max Thelen  
H. H. Kurland

Edwin O. Edgerton

Commissioners.