

ORIGINAL

Decision No. 11968

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Decision No. .

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application ()
of COALINGA CONSOLIDATED WATER ()
COM-PANY, a corporation, for (Application No. 3204.
authority to increase rates. ()

C. E. Holley, for applicant.
Henry S. Richmond, for the
City of Coalinga.
Edward Paul Haupt, for Majority
Bondholders.

BY THE COMMISSION.

O P I N I O N

The application of Coalinga Consolidated Water Company to increase rates was heard by Examiner Encell at San Francisco on October 1st, 1917. At this hearing none of the consumers who would be affected by an increase appeared to protest. The record shows that notice of the hearing was published in a Coalinga newspaper on September 28th, 1917 and that notice was personally served upon 16 of the 30 consumers who are now receiving water from applicant.

Practically all of the water is used in the drilling and operation of oil wells. The present rates are:

First 5000 barrels at the rate of $2\frac{1}{2}\text{¢}$ per barrel.
Over 5000 and under 10,000 barrels, $2\frac{1}{2}\text{¢}$ per barrel.
Over 10,000 barrels and under 15,000 barrels, 2¢ per barrel.
Over 15,000 barrels at the rate of $1\text{-}3\frac{3}{4}\text{¢}$ per barrel.

and the rates that the company asks to establish are
as follows:

Minimum Charges.

Three-quarter inch meters, \$3.00 per month,
One-inch meters, \$3.50 per month,
One and one-half inch meters, \$5.00 per month,
Two-inch meters, \$6.00 per month
All use above minimum $7\frac{3}{4}\text{¢}$ per barrel.

Under the rate asked for the charge for water
up to the amount of the minimum payment would be $2\frac{1}{2}\text{¢}$ per
barrel.

This Commission established rates to be charged
by the Pleasant Valley and Coalinga Consolidated Water
Companies for service furnished to the City of Coalinga
and its inhabitants under the complaint of the City
of Coalinga and application of the companies filed as
Case 623 and Application 1341 respectively. On the 13th
of January, 1915, the Commission handed down its original
order, Decision Number 2063, and on the 11th of December,
1915, its opinion and order on petition for rehearing,
this being Decision Number 2970. In these proceedings a
distribution was made of the property of Coalinga Con-
solidated Water Company devoted respectively to the ser-
vice of the City of Coalinga and to the oil fields.

The property of the Pleasant Valley Water Company
has now been transferred to the City of Coalinga at a
price agreed upon between the City and the owners of
Pleasant Valley Water Company who were also owners of
Coalinga Consolidated Water Company.

It must be assumed that in the sale of the properties of the Pleasant Valley Water Company that the owners of the public utility plants considered the loss of the City of Coalinga as consumer and were properly recompensed for both the property taken and the loss in revenue occasioned by the withdrawal of the City.

Prior to that sale certain definite portions of the charges both fixed and operating, were justly found chargeable to that portion of the business which was sold, namely the City of Coalinga. These matters must have been considered and compensated for in the sale price. It would be manifestly unfair to now ask the remaining consumers to pay increased rates to cover any deficit in these charges, for the loss of which the company has already been compensated. The Commission in its Decision herein must take those matters into consideration as well as the property involved in and necessary to the service, depreciation, maintenance and operation expense.

Property in Use:

Applicant asks interest upon the sum of \$117,656.00. In the earlier proceedings above referred to, engineers for the Commission and for the companies respectively testified that the cost to reproduce the property in joint use was \$48,009.00 and \$80,092.00, the latter including \$30,000.00 for water rights not included in the former. The Commission found that \$24,000.00 represented the fair value of the portion of the property of Coalinga Consolidated Water Company used jointly for the City and the fields, chargeable to the City use. The entire property, exclusive of water

rights, was appraised by the Commission's engineers at \$102,142.00 and by the company's engineers at \$108,803.00. The appraisal of the property at the present time presented by the company totals \$117,656.00. To put this on the basis established in the former Decision, we must deduct \$7,500.00 capital in lands and \$2,500.00 working capital, leaving \$107,656.00. We will assume that the cost to reproduce the property entire is \$104,000.00 and deducting \$24,000.00 as indicated by the former decision of the Commission, leave \$80,000.00 as the rate base to be used at this time.

Depreciation Fund:

The company in this proceeding presented an exhibit indicating that it believes \$5,642.00 should be set aside annually to cover depreciation of structures entire on the Consolidated System. In the earlier proceeding, \$6,043.00 was found to be the proper annual allowance for depreciation of the Pleasant Valley Water Company's property and that portion of the Consolidated System chargeable to the use of the City of Coalinga. Exhibits in this case indicate that depreciation at 6% annually on the Pleasant Valley properties accounts for \$4,500.00 in round numbers of this amount and \$1,500.00 was allowed for depreciation annuity upon the portion of the Consolidated System charged to the City. Deduction from the proposed depreciation fund by that amount seems proper, wherefore we will allow for depreciation of the property the sum of \$4,100.00 per annum.

Maintenance and Operation:

Applicant's exhibit No. 3 in this proceeding,

sets out the earnings and expenses annually for 1913 to 1916 inclusive, and for the first six months of 1917. The following table shows the average annual expense for the four year period for comparison with the six months of 1917 expanded to a full year, the company's estimate of immediate future annual expense and the amount which we consider a proper allowance:

<u>Maintenance & Operating Expense.</u>				
Pumping--	Average of 4 yrs.	Year 1917	Co. Esti- mate	Allow.
Labor	\$3,693.00	\$3,210.00	\$3,408.00	\$3,000.00
Fuel	5,519.00	11,195.00	18,135.00	12,000.00
Supplies, etc.	1,242.00	2,586.00	3,668.00	2,400.00
Repair of Equipment	547.00	7,088.00	2,548.00	690.00
" of wells.	751.00	597.00	880.00	700.00
" of Buildings.	5.00	370.00	50.00	10.00
Distribution				
Labor & Expense	122.00	1,578.00	1,460.00	400.00
Repair Mains	1,253.00	2,518.00	1,779.00	1,800.00
" Buildings.	8.00			
General				
Salaries & Expense	4,518.00	5,650.00	5,100.00	2,400.00
Law Expense	112.00	3.00	750.00	500.00
R.R. Commission Exp.	126.00			
Miscellaneous	141.00	52.00)		
Insurance	87.00	8.00)	1,312.00	300.00
Repair Bldgs.		16.00)		
Other Expense		205.00)		
Taxes	<u>467.00</u>	<u>416.00</u>	<u>400.00</u>	<u>400.00</u>
Total	18,591.00	35,492.00	39,490.00	24,600.00

The reduction from the amount of maintenance and operation expense estimated by the company's witnesses is occasioned in part as follows:

Pumping Labor:

While it is shown that the first half of 1917 occasioned an expenditure of over \$1,800.00, there will

now be no pumping expense occasioned by use of water in the City of Coalinga. This should allow a less expenditure under that head even though the same number of men be employed, for the reason that a part of the time of such men can be used in other activities.

Fuel:

The estimated fuel cost, \$18,135.00 put forward by the company is based upon an assumed price per barrel of \$1.55. The price at the time of hearing, it was testified, was \$1.10. The price to be paid even in the immediate future is problematic and may be either less or more. The company has acquired motors which it intends to use in pumping water and which will correspondingly reduce fuel purchase. According to testimony the use of electricity will be about as expensive as present fuel cost.

General Office Salaries and Expense:

The company's estimate of \$5,100.00 is made up of salaries for president, \$1,800.00, engineer, \$1,200.00, auditor, \$1,500.00, traveling expenses, \$600.00. The testimony of company representatives is that the consumers are 30 in number, all being operators on a considerable scale; that the business is not likely to increase, the operations being confined to a limited territory with no possibility of extension into other fields. It, therefore, seems entirely unreasonable that such a force of

general officers be maintained, and we are providing for the employment of a general manager at \$2,400.00 per annum who will pay his own expenses. Should there be an unexpected increase of demands upon the system, the increased returns will warrant employment of engineers and auditors in an advisory capacity.

The miscellaneous general expense and legal expense, totaling \$800.00 per annum, should be sufficient to cover all other necessary general expenditures, having in mind that the business is decreasing and will continue to decrease.

The Rates:

It will be assumed that total charges annually that the company has reason to expect from its sale of water to the present consumers for use of amounts of water delivered this season will be as follows:

Interest on \$80,000.00 at 8%	\$6,400.00
Depreciation Annuity, 6% Sinking Fund	4,100.00
Maintenance and Operation	<u>24,500.00</u>
Total Charges	35,100.00

The company testified that the net business for a year during the immediate future will constitute delivery of approximately 700,000 barrels of water, and this indicates a price of 5¢ per barrel instead of the 7-1/4¢ per barrel for amounts in excess of the listed minimum charges that the company desires to have established. Even this increase of rate is a drastic change from the rates formerly in effect that were established by the owners of this water system under agreements with the then water users. It may therefore be that the establishment of this rate will result in a decided diminution of demand through the fact that in its operation it will prove to be more than

the consumers can well pay. However, as the consumers, the principal places of business of whom ^{all} are in San Francisco, in which City the hearing was held, were given opportunity to be present at the hearing and displayed no interest in the proceedings, the Commission will authorize the company to file the rate indicated above. Insofar as the application is made for the certain definite rate of $7\frac{1}{2}\%$ per barrel, the application must be denied.

O R D E R

Application having been made by Coalingsa Consolidated Water Company for authority to increase rates and a public hearing having been held, and the Commission being fully apprised in the premises,

IT IS HEREBY FOUND AS A FACT that the rates charged by applicant for water delivered in the oil fields and the rates applied for to be charged above certain amounts covered by stated minimum charges are unjust and unreasonable rates, and that the rates hereinafter set forth are just and reasonable rates to be charged for the water service in question,

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that the application of Coalingsa Consolidated Water Company, as to all other matters therein contained, be and it is hereby denied.

IT IS HEREBY FURTHER ORDERED that applicant is given authority to establish and file with the Railroad Commission within thirty days after date hereof

the following schedule of rates:

For all water used, 5¢ per barrel,
Minimum monthly charges for water
delivered through, respectively,
Three-quarter inch meters, \$3.00 per month
One-inch meters, 3.50 " "
One and one-half inch meters, 5.00 " "
Two-inch meters, 6.00 " "

Dated at San Francisco, California, this 30th
day of November, 1917.

Man. Tholen

A. H. Loveland

Edwin O. Edgerton

Commissioners.