

ORIGINAL

Decision No. 5997

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application)
of THE MONTEREY COUNTY WATER)
WORKS for Permission to Increase) Application No. 3952.
Rates for Water Service.)

Earl H. Pier, for applicant.
Fred W. Treat, for City of Monterey.
H. G. Jorgensen, for City of Pacific Grove.
A. P. Frazer, for Carmel-by the Sea.

GORDON, Commissioner.

O P I N I O N

The applicant herein, engaged in the business of selling water for domestic, industrial and municipal purposes to residents of Monterey, Pacific Grove, Carmel-by-the-Sea and the adjacent unincorporated territory, asks permission to increase rates.

A public hearing in this matter was held in Monterey, on October 18, 1918.

Applicant alleges, in effect, that the net revenue for 1917 gave a return of only 4.035 per cent upon the value of its water system, and asks that rates be increased so as to yield six per cent.

At the hearing, applicant asked permission to enter into a contract with the Pacific Improvement Company, under the terms of which the Improvement Company proposes to construct a dam and reservoir, to store 1540 acre feet of water, and agrees to deliver to the applicant 65 per cent of the stored water, provided applicant pays annually 10 per cent of 65 per cent of the cost of construction. This annual payment is estimated as \$8800.

In 1913, the City of Monterey filed a complaint against the rates of the Monterey County Water Works and subsequently, the Monterey County Water Works filed an application asking that its rates be increased. By agreement, the two proceedings were combined for hearing and decision. By its order in Decision No.1855 the Commission established rates to be charged by the Monterey County Water Works, but subsequently, by order in Decision No.3057, the rates previously established were modified and such modified rates have been in force and effect since February 14, 1916.

In 1915, The Monterey County Water Works filed application with the Commission asking permission to transfer part of its property to the Pacific Improvement Company. The property involved consisted of the dam on the Carmel River, the "Carmel Main", the Pacific Grove Reservoir, the "16 inch main", various water rights, rights of way, buildings, Venturi meters, etc. The value of the property to be transferred, as estimated by the Commission's engineers, was \$551,570, and the value of the property to be retained was estimated as \$842,119, including \$11,337 of "Current Construction for year 1914."

This application was granted by Decision No. 3059.

It should be noted that the Pacific Improvement Company owns all the stock of the Monterey County Water Works except a few qualifying shares.

For further details of these various proceedings before the Commission, in which the applicant has been involved, reference may be had to Decisions Nos. 1855, 3057 and 3059. (Vol. 5, Opinions and Orders of the Railroad Commission of California, p.530, and Vol. 9, pp. 86 and 91.)

The rates now in effect and those asked for are as follows:

	<u>Rates now in effect</u>	<u>Rates asked for</u>
First 500 cu. ft. per 100 cu. ft.	\$0.30	\$0.41 2/3
300 to 1000 " " "	0.25	0.30
Above 1000 " " "	0.21	0.25
Monthly minimum 1/2" and 3/4" Services	0.90	1.25
" " 1" "	1.25	1.50
" " 1 1/2" "	1.75	2.25
" " 2" "	2.25	3.00
" " 3" and larger "	3.00	4.00
Fire Service, per month per hydrant	2.50	2.50
Sprinkling Roads and Streets per 100 cu.ft.	0.21	0.25
3" and smaller private fire services per Mo.	1.00	1.00
3" " " " " "	1.50	1.50
4" " " " " "	2.00	2.00
Presidio at Monterey as per contract with United States Government		No change.

The value of the water system retained by the applicant after the transfer of a portion of its property to the Pacific Improvement Company is alleged to be \$829,918. This corresponds very closely to the value, on January 1, 1914, as estimated by the Commission's engineers.

Investigation of applicant's accounts shows that the net additions to the property, from January 1, 1914, to December 31, 1917, have cost \$29,353, making a total value, as of December 31, 1917, of \$859,271.

Maintenance and operating expense for 1917, as set forth in the application and in Exhibit No. 1, shows a total of \$41,016. This was amended at the hearing to \$39,982.

From the testimony introduced at the hearing and from investigation, it develops that the applicant's figures are too high and that several deductions should be made before the actual maintenance and operating expense for 1917 can be determined. These deductions are as set forth below:

Error in charges for taxes.....	\$1050.
Maintenance of Pacific Improvement Co's property, the cost of which is included in applicant's maintenance and operating expense.....	1352.
Excess of charges for San Francisco office expense over allowance by Commission in Decision No.1855.....	2280.
20 per cent of Superintendent's salary to cover work performed by him for Pacific Improvement Company and not paid for.....	720.
Book charges to cover 10% of cost of repairs to transmission mains, work on which has not yet commenced.....	1000.
Depreciation annuity shown under operating expense and which will be considered separately.....	<u>8320.</u>
Total Deductions.....	\$14722.

The actual maintenance and operating expense for 1917, after making the deductions as outlined above from the total of \$41,016 is \$26,294.

In Decision No.1855, under the item of maintenance and operating expense, the Commission included an allowance of \$1540 per annum, for 10 years, for the amortization of certain extraordinary expense incurred by the applicant prior to 1914. This is still in effect.

The applicant claims that costs of labor and materials have advanced strongly in the past few years and are still advancing. This is due to war conditions and the claim is substantiated by the increase of maintenance and operating expense for the first eight months of 1918 over the corresponding months in 1917.

It appears that a maintenance and operating allowance of \$29,000 per year is reasonable and it is found as a fact that it is a reasonable amount to be included in annual charges to meet this expense.

The applicant presented evidence showing that on a four per cent sinking fund basis, the annuity for depreciation is \$8320. The computations have been checked by the Commission's

engineers and appear reasonable.

The necessary annual charges to support the property are as follows:

6 per cent interest on \$859,271	\$51,556
Maintenance and Operating Expense	29,000
Depreciation annuity	<u>8,320</u>
Total,	\$88,876

The applicant's annual report for 1917 shows a gross revenue from operation amounting to \$77,383, which includes \$1352 billed against the Pacific Improvement Company for maintenance of property. Deducting this last item gives \$76,031 as the gross revenue derived from operation of the applicant's own property.

Based upon the foregoing annual charges and gross revenue, the deficit from operation in 1917 was \$12,845. The applicant is therefore entitled to an increase in rates.

The rates fixed in the accompanying order are just and reasonable rates and will provide sufficient revenue to yield the necessary increase.

The matter of the proposed contract with the Pacific Improvement Company for the construction of a dam and reservoir on the Carmel River has been carefully considered. As it appears from the testimony that for many years to come the full capacity of the proposed improvements will not be required, I deem it unfair at this time to burden the applicant's consumers with the proposed annual charges. I suggest that arrangements be made with the Pacific Improvement Company whereby applicant pays for only such water as is required, or that the construction of a smaller dam, which could later be raised to the full height, will fill all requirements for some time to come.

I submit the following form of order:

O R D E R.

THE MONTEREY COUNTY WATER WORKS having made application for permission to increase rates charged by said Monterey County Water Works to its consumers, a public hearing having been held thereon, and the Commission being fully apprised in the premises,

THE RAILROAD COMMISSION HEREBY FINDS AS A FACT that the rates now charged by MONTEREY COUNTY WATER WORKS 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 Monterey County Water Works.

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

IT IS HEREBY ORDERED that the Monterey County Water Works be and the same is hereby authorized to file with the Railroad Commission within twenty days from the date of this order, and thereafter to charge the following rates for water served to the inhabitants of Monterey, Pacific Grove, and vicinity:

RATE SCHEDULE.

General Use, to Apply to All Users on
Separate Premises, in Whatever Ownership

Monthly Minimum Payments:

1/2" and 3/4" Services.....	\$1.10
1" Services	1.50
1 1/2" Services	2.25
2" "	3.00
3" " and larger.....	4.00

Monthly Meter Rates:

300 cubic feet or less.....	1.10
Next 700 cubic feet, per 100 cubic feet.....	0.30
Over 1000 " " " "	0.25

Private Fire Service:

2" and smaller.....	\$2.00	per month
3"	2.50	"
4"	3.00	"

Public Use:

Fire Service - per month per hydrant..... 3.00
For Sprinkling streets and roads-per 100 cu.ft. \$0.25
Other Uses at meter rates.

Presidio at Monterey:

Rates as per contract with the United States Government.

The foregoing opinion and order are hereby approved
and ordered filed as the opinion and order of the Railroad Commis-
sion of the State of California.

Dated at San Francisco, California, this 21st day
December
of ~~November~~, 1918.

Edwin O. Edgerton
W. H. ...
... Gordon
Frank ...

Commissioners.