

Decision No. 6539.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application)
of Watsonville Water & Light Com-)
pany for an order authorizing in-)
crease of water rates.)

Application No. 4103.

Walter E. Linforth and Wyckoff & Gardner,
by H. C. Wyckoff, for Applicant.

A. W. Sans, for City of Watsonville.

BRUNDIGE, Commissioner.

O P I N I O N

This is a petition brought by the Watsonville Water and Light Company for an order of this Commission fixing and establishing just and reasonable rates to be charged for water to the inhabitants of Watsonville and vicinity in the counties of San Jose and Monterey.

The application alleges in effect that Watsonville Water and Light Company, applicant herein, is a corporation duly organized and doing business under and by virtue of the laws of the State of California, and is engaged in the business of supplying water to the inhabitants of the City of Watsonville and vicinity; that the rates in effect were established by an ordinance of the City of Watsonville, approved June 2, 1914; that the

rates charged for water delivered outside of the city of Watsonville were not established by a rate fixing body; that the present rate schedule does not produce sufficient return to meet necessary cost of operation, replacements and interest on the fair value of the system. Wherefore, applicant prays that this Commission establish just and reasonable rates.

The rate schedule heretofore in effect, which was established by Ordinance No. 148, dated June 2, 1914, by the Board of Aldermen of the City of Watsonville, provides for a maximum rate to be charged consumers. The measured rate schedule established is as follows:

Minimum\$1.00 per month.

For all water used, 20¢ per 1000 gallons.

In addition to the above rates for domestic service within the city, applicant sells water for irrigation of strawberries. It has heretofore charged \$30 per acre per annum for this service, if taken from the pipe mains of the system, and \$25 per acre per year if taken from the overflow of the reservoir.

At the time of the establishment of this rate schedule, there were installed only a very few meters, therefore the major portion of the ordinance establishes a flat rate schedule varying from a minimum of \$1 per month for tenements occupied by a single family of not more than five persons, to \$10 per month for breweries. There are various intermediate rates for other different classes of use, and a charge of \$100 per month for all use of the City of Watsonville.

This system was inaugurated in the early 70's by James M. Rodgers and Wm. Landrum, who appropriated water from Corralitos Creek and Brown Creek for the operation by water power of a flour mill. A 12" wooden flume was built from the flour mill to Watsonville.

Afterwards the then owners acquired by deeds the riparian rights of the various landowners abutting on the creek below the intake on the two creeks. Francis Smith and W. W. Montague purchased the plant in the early 80's and owned and operated the system until 1896, when the present corporation was formed, with an authorized capital stock of \$500,000. In consideration of transferring the property to the corporation, one-half of the capital stock was issued to Francis Smith and one-half to the Montague interests. The present company improved, extended and enlarged the system by the installation of iron and steel pipes, the construction of a filter plant, and settling and distribution reservoirs.

The principal sources of water supply are Corralitos and Brown Creeks. Water is diverted from these sources approximately nine miles from Watsonville, and flows by gravity through flumes and pipes to the distribution reservoirs located $1\frac{1}{2}$ miles from the city. Here the water is filtered by a Jewell filter and is chlorinated before entering the reservoirs.

There are three reservoirs for storing this water. No. 1 is a concrete lined reservoir having a capacity of about eight million gallons, No. 2 is built of brick and concrete, and has a capacity of eight hundred thousand gallons. The third reservoir is of earth and bulkhead construction and is not in use at present except for receiving the waste water, which is conducted from the reservoir to Corralitos creek by a 15" pipe.

The Jewell filter has a capacity of about 800,000 gallons per day. The reservoir may be by-passed and the water flow direct from the Corralitos main into the transmission main extending from the reservoir to the city. By this means it is stated a pressure of from 80 to 100 pounds can be obtained in town for emergency fire purposes.

From the reservoir the water is delivered by an 18" riveted steel main to the distribution system. The reservoir is at a sufficient elevation to provide from 30 to 40 pounds pressure throughout the city.

During periods of flood the water in the streams becomes too muddy to pass through the filter. To provide clear water during these periods, six-12" wells were drilled within the city limits. From these wells water is pumped by two 8" centrifugal pumps into the distribution mains. Any surplus remaining over draft flows into the distribution reservoirs. This plant has a capacity of approximately one and one-half million gallons per day.

Applicant is at present delivering water to approximately 1860 consumers, of which some 170 are metered. In addition to the domestic consumers, the company has sold water to a number of irrigators along its pipe lines. The principal crop irrigated is strawberries.

In addition to the system above described, the company owns a body of water known as Pinto Lake, about three miles north of the city, and occasionally permits ranchers in the vicinity to pump water from it. This use, however, is occasional, and the Pinto Lake system is entirely separate from the system supplying water to the city of Watsonville. The Pinto Lake system therefore is not in use and will not be considered as a part of the system for the purposes of this proceeding.

At the hearing appraisals of physical properties were submitted by H. W. Crozier, representing Sanderson & Porter, for applicant, and by the hydraulic engineers of the Commission. In addition there was submitted with the application as Exhibit B, an inventory purporting to represent the book cost. A comparative tabulation of these appraisals, exclusive of real estate, follows:

	<u>Cost New</u>	<u>Cost Depreciated</u>
By Sanderson & Porter--		
Estimated Original Cost....	\$269,820	\$ ----
Reproduction Cost	436,206	288,666
Commission's Engineers.....	226,236	----
Book Cost.....	243,909	----

The basis used by Mr. Crozier in arriving at his estimated original cost was the book cost of the installations of pipe since 1910. Where no records of cost were available, an estimate of the original cost was made. These pipe installations were largely renewals and the records show that in many instances the reported cost included expenses of renewing service connections, hydrants, and meters, tapping mains, salvaging old pipe, and other expenditures which would not ordinarily obtain in new construction. The cost of installing service connections, hydrants and meters, is included in the appraisal as such, therefore their inclusion in the unit price of pipe is duplication. To the cost obtained by this method, Mr. Crozier added an overhead percentage.

The so-called reproduction cost, submitted by Mr. Crozier, is based upon an estimate of what the price of material and labor will be two years hence. Mr. Crozier stated that this estimate was submitted for the purpose of determining a replacement fund. An estimate of this character is, at best, speculative, and enters the realm of conjecture. It therefore is of very little assistance in determining a rate base.

The depreciated cost reported ^{by applicant's engineers} is arrived at by depreciating the reproduction cost by a number of different methods. The 6% sinking fund method of depreciation was used in arriving at the present value of the pumping plant, the straight line method, for the distribution and pipe system, and the inspection method for many other items. Thus the total arrived at is a combination of all these methods and does not reflect the depreciated cost of the

property. The estimate submitted by the Commission's engineers is based upon the average cost of materials prior to the recent abnormal increase, plus the actual expenditures incurred during the present period of high prices. The book cost submitted, is based upon an appraisal made in 1909, to which is added the book cost of additions and betterments.

After carefully considering all of the facts submitted in regard to the value of the structural properties, it appears that the estimate submitted by the Commission's engineers more nearly approximates a fair rate base for the purposes of this proceeding.

Investigation was made of the value of the real estate, both by applicant's and the Commission's engineers. Both engineers agreed as to this item and it appears reasonable. Testimony shows, however, that a portion of the tract, five acres in area, known as the Ford Street Pump Tract, is not used and useful at this time. The entire tract was purchased with a view of future development of the underground water supply, and it does not appear reasonable that it be charged against the present consumers. This tract, together with some small buildings, cost applicant \$9,000. From the evidence it appears that a fair amount to be included in the rate base as the value of this tract is \$4,500. Adjusting the sum of \$12,497 submitted as the value of real estate, for this deduction, there is remaining the sum of \$7,997, as the value of used and useful real estate.

Mr. Crozier submitted an estimate of the value of water and riparian rights of \$69,595. Applicant claims the right to the entire flow of Corralitos and Brown Creeks. This right, it was contended, was acquired by them both by the appropriation of all of the waters of these streams and by the extinguishment of the riparian rights of practically all of the owners abutting

on the streams below the intakes. Title has been secured through deeds and agreements covering water rights, riparian rights and rights of way. There is no record of the original cost, the records of the company having been destroyed in the San Francisco fire in 1906. The deeds, in most instances, recite only a nominal consideration of one dollar, with the right to tap the water company's mains and receive free water for domestic use. However, a partial cost is disclosed by the considerations mentioned in six of these deeds, totalling \$9,900. Twenty-eight out of a total of sixty-four of these deeds provide for free service, and two provide for service at reduced rates.

Mr. Crozier arrived at his estimated value of water rights by assuming that it would be necessary for applicant to acquire all of the tributary water shed area which produces this supply. He then estimates the value of this area and states that because of the fact that the company did not find it necessary to make this purchase in order to acquire their water rights, there was a considerable saving over the above sum, which he considers should be divided with the consumers. He therefore divides the sum of \$139,190, which is the estimated value of the water shed lands, by two, and arrives at the sum of \$69,595 as the value of water rights for the purposes of this proceeding.

As before stated herein, the evidence shows that the right to divert water was actually secured by the company by appropriation and the extinguishment of riparian rights, and it appears that if the company were now acquiring these rights, that the same method would be used. It therefore is logical that in arriving at the value of these rights, the Commission assume that their value is what it did cost and would cost applicant to appropriate the waters of these streams and extinguish the riparian rights. A part of the consideration for these rights was the

delivery by the utility of free water, and this fact should be given consideration in arriving at their value.

It appears from the evidence submitted that these rights did and would cost the company approximately \$20,000. Only a part of the available supply is necessary for supplying the present consumers. The low flow of the stream as measured, is three million gallons per day, whereas the draft approximates one and one-half to two million gallons daily. That portion of the value of these rights used in serving present consumers, with a reasonable allowance for needs in the immediate future, is included herein as a part of the rate base upon which interest is allowed.

Applicant contends that there should be included an allowance for working capital, and estimates that the sum of \$5,000 is necessary. Mr. Crozier arrived at this sum by assuming that the actual operation of the system would require a working capital of \$3,500, and in addition thereto the sum of \$1,500 to cover cost of construction, such as extensions and replacements. The Commission's engineers estimated that the maximum requirement for this purpose would not exceed \$2,500. This estimate was made upon the basis that the system was metered and the utility would not collect from its consumers until the end of the month of use, whereas at present this system is unmetered and the monthly flat rates are collected in advance, which reduces the working capital required. I am of the opinion that \$2,500 is sufficient for this purpose, and that sum is used herein.

There are no records available of the cost of developing the business or of making this plant a going concern. Applicant claims a value for this element of \$15,000, based upon an estimate that it would require ten years to build up its present business. This sum is arrived at by assuming that in addition to the original cost of the plant, the company would have to spend certain additional moneys representing operating expenses, which,

in this case, it is assuming, is about \$4,100 annually, or a total of \$41,000 for the ten-year period; and during this period it would receive an average of only approximately one-half of the earnings. Therefore, it is contended that the going concern value would be one-half of \$41,000, or approximately \$20,000. This amount is reduced by \$5,000 because, in the opinion of applicant's engineer, the earnings were somewhat larger than one-half.

From such fragmentary records as are available of income and expenses incurred by applicant during the early years of its operation, it appears that probably applicant has had returned to it any expense to which it may have been put. The Commission's hydraulic engineers testified that a similar plant with practically the same rates had produced more than sufficient revenue to return the cost of making it a going concern.

The rates established by the municipal authorities, which were in effect in the past, were somewhat higher than those in effect at present. The beginning of the present plant was cheaply constructed, and developed gradually as the demands of the city increased. It is incumbent upon applicant to show the existance of a going concern value. In view of the fact that the evidence fails to show any going concern value for which the Company has not in the past been compensated, it appears that no separate allowance should be made for this element of value.

Totalling the various preceding elements of value, we arrive at the sum of \$250,000, which, it is found as a fact, is a fair sum upon which return shall be allowed for the purposes of this proceeding.

Applicant's engineers did not submit a sum to be included in the annual charges for replacements. The Commission's engineers estimate that the sum of \$2,437 is sufficient for this

purpose. This sum includes an allowance for the cost of replacing pavements over the pipes.

The following tabulation shows the maintenance and operation expense for the past three years.

I T E M	Year 1916	Year 1917	Year 1918
General Office and Officers' salaries and expenses.....	\$4407.01	\$4702.45	\$5779.27
Commercial Expense, Collections, Reading meters, etc.,	1911.97	1896.84	2093.25
Power purchased for pumping....	566.15	288.00	1137.60
Taxes and Insurance.....	3608.29	3884.46	3702.12
Miscellaneous Maintenance & Operation Expenses.....	<u>4012.77</u>	<u>3307.27</u>	<u>3929.70</u>
Total-----	\$14506.19	\$14079.00	\$16641.94

The light rainfall during 1918, and the increase in the power rate occasioned a large increase in the cost of the power purchased for pumping, which it appears will not recur each year.

From an analysis of all of the items going to make up the operating expenses incurred heretofore by applicant, it appears that the probable future expense incurred for the present consumers will approximate \$15,000 annually. A summary of the annual charges follows:

Interest on \$250,000 at 8%.....	\$ 20,000
Replacement fund	2,437
Operating expenses	<u>15,000</u>
Total -----	\$ 37,437

The present rate schedule produced a revenue of \$29,555 during 1918. It is therefore apparent that the present rates did not return to applicant fair and reasonable annual charges. The system is at present only 10% metered and approximately 78% of the income for the year 1918 was derived from the flat rate

consumers. It is impossible to establish a schedule of unmeasured rates whereby the burden of maintaining a plant of this character is equitably distributed among the various consumers in proportion to their use of water. A detailed house survey was submitted by applicant from which the flat rate schedule set out in the following order was computed. These rates are designed to make each consumer bear his fair share of the burden.

As has been stated many times by this Commission, a measured schedule of rates is the only method by which each consumer bears his proportion of the expense. The benefit to be derived from a metered system is not only an equitable distribution of the charges, but is also a means whereby the water supply can be conserved, good service rendered, and operating expenses reduced.

In order to operate efficiently, applicant should proceed with some comprehensive program for metering its entire system.

It is estimated that the rate schedule established in the following order, will produce ~~xxx xxxxxx~~ the annual charges set out above.

I submit herewith the following form of order:

ORDER

WATSONVILLE WATER AND LIGHT COMPANY having applied to this Commission for authority to increase its rates charged for water for domestic and irrigation uses, 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 present rate

schedule of Watsonville Water and Light Company, in so far as it differs from the rate schedule herein set out, is unjust and unreasonable, and that the rate schedule herein established is just and reasonable;

And basing its order on the foregoing finding of fact and on the other findings of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that Watsonville Water and Light Company be, and it is hereby authorized and directed to file with this Commission within twenty (20) days from the date of this order, and thereafter charge for all meter readings subsequent to the date of filing, the following rates:

RATE SCHEDULE

METERED USE:

To apply to all users on separate premises, in whatever ownership.

1.--Monthly Minimum Payments for Metered Service:

For 3/4 inch or 5/8 inch meters.....	\$ 1.00
" 1 " meter.....	1.25
" 1 1/2 " "	1.50
" 2 " "	2.00
" 2 1/2 " "	2.50
" 3 " "	3.00

2.--Monthly Quantity Rates:

600 cubic feet or less.....	\$ 1.00
For use over 600 cubic feet, per 100 cubic feet.....	.15

MUNICIPAL USE:

1.--For Fire Hydrants Owned by Company:

2-inch, each per month,.....	\$ 1.25
4-inch, " " "	1.85

2.--For Fire Hydrants Owned by City:

2-inch, each per month,.....	\$ 1.00
4-inch, " " "	1.50

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|---|----|-----|
| 3.--Sprinkling Roads and Streets by the City or Counties, measured by wagon or truck tank capacity, per 100 cubic feet..... | \$ | .10 |
| 4.--Automatic Sewer Flushers, according to measured or computed quantity of water used, per 100 cubic feet | | .10 |
| 5.--All other municipal use of water at the regular meter rate. | | |

FLAT RATES:

To apply to all users on separate premises in whatever ownership.

	<u>Per Month</u>
1.--Residences and Tenements of not more than six rooms, occupied by single families, with not over one bath tub and toilet.....	\$ 1.20
For each additional room.....	.10
For each additional bath tub or toilet.....	.15
For each private garage where autos are washed on the premises.....	.25
For each private barn, not more than two horses or cows50
For each additional horse or cow,.....	.20
2.--Private Boarding Houses, for each boarder in addition to the family,.....	.10
3.--Sprinkling or irrigation of lawns, shrubbery, gardens, etc., payable every month in the year, per square yard,.....	.00 $\frac{1}{2}$
4.--Hotels and Lodging Houses:	
Dining Room, from	\$1.50 to 4.00
For each room with water tap.....	.20
For each room without water tap.....	.10
For each private bath room.....	.25
5.--Public Toilets in hotels, lodging houses and public places.....	1.25
For each additional toilet.....	.50
6.--Public Urinals in Hotels, Saloons, Office Buildings or any place, for each bowl where a drain is used, each.....	3.00
With automatic trap flusher, from....	\$1.00 to 5.00

CORRECTION

CORRECTION

THIS DOCUMENT
HAS BEEN REPHOTOGRAPHED
TO ASSURE LEGIBILITY

- 3.--Sprinkling Roads and Streets by the City or Counties, measured by wagon or truck tank capacity, per 100 cubic feet..... \$.10
- 4.--Automatic Sewer Flushers, according to measured or computed quantity of water used, per 100 cubic feet10
- 5.--All other municipal use of water at the regular meter rate.

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For each private bath room.....	.25
5.--Public Toilets in hotels, lodging houses and public places.....	1.25
For each additional toilet.....	.50
6.--Public Urinals in Hotels, Saloons, Office Buildings or any place, for each bowl where a drain is used, each.....	5.00
With automatic trap flusher, from....	\$1.00 to 5.00

Per Month

- 7.--For one Public Bath Tub in hotels, lodg-
ing houses, barber shops and bathing
establishments..... \$ 1.50
For each additional public bath tub..... .75
- 8.--Offices, rooms in upper stories of build-
ings so occupied, for each room, except
doctors' and dentists' offices..... .25
- 9.--Doctors' and Dentists' offices, according to
number of rooms and whether or not running
water is used for flushing or other purposes
..... \$1.00 to 3.00
- 10.--Photograph galleries, or where water is used
for photograph printing and developing, in
addition to store rate..... 1.50
- 11.--Water for irrigation of strawberries, general
charge per acre per year..... 35.00

The foregoing opinion and order is 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 1st
day of August, 1919.

Edwin A. Edgerton
H. S. Ireland
Frank R. Johnson
H. B. Brundage

Commissioners.