

ORIGINAL

Decision No. 755

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the matter of the application of)	
Mount Jackson Water and Power Company)	
for authority to increase domestic)	Application No. 566
water rates.)	

A. F. Lemberger for applicant
 S. K. Dougherty for Rionido Land and Improvement Company.

GORDON, Commissioner.

O P I N I O N

Mount Jackson Water and Power Company is engaged in the business of selling water, chiefly for domestic use, in and about Rionido, Sonoma County. This company has been selling water to consumers at a flat rate of \$5.00 per annum. This rate was the outgrowth of an agreement under which land was sold at Rionido with the understanding that water would be sold to lot purchasers at \$5.00 per annum. The applicant maintains a special rate of \$180.00 per year for water sold to the Northwestern Pacific Railroad Company.

Applicant now asks for authority to put into effect a flat rate to all consumers occupying residences, of \$15.00 per year; a flat rate of \$180.00 per year to the Northwestern Pacific Railroad Company; a flat rate of \$75.00 per year to the Rionido Hotel and a rate of 20 cents per thousand gallons for water for street sprinkling.

The applicant states that it has been operating at a loss. It submits an appraisal of its properties in the sum of \$13,148.82; an investment cost of these properties to its stockholders of \$5,535.15; a statement of outstanding notes in the

sum of \$7,613.68.

The conditions under which the applicant herein operates are peculiar in that the permanent population resident at Rionido comprises only fifteen water users in addition to the hotel and railroad company. Rionido is a summer resort and it appears that a number of persons maintain summer cottages, which they visit chiefly during the months of June, July and August. The number of persons, who reside at Rionido during the summer season only, averages approximately 93 in June, 132 in July and 110 in August. There are also transient residents during the other months of the year.

In considering this application, I desire to call attention to the unfortunate circumstance, which has been commented upon in other decisions of this Commission, which always arises when land companies in an endeavor to sell their property contract to deliver water at an unreasonably low figure. Sometimes this is done in ignorance of what a proper rate for water service should be, but frequently it is held out as a bait to help the sale of the land. The practice of holding out a promise of an unreasonably low water rate as an inducement to prospective purchasers to buy land has been strongly condemned by this Commission, and I can only here add my hearty endorsement of those criticisms which have heretofore been made of this practice.

It is clear that Mount Jackson Water and Power Company cannot continue to sell water at the flat \$5.00 rate, and still live. This rate will lead inevitably to bankruptcy. It is only in the face of this fact and the further fact that a transient population of considerable size has invested in property at Rionido and that the cessation of or serious impairment of the water service would largely destroy the value of these investments that I recommend that applicant be relieved from the \$5.00 rate. This rate was established originally to further the sale of the land and under ordinary circumstances, in which it could be accomplished the applicant herein should be required to continue to give water service at the promised rate. However, the service must be maintained and it certainly cannot be long maintained at the \$5.00 rate. Whatever I may think of this practice of using a promise of this kind to

sell land and then repudiating this promise, I feel nevertheless under the particular circumstances in this case, that the necessity must be recognized of increasing the rates to maintain the service.

The applicant has submitted a statement of its necessary operating expenses and has added thereto an allowance for taxes and depreciation and a proper return upon its investment. It estimates that it requires for this purpose a gross total revenue of \$2,317.02. Among these items it includes \$383.68 as a sinking fund to retire its indebtedness. Obviously this is an item which cannot be recognized as an operating expense. The elimination of this item would leave a balance of \$1,934.02.

I am not able to accept the valuation which the company places upon its property, as I find therein a sum of \$1,000 for going concern value and other items which might be properly reduced. With such allowance as I believe should be made, I find that the applicant herein should be able to pay all its operating expenses, maintenance, taxes, depreciation and obtain a fair return upon its investment if rates are so fixed as to yield a gross revenue per annum of \$1,760.80.

In reaching a conclusion as to rates, I am mindful of the fact that many persons have purchased land at Rionido in the belief that they could obtain water at a flat rate of \$5.00 per year. The Commission is required, however, to fix just and reasonable rates, and as has been held in previous cases, no agreements or contracts as between individuals can supersede or displace the rate making power of the State. At the same time, I believe that in view of these promises of a low rate, the Commission, while allowing the applicant herein a fair return upon the value of its property, should not make the rate any higher than the necessities require.

I shall, therefore, recommend a schedule of rates calculated to yield, as above stated, the gross revenue of \$1,760.80.

The service is not metered and for that reason it is not possible to establish a definite standard of measurement. I am unwilling to recommend that meters be installed, for the reason that the transient character of such a large proportion of the water users does not warrant the expenditure. In the absence of meters a minimum flat rate must be

necessarily arbitrary as to amount, but I believe a satisfactory and equitable basis may be obtained by requiring all consumers to pay the minimum and to assume that the average monthly usage would be in excess of such minimum.

The applicant herein has stated that it proposes to expend a sum approximating \$1,850.00 in improvements in its system and in further developing its supply. What has heretofore been said in this opinion and the rates which are set out in the order herein assume the expenditure of at least \$1,650.00 for the improvements and development noted.

I recommend the following form of order:

ORDER

Mount Jackson Water and Power Company Having filed with this Commission an application to establish rates for water furnished its customers and consumers, and a hearing having been held and the Commission being fully informed in the premises,

IT IS HEREBY FOUND AS A FACT that the following rates are reasonable, and Mount Jackson Water and Power Company is hereby given authority to charge such rates to its consumers:

For every dwelling house a minimum flat rate of \$6.00 per year

and in addition thereto when water is used for

domestic purposes, the following monthly charges:

January	\$.25
February25
March25
April25
May25
June	1.25
July	1.25
August	1.25
September25
October25
November25
December25

To the Northwestern Pacific Railroad Company not to exceed 15,000 gallons of water per day of 24 hours 200.00 per year

To the Rionido Hotel 86.00 " "

For street sprinkling- per 1000 gallons \$.20

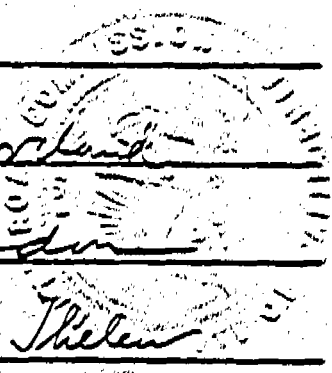
IT IS FURTHER ORDERED that these rates shall become effective on July 1, 1913.

IT IS HEREBY FURTHER ORDERED that Mount Jackson Water and Power Company establish forthwith and file with this Commission rules for collection under these rates.

IT IS HEREBY FURTHER ORDERED that Mount Jackson Water and Power Company shall not be required to install meters.

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, California, this 27th day of June, 1913.



H. S. Lockhart
Max Thelen

Commissioners.