

Decision No. 8238

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA
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In the Matter of the Application of)
PORT COSTA WATER COMPANY, a corpora-)
tion, for permission to increase the)
rates for water furnished by said)
corporation.)

Application No. 4965.

A. E. Shaw for Applicant.
Elmer Westlake and Frank B. Austin for
Southern Pacific Company.
Thomas R. Hanna, Protestant.
Courtney L. Moore for William H. Neff,
a property owner in the town of Crockett.
T. D. Johnston for the town of Martinez.

MARTIN, Commissioner.

O P I N I O N

In the above entitled proceeding Port Costa Water Company makes application to the Railroad Commission for authority to increase its rates for water supplied by it for domestic and industrial purposes to consumers in the cities and towns of Concord, Port Costa, Crockett, Formey and Rodeo and the various industrial and manufacturing concerns located in their environs along the San Pablo Bay shore in Contra Costa County, also for water supplied to the City of Martinez, which city in turn distributes the water to its inhabitants through its municipally owned distribution system.

The application alleges in effect that due largely to increased costs obtaining at the present time the present rates are non-compensatory and inadequate and do not produce sufficient revenue to return the maintenance and operation expenses, a depreciation allowance and interest upon a fair valuation of the properties used and useful.

A public hearing was held in this proceeding, of which all

interested parties were duly notified and given an opportunity to appear and be heard.

The Port Costa Water Company is situated in territory which has experienced a rapid development. About 1887 Mr. George W. McNear established a grain and warehouse business in Port Costa, and in order to provide this business and other warehouses and industrial plants, as well as the inhabitants of Port Costa, with an adequate water supply, he constructed the nucleus of the present water plant. This consisted of a small impounding reservoir in Bull Canyon, in the vicinity of Port Costa, and a pipe system which delivered water by gravity from this canyon to the town. Owing to the rapid development of industry in this territory, however, it soon became necessary to secure additional sources of water supply. There being no additional sources in that immediate vicinity, the entire water system which at that time supplied Martinez, was acquired in order to provide a sufficient quantity to care for the needs of Port Costa and the industrial plants in that vicinity.

The Martinez plant was purchased by Mr. McNear in 1889. Soon, however, the demand for water again exceeded the supply and it became necessary to obtain additional water. Many different schemes were tried, none, however, yielding a sufficient water supply to meet the needs. In 1898 Mr. McNear organized and incorporated the present water company, which immediately proceeded to purchase water bearing land in the vicinity of Concord. Wells were drilled on this water bearing land, which is known as Holler Field. The results were very satisfactory and a good supply was procured. Other water bearing lands in the same vicinity were later purchased, and gradually the present sources were acquired and developed as the demand for water increased. The purchase of this land at Concord necessitated the construction of a long transmission main at considerable expense. As the territory developed, the company from time to time extended its service, until at this time it serves a very extensive area along the San Pablo bay shore from Martinez to Rodeo. This territory has been developed very largely by reason

of its location upon navigable waters, the land contiguous thereto being very advantageous sites for industrial and manufacturing plants.

In 1918 the City of Martinez purchased the distribution system within its corporate limits and now purchases water from applicant which the city in turn delivers to its inhabitants. A large portion of the water produced by this company is delivered to industrial and manufacturing plants. Apparently, owing to the large quantities of water used, and by reason of a desire to attract industries to this district, special rates have been arranged between applicant and various enterprises. The company's record for 1919 shows an average of 893 consumers with a total annual consumption of 59,166,339 cubic feet of water. It appears that large industrial plants and various enterprises under this system, having special rates, consume 89 percent of the total, though the records show that they are paying only approximately 66 percent of the total income received; the remaining 11 percent of the consumption being largely domestic use at metered and flat rates. About 91 percent of the consumers are being served on a measured basis.

By reason of these special agreements made with various industries and large users at the time the service was installed, many different schedules of metered rates are in effect on this system, and it is apparent that this should be corrected and a uniform schedule of water rates established, whereby the annual charges may be equitably distributed among the consumers in proportion to their use of water, thus removing the element of discrimination which now prevails.

Reports and appraisals relating to the value of the Port Costa Water Company system were submitted by J. Q. Barlow, engineer for the Company, and H. A. Noble, for the Railroad Commission.

The estimated original cost of this system as submitted by the Commission's engineer at the hearing has been corrected as to certain errors and omissions. The following is a summary of the appraisals of physical properties submitted, exclusive of real estate:

J. Q. BARLOW, for Applicant:

Estimated Original Cost.....	\$572,831.
Reproduction Cost.....	832,771.
Reproduction Cost Less Depreciation.....	635,627.
Annual Depreciation (computed by straight line method).....	21,796.

H. A. NOBLE, for Railroad Commission:

Estimated Original Cost.....	519,674.
Replacement Fund (computed by sinking fund method)	5,075.

The estimates submitted by Mr. Barlow purport to show the estimated original cost of applicant's properties. The estimate was arrived at by using prices of materials and labor which prevailed prior to the recent abnormal increase. Such portions of the plant as were constructed during this period of abnormal prices were included at their estimated cost based on records of costs kept by the company. No records of original cost prior to 1906 are available, as the books of the company were destroyed in the San Francisco fire. The Commission's engineer used the same general method in arriving at the sums reported by him.

The reproduction cost, as submitted by applicant, is computed on a basis of so-called original cost; and by applying thereto certain percentages the estimated present day costs are obtained. This estimate was submitted for the purpose of arriving at a sum to be included in the annual charges for depreciation. It appears from the testimony that the differences in the two appraisals submitted, as regards these items, arises largely from higher labor costs and overhead percentages used by the engineer for the company than used by Mr. Noble. Generally, there appears to be no large difference in the cost of materials used. A straight line depreciation annuity has been computed by applicant on this reproduction cost.

Mr. Barlow submitted the sum of \$106,860 as the estimated value of real estate, whereas the records of the company as reported upon by Mr. George R. Kibbe, Chief Accountant of the Commission, show the cost of these lands to have been \$88,321.24. An examination of the record herein discloses the fact that a material portion of these lands

are not operative property. It appears that the so-called Christopher land, a portion of the Bisso purchase, six lots at Pacheco, various lots at Martinez and an old reservoir site are non-operative. The cost of these properties, as shown by the records, was \$40,172, leaving as the cost of operative lands the sum of \$48,149.

Attention is directed to the fact that these lands are only partially used for the benefit of the applicant's consumers. They are valuable to applicant from two separate and distinct standpoints. The possibility of extracting water therefrom to provide a water supply for consumers constitutes their value as a public utility property, but a portion of the area has been planted to orchards which will come into bearing in the near future, and thus the lands also have a distinct value by reason of the prospective income they will produce from this source.

Certain land owners in the vicinity of applicant's water bearing lands have attempted to obtain a restraining order prohibiting applicant from extracting water from these lands. In defending its position the company has been put to a very large expense. In 1919 alone applicant spent the sum of \$27,441.25 in this litigation. Although applicant has included this sum in its operating expenses, it appears that any expenditure it may make in connection with this litigation is properly a part of the cost of its rights to its water supply, and therefore a sum representing an allowance for this expenditure has been included in the rate base herein, upon which interest return is allowed.

A careful consideration of the evidence relating to the value of this system leads to the conclusion that the applicant is entitled to an interest return on the sum of \$550,000.

The following tabulation, compiled from the annual reports of applicant to the Commission, shows the maintenance and operation expenses and revenue for the past three years:

	<u>1917</u>	<u>1918</u>	<u>1919</u>
Maintenance and Operation Exp.,	\$43,012.10	\$52,242.41	\$86,741.13
Operating Revenue,	85,587.59	94,776.23	91,743.07

The evidence shows
From the evidence, the operating expenses for 1919 includes an item of \$27,441.25 for a portion of water litigation expenses, said item having been mentioned heretofore as not a proper annual maintenance charge. Furthermore, in 1919 there was included \$3,296.40 for legal and engineering expenses incident to the Railroad Commission proceedings which are not recurrent annually, and the total expense for this charge should be amortized over the period of their probable recurrence.

Taking into consideration the above facts and the evidence submitted, together with an analysis of the operating expenses heretofore incurred by applicant, and allowing for certain increase in the cost of operation, including labor and electric power for pumping, it appears that \$62,000 annually is a fair and reasonable maintenance and operation charge. The depreciation annuity computed by the sinking fund method, is found to be \$5,074.97, and this amount is set out as an available fund to be used for the replacement of wornout properties.

A summary of the annual charges follows:

Interest on \$650,000 @ 8%,	\$52,000.
Replacement Fund,	5,075.
Maintenance and Operation Expense,	62,000.
T o t a l:	<u>\$119,075.</u>

The rate schedule at present in effect does not produce the above amount, and therefore it appears that the application for authority to increase rates, should be granted. The rate schedule established in the following order is designed to yield the above annual charges, and also to remove any discrimination which may exist due to the various special rates heretofore in effect.

O R D E R :

Port Costa Water Company having applied to this Commission for an order authorizing it to increase its 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 present rate schedule of Port Costa Water Company, in so far as it differs from the rate schedule herein set out, is unjust and unreasonable, and that the rates herein established are just and reasonable rates to be charged by said company for water.

And basing its order upon the foregoing finding of fact, and the other statements of fact contained in the opinion preceding this order,

IT IS HEREBY ORDERED that Port Costa Water Company be and it is hereby authorized and directed to file with this Commission within twenty (20) days of the date of this order, and thereafter charge the following rates:

RATE SCHEDULE:

1. Monthly minimum payments for metered service:

For 3/4" and 5/8" inch meters,	\$1.25
For 1" inch meter,	2.50
For 1-1/2" inch meter,	3.75
For 2 inch meter,	5.00
For 3 inch meter,	6.00

2. Monthly quantity rates:

From 0 to 2000 cubic feet, per 100 cu.ft.,	.35
From 2000 to 6000 cubic feet, per 100 cu.ft.,	.30
From 6000 to 12000 cu.ft., per 100 cu.ft.,	.25
All over 12000 cu. ft. per 100 cu. ft.,	.165

3. Shipping Use:

For all boats, per 100 cu. ft. delivered,	1.75
Minimum charge,	3.00

4. Municipal and County Use:

1. For fire hydrants:	
3 inch, each per month,	1.75
2 inch, each per month,	1.25
2. For sprinkling roads and streets by the City or County, measured by tank wagon capacity, per 100 cu. ft.	
	.17
All other municipal use at the regular meter rates.	

5. Flat Rates:

The flat rates at present in effect shall be increased uniformly twenty (20) percent

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 15th day of October, 1920.

Edwin O. Edgerton

Frank P. Owen

H. B. Brundage

Livingston Martin
Commissioners.