

Decision No. 8696.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application)
of THE MARYSVILLE WATER COMPANY,)
a corporation, for an order fix-) Application No. 5831.
ing rates for water.)

Richard Belcher and Douglas Brookman
for applicant.
W. P. Rich, City Attorney, for City
of Marysville, protestant.

MARTIN, Commissioner.

O P I N I O N

The Marysville Water Company is an incorporated public utility engaged in the business of supplying water for domestic, commercial, irrigation and municipal uses in the City of Marysville, Yuba County, California. In this proceeding said company asks for an order of the Railroad Commission fixing just and reasonable rates to be charged for the service rendered by it, alleging in effect that the present rates are noncompensatory and do not produce sufficient revenue to meet increased costs of maintenance, operation and taxes and provide for depreciation and an adequate return on the fair value of its property.

A public hearing was held in this matter at Marysville. All interested parties were duly notified and given an opportunity to be present and be heard.

The history of this system shows that a franchise was granted the original company supplying the Town of Marysville in 1857, since which time it has gone through various phases of re-

organization. The company as it at present exists was incorporated in May, 1909. This company now has an abundant water supply which it obtains from wells located within the business district of the city. Its distribution system is comprised of iron and steel pipes of adequate capacity to serve its consumers. The company maintains an average of approximately 30 pounds pressure on the mains. There are some 1700 active consumers of which only 46 have metered service. The present rates were established by the municipal authorities and have been in effect for many years.

At the hearing detailed appraisals of the physical properties of the company were submitted by Otto von Geldern, consulting engineer, for applicant; by N. Randall Ellis, consulting engineer, for the City of Marysville, and by E. A. Noble, one of this Commission's hydraulic engineers, for the Railroad Commission.

A comparative tabulation compiled from these appraisals for the schedule of properties as of July 1, 1920, exclusive of real estate and intangible values, follows:

By Otto von Geldern:

1. Total value estimated on basis of prices prevailing in 1919 and 1920 (undepreciated).....\$389,138
2. Total estimated value computed on basis of average prices from 1913 to 1920 (undepreciated)..... 326,120
3. Total estimated value as of January 1, 1913, on basis of prices current in 1912,.....\$176,327
 Additions and betterments, 1913 to 1920,..... 56,707
 Total depreciated value,.....~~\$233,034~~
 Adding the amount of depreciation, 21,868
 Total (undepreciated),..... 254,902

By N. Randall Ellis:

Total estimated reproduction cost on basis of average prices 1910 to 1915, except for additions and betterments since 1913, which are added at actual cost,..... 238,194

By H. A. Noble:

Total estimated cost, computed generally on basis of average prices for five years pre-war period, except for recent construction or where book costs were used,.....\$245,178

This is designed as an estimate of the historical cost of the system as it exists.

Engineer von Geldern submitted the above appraisal (2), of physical properties depreciated to \$304,252, as representing the reasonable investment based on the average prices obtaining for the period from 1913 to 1920, which he contends should be considered in this rate proceeding. Appraisal (3) is compiled from the data submitted by Mr. von Geldern for comparison with the other estimates introduced in evidence, which are based on pre-war prices except for recent construction, which is included at cost. It is noted that said appraisal (3) does not differ greatly from the totals submitted by the other engineers, and that of the Commission's engineer is approximately a mean of the other two.

Mr. von Geldern's appraisal, dated March, 1913, gives \$25,000 as the value of the used and useful real estate, based on available company records, and from consultation with local real estate authorities. Subsequent thereto, in 1918, the company acquired two parcels of land at a cost of \$12,000, which brings the total to \$37,000. In his 1920 appraisal he arrives at the total of \$52,500 by including increments to the previous values to obtain present value. Mr. Ellis, in his appraisal, concurs in the above total of \$37,000 for this item.

After investigation, the Commission's engineer submitted the detailed estimated cost of the real estate as \$47,600, and deducting therefrom the \$8,000 included for the nonoperative commercial lot, leaves a total of \$39,600.

Evidence was presented by Mr. von Geldern to the effect that the value of the water rights of this utility was \$60,000. Attention is directed to the fact that this entire district is underlain with very extensive water bearing strata from which water can be extracted. It is claimed, however, that the strata from which applicant extracts its water supply are limited, and that the water obtained in other places is not of as good quality as applicant's. It is further claimed that these strata probably extend in a northeasterly and in a southwesterly direction from applicant's wells; that considerable difficulty is experienced in definitely locating these strata so that a good well can be drilled, and then when the strata are located a plenteous supply in addition to that now obtained can be secured.

Attention is further directed to the fact that the claimed value of water rights is a value separate and distinct from the land, although the waters herein considered are percolating waters and can have no such separate value aside from the value of the land which contains them.

Applicant further claims that certain sums should be included in the rate base for a going concern value and working capital.

Careful consideration has been given to all the proper elements which should be included in a rate base upon which to compute the interest return to be included in the annual charges for the purposes of this proceeding.

An analysis of the records of the company was submitted by Mr. George E. Kibbe, of this Commission's Accounting Department, which shows that the original cost of this property was \$335,142.33. Owing to the fact that the early detailed records were not available, it was however impossible to analyze the different accounts

going to make up this sum. The same report states that the original promoters of the company subscribed some \$92,000 in cash in 1860, and further shows that since 1860 there has been a total of retirements of only \$28,751.86. The system constructed in 1860 has since been practically ~~entirely~~ replaced by a new system, and indeed a very large portion of the system has been built since 1900. In other words, it appears that the total given above as the actual cost of the system is somewhat in excess of the actual historical cost of constructing the system as it now exists.

Mr. von Geldern states in his report, which was submitted as Applicant's Exhibit No. 2, that he had made an exhaustive examination of all the old vouchers available, and that from this examination and his knowledge of the cost of construction he had arrived at the conclusion contained in that report as the value of the physical properties of the plant. Furthermore, Mr. von Geldern states that there is evidently a far greater supply available from applicant's present wells than is sufficient for the present needs of the system, and that the physical plant is sufficient to supply from 8,000 to 10,000 people. There are now approximately 6,000 people supplied with water. Thus this system is capable of supplying a materially greater number of people than at present.

Applicant has heretofore been including in its operating expenses the sum of \$4,500 as a depreciation annuity. Mr. von Geldern reports the sum of \$6,800 for this item. This sum was arrived at by the so-called straight line method of depreciation. The Commission's engineer estimates a replacement fund of \$1,106 computed by the sinking fund method. It appears that this latter amount, if accumulated annually, will provide a fair sum for the replacement of the worn-out properties when they require renewal, and it will be included in the annual charges established herein.

The following tabulation shows the maintenance and operation

expenses and the revenue for the past three years, as compiled from applicant's annual reports to the Commission:

	<u>1917</u>	<u>1918</u>	<u>1919</u>
Total operating revenue,	\$38,721.25	\$39,709.29	\$39,657.05
Total non-operative revenue from rents, etc.,	3,087.52	3,809.00	4,192.65
Total maintenance and operation expense,	20,813.96	22,714.76	25,068.24

The sum of \$4,500 has been deducted from the above set-out maintenance and operation expenses. This sum is the amount entered in the records of the company as the depreciation allowance. This replacement or depreciation annuity is discussed elsewhere herein. The non-operative revenue shown is principally the income derived from rent of offices and stores in the company's buildings, and the cost of maintenance, taxes, etc., for these buildings is included in the total maintenance and operation expenses.

The records of this company relating to operating expenses have been examined and analyzed in detail, and evidence submitted concerning them by the Commission's auditing department and hydraulic engineers.

The evidence shows that although the company included in its capital investment the estimated value of its office buildings, it also included in operating expenses the sum of \$1,200 per year as ~~rental for the offices utilized by it in conducting its business.~~ This is obviously a duplication, and should be eliminated.

The increase in operating expenses for 1919 over previous years is largely due to increases in taxes and in the cost of electrical energy. Furthermore, very large increases have occurred during 1920, which will very materially increase future operating expenses. For example, the City of Marysville has recently increased this company's taxes by some \$7,000 annually. There has

been a 15 per cent. increase in the rate for electrical energy, and a material increase in labor cost. The analysis of operating expenditures shows that some of the expenditures charged in various years to operating expenses are not such as recur annually. These are amortized over the period of their probable recurrence for the purposes of this proceeding and a fair sum is allowed.

After a careful consideration of all of the evidence relating to the value of this plant, the portion of the system utilized in serving the public, its total capacity, operating methods and practices, and such other conditions and facts as obtain, it appears that the following are fair and reasonable annual charges to be produced from the consumers:

Interest return.....	\$24,000
Maintenance and Operation Expense.....	36,500
Replacement Fund.....	<u>1,106</u>
Total.....	\$61,606

The gross revenue for 1919 was \$43,849, and it is therefore that apparent this applicant is entitled to a rate increase.

It now remains to so apportion this total expense among the consumers that each shall pay his equitable share in view of the service rendered to him.

The evidence shows the average daily per capita consumption for 1919 was 166 gallons, with a maximum of 270 in the summer, largely due to extensive irrigation of gardens and grounds. The unrestricted use and waste of water obtaining under the flat rate method of delivery in effect accounts for this large consumption. Approximately 84 per cent. of the present revenue is derived from it. In this connection it is pointed out that a flat rate invariably tends to an excessive and wasteful use of a commodity, while a metered rate effects not only a conservation of the supply and an equitable distribution of the charges among the various users, but results in

a saving in operation expenses; in this instance the saving would be chiefly in pumping costs. Therefore it is recommended that this utility proceed with some systematic plan for a complete metering of its system.

In computing the measured rate schedule established herein, consideration has been given to the increased capital expenditures necessary to install meters, and also to the probable saving in operating expenditures. The rate schedule in the accompanying order has been computed from a study and analysis of the present water use, and other available data, and is designed to produce the above total annual charges, deducting therefrom the non-operating revenue.

It appears from a study of the present rate schedule that the City of Marysville has heretofore been paying practically nothing for service rendered to municipal buildings and for other municipal purposes, such as fire protection. It appears further that this company has actually designed its system to render fire protection service. It would be unfair to require the domestic consumers to bear the expense of this service which the city as a whole receives. Therefore a rate to be paid by the municipality has been included herein for this service.

O R D E R

The Marysville Water Company having applied to this Commission for an order authorizing it to increase its rates, 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 The Marysville Water Company insofar as it differs from the schedule herein established, is unjust, unreasonable and unremunerative, 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 findings of fact and

the other statements of fact contained in the opinion preceding this order;

IT IS HEREBY ORDERED by the Railroad Commission of the State of California, that The Marysville Water Company be and it is hereby authorized to file with the Railroad Commission within twenty (20) days of the date of this order, the following schedule of rates, said rates to be charged on all bills rendered on or subsequent to March 25, 1921, and be and become effective as of that date; provided, however, that the company may for convenience make the schedule herein established effective as to individual consumers at any time within twenty (20) days subsequent to the above effective date.

RATE SCHEDULE

MEASURED USE:

1. Minimum Monthly Payments:

For 3/4 inch and 5/8 inch meters.....	\$1.00
For 1 inch meters.....	2.50
For 1 1/4 inch meters.....	3.25
For 1 1/2 inch meters.....	4.00
For 2 inch meters.....	4.75
For 2 1/2 inch meters.....	5.50
For 3 inch meters.....	6.50

2. Monthly Quantity Rates:

For use between 0 and 1000 cubic feet,	\$0.25	per	100	cu.ft.
For use between 1000 and 3000 cubic feet,	0.18	"	"	"
Over 3000 cubic feet,	0.12	"	"	"

PUBLIC USE:

1. For fire protection service, including water used solely for the extinguishment of fires which may be drawn from not over 75 fire hydrants and the 19 fire cisterns, which latter fixtures are owned and maintained by the City, per month.....\$200.00
Additional for each hydrant over 75, per month..... 1.00
2. Water used for sprinkling roads and streets by the City or County, and flushing of sewers, by computed or measured quantity, per 100 cubic feet, .12
3. All other use of water by the City or County, including municipal and county buildings and irrigation of parks and grounds, at the regular meter rates.

MONTHLY FLAT RATES:

1. Residences and tenements of 5 rooms or less, occupied by a single family.....	\$ 1.40
For each additional room.....	.15
Additional for each flush toilet or bath tub.....	.25
For each private garage where autos are washed on the premises.....	.25
For each private barn with not more than two horses or cows.....	.65
For each additional horse or cow.....	.30
2. Private boarding houses, for each roomer or boarder, additional to the family rate.....	.10
3. Sprinkling or irrigation of lawns, shrubbery, gardens, etc., payable every month in the year; up to 3000 square feet of surface actually watered, per 100 square feet.....	.03
Over 3000 square feet of surface actually watered, per 100 square feet.....	.015
4. Restaurants and Cafes, per unit of seating capacity.....	.12
Minimum charge.....	2.50
5. Offices: rooms in upper stories of buildings so occupied, for each room with water tap except doctors' and dentists' offices.....	.75
6. Doctors' and dentists' offices, not exceeding two rooms with water tap.....	2.00
For each additional room with water tap.....	.50
7. Drug stores.....	2.25
8. Photograph galleries, or where water is used for commercial developing and printing, in addition to the rate for store or premises.....	2.25
9. Barber Shops, for single chair.....	1.75
For each additional chair.....	.75
10. Soda Fountains, soft drink places, and ice cream or lunch parlors either alone or in connection with other business.....	2.00
11. Bakeries, butcher shops and retail markets.....	2.25
12. Livery and sales stables or stockyards, per average number of stock fed.....	.35
Minimum payment.....	3.00

13. Public garages, average 6 autos or less.....\$3.50
 For each additional auto..... .30
14. Blacksmith, wagon and repair shops where water is
 used for cooling tires, etc.,..... 2.25
15. Public halls, clubs or lodge rooms..... 1.75
 Additional for buffet in connection with..... 2.00
16. For ordinary stores and shops not otherwise listed,
 according to use of water.....\$1.00 to 4.00
17. For use of hose in front of stores and shops for
 washing windows and sprinkling sidewalks, streets,
 etc., according to frontage.....0.25 to 1.25
18. Living rooms in connection with stores or shops,
 additional to store rate..... .75
19. Additional for each toilet or bath tub in 5 to 16, incl. .35
20. Bathing establishments, either alone or in connection
 with barber shops, for one public bath tub or shower.. 2.00
 For each additional bath tub or shower..... .60
21. Public drinking fountains in any place, each..... 1.00
22. Automatic or ordinary flush urinals according to
 the use of water, each.....\$0.50 to 3.00
23. Building Works:
 For mortar and to dampen brick,
 per 1000 brick..... .25
 For cement work and plastering, each barrel
 of cement or lime used..... .25
24. Water used by hotels, lodging houses and
 laundries and for all other purposes or
 establishments not herein specified to
 be charged for at meter rates.
25. Meters may be installed at the request of any
 consumer or at the option of the utility.

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 4th day of March, 1921.

Frank P. DeWitt

H. H. Woodland

H. H. Bundege

Iving Masters

Charles H. Rowser

Commissioners.