

ORIGINAL

Decision No. 9006.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of HANFORD WATER COMPANY for au-) Application No. 6005.
thority to increase rates.)

L. A. Eune, for Applicant.

MARTIN, Commissioner.

O P I N I O N

Hanford Water Company, applicant in the above entitled matter, is a public utility water company engaged in the business of distributing and selling water for domestic purposes to consumers in and in the vicinity of Hanford, California.

In this proceeding applicant asks authority to increase its rates for service, alleging in effect that the present rates do not produce a revenue sufficient to yield maintenance and operation expenses, replacement fund and an adequate return on the investment.

A public hearing was held in this matter at Hanford, California, of which all of applicant's consumers were notified and given an opportunity to appear and be heard.

The original plant was installed in 1881, or thereabouts, by Messrs. Robinson and Rawlins. In 1906 they organized the Hanford Water Company which took over the original system and has carried

on the utility business since that time.

The present schedule of rates was established in 1906 and has continued without change up to the present time.

Water is obtained from deep wells and lifted by electrically driven pumps into two storage tanks of a combined capacity of 150,000 gallons located on 70 foot towers. The water is distributed from these tanks through 19 miles of mains varying from 2 to 12 inches in diameter.

Approximately 1500 consumers are served at present.

At the hearing applicant submitted a report showing the book value of the system as \$209,842. This sum is subject to correction for the purposes of this proceeding. The evidence shows that this amount includes the cost of the bath house which is a non-operative investment in this matter, a gasoline engine which has been replaced, a portion of real estate known as the "water tract" which is not used in the production of water, and a value for an old power contract which has expired. A total of these items amounts to \$28,800. There is also included \$10,000 for franchise and water rights. The evidence shows that \$500 was paid for a franchise but no claim was made for water rights. It was further shown by the evidence that the claim of \$12,688.14 for certain real estate upon which the pump stations are located, is excessive and that the sum of \$6,000 is a more reasonable measure of the value of this property. Making the above corrections, the amount submitted by applicant reduces to \$164,854.

Applicant also submitted the sum of \$28,774 as the maintenance and operating expenses for 1920. The evidence shows that this amount includes several items that are chargeable to capital expense and also to income tax, both of which should be deducted, and other items such as extraordinary repairs and Railroad Commission expense which do not occur annually and which should be amortized

over a period of their probable recurrence.

Applicant submitted the amount of \$6,580 as a depreciation charge, which was computed on the straight line basis. The Commission usually adopts the sinking fund method of computing depreciation as the more practicable method in rate fixing, and this method will be used in this proceeding.

An appraisal of applicant's operative properties was submitted by Mr. M. E. Ready, one of the Commission's hydraulic engineers, which shows an estimated original cost of \$147,670. This sum did not include franchise value and working capital, which should be included. The evidence also shows that the sum of \$4,250 should be added for rights to use certain real estate for operating purposes. The additions of these items increases the estimate of the Commission's engineer to \$154,420. It was impossible to further analyze the book accounts of applicant in order to reconcile the differences between the Commission's engineer's estimate of cost and the book value as corrected above. It appears, however, that the sum estimated by the Commission's engineer is reasonable for the purpose of this proceeding. A replacement annuity was computed by the 6% sinking fund method and amounts to \$2,984. This sum accumulated annually is designed to provide a proper fund for the replacement of worn-out properties.

Mr. Ready also submitted an estimate of the reasonable operating expenses for the immediate future in the sum of \$24,880, based upon an analysis of applicant's records and a study of operating conditions. It appears that this estimate is reasonable and may properly appear in the annual charges.

The following is a summary of the above items which go to make up the annual charges:

Return on \$154,420 at 8%	\$12,354
Replacement annuity.....	2,984
Maintenance and operation expense.....	<u>24,880</u>

Total estimated annual charges..... \$40,218

The records of the company show that the gross operative revenue for 1920 was \$41,641 and for 1919 it was \$37,240. The number of consumers has increased since 1916 from 1431 to 1509. It is reasonable to assume that the business of this utility will continue to increase. It will be observed that the present revenues are fully equal to the annual charges considered as fair, and it is therefore apparent that the rates charged at present are compensatory and remunerative and that applicant is not entitled to an increase in rates.

I recommend the following order:

ORDER

Hanford Water Company having made application to the Railroad Commission as entitled above, for authority to increase its rates for water served in and in the vicinity of the City of Hanford, a public hearing having been held, and the matter having been submitted,

It Is Hereby Found as a Fact that the present rates charged by applicant are compensatory and remunerative;

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

IT IS HEREBY ORDERED that the application of Hanford Water Company to increase rates be and the same is hereby denied.

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 26th day of
May, 1921.

H. P. Rudick
H. D. Loveland
Irving Maitin
W. F. Pennington
Commissioners.