

Decision No. 9695

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application)
of PENINSULA WATER COMPANY for) Application No. 6737.
authority to increase rates.)

Ross & Ross, by E. C. Ross,
for applicant.
J. B. Gordon and C. N. Kirkbride,
for City of San Mateo.

MARTIN, Commissioner.

O P I N I O N

Peninsula Water Company, applicant herein, is a public utility water company engaged in furnishing water for domestic and industrial purposes in the City of San Mateo, San Mateo County, California.

Applicant alleges in effect that the present rates are unreasonably low and do not produce sufficient revenue to yield a fair return upon the investment; wherefore applicant asks that the Railroad Commission make its order authorizing a schedule of rates designed to produce a fair return on the value of the property employed in serving the public, together with all necessary operation and maintenance expenses, taxes and depreciation annuity.

A public hearing was held in the present proceeding at San Mateo, San Mateo County, and a continued hearing was held at San Francisco, of which all of applicant's consumers were duly noti-

fied and given an opportunity to appear and be heard.

It appears that the San Mateo Water Works, organized in 1883, was the first company to supply water in San Mateo. This company was succeeded by the San Mateo Water Company, which was organized February 28, 1907. The Peninsula Water Company, applicant herein, was incorporated in 1910 and acquired the property from the San Mateo Water Company.

The water supply is obtained from wells by pumping and from the Spring Valley Water Company through the ownership of a water right. This water right provides for the delivery of 300,000 gallons of water daily to applicant's reservoir. This supply of water is sufficient for the winter demand, and furnishes about two-thirds of the average daily demand for the year, the remainder being pumped from seven 16-inch wells. The water pumped from the wells has a high chlorine content because of the seepage of salt water from San Francisco Bay but is made potable by mixing it with the Spring Valley water. The water is distributed by gravity from the reservoir to about 1500 consumers, of whom about 1260 are metered.

The water right referred to was acquired by the San Mateo Water Works from the Spring Valley Water Company in 1883 in payment for the Crystal Springs reservoir lands and the right to store and divert water from that source.

The rates in effect were established by the Board of Trustees in 1914 and are as follows:

FLAT RATES

Domestic.	\$.25 to \$1.50 per month.
Small stores.50 per month.
Large stores.	1.00 per month.
Offices50 per month.

METER RATES

Domestic use.	22½ cents per 100 cubic feet
City use.	26-2/3 cents per 1000 gallons

FIRE HYDRANTS

Hydrants owned by city \$0.50 each per month
Hydrants owned by company. 1.00 each per month

At the hearing Mr. John J. Sharon, for applicant, presented a report and appraisal of the system showing the estimated original cost to be \$324,432 and the reproduction cost, using present day prices, to be \$395,000. These amounts include \$150,000 as the estimated original cost and \$205,000 as the estimated reproduction cost of the water right hereinbefore referred to. The report also recommends a depreciation annuity of \$1700, computed on the 6% sinking fund basis, and the sum of \$17,500 for operating expenses.

Mr. D. E. Harroun, one of the Commission's engineers, presented a report covering the results of a field investigation, an appraisal of the property and a study of the cost of maintenance and operation. His appraisal shows an estimated original cost of the physical properties of the system, excluding the water right, to be \$164,721, and recommends \$1,602 as a proper replacement annuity computed by the 6 per cent. sinking fund method. This report also recommends the sum of \$16,493 as a fair and reasonable estimate of the future operation and maintenance expenses. These estimates closely approximate those submitted by applicant. They appear reasonable and will be used for the purposes of this proceeding.

Mr. E. B. Henderson, for the City of San Mateo, submitted an estimate of the cost of the water right in the sum of \$120,000, based on the cost of developing 300,000 gallons of water daily from wells. It appears that it would be impossible to produce that quantity of potable water from wells because of the seepage of salt water from the bay. As stated before, the water from applicant's wells already has a high chlorine content, and only a third of the quantity used on the system is derived from that source. It was also testified

that the City of Burlingame, which is located adjacent to the City of San Mateo, has been compelled to abandon its wells on account of the high chlorine content of the water and to purchase water from the Spring Valley Water Company. Therefore it would appear that the substitutional method of arriving at the cost of the water right is not applicable in this instance. However, the method suggested by Mr. Sharon of deducting the actual cost of the water right from the purchase price, appears reasonable and may be applied. The Peninsula Water Company purchased the system in 1907 for \$250,000. The cost of the twenty-three acres of land was estimated to be \$20,250. Depreciating the estimated original cost of the physical properties shows a value as of that date to be \$79,450. This would leave \$150,300 as the estimated cost of the water right. That this is a reasonable estimate for this right is shown by allowing a return of 8% on the cost as a charge for the 300,000 gallons delivered daily, which would result in a rate of 8.2 cents per 100 cubic feet. If this water were furnished at its regular rates by the Spring Valley Water Company, which is the only other source of supply, the water would cost about 22 cents per 100 cubic feet. The amount of \$150,300 appears to be a reasonable estimate for the cost of this right, and this amount will be added to Mr. Harroun's estimate of the physical properties, making the total estimated investment \$315,021.

The following is a summary of the annual charges as indicated above:

Return on \$315,021 at 8%.....	\$25,202
Replacement Annuity, 6% Sinking Fund....	1,602
Maintenance and operation cost.....	<u>16,493</u>
Total estimated annual charge.....	\$43,297

The total revenue from this system for the year 1920 was \$33,958 and averaged \$30,823 for the four preceding years. It does

not appear that there is reason to expect any notable increase in business in the near future. It would appear therefore that authority to increase the rates should be granted, and the schedule of rates established in the following order is designed to produce annually a sum sufficient to meet maintenance and operating expenses, replacement annuity, and to yield to applicant a reasonable return on its investment.

I submit the following form of order:

O R D E R

Peninsula Water Company having applied to the Railroad Commission for authority to increase the rates charged by it for water service in the City of San Mateo, San Mateo County, California, a public hearing having been held, and the matter having been submitted,

IT IS HEREBY FOUND AS A FACT that the rates and charges of the Peninsula Water Company in so far as they differ from the rates herein established, are unjust and unreasonable, and that the rates and charges herein established are just and reasonable rates.

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

IT IS HEREBY ORDERED by the Railroad Commission of the State of California that the Peninsula Water Company be and it is hereby authorized and directed to file with this Commission within twenty (20) days from the date of this order the following rates, said rates to be charged for all service rendered subsequent to December 1st, 1921:

FLAT RATES

Domestic.	\$1.50 per month.
Large stores.	1.00 per month.
Small stores.50 per month.
Offices50 per month.
Each barrel of lime or cement10 per month.
Each thousand brick10 per month.

METER RATES

Readiness-to-Serve Charge to apply to all metered services.

5/8" and 3/4" meters, per month	\$.50
1" meters, per month,	1.25
2" meters, per month,	3.00
3" meters, per month,	4.50
4" meters, per month,	6.00

Quantity Rates, to apply to all water used.

From 0 to 300 cubic feet per month, per 100 cubic feet, \$.25
Over 3000 cubic feet per month, per 100 cubic feet, 0.22

FIRE HYDRANTS, owned by city, per month, each, \$1.00
FIRE HYDRANTS, owned by utility, per month, each, 1.50

The quantity charged shall be in addition to the readiness-to-serve charge.

IT IS HEREBY FURTHER ORDERED that the Peninsula Water Company file with this Commission for its approval, within thirty (30) days from the date of this order, rules and regulations to govern its relations with its consumers.

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 November, 1921.

H. B. Roundidge
H. D. Hayward
James Martin
C. J. [unclear]
[unclear]
Commissioners.