

Decision No. 20039

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on
the Commission's own motion into the
rates, charges, contracts, rules,
regulations, classifications, opera-
tions, practices, services, or any of
them, of RANDSBURG WATER COMPANY, a
public utility water system operated
in and in the vicinity of Randsburg,
Kern County, California.

Case No. 4078

Chapman & Chapman, by Ward Chapman,
for Randsburg Water Company.
H. R. Collins, for certain water users.

BY THE COMMISSION:

O P I N I O N

This is a proceeding instituted by the Railroad Commission on its own motion, investigating the operations as entitled above of the Randsburg Water Company, a corporation supplying water to the unincorporated towns of Randsburg, Johannesburg, Red Mountain, and Atolia in Kern County, approximately forty-five miles northeast of Mojave.

Public hearings were held at Randsburg before Examiner MacKall and the matter was submitted on briefs, the last brief for Randsburg Water Company being filed on June 4, 1936.

Admittedly, this utility charges the highest rate for domestic water service in California in so far as rates filed with this Commission are concerned - one cent (1¢) per gallon in the initial block. However, in fairness to all concerned, it should be stated that the territory served lies in the Mojave

Desert, a section of the State of considerable aridity, especially during the summer months. The effective schedule of domestic rates was established by the Railroad Commission in Decision No. 22280, issued April 2, 1930. The domestic meter rates are as follows:

For the first	1,000 gallons, per 1,000 gallons-----	\$10.00
For the next	4,000 gallons, per 1,000 gallons-----	7.50
For the next	25,000 gallons, per 1,000 gallons-----	5.00
For all over	30,000 gallons, per 1,000 gallons-----	2.00
Minimum charge for service for one month-----		3.00

The wholesale schedule for mining and milling purposes was voluntarily filed by the company and accepted by the Commission as follows:

For quantities not less than 1,000 gallons nor more than		
3,000 gallons per day, per 1,000 gallons-----		\$2.00
For quantities of 3,000 gallons per day or more, per		
1,000 gallons-----		1.50

Sales to consumers under this classification shall depend upon there being a surplus of water available over that needed to satisfy the demands of domestic consumers.

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The territory served comprises a vastly rich mining section of the State. Unfortunately, potable water is scarce; the only drinking water available in quantities sufficient for general distribution in the vicinity of the area served is now in the possession of the Randsburg Water Company, originally procured by the late C.A. Burcham who operated the famous Yellow Aster Mine. The water system is now under the control of his wife, Dr. Burcham, now a resident of the southern section of California. The operative well, locally called the "Mountain Well," is of mine-shaft construction and is six miles from the Town of Randsburg and to some extent even farther from certain of the other towns and communities served.

The pipe transmission line from the well to the Yellow Aster Mine is not owned by the Randsburg Water Company but is leased by it from the Yellow Aster Mining and Milling Company. The lease agreement calls for the repair and maintenance of the pipe line by the water company and the delivery to the mine, without charge, of 9,000 gallons of water per month.

A report was submitted by F.H. Van Hoesen, one of the Commission's hydraulic engineers, covering valuation of utility properties and operation statistics. Testimony on maintenance and operation costs was presented in behalf of the company by Mrs. Georgia Cornwall, manager and superintendent of the company.

The Commission's engineer estimated the historical cost of the properties owned by the utility to be fifty-nine thousand nine hundred and seventy-seven dollars (\$59,977) as of November 1, 1935, and replacement annuity one thousand five hundred twenty-one dollars (\$1,521). The leased pipe line was valued separately at an additional thirty thousand six hundred sixty-six dollars (\$30,666) with a corresponding replacement annuity of six hundred twelve dollars (\$612). No other valuation figures were presented.

Revenue and operation statistics presented may be summarized as follows:

Revenue for Year 1935-----\$21,533

<u>A c c o u n t s</u>	<u>Annual Report 1935</u>	<u>By Mrs. Cornwall</u>	<u>By Van Hoesen</u>
E- 1 to E- 7 Source of Water Supply	\$ 248.12	\$ 1,300.00	\$ -
E- 8 to E-18 Pumping	3,242.37	3,845.00	3,000.00
E-22 to E-33 Trans. and Distr.	2,672.65	4,640.00	2,175.00
E-34 to E-35 Commercial Expense	1,600.00	2,500.00	1,800.00
E-36 to E-49 General & Misc. Expense	6,754.08	4,695.00	1,000.00
E-50 Taxes	242.27	300.00	200.00
E-51 to E-52 Depreciation	1,547.64	1,547.64	1,521.15
Total	\$16,307.13	\$18,827.64	\$9,696.15

While there was no dispute over the historical cost of the utility properties, there was a most wide divergence over the reasonable and proper maintenance and operation costs both for the past and for the immediate future. Mrs. Cornwall for the company claimed as a minimum requirement for future operations eighteen thousand eight hundred twenty-eight dollars (\$18,828). The Commission's engineer estimated this allowance to be nine thousand six hundred ninety-six dollars (\$9,696), a sum which he claimed should be ample and sufficient.

During the past year and a half the salaries of employees have been increased considerably. The amounts charged to operating expenses for 1935 are unusually high. The investigation of actual operating conditions by Mr. Van Hoesen for the Commission was most comprehensive and thorough. An audit of the company's accounts was made by our Division of Finance and Accounts. Many charges to maintenance and operation were found to be improper and several items appeared to be unreasonable and exorbitant. For instance, an agreement was entered into by and between Dr. Rose Burcham, and Ford Cornwall and Georgia Cornwall, his wife, whereby all the stock of the Randsburg Water Company was to be transferred to the Cornwalls for certain considerations, one of which was the operation of the water works by the purchasers. Dr. Burcham was sued under said contract by Ford Cornwall, the Randsburg Water Company was at some stage of the proceeding made a party defendant and the litigation expenses of both Dr. Burcham and the company, amounting in 1935 to one thousand thirty-seven dollars and seventy cents (\$1,037.70), were charged solely to the water company. This suit being brought over a contract for the sale of the plant against the owner of the stock is clearly not a proper charge against opera-

tion expenses except only to the extent of the actual and necessary costs to the water company actually expended by it in its own defense as one of the defending parties to the action. Again, Dr. Burcham, who is now an elderly lady and has not lived in Randsburg for a great number of years but is a resident of Alhambra in Los Angeles County, has during the year 1935 been paid under operating expenses charged to the utility three thousand three hundred fifty-nine dollars (\$3,359), designated as a salary - for what necessary and/or essential services the record fails to disclose. It should be noted that this utility serves but two hundred and sixty consumers and faces no unusually difficult operating problems as long as present operating conditions exist that cannot be handled by the local manager who is also, it should be recalled, the purchaser of the entire outstanding capital stock of the corporation under the above mentioned contract.

The service in general has been maintained satisfactorily and continuously; nevertheless there is no gainsaying the fact that the charges made against the water users have been and now are unnecessarily high. A review of the evidence shows that the sum of eleven thousand dollars (\$11,000) per annum is a fair and reasonable allowance for operation expenses including not only depreciation upon the utility property but depreciation and costs of repairs and maintenance upon the leased pipe line. In addition to this, there is also included a fair allowance for Railroad Commission and legal expenses properly chargeable against the company in the Ford Cornwall litigation and such operating help as is reasonably necessary but no allowance is contained

therein for salaries and other emoluments to Dr. Rose Burcham, the absentee owner whose reimbursement under existing conditions of operation must and should, in fairness to the consumers and all others concerned, be confined to surplus earnings only. Based upon the foregoing findings of fact, the results of operation for 1935 indicate a net return of approximately 17.5 per cent upon the utility property investment of fifty-nine thousand nine hundred seventy-seven dollars (\$59,977). The following reduced schedule of rates should produce a net return slightly in excess of six per cent upon fixed capital invested and will in no wise unreasonably handicap the utility. No allowance has been made for increased business as the present record indicates that such an increase cannot be substantial due to limitations of existing water supply and to other uncertain factors. Such changes as may be advisable in billing and collecting practices are more properly matters to be handled through the Rules and Regulations, a revised set of which will be directed to be filed in the following Order.

O R D E R

The Railroad Commission of the State of California having instituted an investigation on its own motion into the affairs of the Randsburg Water Company as above entitled, public hearings having been held thereon, the matter having been duly submitted and the Commission now being fully advised in the premises,

It is hereby found as a fact that the rates charged by Randsburg Water Company for water delivered to its consumers in and in the vicinity of Randsburg, Johannesburg, Red Mountain and Atolia, Kern County, in so far as they differ from the rates au-

thorized by this Order, are unjust and unreasonable and that the rates herein established are just and reasonable rates to be charged for the service rendered, and

Basing this Order upon the foregoing finding of fact and on the further statements of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that Randsburg Water Company be and it is hereby authorized and directed to file with the Railroad Commission, within thirty (30) days from the date of this Order, the following schedule of rates to be charged its consumers for all water delivered on and after the 31st day of August, 1936:

METERED RATES FOR ALL CLASSES OF SERVICE

Minimum Monthly Charges:

5/8 x 3/4-inch meter-----	\$ 2.50
3/4-inch meter-----	3.00
1-inch meter-----	5.00
1 1/2-inch meter-----	8.00
2-inch meter-----	10.00
3-inch meter-----	15.00
4-inch meter-----	25.00

Each of the foregoing "Minimum Monthly Charges" will entitle the consumer to the quantity of water which that minimum monthly charge will purchase at the following "Monthly Quantity Rates."

Monthly Quantity Rates:

From 0 to 1,000 gallons, per 1,000 gallons-----	\$7.50
From 1,000 to 5,000 gallons, per 1,000 gallons-----	5.00
From 5,000 to 30,000 gallons, per 1,000 gallons-----	3.00
All over 30,000 gallons, per 1,000 gallons-----	2.00

Water will not be sold for mining and milling purposes unless there is a surplus of water available over that needed for domestic consumers.

MONTHLY FLAT RATES

Residence occupied by one person not housekeeping-----	\$1.00
For each additional person-----	.50
Residence occupied by one person housekeeping-----	1.50
For each additional person-----	1.00
Residence, not modern, occupied by one family of two-----	2.50
For each additional person-----	1.00
Residence, modern with toilet and bath, occupied by family of two-----	3.50
For each additional person-----	1.00
Office, store or hall-----	3.00

All other use to be on a meter basis.

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IT IS HEREBY FURTHER ORDERED that Randsburg Water Company shall file with the Railroad Commission of the State of California, within thirty (30) days from and after the date of this Order, revised rules and regulations governing relations with its consumers, said rules and regulations to become effective upon their acceptance for filing by this Commission.

For all other purposes, the effective date of this Order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 10th day
of August, 1936.

W. A. Cunn

Francis K. Keville
Commissioners.