

Decision No. 30324

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CARMEL DEVELOPMENT COMPANY, a cor-)
poration, and CARMEL HIGHLANDS WATER)
COMPANY, a corporation, for (a) a)
certificate of public convenience and)
necessity to operate a public utility)
water system at Carmel Highlands, Monterey)
County, California; (b) an order authorizing)
Carmel Development Company to sell and)
transfer its water system to Carmel High-)
lands Water Company; and (c) an order)
authorizing issue of stock and a)
promissory note or notes (and a deed of)
trust in connection with said note or)
notes) by Carmel Highlands Water Company;)
(d) an order authorizing an increase in)
the rates charged water users at Carmel)
Highlands and fixing said rates; and (e))
in the alternative, for an order)
authorizing the discontinuance of water)
service at Carmel Highlands.)

Application
No. 21625.

ORIGINAL

Morrison, Hohfeld, Forster, Shuman & Clark,
by Edward Hohfeld, and Garrett H. Elmore,
for applicant.

Dunn & St. Clair, by Orla St. Clair, for
Carmel Highlands Water Users Association
and for certain consumers.

WAKEFIELD, COMMISSIONER:

PRELIMINARY OPINION AND ORDER
PENDING FINAL DECISION

Carmel Development Company, a corporation engaged in
the business, among others, of producing, distributing and selling
water for domestic purposes at Carmel Highlands, Monterey County,
has filed an application for a general reorganization of its
utility business as entitled above. A supplemental application
was filed subsequently asking the Commission to increase the

rates immediately or to permit the company to discontinue service upon the allegation that the company is now operating at a serious out-of-pocket loss with no funds available to continue.

Public hearings in this proceeding were held at Carmel Highlands and the matter was submitted on briefs which are not as yet due and have not been filed.

In the supplementary application and at the hearing applicant requested the establishment of an interim rate in order to provide funds to maintain service pending final decision.

Carmel Development Company installed a water system about the year 1919 to serve a high-class subdivision known as Carmel Highlands located approximately five miles down the coast below Carmel-by-the Sea. The tract consists of 802 acres, of which 483 acres have been subdivided into 222 lots. There are 130 property owners on the tract, 88 residences and two inns.

Water is obtained at present from two sources, namely, San Jose Canyon and Gibson Creek. The water from San Jose Canyon is pumped from a well and requires a transmission main of 8,419 feet of 3- and 3½-inch pipe to reach the distribution system. Water is pumped from wells along Gibson Creek, the natural flow of which also is diverted and delivered by gravity.

The principal business of Carmel Development Company is real estate operations. Carmel Highlands Tract was put on the market by this company about 1919, which has since continued to operate the water system, serving all consumers upon demand. Heretofore, it has contended that its operations have not been public utility in character but wholly private, but this contention was abandoned at the hearing. The controlling interest in the company has been held by J. F. Devendorf and since his

demise his estate, holding 19/20ths of the company's stock, is being administered by Mr. Edward Hohfeld and Crocker First National Bank of San Francisco, as trustees. On behalf of applicant, Mr. Hohfeld has testified that the water system is operating at a very substantial loss, that he is willing that operations be placed under the jurisdiction and control of the Railroad Commission, and that a certificate of public convenience and necessity be granted for this purpose. He has caused to be formed a corporation known as Carmel Highlands Water Company, in which it is intended to transfer all water properties and pertinent rights provided a certificate of public convenience and necessity to operate the public utility water system is granted and approved by the Railroad Commission.

The evidence presented in this proceeding shows that the company has expended since 1919 in water development, water production and distribution facilities the sum of \$87,060 and that the present operative fixed capital is approximately \$57,980, of which \$20,608 is attributable to the Gibson Creek water production facilities. The average annual revenues obtained from water sales for the period 1929-1937, inclusive, are \$4,888; the revenue for 1937 is \$4,473; and the annual average operating expenses, exclusive of depreciation, for the above 9-year period are \$8,098, and for the year 1937 amounted to \$12,167. Depreciation based upon the sinking fund method at five percent amounts to \$1,287, exclusive of the Gibson Creek properties, and \$1,700, including this part of the system. The operating expenses for the year 1937 included several items which properly should be amortized over a period of years as being non-recurring annually. The operating expenses for the year 1937 may be characterized as including a number of items unreasonably extravagant and not strictly necessary to normal and efficient operating requirements. Nevertheless, in making

due allowance for all reasonable deductions from operating expenses, it is apparent that the revenues are far less than the actual bare costs of production and distribution.

At present the major supply is obtained by pumping from the Allan well, for which an annual royalty of \$1,500 must be paid for the mere privilege of obtaining the water. All pumping and transportation costs must be borne by the company. There appears to be no possibility of eliminating this and other pumping expenses under the present methods of operation. There are plans under consideration at the present time which embrace the possible development of water from other sources, the most promising of which provides for the installation of a transmission main approximately 25,000 feet in length, receiving its supply from the Carmel Valley pipe line owned and operated by the California Water and Telephone Company, a public utility supplying water in the Monterey peninsula, embracing the cities of Monterey, Pacific Grove and Carmel. However, this project will be rather costly and the difficulties of financing it have not as yet been solved. In the meantime, it is clear that this utility must have immediately an increase in its revenues if it can reasonably be expected to continue the distribution of water to its consumers.

Based upon the figures set out above, it appears that an interim order should be issued granting a certificate of public convenience and necessity at this time to the Carmel Development Company and authorizing it to place in effect an emergency schedule of rates pending final decision in this matter.

The rates at present in effect are the same as those formerly charged in the Monterey Division of the California Water

and Telephone Company and are as follows:

Monthly Minimum Payments

| | |
|---------------------------------|---------|
| 1/2 and 3/4-inch services ----- | \$ 1.10 |
| 1-inch services ----- | 1.50 |
| 1 1/2-inch services ----- | 2.25 |
| 2-inch services ----- | 3.00 |

Monthly Meter Rates

| | |
|---|---------|
| First 300 cubic feet or less ----- | \$ 1.10 |
| Next 700 cubic feet, per 100 cubic feet ----- | .30 |
| Over 1,000 cubic feet, per 100 cubic feet ----- | .25 |

In this schedule no charges are set forth for fire protection service. There are several hydrants served by this water system and there is a duly organized county fire protection district operating in and throughout the entire Carmel Highlands service area. It is proper, therefore, that a reasonable payment for this service should be made to the company by the fire district. Such a rate will be established in the emergency schedule set forth in the following order.

The following form of Order is recommended.

O R D E R

Carmel Development Company, a corporation, having filed an application as entitled above, public hearings having been held thereon, and the Commission being fully informed in the premises,

The Railroad Commission of the State of California hereby declares that public convenience and necessity require that Carmel Development Company, a corporation, operate a water system in the tract and parcels of real property at and in the vicinity of Carmel Highlands, Monterey County, which are now, or formerly were, owned by Carmel Development Company or by Carmel Villas Company, a corporation, and

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be and it is hereby granted to Carmel Development Company, a corporation, to operate a water system in

the tract and parcels of real property at and in the vicinity of Carmel Highlands, Monterey County, which are now, or formerly were, owned by Carmel Development Company or by Carmel Villas Company, a corporation.

IT IS HEREBY FURTHER ORDERED that Carmel Development Company be and it is hereby directed to file with this Commission, within thirty (30) days from the date of this Order, the following schedule of interim rates to be charged for all service rendered subsequent to the 31st day of May, 1938, and to be effective until otherwise changed or modified by further order of this Commission:

BASIC ANNUAL CHARGE PAYABLE IN ADVANCE
DUE JANUARY 1st OF EACH YEAR*

METER RATES

| <u>Annual Minimum Meter Charges</u> | <u>Monthly Entitlement</u> <u>Cubic Feet</u> |
|-------------------------------------|---|
| 1/2 and 3/4-inch meter-----\$13.20 | 300 |
| 1-inch meter----- 18.00 | 400 |
| 1 1/2-inch meter----- 27.00 | 700 |
| 2-inch meter----- 36.00 | 900 |

The foregoing annual minimum meter charges will entitle the consumer each month to the maximum quantity of water set out above under column "Monthly Entitlement." Use in excess of above "Monthly Entitlements" shall be charged each month under the following Meter Quantity Rates:

Meter Quantity Rates

| | | |
|-------|---|--------|
| First | 300 cubic feet or less----- | \$1.10 |
| Next | 700 cubic feet, per 100 cubic feet----- | .30 |
| Over | 1,000 cubic feet, per 100 cubic feet----- | .25 |

Fire Hydrants

Each fire hydrant, per month-----\$2.00

*Note: During the remainder of the year 1938 payments will be billed monthly, prorated upon the basis of the remaining months of the year.

The rates set out above shall be subject to surcharges as follows:

Annual Minimum Meter Charges

| | | |
|------------------------|---------|-------|
| 1/2 and 3/4-inch meter | -----\$ | 12.00 |
| 1-inch meter | ----- | 18.00 |
| 1 1/2-inch meter | ----- | 27.00 |
| 2-inch meter | ----- | 36.00 |

The above surcharge may be paid in equal monthly installments by the consumer.

Meter Quantity Rates

Fifty per cent (50%)

This surcharge is payable monthly.

Fire Hydrants

Each hydrant, per month -----\$ 1.00

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IT IS HEREBY FURTHER ORDERED that Carmel Development Company, a corporation, be and it is hereby directed to submit to the Railroad Commission of the State of California, within thirty (30) days from the date of this Order, rules and regulations governing relations with its consumers for approval by the Railroad Commission.

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

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 31st day of May, 1938.

[Signature]
[Signature]
[Signature]
[Signature]
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Commissioners.