

Decision No. 38833

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application
of
PEERLESS LAND AND WATER CO.
for an order authorizing an increase
in water rates.

Application No. 26717.

Sarah G. Zastrow, for Applicant.
W. C. Avery, for protestant customers.

BY THE COMMISSION:

O P I N I O N

Peerless Land and Water Co. Inc., a corporation, operates a public utility domestic waterworks in the vicinity of the unincorporated town of Bellflower, Los Angeles County. The Commission is asked for authority to increase the flat rate charge for residential service from \$1.50 to \$2.25 per month, alleging that the Company's operations for the twelve-month period ending March 31, 1945, resulted in a loss of \$712.

The Company notified the Office of Price Administration of its application for an increase in rates and was informed by said office that it did not intend to participate in the proceeding.

A public hearing in this matter was held before Examiner Stava in Los Angeles.

This Company operates two separate water systems near Bellflower, serving two subdivided areas comprising a total of 110 acres, more or less, located, however, approximately two miles apart. The utility water supply is obtained from four wells. Distribution is controlled through three pressure tanks of 3,000 gallons capacity each. There are 20,042 feet of mains in the system varying from 12 inches to 3/4 inch in diameter. The present consumers number 453, all charged the flat charge of \$1.50 per month for a house and a lot. The Company also has a schedule of measured rates providing for a minimum monthly charge of \$1.25, with an allowance of 500 cubic feet. The charges are reduced through three blocks to

10 cents per hundred cubic feet for all use over 10,000 cubic feet.

Sarah G. Zastrow, secretary-treasurer of the Company, and James F. Wilson, one of the Commission's engineers, presented evidence and testimony concerning the fixed capital, operating costs, revenues, depreciation, and the results of operation for the year ending December 31, 1944, summarized below:

	<u>Zastrow</u>	<u>Wilson</u>	
Fixed Capital	\$21,220	\$21,710	\$21,710
Depreciation Reserve	-	3,336*	-
Present Value	-	18,474	-
Operating Revenues	8,633	8,291	8,291
Operating Expenses	7,589	7,466	7,466
Depreciation	<u>1,178*</u>	<u>976*</u>	<u>663**</u>
Total Operation Expense	\$8,767	\$8,442	\$8,129
Net Operating Revenue	(<u>\$134</u>)	(<u>\$151</u>)	\$162

Notes:*Straight Line.

**Sinking Fund at 5%.

(Red Figures)

The evidence shows that Mrs. Zastrow had included in operating revenues \$342 received from rents for dwellings and \$202 as depreciation therefor, items more properly chargeable to nonoperative business.

According to the record in this proceeding the holders of the outstanding stock of Peerless Land and Water Co., Inc., are C. L. Zastrow, President and General Manager, owner of 9,952 shares, Sarah G. Zastrow, Secretary and Treasurer, owning 9,952 shares, and W. H. Zastrow, Vice President, owning one share.

C. L. Zastrow received a salary of \$185.00 per month as President and General Manager; Sarah, his wife, received \$100.00 per month as Secretary and Treasurer in the corporation. The operating force consists of a full-time office clerk and water superintendent on a part-time basis.

According to the testimony of said Mrs. Zastrow, the principal business of the family has been and now is building, contracting, real estate, lumber and oil. The affairs of the private commercial enterprises are conducted from the same office used by the waterworks. Mrs. Zastrow explained that during the past few years the commercial enterprises were not particularly active and at the

present time were producing little profits because of the general uncertainty of present business conditions. Under the circumstances it was felt that the water rates of the utility should be increased to provide a greater source of funds for the family until the general situation improved and that it was believed the most certain method of obtaining results would be by drawing salaries directly from the utility rather than relying upon dividends from that source by way of profit.

The Commission's engineer testified that the salaries paid to the owners of this utility in addition to the moneys paid to employees for general superintendence and operation placed an excessive burden on so small a water system and that if said salaries were reduced to a reasonable basis more comparable to that obtaining in similar small utilities in the general vicinity that the present rates would produce a fair and reasonable net return on the capital investment. The testimony of the Commission's engineer further indicated that the present charges of the Company compared very favorably with the rates now being charged by similar public utility systems in the general area of Bellflower and in certain instances were even higher.

From the evidence submitted it appears that the rates requested by the Company would yield an annual revenue of \$22,387, which without eliminating the present salaries for family corporation officials and executives would result in a net return of 19.5% upon the capital investment of \$21,810.

Serious objections were made by the water users to any increase in rates. A petition of protest was filed by these users, having affixed thereon 578 signatures representing 350 families served by the system. The protesting consumers testified that the water service was wholly inadequate and that the cost of power had not increased and labor actually paid by the Company increased but slightly. The Commission was asked to reduce the present rates to compare with the charges of the mutual water companies operating in or in the immediate vicinity and demanded further that the existing poor service and the quality of the water be improved without delay. Consumer witnesses objected to the increase in rates claiming that almost all of them have been and now are compelled to change from war

work to peacetime occupations and are forced to accept the disadvantages of the conversion period without outside aid, as requested by the utility. These witnesses objected to the alleged high salaries paid to Mr. and Mrs. Zastrow as self-appointed officers and executives of the Company which is a closed family corporation. These witnesses claimed that neither of the Zastrows personally devoted any time or took any active interest in water company affairs and were never available on or about the system to supervise operations or receive and remedy complaints, but depended solely upon their hired employees for the operation of the property. Generally, witnesses complained about the poor quality of water, that it contained rust and sand, and that the pressure often was so low that water could be obtained only from one faucet at a time. Demand was made that the systems be operated at higher pressures than the present 22 to 42 pounds range.

In the light of the testimony concerning unsatisfactory water pressures and rusty water, containing sediment and various foreign matters, it is clear that such conditions should be remedied at once. Improvement fortunately is simple and inexpensive in this case. The pressure tanks and mains should be cleaned and cleared of sand and rust by a thorough blowing out of the system through valves, gates and fire hydrants and thereafter continued at regularly monthly intervals. The operating pressure ranges at the tank controls should be set at 30 to 60 pounds per square inch instead of the present 22 to 42 pound range.

A review of the evidence presented in this proceeding fails to justify or warrant the increase in rates requested by Applicant, or any increase whatsoever. On the contrary the record conclusively shows that with efficient and proper operation upon a basis of reasonable salaries to necessary and useful employees upon a sound economical business plane, the present rates will assure a fair net return upon the capital invested in the waterworks. The application, therefore, must be denied.

O R D E R

Application as entitled above having been filed with the Railroad Commission, a public hearing having been held thereon, the matter having been duly

submitted, and the Commission being fully advised in the premises,

IT IS HEREBY ORDERED that the above entitled application be and it is hereby denied.

The effective date of this Order shall be twenty (20) days from and after the date hereof,

Dated at San Francisco, California, this 9th day of April, 1946.

Harold Anderson
Justice J. Carver
Francis J. Davis
W. H. Lacey
Harold Huls

Commissioners.