

Decision No. 39041

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Helen de Vry, et al,
Complainants,

Vs

Friendly Acres Water Company,
Defendant.

Case No. 4727

Col. E. H. Evan, for Complainants.

Clyde Henry, for Friendly Acres Water Company.

O P I N I O N

Helen de Vry and twenty-seven other water consumers residing in a subdivision known as Friendly Acres located near Redwood City in San Mateo County ask the Commission to reduce the water rates charged by Clyde Henry, operating a public utility under the fictitious firm name and style of Friendly Acres Water Company. The complaint alleges that the rates charged by the Company are unreasonably high and exceed the charges of any other water system operating in the vicinity. The complaint further alleges that no effort has been made by this Company to reduce the unnecessarily high operating expenses caused by purchasing its entire water supply from San Francisco Water Department instead of drilling its own wells.

In its answer the Company denies that the rates charged are unreasonably high or excessive, or that any reported operating expense is unnecessary or improper. Defendant Company also denies that no attempt has been made to secure water from sources other than the San Francisco Water Department, and therefore asks that the complaint be dismissed.

A public hearing in this matter was held in Redwood City before Examiner Stava.

Friendly Acres originally was subdivided in 1930 by Friend Realty Company, Incorporated, which installed a water distribution system consisting of approximately 16,000 feet of 2-inch, 4-inch and six-inch pipe. Water at first was obtained from a well but this source of supply was discontinued in 1937 because of the high saline content of the water produced therefrom. Thereafter all water has been purchased from the San Francisco Water Department.

Clyde Henry acquired the system in 1936 and obtained a certificate of public convenience and necessity for its operation in Decision No. 29506, dated February 1, 1937. The schedule of rates which he now charges was established also in this decision. All water delivered to consumers is purchased from the San Francisco Water Department through two 2-inch meters at the regular rates applicable to service outside the City and County of San Francisco. These rates provide for a total monthly service charge of \$10.20 for the two meters with an additional quantity charge of \$.305 per 100 cubic feet for the first 3,300 cubic feet, reducing through three blocks to \$.118 for all use over 33,300 cubic feet.

The rates now in effect on the Friendly Acres system provide for a monthly minimum charge of \$2 for residential service with an allowance of 500 cubic feet of water. For quantities in excess of the minimum, the charges are reduced through three blocks to 28 cents per 100 cubic feet for all use over 3,000 cubic feet. At present there are 198 customers, all served at meter rates.

Complainants testified that Friendly Acres is strictly a residential community where the majority of the property owners have large lots and desire to maintain lawns, flowers and vegetable gardens but contend that they cannot afford to do so under existing water rates. The lots vary in size from 6,000 square feet to acre tracts and the water bills range from the \$2.00 minimum charge to a maximum of \$18 per month during the summer. Certain complainants requested a reduction in the minimum monthly charge of \$2 in the winter months because many consumers, they alleged, did not need the full 500 cubic foot allowance during the rainy season. Others claimed that a substantial reduction in rates would result in much larger

revenues through increased use of water.

In connection with alternative sources of water supply, testimony was introduced in behalf of complainants that there were wells in the general vicinity of Friendly Acres producing potable water, which could be obtained at less cost than through purchase from the City of San Francisco.

Comparative rate schedules of other water systems operating in adjacent communities submitted by complainants indicated that the rates of the Friendly Acres Water Company were higher. The operating conditions, however, admittedly were quite different in these communities and the service problems not fairly comparable. In most of the other systems sole dependance was not placed upon purchased water. Other than the rates charged, the service, in general, was considered satisfactory by the consumers.

According to the testimony of Mr. Henry, the book value of his system was \$27,545, as of December 31, 1945; the operating revenues for 1945 were \$8,548 and operating expenses for the same period \$9,905, which included \$779 as allowance for depreciation, estimated by the straight line method. The results of operation, based upon these figures, showed a loss of \$1,357 for the year. The largest item of expense was \$5,395 for purchased water. Mr. Henry testified that the 1946 expenses would be further increased as the direct result of the 18% increase in the rates of the San Francisco Water Department, effective September 1, 1945, and also by the general rise in the cost of labor and all materials and supplies for waterworks construction and maintenance. He estimated that an increase of 33-1/3% in his present rates will be required in order to meet bare costs of operation for 1946.

A report on an investigation of the operations of this waterworks, including an appraisal thereof, was presented by Clyde F. Norris, one of the Commission's hydraulic engineers. This report showed the investment in physical properties to be \$27,545, as of December 31, 1945, based on the historical cost appraisal made by the engineers of this Commission in connection with the above-mentioned certificate proceeding in 1937. Net additions and betterments subsequent thereto were added to the end of 1945. The revenues for the years 1944 and 1945

were \$8,281 and \$8,548, respectively. The operating expenses for the corresponding periods were \$7,543 and \$9,086, including a depreciation annuity computed by the sinking fund method at 5%. The results of operation for 1944 showed a net revenue of \$738, equivalent to a net return of 2.68% on the historical cost of the properties. For 1945 a loss of \$538 was sustained. Mr. Norris testified that the 1946 expenses would be increased approximately \$400 because of the increased cost of purchased water and that further increases in expenses would occur by reason of advancing costs of labor, materials and supplies.

In connection with the alleged availability of good water wells in and in the vicinity of Friendly Acres, the record shows that in 1940 Clyde Henry spent \$4,000 drilling a gravel envelope well in this area but was unable to use the water because of salt water intrusion. It is generally conceded that there are few water wells in this district yielding a potable water, practically all being contaminated by the invasion of salt water from San Francisco Bay, attributed to past over-pumping of underground waters. Mr. Henry stated that he had been unable to lease or purchase any wells which produced a sufficient volume of good water within economic pumping distance of Friendly Acres. The evidence is conclusive that as far as present knowledge of underground water resources in this area is concerned reliance will still have to be made upon the San Francisco Water Department for the water supply of this utility. Mr. Henry indicated, however, that he may be able to extend his water system to supply certain adjacent and adjoining territory wherein it is proposed to develop new housing projects, in which event it should be possible to purchase water in the lower bracket of \$0.118 per 100 cubic feet. In two months only during 1945 was the purchased water in excess of the 333,300 cubic foot block, when this lower rate applies. The average cost of water to the Company, however, for 1945 was \$0.199 per 100 cubic feet. Should the volume of demand so increase in the future under the above circumstances, some relief should be forthcoming through lower water costs to be reflected in a corresponding reduction in rates charged to the water users.

From the evidence presented in this proceeding it is clear that the recent increase in the rates charged by the San Francisco Water Department for water delivered to this utility has made it impossible to reduce said utility's rates without forcing it to operate at an out-of-pocket loss. No course, therefore, is open to this Commission other than to dismiss this complaint. In the event future increased water sales to expanded territory or other factors should sufficiently reduce operating expenses, the Commission thereupon will see that the rates charged by Friendly Acres Water Company are correspondingly reduced.

O R D E R

Complaint having been filed with the Railroad Commission as entitled above, a public hearing having been held thereon, and the Commission now being fully informed in the premises,

IT IS HEREBY ORDERED that the above entitled complaint be and it is hereby dismissed.

The effective date of this Order shall be twenty days from and after the date hereof.

Dated at San Francisco, California, this 5th day of June, 1946.

Justus J. Cassin
David Anderson
Francis W. [unclear]
Joseph J. Lawrence
Harold P. Huls
COMMISSIONERS.