

Decision No. 41869**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of
 RANDBURG WATER COMPANY for an order
 authorizing increase of rates for
 water service, and for interim order
 authorizing immediate increase of
 rates for water service.

Application No. 28825

Thomas J. Kelley for applicant;
 Leland W. Sumner for the Kern County
 Department of Public Health.

O P I N I O N

Randsburg Water Company, a corporation, engaged in the business of supplying water for domestic and commercial purposes in and in the vicinity of the unincorporated towns of Randsburg and Johannesburg in Kern County, and Red Mountain and Atolia in San Bernardino County, asks for authority to increase its rates for water service rendered to its consumers.

Applicant alleges that the demand for water has increased considerably beyond the supply of sweet water obtainable from its Mountain Well, which has made it necessary to augment the supply with water purchased from the Butte Lode Mining Company; that the water obtained from the Butte Lode mine, in addition to being costly, is so highly mineralized that its use for domestic purposes is very unsatisfactory and objectionable, even when properly mixed with that from the Mountain Well; and that, in an effort to remedy this condition, applicant has spent considerable money in the development of a new well, identified as "Rowaco No. 1." Although the quality of water in this well was good, the quantity proved to be insufficient, and the project has had to be abandoned. Such conditions, it is alleged, make it necessary for applicant to search further for an

adequate supply of satisfactory water in an unusually dry district. These developments, together with current increases in the cost of labor and materials, have caused applicant to request an upward adjustment in its rate schedule.

A public hearing in this proceeding was held in Randsburg before Examiner Stava.

The present rates in effect for this utility were established by the Commission in its Decision No. 36563, dated August 24, 1943, in Application No. 24161 and Case No. 4629. The meter rate provides for a monthly minimum charge of \$2.25 for 400 gallons of water or less. The charges for additional water are reduced through four blocks to 20 cents per 100 gallons for all use over 30,000 gallons. The basic flat rate is \$2.50 per month.

The application originally requested that the present flat rates be continued in effect. However, since all service is now rendered on a measured basis and the flat rates are no longer applied, at the hearing applicant asked that the schedule of flat rates be entirely eliminated, and the Commission is requested to authorize only a schedule of increased rates for service.

This schedule provides for a monthly minimum charge of \$2.50 for 400 gallons of water or less, and 50 cents per 100 gallons for all use in excess of 400 gallons.

The history of the Randsburg Water Company and a more detailed description of the system and operating practices have been set forth at considerable length in several previous decisions^{1/} of

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Decision No. 12257, June 25, 1923 (Case No. 1890)
Decision No. 22280, April 2, 1930 (Appl. No. 16239)
Decision No. 29039, August 10, 1936 (Case No. 4078)
Decision No. 30660, February 28, 1938 (Appl. No. 21278)
Decision No. 36563, August 24, 1943 (Appl. No. 24161 and Case 4629)
Decision No. 39228, July 30, 1946 (Appl. No. 25952)

this Commission. Since 1921 the principal source of water supply for this utility has been the Mountain Well. The evidence shows that the total consumer demand for water increased greatly in 1944 and exceeded the quantity procurable from the Mountain Well that year and each year since. The average daily output of this well in 1946 was 12,500 gallons while in 1947 it was only 11,000 gallons, in spite of some cautious drilling and blasting operations performed in 1947 in an effort to increase the yield. Consequently, to satisfy the total consumer demand in 1947, which was one-sixth greater than in 1946, the utility had to purchase 1,536,000 gallons of water under its contract with the Butte Lode Mining Company, at the cost of \$2 per 1,000 gallons.

The arrangement of the transmission pipe lines, delivering the supplies from the Mountain Well and the Butte Lode Mine into the storage tank located on the ridge between Randsburg and Johannesburg, is such that it is impossible to blend the two waters completely and evenly. The result is that the people of Randsburg and Johannesburg are served at times with a greater proportion of mine water, while the consumers in Red Mountain and Atolia sometimes enjoy a larger proportion of Mountain Well water. With the apparent gradual diminishing of the supply from Mountain Well, which necessitates the purchase of hard water in increasing amounts, the mixture, even at best, is fast becoming intolerable. In fact, the Bureau of Sanitary Engineering of the State Department of Public Health has informed the utility that by August, 1948 it must either treat the mine water chemically to make its use satisfactory for human consumption or else discontinue the supply from this source entirely. At the hearing, the utility introduced evidence to show that the cost of chemical treatment of the mine water would be prohibitive.

The protests voiced by the consumers were directed, not so much against the proposed increase in the cost of water, but primarily against the quality of the water now being served to them by the utility. Under present conditions, many consumers purchase bottled water, costing about 20 cents per gallon, for drinking and cooking purposes; they send their clothes away to be laundered; and even automobile radiators cannot long use the local water. Thus, it is clearly demonstrated that it will be necessary to abandon the use of the mine water which will necessitate either rationing of the available supply from Mountain Well or the procurement of additional sweet water from some more distant source.

After the unsuccessful attempt to obtain a sufficient supply of water from Rowaco Well No. 1 at an estimated cost of \$7,725, the utility began to investigate the supply available from the Santa Fe Mine located near the water main running through Red Mountain. Although a test of the quality of this water made several years ago indicated that it might be satisfactory, the results of a recent test of the water which has accumulated in the mine were very disappointing. According to the testimony of Mr. C. K. Dennis, the utility's superintendent, the company has practically decided to pump out the mine in an effort to determine whether the incoming water is of a quality and quantity which would solve the problem of an adequate supply of suitable water. Mr. Leland W. Sumner, representing the Kern County Health Department, stated that no new source of water supply would be permitted to be introduced into the system until complete and careful tests will have proven its acceptability to the public health authorities of the state and both counties concerned. It is evident that even the pump installation costs and testing of the water from this mine, some 1,200 feet in depth will be relatively costly.

Mr. James Alspach, testified that the court litigation involving certain mining properties which include the Judge Well, located in the Goler Wash below Randsburg, has been settled and that this source of supply can now be made available to the utility. This would require a pumping head considerably in excess of 1,000 feet and the installation of approximately four miles of pipe line, unless a certain existing pipe line, belonging to the Yellow Aster Mining and Milling Company is used, which Mr. Alspach states can be utilized. Previous tests of the water from the Judge Well indicate that it is of acceptable quality and that it has produced 10,000 gallons per hour. Mr. Alspach offered to deliver into applicant's reservoir from the Judge Well and through the Yellow Aster pipe lines a minimum of 10,000 gallons of water per day at \$2.50 per 100 gallons, 20,000 gallons per day at \$2 per 100 gallons, 40,000 gallons per day at \$1.50 per 100 gallons, and 100,000 gallons per day from \$1.25 to \$1.30 per 100 gallons. He desired to deliver a minimum of 30,000 gallons daily in order to make some profit in the operation, as the sale of lesser quantities would only pay bare operating costs. It is recommended that the company explore carefully and fully the possibilities of augmenting the present supply with water hauled or pumped from the Judge Well, as the most available source of sweet water.

Georgia Dennis, president of applicant, testified concerning the results of operation for the years 1946 and 1947 as reported in the annual reports filed with the Commission as follows:

	Year 1946	Year 1947
Fixed Capital	\$67,537	\$76,159
Reserve for Accrued Depreciation	50,529	52,819
Depreciated Fixed Capital	17,008	23,340
Operating Revenues	18,420	21,514
Operating Expenses	15,103*	19,315*
Net Operating Revenue	3,317	2,199
Return on Depreciated Fixed Capital	19.5%	9.4%
Return on Undepreciated Fixed Capital	4.9%	2.9%

* Includes depreciation computed on straight line basis.

Mrs. Dennis stated that the necessity of purchasing additional water from other sources of supply to meet the demands for service which totaled \$3,072 during 1947 and the increased cost of maintaining and operating the system required an increase in rates.

Based on existing operating conditions, a report was submitted by one of the Commission's engineers, which includes a valuation of the properties as of December 31, 1947, and the results of operation for the years 1945 to 1947, bringing up to date a similar report submitted in evidence in connection with the company's previous request for an increase in rates, Application No. 25952. The following tabulation shows the summary of operations for the year 1947, contained in this report:

Item	Year 1947	
	Under Present Rates	Under Requested Rates
Operating Revenues, Actual and Est.	\$21,514	\$25,347
<u>Operating Expenses</u>		
Adjusted Maintenance & Operation Expenses	12,975	12,975
Taxes, other than those based on income	410	410
Taxes, State Corp. Franch. & Federal Income	1,396	2,378
Depreciation, 5% Sinking Fund Annuity	<u>1,103</u>	<u>1,103</u>
Total Adjusted and Estimated Expense	15,884	16,866
Net Operating Revenue, as Adjusted Undepreciated Rate Base, including Fixed Capital as of Dec. 31, 1947, Materials and Supplies, and Working Cash of \$93,207	5,630	8,481
	6.04%	9.10%

The report of the Commission's engineer shows a total adjusted operating expense of \$15,884, as compared with the amount of \$19,315 shown in the books of the utility for 1947. This reduction resulted from an analysis of each account for that year. The company's figure for depreciation was \$2,290, computed on the straight

line basis, as compared with an amount of \$1,103 calculated by the 5% sinking fund method. Of the total expenses reported by the utility, nearly half thereof is the heavy pay roll or salary account amounting to \$9,054 for the year. Other items, such as Public Utilities Commission expense and extra expense due to theft of a truck, which do not occur regularly every year, were prorated over several years. The annual expense allowed by the Commission's engineer for the average 329 customers is about \$48 per customer, which he testified was a very liberal allowance for this utility, being far above the average for such a system even after giving full consideration to the special and unusual conditions under which this company operates.

The rate base of \$93,207, shown in the foregoing tabulation, does not include the amount of \$7,275 spent in the attempted development of Rowaco Well No. 1 which was set out as a suspense account in the Commission engineer's report. Since the properties represented by this expenditure will not be put into service, he considered it improper to include this amount in operative fixed capital. Instead he testified that the amount, after applying credits for such portions that can be salvaged or sold, should be treated as an operating expense to be amortized over a period of years. There was insufficient information to determine what this net amount would be, but it appears that it should not be more than \$5,000 which, if written off over a period of five years, would represent an additional annual expense of \$1,000. The effect of adding this amount to the operating expenses as shown in the foregoing tabulation would be to reduce the estimated rate of return under the present rates to 5.23% and under the requested rates to 8.30%, computed on the same rate base of \$93,207.

The evidence presented in this matter indicates that while the present rates do not produce a full return on the fixed capital

estimated by the Commission's engineers under present operating conditions, and the requested rates are higher than can be justified and also would result in a disproportionately large increase to some users. However the record shows that more than a reasonable return is produced on the depreciated book capital. After considering the evidence relating to rates and service rendered it is concluded that applicant is not entitled to an increase in rates and the application will therefore be denied.

The Commission's records show that applicant has filed an application (No. 29502) asking for the establishment of interim rates to cover the cost of hauling water from the Judge Well, owing to the depletion of the Butte Mine Supply and the request of the Board of Health that the use of water from the mine be discontinued. The consideration of the application may provide applicant with relief in the cost of obtaining water from other sources of supply and result in supplying a better quality of water to the customers.

O R D E R

Application as entitled above having been filed with the Public Utilities Commission of the State of California, a public hearing having been held thereon, the matter having been duly submitted, and the Commission now being fully advised in the premises,

IT IS HEREBY ORDERED that the above-entitled application relating to an increase in rates be and it is hereby dismissed.

IT IS HEREBY FURTHER ORDERED that the schedule of flat rates heretofore filed by the Randsburg Water Company for unmeasured water service previously rendered to its consumers, and which

schedule has not been applied for several years past, shall be cancelled.

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

Dated at San Francisco Co, California, this 20th day of July, 1948.

R. T. [Signature]
Justice F. [Signature]
[Signature]
Harold P. [Signature]

Commissioners.