

Decision No. 44474**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of
 RANDSBURG 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. 29502
 Amended

Thomas J. Kelley, for applicant;
James B. Nossier, for himself;
Giles A. Elliott, for commercial
 water users.

OPINION ON AMENDED APPLICATION

In the original proceeding of this matter, the Commission in its Decision No. 42010, issued August 31, 1948, established a temporary emergency schedule of rates to be charged by the Randsburg Water Company for water delivered to its consumers. This rate provided for a monthly minimum charge of \$3 with an allowance of 400 gallons of water, and a charge of 60 cents for 100 gallons for all use over the 400 gallons.

This interim rate was reaffirmed by the Commission in its Decision No. 43113, issued July 12, 1949, in a reopened proceeding. However, the matter was held open in order to permit the Commission staff to investigate the results of operation of the system at the interim rates. Subsequently, the company filed an amended application asking the Commission to establish a schedule of higher interim rates, which thereafter would be made permanent. These rates provided for a monthly minimum charge of \$3 for 300 gallons of water or less, and 90 cents per 100 gallons for quantities over 300 gallons. The company also asked that a mining and milling rate be established at 10 cents

per 1,000 gallons, for transporting through its pipe lines water purchased by mining interests from outside sources of supply. Applicant also asked that the deposit for establishing credit be increased from \$3.38 to \$5, and that a charge of \$1.50 be authorized for moving a meter from one service connection to another when a consumer changes his place of residence.

The company alleges in the amended application that the temporary rates established by the Commission did not produce sufficient revenue to pay the operating expenses, which included the purchase of water, and as a result no profit was earned on the investment in utility property.

Public hearings on the amended application were held before Examiner Stava at Randsburg on April 6 and April 20, 1950.

The water supply for this system is normally obtained from applicant's Mountain Well, located approximately 6 miles northeasterly from Randsburg. The production of water from this source has gradually decreased from 15,000 to 8,500 gallons per day. Approximately 8,500 gallons per day is being purchased from the so-called Alspach Wells, this source of claimed nonutility water being named after James Alspach, now general manager for applicant. Storage for the system is supplied by six tanks having a combined capacity of 134,000 gallons. The water is conveyed and distributed through 49,611 feet of pipe lines varying from 4 to 3/4 inches in diameter. There are 288 consumers being served, all on a metered basis.

The company, by its general manager, presented evidence showing the results of operation of the system for the years 1948 and 1949 at present rates, as recorded on the books, and estimated that the 1950 revenues from the requested rates would total \$30,000, which sum was estimated to cover maintenance and operation expenses for the year. The Commission staff submitted a report showing the results of

operation for the year 1949 and estimated for 1950 at present rates, and also estimated earnings for the two years had the requested rates been in effect.

Computations as to the earnings for the years 1948 and 1949 are as follows, all based on the present rate level:

Item	Company		Commission Staff	
	1948	1949	1949	
	Straight-Line: Depreciation:	Straight-Line: Depreciation:	Straight-Line: Depreciation:	Sinking Fund: Depreciation:
Rate Base	\$74,730#	\$78,384#	\$40,250*	\$94,722
Operating Revenues	22,004	25,116	25,116	25,116
Operating Expenses	19,937	30,747	21,828	21,828
Depreciation	2,176	2,221	2,221	1,136
Total Expenses	22,113	32,968	24,049	22,964
Net Operating Rev.	(109)	(7,852)	1,067	2,152
Return	-	-	2.6%	2.3%

Book Fixed Capital

* Undepreciated Rate Base less Book Reserve

(Red Figure)

In the above table, the company's fixed capital is the sum set up on its books, while the Commission staff's figures for this item are based on an appraisal of the system made by the staff in connection with Application No. 28825 (Decision No. 41869, issued July 20, 1948) brought up to date.

The differences in the 1948 and 1949 company revenues are due to the increased rates established by the Commission in its Decision No. 42010, supra.

The number of consumers has decreased from 329 in 1947 to 228 as of December 31, 1949, a decrease in two years of 12%.

The differences in applicant's operating expenses for these two years arise from the purchase of water from the Alspach Wells during 1949 at an average cost of \$900 per month for the year.

The record shows that the winters of 1948 and 1949 were unusually severe and caused considerable increase in expenses, largely for main repairs resulting from freezing temperatures and for hauling water during the periods that water was not available from the pipe lines. Expenses were further increased during 1949 because of repairs to facilities resulting from deferred maintenance. The Commission staff adjusted expenses for the year 1949 were estimated as providing for reasonable maintenance and operating expenses for this system under normal conditions.

The estimate prepared by the Commission staff for 1950 operations shows slightly lesser gross revenues at present rates but excessive returns if the proposed rates were made effective.

Alspach testified that the present rates were not producing sufficient revenue to pay the expenses; and that if the rates were not increased, he would be compelled to discontinue purchasing water from the so-called Alspach Well source and ration the water available from the Mountain Well source, which now provides only about one-half of the consumer requirement. The quantities of water produced from the two sources of supply and sold during the year 1949 follow:

	<u>Gallons</u>
Mountain Well	3,227,050
Alspach Wells	<u>3,046,595</u>
Total Production	6,273,645
Water Sold	<u>3,568,401</u>
Losses	2,705,244
Per Cent Loss	43.12%

The unusually heavy losses were explained by applicant's witness as being due to breaks in the pipe lines during the winter of 1948-1949, leaks that were difficult to locate, and the dripping of

water in consumers' homes. This witness testified that 25 to 30 gallons of water could be dripped per day through a single service without being registered by the meter. He testified that the company owes him \$11,099, which indebtedness was incurred during the period from October 1, 1948, to February 28, 1950.

Alspach claimed that the rates have not produced sufficient revenues to repay all of the money due him, and, consequently he has been unable to pay for all of the water purchased.

This witness stated that water from the Alspach Wells is obtained in accordance with an agreement between himself and the owners of the wells and the property on which they are located; namely, Mineral Management Corporation of San Francisco. The transmission of the water from the wells to a storage tank at Randsburg is made through 6 miles of pipe lines owned by the Yellow Aster Mining Company, operated and maintained by Alspach under a separate agreement. Supplying water from these wells is expensive since it requires a 600-foot lift at the wells to surface the water and thence a 1,100-foot lift through four booster pumps to applicant's storage tank in Randsburg.

The evidence indicates that there are no other proven sources of water supply having a quality that is acceptable to the consumers or to the Kern County Board of Health.

Alspach asked that a rate of 10 cents per 1,000 gallons be established for the transmission of nonutility water from the Alspach Wells through the utility pipe system for mining and milling use, only when it would not interfere with the regular service. He stated that there is a demand for water from mining interests at a rate that would permit development work in the territory, with the possibility of discovering new ore bodies which would revive the mining industry in that section. The miners would purchase their water from the

Alspach Wells, plus transportation charge. The greater the quantities of water used for mining operations, the cheaper the wholesale price would be to the Randsburg Water Company.

However, because of the extremely high rate now charged for domestic and commercial water service, the request to transport non-utility water for a special industry would result in unfair discrimination against other interests, especially the commercial consumers using large quantities of water. Applicant's request for the special transportation rate, therefore, will be denied.

Applicant contends that the present deposit of \$3.38 to establish credit is not sufficient to cover the bills incurred by new residents in the territory. He claimed that many of these residents came from localities that had ample water supplies and were accustomed to using water freely, and, even after being informed of the high rate, often ran up bills as high as \$25 for the first month before realizing the necessity of restricting the water use. As the monthly minimum charge is \$3, the request for a \$5 deposit to establish credit is not an unreasonable one and applicant may refile its Rule No. 6 providing for the \$5 deposit.

Applicant's request for the establishment of a charge of \$1.50 for moving a meter for a consumer who changes his residence from one premises to another, will be denied. Turning on water service at a new location for an occupant is a routine operating practice and covered in general expenses.

Witnesses for the domestic consumers and the commercial interests protested any further increases in rates on the grounds that the existing rates already have resulted in excessive water charges. Property owners testified that they were losing tenants and had vacant premises because the renters could not afford to pay the water bills. These witnesses urged a reduction in rates in order

to encourage the consumption of water and thereby increase the revenues. They felt any further increase in rates would be against public interest.

Witnesses for the commercial interests protested any further increase in rates on the grounds that this class of consumer could and would provide a cheaper supply by hauling water from springs and wells in tank wagons. These witnesses objected to the salaries of three employees totaling \$750 per month as an excessive and unreasonable charge against 288 consumers. These witnesses also objected to the unusually high water losses of 45% experienced during the year 1949, as the consumers were being penalized in expenses for producing the water. They directed attention to past system losses that varied from a minimum of 21% to a maximum of 33%, during a seven-year period preceding 1949, as a more reasonable measure of what losses should be. They also contended that some of the losses were due to deferred maintenance, resulting from former operators of the system not expending sufficient funds on repairs and replacement of distribution pipe lines but applying system revenues to salaries.

Other witnesses testified that the quality of the water being delivered is very good and since the discontinuance of the Butte Mine water, a saving has resulted to many consumers of at least \$4 per month in not having to purchase bottled water.

The Rand District is confronted with a most serious water supply problem. If the rates are not raised as requested, applicant claims that it will be compelled to discontinue the purchase of water and rely entirely on its Mountain Well supply. This will require rationing as this source produces only approximately one-half of the consumers' demand. However, if the rates are increased, as requested, the commercial interests may decide to haul water for their use, which they could well do, thereby reducing company revenue to such an extent

that applicant would be unable to purchase water. The unaccounted for water losses sustained by the system during 1949 are, no doubt, partly attributable to the consumers' practice of dripping water and indicates what may be expected if a further increase in rates is granted. The territory is also handicapped by a decline in mining activity, which adversely affects the economic stability of the entire area. The opportunities for employment have been reduced, causing labor to move to other localities, reducing the number of consumers. The record shows that some of the local residents work at the U.S. Naval Ordnance Test Station at Ridgecrest but only reside in Randsburg because they are unable to obtain housing located closer to their employment. As previously pointed out, the number of consumers has declined 12% in the last two years. Commercial enterprises in Red Mountain are complaining of the decline in business and of the high water rates, and threaten to provide water service by hauling water from distant sources of supply.

The record shows that the present management has improved the system by relocating and replacing old pipe lines with new ones, and has installed two fire hydrants, the first fire service supplied by the system. However, applicant should realize that continued demands for increases in rates do not necessarily produce increases in revenues, especially where no serious attempt is made to operate either economically or efficiently and the ability of the consumer to pay is ignored.

The operations of this utility, under both present and past management, have been characterized by unreasonably and unnecessarily high operating costs entirely unwarranted in a community already handicapped by adverse economic conditions and industrial reverses. The Commission will permit only the fair and necessary expenses to be included in fixing rates.

The record shows that with the adjusted maintenance and operating expenses submitted by the Commission staff, the requested rates would produce an excessive return. However, applicant is entitled to some relief and the order herein will provide rates that will increase gross revenues approximately \$4,000 annually, resulting in an increase of about 15%, as compared with applicant's request for a 38% increase. The order will result in a rate of return of 4%, adequate pending further hearing of this proceeding and the further order herein.

The major item of expense in this utility's operation is the cost of purchased water. Unfortunately, the evidence is inconclusive and insufficient to warrant a finding on the reasonable costs of this water. On the face of the unsupported expense, however, the charges appear excessive. For this reason, the rates set up in the following order will be temporary, subject to modification after this proceeding is reopened for further hearing to obtain additional evidence on the costs of purchased water and the determination of the reasonableness of the payments made therefor.

In order to make it possible to continue the water supply from the Alspach Wells until a further investigation can be made of the operation of this company, it is hereby found that public interest and necessity require that the effective date of this decision be ten (10) days from the date hereof, and that the rates prescribed herein become effective on July 1, 1950.

O R D E R

Kandsburg Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified; therefore,

IT IS HEREBY ORDERED that the Randsburg Water Company, a corporation, is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, the schedule of interim rates shown in Exhibit A attached hereto, and, after not less than five (5) days' notice to the Commission and the public, to make said rates effective for service rendered on and after July 1, 1950.

IT IS HEREBY FURTHER ORDERED that this proceeding as above entitled be and it is hereby reopened for further hearing for the purpose of taking evidence relating to the costs, charges, contracts, and agreements for purchasing water and to the costs of management of Randsburg Water Company, and for the further purpose of determining whether the interim rates established herein should be continued in effect, terminated, or new and revised rates, rules and regulations established for water service rendered. Such further hearing in the matter shall be had before such Commissioner or such Examiner as may be designated, at a time and place to be determined.

The effective date of this order shall be ten (10) days after the date hereof.

Dated at San Francisco, California, this 21st day of June, 1950.

R. E. Dunderberg

Grant Powell

Harold Kula

Therese W. Lottel
Commissioners.

Schedule No. 2

INTERIM METER RATES

APPLICABILITY

Applicable to all domestic, commercial, and industrial metered water service.

TERRITORY

The unincorporated town of Randsburg and Johannesburg and vicinity in Kern County; and Red Mountain and Atolia in San Bernardino County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Charge:	
First 300 gallons or less	\$3.00
Over 300 gallons, per 100 gallons70
Minimum Charge:	
For 5/8 x 3/4-inch meter	\$3.00
For 3/4-inch meter	4.00
For 1-inch meter	6.00
For 1 1/2-inch meter	9.00
For 2-inch meter	11.00
For 3-inch meter	16.00
For 4-inch meter	25.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the Quantity Rates.