

Decision No. 13122.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SUTTER-BUTTE CANAL COMPANY,)
a corporation, for an increase in)
rates.)

ORIGINAL

Application No. 9478.

Devlin and Brookman, by Douglas Brookman,
Isaac Frohman and Henry Ingram, for
applicant.

George F. Jones, for Butte County Water
Users Association and Butte County Farm
Bureau.

J. M. McGee, in propria persona.

C. W. Somerby, for Biggs Ditch Company.

J. J. Deuel and L. S. Wing, by L. S. Wing,
for California Farm Bureau Federation.

WHITTLESEY, Commissioner:

O P I N I O N

In the above entitled proceeding the Sutter-Butte Canal Company makes application to the Railroad Commission for authority to increase its rates for water supplied for irrigation purposes to lands located in Butte and Sutter Counties, California. It is alleged in effect that the present rate schedule which was established by this Commission in its Decision No. 10372, rendered April 26, 1922, on Application No. 7317, has been effective for the past two irrigation seasons and does not yield the revenue necessary to cover reasonable annual charges for the system.

including the interest return which the above mentioned decision indicated that applicant was entitled to receive. Furthermore, that subsequent to the establishment of the rate base in above mentioned decision of the Commission there have been installed additions and betterments to the physical properties aggregating a cost of approximately \$100,000. Applicant further alleges that in the previous decisions wherein rates have been established for this utility the Commission has regarded the water system and the business as being in the development stage and has not heretofore designed rates to yield the amount of return upon the full value of the property. In this connection applicant contends that its system has passed the so-called development period and that it is now entitled to rates to yield a full return on its investment. The Commission is therefore asked for an order authorizing an increase of 15 per cent. in its rates, even though it may now be entitled to a greater increase should the reasonable rate base be given proper consideration.

Public hearings in this proceeding were held at Gridley and San Francisco, following the usual notification given to all interested parties, testimony was taken and the matter was submitted for decision following oral argument on the issues involved. The stipulation was made that the records and the files in the prior rate proceeding, Application No. 7317, might be considered in evidence in the present proceeding.

The evidence shows that subsequent to the prior rate proceeding, a considerable amount of money has been expended by the utility for additions and betterments to the system and that these expenditures were largely incurred for the completion of the Sutter County Extension Canal system and betterments incidental thereto, the construction of which was started in 1919.

Tabulations of the additions and betterments to fixed capital installed for the period October 1, 1921, to October 1, 1923, were submitted by applicant and showed a net total of \$111,600.67 after making proper deductions for abandonments and retirements. H. A. Noble, one of the Commission's hydraulic engineers, also presented a report which showed the total additions and betterments installed as \$123,951, the retirements and abandonments as \$14,739. Applicant accepted the figures presented by the Commission's engineer without protest.

The following tabulation gives a comparison of the maintenance and operation expenses which have been incurred the past four years, as compiled from the annual reports of the utility to the Commission, except for 1923, which was compiled from 10 months' actual book accounts and two months' estimated expenses.

MAINTENANCE AND OPERATION EXPENSES
(Exclusive of Depreciation Annuity)

ITEMS	1920	1921	1922	1923
Pumping Expenses	\$25296.65	\$22370.31	\$12015.54	\$7721.83
Distribution Expenses	69728.69	61147.99	61757.81	51062.34
Commercial Expenses	2576.79	4301.40	7089.86	3827.99
General Expenses	54137.53	46669.63	55714.42	41236.51
Taxes	14893.25	13796.67	15226.40	19236.51
Fund for Extraordinary Repairs	3000.00	3000.00	3000.00	3000.00
Total Operating Expenses	\$169632.91	\$151286.00	\$154804.03	\$126763.88

It is seen from the above that in 1923 there was effected a considerable reduction in operating expenses over those for the preceding years, in practically all of the items listed, but the

evidence shows that due to different circumstances and conditions obtaining for different years, certain items of operating expense may increase or decrease by considerable amounts.

Pumping expenses may vary from year to year, depending on the seasonal rainfall, the flow in the river and the acreage irrigated in any year that requires a pumped supply. The conditions obtaining in 1923 required a pumping expense of \$7,721, which was considerably less than for any year in the period from 1918 to 1923 inclusive. The item of expense for repairs to distribution canals is an important consideration since the rendering of proper service to the consumers is involved, and this item, covering the expenses for clearing the canals of grass, weeds, etc., and upkeep of structures and canal banks, amounted in 1923 to \$3,428, which was considerably less than normal.

The item of taxes paid for 1923 shows an increase of \$5,440 over that in 1921. Further analysis of operating expenses shows that increases for certain items may be largely offset by decreases for others, by reason of certain expenses not recurring annually or through economies effected in the operation of the system.

While there was a reduction of approximately \$16,000 in general expense for 1923 as compared with 1922, there was no appreciable reduction in salaries or in office and legal expenses. The reduction in distribution expense was largely made up by the saving on supplies and expenses and about \$2,000 was in labor.

In view of the reduced income suffered by the company, chiefly due to the restricted planting, it is necessary for the management to cut down all operating expenses as low as possible and further reduction may have to be made in operating labor, salaries and other items of general expense, to offset possible necessary increases in repairs and pumping costs.

The total maintenance and operating expenses should be held as nearly to \$125,000 as possible, and the allowance of \$133,000, made by the Commission in Decision No. 10372 in the prior rate proceeding, is liberal.

In the annual charges allowed in Decision No. 10372 in the prior rate proceeding, the Commission included the sum of \$19,000 for a depreciation annuity, the computations being made on the 6 per cent. sinking fund basis. Adjusting this sum for subsequent additions and betterments and for replacements and abandonments, computations for which were submitted in the evidence, a total of \$19,452 is obtained as a reasonable depreciation annuity to allow in this proceeding.

The rate base which this Commission used for the purpose of the prior rate proceeding totalled \$1,655,009. Careful consideration of all the elements affecting the matter leads to the conclusion that the sum of \$1,739,313 is a reasonable rate base for the purpose of this proceeding.

The gross revenues for the past three years and the sources from which obtained, together with the acreage charged, are given in the following table. It is noted that the rates at present in effect as established in Decision No. 10372 were charged for the years 1922 and 1923, but for the year 1921 the rates which these had superseded were charged and collected.

ACREAGE CHARGED AND RESULTING REVENUE
FOR THE PAST THREE YEARS

SOURCE OF REVENUE	1921		1922		1923	
	Acres	Revenues	Acres	Revenues	Acres	Revenues
<u>At Non-Contract Rate:</u>						
Rice Irrigated	23,368	\$164,204	22,164	\$173,414	15,588	\$121,834
Other Crops Irrigated	618	1,545	929	2,246	1,318	2,931
Totals	23,986	\$165,749	23,093	\$175,660	16,906	\$124,765
<u>At Contract Rate:</u>						
Rice Irrigated	5,382	\$27,873	5,963	\$36,111	5,149	\$31,543
Other Crops Irrigated	17,339	34,578	13,630	31,253	9,726	22,396
Totals	22,721	\$62,451	19,593	\$67,364	14,875	\$53,939

SOURCE OF REVENUE	1921		1922		1923	
	Acres	Revenues	Acres	Revenues	Acres	Revenues
<u>Contract Acreage</u>						
<u>Charged but Not</u>						
<u>Irrigated:</u>						
No portion of tract irrigated	5,900	\$11,800	10,094	\$23,216	15,726	\$36,170
Where part of tract irrigated	*4,000	8,000	*4,000	9,200	*3,533	8,126
Totals	9,900	\$19,800	14,094	\$32,416	19,259	\$44,296
GRAND TOTALS	56,607	\$248,000	56,780	\$275,440	51,040	\$223,000

* Approximate segregation of this acreage.

Comparing the gross revenues for the past two years, that obtained in 1923 totalled \$223,000, being \$52,440 less than the year 1922, with the same rates charged. This falling off in revenue in 1923 is largely accounted for by the reduced acreage planted to rice. The greater portion of the annual income of this utility for a number of years past has been derived from the rice acreage irrigated, which for the past three years has averaged about 74 per cent. of the utility's total revenue. Considering the yield of the present rate schedule, it appears that for 1922, after allowing the necessary operating expenses and depreciation annuity there was available for interest return an amount equivalent to 7 per cent. on the foregoing rate base and by similar computation an amount for 1923 equivalent to approximately 4 per cent.

As shown in the foregoing tabulation the acreage irrigated to rice is susceptible to great fluctuation from year to year and is the most important factor for consideration as regards probable revenue which the utility may expect to receive.

Considering the actual use of water from the system as indicated by the acreage irrigated, excluding the area charged for but not irrigated, the following figures, compiled from the evidence, indicate the segregation as to crops and also as to the total area irrigated on

the Sutter County extension and that outside of the territory served by this extension:

ACREAGE IRRIGATED

Kind of Crop	: 1918	: 1919	: 1920	: 1921	: 1922	: 1923
<u>Outside Sutter Co. Extension:</u>						
Acres in Rice	21000	21000	22680	15982	15776	11082
Acres in Other Crops	16908	17934	21979	17832	14434	10855
<u>Sutter County Extension:</u>						
Acres in Rice	---	---	4320	12768	12351	9655
Acres in Other Crops	---	---	---	125	125	189
Total Acreage Irrigated	<u>37908</u>	<u>39934</u>	<u>48979</u>	<u>46707</u>	<u>42686</u>	<u>31781</u>
Total Acreage in Rice on System	21000	21000	27000	28750	28127	20737

The general practice in cultivating rice is to rest the land for one or more years after three years' cropping in order to eradicate water grass and other weeds. Rotation of crops is also practiced in order to increase the crop yield. The evidence shows that rice being an annual crop the total acreage planted may vary widely for different years due to market demands and prices at which the crop may be sold.

The company bases its request for an increase of 15% in rates upon the results for the year 1923 which, in spite of the previous increase in rates, shows the smallest net return upon the investment which the company has received.

It is obviously incorrect to use such insufficient data in establishing rates for irrigation service. As stated by a witness for the company, "We have no way of ever predicting the business for the coming year with any degree of accuracy because it depends so much on the price of rice". And quoting again from the same witness, "The average of a certain number of years should give us a fairly clear indication of what the future is to be". An increase of 15% in the acre-

age would yield approximately the same return as the 15% raise in rates which the company has requested.

If the planting in 1924 should equal the average acreage planted in each class of crops over the past four years, the revenue at present rates would be \$261,000. Deducting operating expense of \$133,000 and \$19,452 for depreciation the net return on the rate base of \$1,739,313 would be 6%. While no prediction is offered by the Commission as to the future planting, it is recognized that it will depend largely upon the price of rice. But application for water must be made in advance of definite information on the price for rice next fall, and any increase in the rate schedule would undoubtedly discourage planting.

Under the peculiar conditions which pertain in this case, I am convinced from the experience of the past years as indicated by the evidence in this proceeding, that the increase of rate requested by the Sutter-Butte Canal Company at this time would result in a decrease of revenue to the company. Furthermore, it has been indicated in the preceding paragraph that based upon an average of the areas irrigated during the past four years this utility would at the present rates receive revenues sufficiently large to care for maintenance and operation expense and depreciation annuity, and in addition would receive an average rate of return of six per cent. upon a reasonable rate base. Under the circumstances such a rate of return cannot be considered unreasonably low, nor is an increase in rates justified at this time.

I therefore submit the following form of order:

O R D E R

The Sutter-Butte Canal Company having applied to this Commission for an order authorizing an increase in its rates, public

hearings having been held thereon, the matter having been submitted, and the Commission being now fully informed in the matter,

It Is Hereby Found as a Fact that the rates now charged by Sutter-Batte Canal Company, a corporation, are just and reasonable; and basing the order upon the foregoing finding of fact and upon the statements of fact contained in the opinion preceding this order,

IT IS HEREBY ORDERED that this application of the Sutter-Batte Canal Company (for increase in rates) be and it is hereby denied.

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 6th day of February, 1924.

H. B. Bunnice

Dwight Masters

J. T. Whittsey
Commissioners.