

Decision No. 37776

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of
 NORTH FORK DITCH COMPANY, a corporation,
 for an investigation by the Railroad
 Commission of the reasonableness of the
 rates and charges of said corporation
 and, following such investigation, for
 an order establishing just and reason-
 able rates and charges.

Application No. 24885

C. F. Mettseer and L. K. Jordan, for Applicant.

Frank F. Alkinson and Guy L. Camden,
for Fair Oaks and Citrus Heights Irrigation District.

William A. Sitton, for Orangevale Water Company.

J. J. Deuel, for California Farm Bureau Federation.

Mrs. J. B. Davis, for certain petitioning water users.

BY THE COMMISSION:

O P I N I O N

North Fork Ditch Company, a corporation, engaged in the business of
 supplying water for irrigation purposes to approximately 15,000 acres of
 agricultural lands situate in Placer and Sacramento Counties, asks the Commission
 to establish just and equitable rates for the service furnished. The application
 alleges that the present rates do not produce sufficient revenue to provide
 maintenance and operation expenses and a return on the investment in its utility
 property.

The company has given the requisite notice to the Office of Price
 Administration of its application to the Commission for a rate adjustment.

Public hearings in this proceeding were held before Examiner William
 Stava at Sacramento,

The water supply for this system is obtained by diversion from the North Fork of the American River, approximately two miles southeast of the City of Auburn, Placer County. Applicant has an established right to 3,000 miner's inches of water which is equivalent to a flow of 60 cubic feet per second. The main ditch was constructed in the early fifties to convey water for hydraulic mining purposes. It is twenty-five miles long and extends from the masonry diversion dam to what is known as Penstock Reservoir in Sacramento County. There are two other regulating reservoirs located along the canal and they have a combined storage capacity of 355 acre feet. The water is distributed through 3.22 miles of lateral ditches and 19.31 miles of transmission and distribution pipe lines that vary from 2 to 36 inches in diameter.

The company supplies water from its ditches and pipe lines to 120 consumers at retail rates. These users irrigate approximately 1,500 acres of land, which are largely planted to orchards and general crops. Water is also supplied at wholesale rates to the Fair Oaks Irrigation District, Citrus Heights Irrigation District, both public corporations, and Orangevale Water Company, a mutual organization. Prior to 1941, water was also sold at a wholesale rate to the Carmichael Irrigation District. The wholesale water is delivered through the company's steel transmission pipe lines from its Penstock Reservoir to a point at or near the service area boundaries of these organizations where it is measured. The districts and the mutual company have a combined gross area of approximately 10,400 acres. Of this area, 8,800 acres are irrigated and are planted to orchards and general crops. All three of these organizations also furnish all year domestic service to their residents with water obtained from the company. During 1943, applicant sold a total of 2,070 miner's inches of water, of which 250 inches were delivered to the retail consumers and 1,820 inches to the wholesale users.

The rates at present in effect were established by the Commission in its Decision No. 8812, dated March 31, 1921, and are as follows:

Water delivered to consumers on the main ditch and laterals, per miner's inch per year	\$35.00
Water delivered at Penstock Reservoir, where collections therefor are from one consumer, per miner's inch per year	20.00
For domestic service, per month, per consumer	1.00

Note: The term "miner's inch" used herein means one-fiftieth (1/50) cubic foot per second.

A miner's inch continuous flow on the above basis, produces 14.48 acre feet per year, or 7.24 acre feet for six months which is the normal irrigation season on this system.

Mr. L. K. Jordan, engineer and manager for the company, presented a report showing the average results of operation of the system for the ten-year period, 1934 to 1943, inclusive, and also for the year 1943. He showed a fixed capital investment as of December 31, 1943, of \$625,428, and accrued depreciation of \$160,674, arriving at a depreciated value for rate purposes of \$464,808. Depreciation allowance in the sum of \$10,000 was computed by the straight-line method. However, the expenses for 1943 as well as prior years contained an annual payment of \$12,600 for interest at 6% on a funded debt of \$210,000. Adjusting the expenses for this item, Mr. Jordan's results of operation are as follows:

	10 Year Average <u>1934-43</u>	Year <u>1943</u>
Operating Revenues	\$ 48,149	\$ 45,694
Operating Expenses	37,014	37,334
Net Operating Revenues	11,135	8,360
Historic Cost Less Depreciation	450,811	464,808
Rate of Return	2.47%	1.8%

Mr. Jordan reviewed the operations of the company since the present rates were established in 1921. Water sales of 1,815 miner's inches in that

year increased to a maximum of 2,464 inches in 1930 and declined to 2,045 inches in 1943. Revenues reached a maximum of \$56,056 in 1930. The operating expenses, however, have averaged the same as 1943 during this period. A marked drop in water sales occurred during 1933, following the freeze of the previous winter which seriously damaged the orchards. The decline in the fruit prices during the depression resulted in the abandonment of many orchards and further reduced the demand for water. A further reduction in water sales occurred during 1941 when the Carmichael Irrigation District installed a well and pumping equipment to provide an independent source of water supply. It ceased to take water from the company at that time. The Fair Oaks Irrigation District also developed a well supply during the same year and reduced its peak demand for water purchased from the company.

Since 1921, the company has installed \$400,475 in additions and betterments and retired \$63,322 of worn out property, leaving \$337,153 as the net capital added to the system. The additions to capital consisted of a \$60,000 regulating reservoir; \$30,000 in enlarging the main canal; \$100,000 in lining the main canal; and the balance in structures, distribution pipe lines and ditches. The reservoir provided storage and, together with the ditch lining, enabled the company to provide continuous service; eliminate interruptions caused by breaks in its canal, and reduced seepage and leak losses to a minimum. The lining was installed at a rate of one-half mile per year in conformance with the recommendations made in the Commission's Decision No. 12626, dated September 18, 1923. At that time the main canal was in poor condition, particularly in the American River Canyon section, and was continually breaking and interrupting water deliveries. The leakage at that time reduced the available water supply to such an extent that deliveries were materially reduced during period of heavy demands, resulting in damage to fruit crops. These conditions brought about a complaint by the districts which resulted in the above mentioned decision of the Commission.

A report covering a study of the company's operations was prepared by R. S. Melvin and R. W. Hawley, two of the Commission's engineers, and was presented by Mr. Hawley. The report shows the results of operation of the system for a five-year period, 1939 to 1943, inclusive. The fixed capital was on a historical cost basis and was brought up to date by additions and retirements from the valuation made in connection with Application No. 1524 (9 CRC 347). The depreciation allowance was computed by the sinking fund method at 5%. A summary of the results of operation for the five-year period follows:

: Year :	Adjusted : Fixed : Capital :	Adjusted : Revenues :	Adjusted : Expenses :	Net : Operating : Revenue :	Rate : of : Return :
1939	\$586,627	\$48,730	\$29,969	\$18,761	3.20%
1940	590,939	50,310	30,216	20,094	3.40
1941	599,627	46,465	29,629	16,836	2.81
1942	607,657	46,545	27,418	19,127	3.15
1943	620,525	45,636	29,527	16,109	2.60

The operating revenues and expenses were also normalized for the immediate future under present conditions, and the operations segregated between the wholesale and retail service. The results of normalized operation of the entire system and the segregated properties are as follows:

: Items :	: For 1943 as Normal Year :		
	: Entire : System :	: Wholesale : Customers :	: Retail : Customers :
Operating Revenues:			
From sales of water	\$ 45,213	\$ 36,133	\$ 9,080
Operating Expenses:			
Transmission and Distribution	12,577	11,068	1,509
General and Miscellaneous	7,459	6,564	895
Operating Taxes	4,181	3,268	913
Sinking Fund Annuity (5%)	5,310	4,102	1,208
Total Operating Expenses	\$ 29,527	\$ 25,002	\$ 4,525
Net Operating Revenue	\$ 15,686	\$ 11,131	\$ 4,555
Rate Base:			
Average, Adjusted, Undepreciated	\$628,907	\$487,506	\$141,401
Rate of Return	2.49%	2.28%	3.22%

The testimony of witnesses concerning the operating expenses differed only in a few respects. Mr. Jordan claimed that the estimate of the Commission's engineers in normalizing expenses was based on present operations and did not cover normal conditions. He stated that owing to reduced revenues and unstable labor and material conditions, considerable deferred maintenance had accumulated which had to be made up within the next two years. Mr. Jordan claims that \$3,439 should be added to the expenses estimated by the Commission's engineers for the year 1943. After a consideration of the evidence, it must be conceded that some items of expense for that year are below average. One item of about \$700 should be allowed for amortization over a twenty-year period of an extraordinary ditch cleaning expense of \$13,955 incurred during the winter of 1927-1928 to cover flood damage. The Commission had expressly permitted such an accounting disposition of this item. Including this and other expenses deemed reasonable, it is believed that at least \$2,000 should be allowed in addition to the \$29,527 shown for the year 1943. This increase in expense will reduce the Commission engineers' estimated return under normalized operation from 2.49% to 2.18%.

Mr. Jordan contended that the sinking fund method of computing depreciation was unfair to the company as it does not earn a 5% return. He stated that the straight-line method used by the company more closely approached its actual experience with the various types of depreciable property in its system. However, as the company and the Commission's engineers used approximately the same lives, the resulting rate of return for the year 1943 by either method would be substantially the same if operating expenses were on a comparable basis.

The position taken by counsel and witnesses for the customers is that the company has a water supply and installed facilities in excess of the present demands and therefore it should not be permitted to earn a full return on its investment. They contend that the solution of the company's financial difficulties is not an increase in rates, but in developing a market for its unsold water by

extending its distribution pipe lines into unirrigated territory. They pointed out that the districts were fairly well developed and could not be counted on for an expansion of service area or for a material increase in demand for water. The Carmichael District, which formerly purchased water from the company at \$20 per inch, and also had to bear an additional cost of \$9.00 per inch charged by the Fair Oaks District for transporting the water through its pipe lines, was able to develop a supply of well water costing \$19.28 per inch.

Witnesses for Fair Oaks and Citrus Heights Districts stated that their wells were installed primarily to supply water for about three months of peak summer demand as their own pipe lines could not provide sufficient quantities of water in certain sections of the service area. The well supply permitted Fair Oaks District to make a reduction of 100 inches of water purchased from the company but Citrus Heights District had to buy a slightly greater quantity than normal because of an increased demand by its users.

The Orangevale Company is the only one of the wholesale customers that offers any possibility of increasing its water use, as it is planning to extend its distribution lines to lands within its boundaries that have not been supplied before. Witnesses stated that there are approximately 7,300 acres of other lands adjoining the service area of the company that are suitable for irrigation and can be served by an extension of its pipe lines. There are also 8,000 acres of unirrigated lands adjoining the two districts' and the Orangevale Company's service area that could be served by these organizations if their boundaries were enlarged. However the extensions of service by either the company or the wholesale customers will require a substantial investment in pipe lines.

Mr. Jordan testified that he had thoroughly canvassed the undeveloped lands adjoining the company's service area for the purpose of selling water and had planned a pipe line extension to service those areas where some sales were assured.⁽¹⁾ He stated that the company had installed almost all of the improvements to the system in order to provide the wholesale consumers a continuous and

(1) The Commission in its Decision No. 37630, dated January 23, 1945, authorized the company to execute a note for \$30,000, of which \$20,000 is to be expended in extension of pipe lines.

dependable service. He admitted that if the sales to the districts continued on the present reduced basis, the company will be compelled to develop another market for its water supply, but he feels that during the interim the districts should contribute sufficient revenue to maintain the standby service the company is furnishing them. He claimed that the company has consistently furnished the wholesale users more water than they had ordered or paid for during periods of peak demands.

It is evident that the company's revenues have suffered a material reduction because of the lessened sales of water to the districts since they developed independent sources of supply. The indications are that such trend may continue, particularly if the company's rates are materially increased. On the other hand, a possibility exists that there will be an increased demand for water within the territory not presently served. The company cannot hold its supply of water and its facilities as a mere standby for the districts without adequate compensation. Although it would appear that any increase now made in the rates should fall primarily upon such wholesale customers, it seems advisable at the present time to authorize limited increases for both wholesale and retail service. Any other action might result in a still greater reduction in the wholesale demand.

The company is clearly entitled to some increase in revenue if it is to be maintained in a solvent financial position. Its interest requirements on money borrowed to make necessary improvements amount to \$12,600 annually. The adjusted net revenue of \$15,686, shown in the exhibit presented by the Commission's engineers, when operating expenses are corrected to include \$2,000 to cover omitted items, would be reduced to \$13,686. An increase of \$2.00 per inch in the wholesale rate would add about \$3,600 additional revenue, and a like increase in the retail rate would add \$500 more. The company's net return would then be not much more than 2-3/4%. Under the circumstances the increases in irrigation charges appear to be justified and they will be established in the following Order.

The company has asked also for an increase in the rate for water furnished its domestic consumers. The present rate provides for a charge of \$1.00 per month and an allowance of 7,500 gallons, or 1,000 cubic feet, is made for domestic water from irrigation deliveries, as both are often delivered through the same meter. Mr. Jordan testified that the charges of the districts and of the Orangevale system varied from \$24 to \$35 per year for a similar service, and as there is an increasing demand for domestic water, he felt that the company's rate should be adjusted to more closely conform to the rates in effect in the vicinity. As the evidence shows that there is a demand for this class of service, a schedule of rates will be established in the following Order that will permit the delivery of domestic water as an independent service..

The districts made an issue of the fact that the company does not hold itself out to furnish water for domestic purposes and a contract was presented under which the company's predecessor in interest had obligated itself to furnish this class of service. In actual practice the company supplies domestic service as an incidental part to its irrigation deliveries.. The only continuous domestic service is furnished from the pipe lines leading from the Penstock Reservoir as they are under pressure all year.. The regulating reservoirs serve as settling and storage basins and a reasonably clear water is delivered throughout the year. The company claims that it is not financially able to provide a fully treated water, and if such a water were provided, the districts could not afford to use it for irrigation. In order that there may be no misunderstanding concerning the quality of the water delivered, the company should include a statement in its rules and regulations governing its domestic sales, that untreated water only is being furnished..

A request was made at the hearing in behalf of a group of water users for improved domestic water service in the area supplied by the Rose Springs Canal and pipe lines.. Water is diverted from the main canal above the company's reservoirs and it is impossible to provide service every day of the year as the water level in the canal fluctuates during normal operations and is subject to

interruptions from breaks during the summer and shutdowns during the winter for canal cleaning. These users purchase irrigation water and obtain whatever domestic service is available throughout the year. However, the company proposes to extend a pipe line from its Cardwell System that will connect to the Rose Springs pipe lines. The water will be supplied from the Penstock Reservoir and these domestic customers will then receive continuous service throughout the year.

The company will be relieved of the obligation of lining one-half mile of its main canal each year. Future new lining should only be installed in those sections of the canal that will protect it against dangerous breaks, excessive seepage losses and leakage.

O R D E R

Application as entitled above having been filed with the Railroad Commission, public hearings having been held thereon, the matter having been duly submitted and the Commission being now fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the wholesale and domestic rates as now charged by North Fork Ditch Company, a corporation, for water supplied to its consumers in Placer and Sacramento Counties, are unjust and unreasonable in so far as they differ from the rates herein established and that the rates herein established are just and reasonable rates to be charged for the services rendered, and basing its Order upon the foregoing findings of fact and upon the statements of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that North Fork Ditch Company, a corporation, be and it is hereby authorized and directed to file, in quadruplicate, in conformity with this Commission's General Order No. 96, within twenty (20) days from the date of this Order, the following schedules of rates to be charged for all water service rendered subsequent to April 1, 1945:

Schedule No. 1

IRRIGATION SERVICE

Rates:

Water delivered to consumers from the main ditch and laterals, per miner's inch, per year \$37.00

Water delivered from Penstock Reservoir, where collections therefor are from one consumer, per miner's inch per year 22.00

The term "miner's inch" used herein, means one-fiftieth (1/50) cubic feet per second.

Schedule No. 2

DOMESTIC SERVICE

UNTREATED WATER - MEASURED SERVICE

Rates:

Per Meter
Per Month

Monthly Quantity Charge:

First 1,000 cubic feet	\$1.50
Next 4,000 cubic feet, per 100 cubic feet10
Next 5,000 cubic feet, per 100 cubic feet075
Over 10,000 cubic feet, per 100 cubic feet05

Monthly Minimum Charge:

5/8 x 3/4 inch meter	\$1.50
3/4 inch meter	2.50
1 inch meter	4.00
2 inch meter	8.00

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

For all other purposes the effective date of this Order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco California, this 3rd day of April, 1945.

Harold Rudson
Justice J. Colver
Richard Kachse
Howard E. Gyon
Irving H. Howell