

Decision No. 40196

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
NORTH FORK DITCH COMPANY,
a corporation, for an investigation by
the Public Utilities Commission of the
reasonableness of its rates and charges
and for an order establishing just and
reasonable rates and charges.

ORIGINAL

Application No. 27667.

Downey, Brand, Seymour and Rohwer,
by Harry B. Seymour, for Applicant.

Elliott, Atkinson and Sitton,
by William A. Sitton, for Fair Oaks Irrigation
District, Citrus Heights Irrigation District,
and Orangevale Water Company, Protestants.

J. J. Deuel and Edson Able, by Edson Able, for
California Farm Bureau Federation.

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 situated in Placer and Sacramento Counties, asks the Commission to establish just and equitable rates for the service rendered. Applicant alleges that the present rates do not produce sufficient revenue to provide operating and maintenance expenses and a reasonable return on its investment in utility property, and that earnings have never been sufficient to allow payment of any dividends to its stockholders.

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

Applicant has an established right to 60 cubic feet per second of water from the North Fork of the American River and a diversion right to an additional 35 cubic feet per second. The water supply is diverted by a masonry dam located

approximately two miles southeast of the City of Auburn in Placer County, and is conveyed through twenty-five miles of main canal to the Penstock Reservoir. There are two other regulating reservoirs along the canal. Water is distributed from the reservoirs and main canal and also through two miles of lateral ditches and 24.67 miles of pipe lines varying from 3/4 to 32 inches in diameter.

The rates at present in effect were established by the Commission in its Decision No. 37776, issued April 3, 1945. The irrigation rates provide for a yearly charge of \$37.00 per miner's inch for water delivered from the main ditch and laterals referred to as retail rate and a yearly charge of \$22.00 per miner's inch for water delivered from Penstock Reservoir, referred to as wholesale rate. Retail service is supplied to 170 customers for residential and domestic purposes and for the irrigation of 1,500 acres of orchards and general crops. The wholesale service is furnished to Fair Oaks Irrigation District, Citrus Heights Irrigation District, both public corporations, and Orangevale Water Company, a mutual organization. The total gross area of these three wholesale customers is 10,400 acres, approximately 80% being irrigated orchards and general crops. Besides irrigation these three organizations also furnish domestic water service throughout their respective service areas throughout the entire year. Fair Oaks District has two wells producing supplemental water during periods of peak demand. Applicant also serves untreated water to customers for domestic purposes at a monthly rate of \$1.50 for 1,000 cubic feet of water. Excess use charges are reduced through two blocks to 5 cents per 100 cubic feet for quantities over 10,000 cubic feet. The total deliveries for 1946 were 3,199 miner's inches, - 1,850 inches going to the wholesale purchasers.

Mr. L. K. Jordan, manager of the Company, presented exhibits showing the results of operation of the system for the years 1944 to 1946, inclusive, as follows: Fixed capital as of December 31, 1946, \$685,171, accrued depreciation \$183,369, depreciated value \$501,802, depreciation annuity by the straight line method which totalled \$12,874 for 1946.

These exhibits included in operating expenses interest payments varying from \$12,600 in 1944 to \$14,364 in 1946 on a funded debt amounting to \$210,000

in 1944 and \$250,000 in 1946. Deducting the interest payments from operating expenses, Mr. Jordan's results of operation for the three years are as follows:

	Year 1944	Year 1945	Year 1946
Historic Cost less Depreciation	\$461,144	\$493,808	\$501,802
Operating Revenues	44,870	52,258	55,384
Operating Expenses	27,744	28,578	37,099
Depreciation Allowance	10,470	11,401	12,874
Total Operating Expense	38,214	39,979	49,973
Net Operating Revenue	6,656	12,279	5,411
Rate of Return	1.44%	2.49%	1.08%

Mr. Jordan testified that the net revenues produced during each of the above years were less than the annual interest payment on the funded debt by \$5,943 for the year 1944, \$556 for 1945, and \$2,951 for 1946. He also stated that the approximate increase of \$10,000 in operating expenses for the year of 1946 over the year 1945 was due principally to necessary increases in wages and salaries. Operating revenues showed an increase during the last two years above because of a rate adjustment granted by the Commission in 1945. A comparison of water deliveries and revenues for the three-year period follows:

Year	Water Sales			Total Revenues
	Retail Inches	Wholesale Inches	Total Inches	
1944	265.74	1,750	2,015.74	\$44,870
1945	314.57	1,800	2,114.57	52,258
1946	350.74	1,850	2,200.74	55,384

The Company manager stated that he anticipated new business to the extent of 30 inches in retail sales and some increase in wholesale demand from the expanding development of the territory. However, he stated that additional new revenue would still be insufficient to maintain the company's credit and meet the increased costs of operation without drastically impairing service.

A report on the company's operations was prepared by R. S. Malvin, Verner R. Muth and John D. Reader, engineers of the Commission and was presented by Mr. Muth. The report shows the system performance for a three-year period,

1945 to 1947, inclusive, and three months of 1946 and all of 1947 being estimated. The fixed capital on the basis of estimated historical cost was brought up to date by net additions and betterments from the valuation made by the Commission's engineers and submitted in connection with Application No. 1524, Decision No. 3165, dated March 17, 1946 (Vol. 9 CRC 347). The depreciation allowance was computed by the sinking fund method at 5%. A summary of the results of operation for the three year period follows:

Year	Fixed Capital Avr. Rate Base	Operating Revenues	Operating Expenses	Net Operating Revenue	Rate of Return
1945	\$660,038	\$52,258	\$32,416	\$19,842	3.01%
1946	687,333	55,233	40,500	14,733	2.14%
1947	714,791	56,609	42,517	14,092	1.97%

The rate base, revenues and expenses were segregated for the years 1945, 1946 and 1947, between the wholesale and retail customers, as follows:

WHOLESALE CUSTOMERS

Item	Year 1945	Year 1946	Year 1947
Average Rate Base	\$500,785	\$510,263	\$528,676
Operating Revenues	39,600	40,700	41,800
Operating Expenses	26,443	33,196	34,859
Net Operating Revenues	13,157	7,504	6,941
Rate of Return	2.63%	1.47%	1.31%

RETAIL CUSTOMERS

Average Rate Base	\$159,252	\$177,070	\$186,116
Operating Revenues	12,658	14,533	14,809
Operating Expenses	5,973	7,304	7,658
Net Operating Revenues	6,685	7,229	7,151
Rate of Return	4.20%	4.08%	3.84%

The principal differences in the testimony on operation costs lies in the use of the straight line and sinking fund methods of computing depreciation and in the amortization of the extraordinary expenses incurred by the company as the result of the flood of 1927-1928, amounting to \$13,995. Heretofore the Commission authorized the amortization of this expense over a period of 20 years. This procedure was not followed; the company is now writing this item off over a

five-year period at the rate of \$2,799 per annum. The Commission's engineers set up the sum of \$700 per year for this item spread over the twenty-year period.

Comparison of these two major items of differences is as follows:

	Company		Commission	
	1945	1946	1945	1946
Depreciation	\$11,401*	\$12,874*	\$5,937**	\$6,161**
Extraordinary Expense	2,799	2,799	700	700
Total	\$14,200	\$16,673	\$6,637	\$6,861

Note: *Straight Line.
**Sinking Fund at 5%.

Witnesses representing the consumers and the several consumer organizations and wholesale water purchasers contended that costs of labor and materials have reached their peak and that the prices of all farm products have decreased substantially and are now on a downward trend, that any further increase in water will result in a decreased use of water, abandonment of much agricultural production, with the ultimate loss of farms and houses by many ranchers.

Counsel for protestants claimed the company's operating practices and construction program were inefficient and in proof thereof presented the following statistical comparison:

	Average			
	:1927-1932 Inc.:	1944	1945	1946
Fixed Capital	\$406,811	\$461,144	\$493,808	\$501,802
Operating Revenue	55,085	44,895	52,273	55,386
Operating Expenses	35,242	38,213	39,979	49,973
Net Operating Revenue	\$ 20,843	\$ 6,682	\$ 12,294	\$ 5,413
Water sales (Miner's inches)				
Retail	423	266	315	351
Wholesale	1,992	1,750	1,800	1,850

Upon the basis of the above figures counsel for protestants claims that the increase in revenues granted in 1945 by the Commission failed to yield increased net revenues.

The record shows that the territory served by applicant and also the service areas of the two districts and the mutual water company are in a stage of transition. Farms and ranches are being subdivided into smaller parcels for

residential and small acreage suburban farms. Much of the land formerly irrigated is now devoted to cattle and other stock raising. Common labor cost in the thirties was 30 cents per hour but in 1944 was 75 cents, and is now \$1.25. Since 1921 the company has expended \$467,383 in capital improvements, \$76,293 in replacements was retired, leaving net additions and betterments of \$391,090. The marked increase in operation expenses in 1946 over the preceding year, of \$49,973, compared with \$39,979, is attributable entirely to labor and to the increased costs of materials and supplies.

The new improvements were necessary to line ditches, replace pipe lines and extend service to meet the demand of the increasing population. The record shows not only that the improvements were well engineered and economically installed and constructed but have resulted in a remarkable saving in water losses in transmission and a highly dependable and adequate delivery of water to the full extent of the utility's entitlement to divert water from the North Fork of the American River. The operating practices of the management have not been extravagant as charged by certain protestants, but on the contrary, have been most efficient, expenditures having been held to the lowest practicable minimum compatible with the rendition of proper service. Emergency repairs necessitated by flood waters have been made under adverse conditions with dispatch. In spite of these facts it is clear that this company cannot maintain the sound financial condition necessary to provide the service now demanded under the yield of the present schedule of rates. The increase of \$3.00 per miner's inch requested is estimated to be \$5,700 from wholesale consumers. The additional retail-consumer revenue should amount to \$1,065. The total net revenue for 1947 under the rates proposed is estimated to be \$20,883, resulting in a net return of 2.92% on the average estimated rate base of \$714,791 for 1947. This compares with the net return of 2.14% for the year 1946.

Under the circumstances the rates requested will be established in the following Order:

ORDER

Application as entitled above having been filed with the Public Utilities 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 retail irrigation 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 irrigation service rendered subsequent to the first day of May, 1947:

Schedule No. 1
IRRIGATION SERVICE

Rates:

Water delivered to consumers from the main canal and laterals, per miner's inch, per year.....\$40.00
Water delivered from Penstock Reservoir, where collections therefor are from one consumer, per miner's inch per year.....\$25.00
The term "miner's inch" used herein is the equivalent of one-fiftieth (1/50) cubic foot per second.

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

Dated at San Francisco, California, this 22nd day of April, 1947.

Harold P. Hill
Frank Russell
A. J. ...
...
Commissioners