

ORIGINAL

Decision No. 41766

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
 PACIFIC GAS AND ELECTRIC COMPANY, a
 corporation, for an order of the
 Public Utilities Commission of the
 State of California granting and
 conferring upon applicant all neces-
 sary permission and authority to
 carry out the terms and conditions
 of a written agreement with
 C. L. GRANDBOIS and J. E. McLAUGHLIN,
 co-partners, dated October 25, 1947,
 (Exhibit "A" hereof).

Application No. 28853

Ralph W. DuVal, for Pacific Gas and Electric
 Company; John Spencer, for C. L. Grandbois
 and J. E. McLaughlin, owners of Jackson Water
 Works; Marian F. Chichizola, for Hazel M.
 Chichizola, operating Jackson Gate Water Works;
 G. G. Chisholm, as City Attorney for City of
 Jackson and as District Attorney for County
 of Amador.

O P I N I O N

In this proceeding Pacific Gas and Electric Company, a
 corporation, requests the necessary permission and authority to
 carry out the terms of an agreement dated October 25, 1947, with
 C. L. Grandbois and J. E. McLaughlin, co-partners operating under
 the fictitious firm name of Jackson Water Works, which agreement
 relates to the sale and purchase of water for resale purposes to
 consumers of the Jackson Water Works in and near the city of
 Jackson in Amador County. This agreement is effective for a period
 of three years, and thereafter until terminated by 30 days' written
 notice given by either party thereto to the other.

(1) Hereinafter sometimes called the company.
 (2) Hereinafter sometimes referred to as the co-partners.

Application No. 29097, filed with this Commission, concerns a somewhat similar agreement dated January 31, 1948, between the Pacific Gas and Electric Company and Hazel M. Chichizola, operating under the fictitious firm name of Jackson Gate Water Works.

A public hearing in these two matters was held in Jackson before Examiner Foster and, by stipulation among all interested parties thereto, both proceedings were consolidated for the taking of evidence and for final decision. However, separate decisions will be rendered.

Over fifty years ago, the company or one of its predecessors acquired the system of the Blue Lakes Water Company, and since then has delivered water continuously to the Jackson Water Works for resale purposes. The company's water system serves customers directly from canals. The company has never had a published rate for resale service in this area. Certain larger customers have contracts.

Since 1916 the company has furnished water to the Jackson Water Works at a contract rate of 20 cents per miner's inch day. ⁽³⁾ In 1945 the present owners of the Jackson Water Works entered into a contract with the company for the purchase of water at the same rate. The 1945 contract was for a period of one year, and continuing thereafter until terminated by 30 days' notice by either party. Late in 1946 the co-partners commenced certain improvements in their system, and requested a change in the point of delivery of water by the company. The company had been concerned about the revenues from water service in the area, and deemed the time opportune for a reconsideration of the rates for this particular service.

(3) A miner's inch, as used herein, means a continuous flow of water equivalent to 1/40 of a cubic foot per second, or 1.5 cubic feet per minute. A miner's inch day means one miner's inch flow continuously for a period of 24 consecutive hours.

Acting under the 1945 contract, on January 6, 1947 the company exercised its option of cancellation, to take effect 30 days after January 31, 1947, or on March 3, 1947.⁽⁴⁾ It presented a new contract which changed the point of delivery and increased the rate to 50 cents per miner's inch day. Negotiations followed, and there were conferences between company representatives, the co-partners, and members of the Commission's staff.

A company witness testified that because of the necessary delay for study of the problem, it was suggested and there was an oral understanding between the parties that the 50-cent rate would be charged after March 3, 1947, and if the Commission approved some other rate, the charges would be adjusted to the rate ultimately approved by the Commission.⁽⁵⁾ Water delivered since March 3, 1947 has been billed and paid for at the 50-cent rate. A contract providing for the delivery of water at a 50-cent rate was executed on October 25, 1947, to become effective when the Commission shall have authorized the company to carry out the terms and conditions thereof. Application for such authority was filed on November 10, 1947, and hearing thereon was had on March 24 and 25, 1948.

(4) According to Exhibit 4, the company was moved by three considerations in cancelling the 1945 contract:

(a) The immediate occasion was a change in the point of delivery, which necessitated creation of a higher head for delivery of water from the company's Oneida syphon, thereby reducing its capacity with attendant reduction in value.

(b) The company's desire to eliminate deviations resulting in some cases in discriminations which have grown up over the years.

(c) The formulation of a resale rate policy, there being no generally established resale rate in the Amador and Tuolumne County areas, other smaller groups having been buying water at irrigation rates and redistributing such water.

(5) On March 3, 1947 (effective date of cancellation of the 1945 contract) a company letter to the Jackson Water Works stated in part that "the most we can be expected to do is to continue the delivery of water to you at the old rate with the understanding that whatever

In support of its contention that the 50-cent rate is a fair and reasonable rate under the facts and conditions pertaining thereto, the company introduced considerable testimony at the hearing. The water collection, storage and transmission facilities in the company's Jackson District are devoted both to the development of electric power and to the distribution of water for agricultural, commercial, industrial and mining purposes. The historical cost of that portion of the canal system carried on the company's books as water department capital, was \$721,813 at the end of 1946, the last full year for which figures were available. For purposes of comparison, the following figures are abstracted from the company's Exhibit No. 2, showing fixed capital, revenue and expenses, including taxes and depreciation, for the years 1939 to 1946, inclusive, applicable to the company's Jackson District Water Department:

Year	Fixed Capital	Operating Revenues	Operating Expenses	Net Loss	Rate of Return
1939	\$676,484	\$30,927	\$36,175	\$ 5,248	-0.78%
1940	706,283	30,846	38,873	8,027	-1.14
1941	723,414	31,915	39,759	7,844	-1.08
1942	706,721	26,981	42,158	15,177	-2.15
1943	706,119	22,670	53,806	31,136	-4.41
1944	717,731	23,427	47,838	24,411	-3.40
1945	718,957	25,005	52,115	27,110	-3.77
1946	721,813	27,073	60,985	33,912	-4.70

(5) (Cont'd) new rate is worked out and finally adopted will be applied to all delivery subsequent to March 3 and that at that time you will pay us the difference between the ultimate rate and your present rate applied to all delivery subsequent to March 3. If this is agreeable to you, please sign and return the enclosed carbon copy of this letter."

Apparently, such proposal was not accepted, for, later, in a letter to the Commission of April 2, 1947, in response to a staff request for further information, the company advised that since "Pacific and Jackson have been unable to agree and the matter has been informally referred to the Commission, Pacific proposes to bill Jackson for water delivered after March 3, 1947 at 50¢ per MID, with the understanding that if, as and when, with the advice and help of the Commission staff, a mutually satisfactory arrangement can be reached between the parties at this or any other rate, such billing will be adjusted accordingly back to March 3." Although that letter indicated that a copy was being forwarded to Jackson Water Works, it appears that such copy was not received by the operators of that system.

As a basis for determining the cost of water delivered to customers from its ditch system, the company further analyzed the capital charges and the operating expenses as shown above, for the year 1946. After eliminating the amount of fixed capital applicable to the Standard Canals above Lake Tabeaud, and prorating the remaining amount between the ditch system below Lake Tabeaud and the town systems served by the ditches, the company's witness arrived at a round sum of \$430,000, representing the historical cost of fixed capital pertaining only to the ditch system below Lake Tabeaud. In a table following, there will be shown in some detail the allocation of the expenses applicable to the ditch system, excluding those pertaining only to the town systems.

The following tabulation shows the amounts of water, actually measured or estimated and designated in equivalent miner's inch days, delivered and sold during the year 1946 through the company's Jackson District Water System:

Classification	Water Quantities : Miner's Inch Days :	Per Cent
Total Water Input to System, measured at Lake Tabeaud	141,531	100%
Total Sales:		
Domestic Metered	4,324	
Domestic Flat Rate	20,456	
Irrigation	1,353	
Power and Commercial	13,978	
Resale	7,055	
R. R. Companies	<u>743</u>	
Total Water Sales	47,909	
Free Water Delivered	668	
Total Water Accounted for	<u>48,577</u>	<u>34</u>
Water Unaccounted for through seepage, spillage, or other losses	92,954	66

Based on the total quantity of 48,577 M.I.D. of water accounted for, the next table shows the company's estimated cost of

water delivered to the Jackson Water Works, to the Jackson Gate Water Works, or to other consumers, based on 1946 cost computations:

Description	Total		Estimated Costs	
	Year	1946	Allocated to	Ditch System
			Total	Per M.I.D.
Maintenance Expenses	\$ 4,501	\$ 2,395	\$0.049	
Operation Expenses	42,590	31,854	0.656	
Total Purification, Transmission, Distribution and Commercial Exp.	47,091	34,249	0.705	
General & Miscellaneous Expense	747	-	-	
Taxes	6,164	5,000	0.103	
Uncollectible Accounts	16	-	-	
Subtotal	54,018	39,249	0.808	
Depreciation Annuity	6,967	3,000	0.062	
Total Operating Expenses	60,985	42,249	0.870	
5% Interest on \$430,000		21,500	0.442	
Total		63,749	1.312	

In addition to the above costs, the company claimed an amount of 31 cents per M.I.D. as the power value of 141,000 M.I.D. diverted from its Electra power plant into the ditch system. This additional cost was computed as the substitutional value of 19.8 cents per M.I.D. for steam power developed from oil fuel at \$2.20 per barrel, plus the energy cost of 3.3 cents to elevate the same 141,000 M.I.D. of water 35 feet into the Amador Canal from Lake Tabeaud, which will be necessary when Electra power plant is reconstructed, making a total power value of 23.1 cents at Lake Tabeaud. Assuming only 25% losses (instead of 66%), the adjusted total power value of water delivered was computed to be 31 cents per M.I.D. The inclusion of said 31-cent power value figure is highly controversial. However, it is immaterial to the determination of the matter immediately before the Commission with respect to the rate of 50 cents per miner's inch day. Based on the record it is clear that bare maintenance and operation expenses are somewhat in excess of the rate fixed in the proposed agreement. It must be concluded, therefore, that the rate as set forth as one of the terms in the agreement under consideration herein is not unreasonable.

The representative of Jackson Water Works suggested that a system of contract rates for utility service may tend to discrimination, and that the company was serving other large customers at rates less than 50 cents. Water has been delivered to Preston Reformatory, a State institution, at a 25-cent rate. During 1946 the largest customer on the ditch system, in point of revenue, was the Winton Lumber Company, served at a 25-cent contract rate. The Winton contract states that service thereunder is by way of accommodation only, and shall not constitute a dedication. In this respect it differs from the contract involved here.

The engineer representing Jackson Water Works in this proceeding indicated that some other features of the proposed agreement were objectionable. Of these, only two seem to merit consideration at this time, both of which relate to paragraph 4 of the contract. Numerous other contracts entered into by the company specify that payments thereunder may be made at the company's district offices, rather than at its San Francisco office as stated in the contract herein. There appears to be no reason why the company's Jackson office should not be named as the place of payment. It was also suggested that this paragraph be modified to allow co-partners the usual period of 15 days after presentation of monthly bills for payment thereof, with a further period of ten days before the co-partners may be considered in default. The company indicated its willingness to make these changes. We believe such changes should be made in all fairness to the parties concerned.

O R D E R

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

IT IS HEREBY ORDERED that Pacific Gas and Electric Company, a corporation, be and it is hereby authorized to carry out the terms and conditions of a written agreement with C. L. Grandbois and J. E. McLaughlin, co-partners, dated October 25, 1947, incorporating the suggested modifications indicated in the Opinion which precedes this Order, but otherwise substantially in accordance with the terms and conditions as set forth in the copy of said agreement which is attached to the application as Exhibit "A" thereto.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company, a corporation, shall file with this Commission, within thirty (30) days from and after the effective date of this Order, two certified copies of the agreement as finally consummated.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company, a corporation, shall notify this Commission of the termination of said contract within thirty (30) days thereof.

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

Dated at San Francisco, California, this 22 day
of June, 1948.

A. F. Dickinson
Justus J. Coe
Dean F. George
Harold P. Kula
Samuel H. Lotter
Commissioners