A-29577
DS

Decision No. 42594

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of HAPPY VALLEY WATER COMPANY A Corporation, for Authority to Increase Rates) Application No. 29577

Thomas P. Plotts, for applicant; J. H. Brown, for Happy Valley Land and Water Company; J. J. Deuel and Edson Abel, by Edson Abel, for California Farm Bureau Federation, Happy Valley Farm Center, Happy Valley Community Center, and Shasta County Farm Bureau; Francis Coenen, for Happy Valley Grange No. 720.

O P I N I O N

Happy Valley Water Company, a corporation, is a public utility engaged in the business of selling and distributing water for agricultural irrigation and other purposes in Shasta County in the general vicinity of the communities of Olinda, Ono, and Igo. The territory served by the utility through approximately 70 miles of canals and lateral ditches embraces a gross area of some 20,000 acres.

The company in this application requests authority to increase rates, alleging that it has been operating at a loss of $15,000 to $18,000 yearly since 1941 and that operating expenses have increased to the extent that applicant is no longer willing to subsidize its operations out of other earnings and from loans and advances by its officers.

A public hearing in this proceeding was held before Examiner Ross at Olinda on December 3, 1948.

This sytem was installed originally in 1870 by Dry Creek Tunnel and Fluming Company, a corporation, to provide water for its mining operations. In 1907 this corporation sold its land and water rights to Happy Valley Land and Water Company, a corporation. The water system next was transferred to Happy Valley Irrigation District when the latter was organized in 1917, and the district continued the operations until its dissolution in 1925. Included among the improvements installed by the district were a dam to provide additional storage, and a 1½-mile tunnel which replaced approximately 12 miles of ditch.

Happy Valley Water Company, after being issued a certificate of public convenience and necessity to operate a public utility water system, (Application No. 11646, Decision No. 15417, dated September 19, 1925), acquired the properties formerly owned by the district, and has continued to operate them since that time.

The main source of water supply for this system is the North Fork of Cottonwood Creek. An earth-fill dam, known as Messelbeck Dam, located in the N.E.¼ of Section 31, T.31 N., R.7 W., M.D.B.&M., creates a reservoir with a capacity of approximately 5,400 acre-feet. From the reservoir the water is carried in the natural channel of the North Fork of Cottonwood Creek about one-half mile below its junction with Moon Fork where it is diverted by means of a concrete diversion dam into a 6- x 6-foot tunnel. This tunnel, approximately 1½ miles in length, empties into a natural channel and the water is picked up in Hoover Creek and is carried downstream about one-half mile where it is diverted into the main transmission canal, which has a carrying capacity of approximately 50 cubic feet of water per second. The main transmission canal is approximately 17 miles in length and delivers the water to Harbinson Reservoir which has a capacity of about 40 acre-feet. From Harbinson Reservoir the water is delivered by gravity to the customers through approximately 50 miles of ditches, flumes, and some concrete pipe. There are five compensating reservoirs located strategically throughout the main service area (Division No. 3) with capacities varying from ten to 30 acre-feet.

The service area is divided into three divisions. The main service area, called Division No. 3, consists of the irrigable lands which lie within the boundaries of the old Happy Valley Irrigation District. There are 191 customers served in this division. In Division No. 1 there are eight customers served from the main transmission canal between Hoover and Eagle Creeks. Division No. 2 comprises the lands served from the main transmission canal between Eagle Creek and Harbinson Reservoir. At the present time there are 20 customers receiving service in Division No. 2. The company also serves water to ten domestic customers in the community of Igo. The water for this domestic service is conveyed by the company through one-half mile of ditch and 300 feet of ten-inch steel pipe to the point where the customer-owned distribution system is connected. The surplus water is delivered back into the transmission canal.

The main source of water supply is augmented during certain seasons by diversion from Moon, Mulen, Dobey, Eagle, Andrews, and Hoover Creeks, and the South Fork of Clear Creek.

The present rate charged by the company for irrigation service is ten cents per miner's inch-day with a $2 minimum charge applying throughout the irrigation season for each point of delivery. For deliveries to mining enterprises, the presently-filed rates are ten cents per miner's inch-day for flows up to 1,000 miner's inches per day, and five cents per miner's inch-day for larger flows. The company is making a flat rate charge payable in advance, of $12.50 per year per customer to residents in the community of Igo for yard irrigation, in lieu of the present filed rate of $1.25 per month per tap, which would aggregate $15 per year.

The rates proposed by applicant for irrigation purposes provide for a minimum charge of $3.60 for each point of delivery for the irrigation season, which season is defined as the eight-month period March 1 to October 31. For service at other times of the year, a further minimum charge of $3.60 will be made for each irrigation period defined as the period of time extending from the ordering of irrigation water until the customer requests discontinuance or a material change in the flow rate. The commodity charges proposed originally comprise a schedule of rates starting with 25 cents per miner's inch-day for flows of less than five miner's inches, and scaling down through seven intermediate steps to 17 cents for flows of 40 miner's inches or more. At the hearing, applicant requested that an amendment to its proposed rates be considered, consisting of a change in the commodity charges to 25 cents per miner's inch-day for flows of one miner's inch, with successively larger flows at rates two mills ($0.002) lower for each miner's inch increase in the flow rate up to a terminal or end rate of 17 cents per miner's inch-day for flows in excess of 40 miner's inches. The effect of this latter proposal is to provide a total of 41 different commodity rates. Applicant also requested that permanent employees be allowed a 50% discount under the proposed rates. It was pointed out that applicant's amended rate proposal would result in revenues somewhat lower than under the original proposal, although not materially so, the alleged purpose of the amendment being to reflect in uniformly graduated rates the differences in the company's cost per unit volume between serving smaller and larger users.

Although usage of water by mining enterprises at the present is negligible, applicant proposes a mining rate of 20 cents per miner's inch-day for flows up to 40, 15 cents for flows from 40 up to 1,000, and ten cents for flows of 1,000 and greater. At the hearing applicant asked that, in the event of shortage of water, priority be reserved for other types of use.

The proposed rate for domestic (yard irrigation) service in the town of Igo is a flat annual charge of $24 for a 3/4-inch hydrant.

At the hearing a witness for applicant presented testimony on the company's facilities and past and present operations, as well as an estimate of revenue under the proposed rates. A witness for the Commission's staff presented a report covering revenues and expenses together with a water use tabulation and an estimate of the gross revenue that would be produced for the estimated year 1948 by the rates originally proposed by applicant.

Following is a resume of the operating revenues received, the operating expenses incurred, and the resulting net operating losses in the years 1943-1947 according to the company's records. There is also shown an adjustment presented by the Commission's staff to substitute a 5% sinking fund depreciation annuity for the straight line depreciation included in the company's figures, with the resulting adjusted net operating losses.

	1943	1944	1945	1946	1947
Happy Valley Water Company Records					
Operating Revenues	$ 5,045.49	$ 6,840.53	$ 7,275.84	$ 9,433.32	$ 9,592.14
Operating Expenses	20,466.00	21,621.62	23,955.47	25,857.73	27,844.61
Net Operating Loss	15,420.51	14,781.09	16,679.63	16,424.41	18,252.47
Adjustment to 5% Sinking Fund Depreciation Annuity					
Deduct: Str.-Line Deprec.	9,085.78	9,170.23	9,200.68	9,234.58	9,148.69
Add: 5% Sinking Fund Annuity	2,100.00	2,100.00	2,100.00	2,100.00	2,100.00
Adj.Net Oper. Loss	8,434.73	7,710.86	9,578.95	9,289.83	11,203.78

The Commission's staff also presented an estimate for the year 1948 under existing rates, consisting of ten months' data as shown on the company's records and two months estimated, which yielded operating revenues of $7,100; operating expenses of $22,300, including depreciation expense computed on the 5% sinking fund method; and net operating loss of $15,200.

Applicant requests relief to the extent of reducing its operating losses, and in the application it is stated that "... Applicant has been operating at a loss of $15,000.00 to $18,000.00 yearly since

1941..." and that "...It is estimated that on the basis of 1947 water deliveries the requested rates would yield a total revenue of $15,000.00 to $18,000.00..." The range of operating losses referred to accords with the company's records as shown in the foregoing tabulation covering the years 1943 through 1947, but, when adjusted to reflect depreciation expense computed by the 5% sinking fund method, these losses range from approximately $8,400 to $11,200. It might appear that the extent of rate relief sought by applicant is to increase charges to such a point that the resulting gross revenues, on the basis of 1947 water deliveries, would approximate the average of the operating losses for the years 1943 through 1947, which were about $15,000 to $18,000 with straight line depreciation, or $8,400 to $11,200 with depreciation expense computed according to the 5% sinking fund method.

It was agreed by the parties that the volume of water deliveries in 1947, during which year 94,658 miner's inches were sold, could reasonably be taken as representative of so-called average water conditions, whereas in the year 1948, during which year about 68,600 miner's inches were estimated to be sold, the deliveries of water were subnormal because of the unseasonally late rains which occurred very nearly at the height of the normal irrigating season. The witness for the Commission's staff presented a detailed water use tabulation for the ten months ending October 20, 1948, to which an estimate of the last two months of the calendar year was added, yielding an estimated operating revenue under the proposed rates for the year of $14,500 for a total of 68,600 miner's inches, or an average of $0.2115 per miner's inch. No water use tabulation for the year 1947 was presented; however, it is reasonable to assume that the average revenue per miner's inch paid during 1948 under the proposed rates would be fairly representative of the average rate under the proposed rates for the year 1947. Applying $0.2115 per miner's inch to 94,658 miner's inches yields a gross revenue estimate for the year 1947 under the proposed rates of about $20,000 as derived from staff testimony. This compares with applicant's estimate of "...$15,000.00 to $18,000.00..." For the purposes hereof, $19,000 will be used as the estimate of the revenues under the proposed rates for the year 1947.

Testimony was given by a number of users of the irrigation service stressing the marginal nature at the present time of the growing of olives, the low return on pasture land and the extremely short season on strawberries, the three principal so-called "crops." The duty of water in acre-feet per acre for the irrigation of these crops was given as from one to two feet for olives, three to four feet for pasture, and six to seven feet for strawberries. The Commission was urged to give full consideration to the alleged possibility that too great an increase in irrigation rates at this time might result in the abandonment of certain marginal lands from which the company is now receiving revenue, and might thereby yield applicant less revenue than would a more moderate increase.

Applicant has not asked for rates which would yield a full return on its investment. In fact, in its application it sets forth the relief desired in relation to operating losses in recent periods, without reference to return on investment. Another special condition which should be considered in connection with this proceeding is the fact that among the assets conveyed to Happy Valley Water Company there were certain lands and liens upon lands, subsequently foreclosed, which applicant has since been selling from time to time, yielding considerable non-operating revenue. Applicant acknowledges that in the past it has "...subsidized its operations..." out of such earnings.

Applicant's proposed rates, on the basis of 1947 operations, would result in an increase of about $9,400 in annual gross revenue whereas applicant expressed itself as desiring an increase of from $5,400 to $8,400, which range of increase applicant estimated its proposal would yield. Although the relief requested by applicant was stated as the same range of dollars in gross revenue as the range of operating losses over the years 1943 through 1947, reflecting straight line depreciation, which latter range of operating losses is materially less when adjusted to a 5% sinking fund depreciation basis, it appears reasonable to conclude that the similarity of the desired gross revenue and the range of operating losses on the straight line depreciation basis is coincidental rather than the one having been derived from the other. Accordingly, it would be improper to conclude that applicant's request for gross revenue of $15,000 to $18,000 should be scaled down to the extent of the adjustment in annual depreciation charges as estimated by the Commission's staff. In fact, related to the staff's estimate of 1948 operating expenses of $22,300, reflecting 5% sinking fund depreciation, the range of requested gross operating revenues would still fall short of meeting operating expenses.

It was testified that, although the preponderant proportion of the water delivered by applicant is used for bona fide irrigation purposes, there are some small land holders whose use of water for irrigation is clearly secondary. This latter class of customer uses the water primarily for domestic purposes, and consequently requires water essentially on a year-round basis, and in the typical case floods his relatively small land area with water, recovering a small portion of it in one or more shallow sumps from which water is pumped for household use. This procedure in effect uses the porosity of the soil as a means of water storage so that water deliveries need not be continuous. It was pointed out that due to the volcanic origin of the soil in this area, there is no underlying stratum which could supply water to wells except through incidental recovery of irrigation water. Certain customers of this class expressed the opinion that even under present rates the resultant cost for domestic water was excessive. Applicant contended that the incremental cost of supplying these domestic users after the end of the irrigation season was materially greater than the $3.60 minimum charge proposed for each such irrigation, and that the regular irrigation customers in effect had to underwrite the resulting operating loss.

Applicant, from its history and by the nature of its physical properties, is clearly and exclusively in the business of supplying water for irrigation and mining purposes, and the record provides no basis for construing it otherwise. This Commission cannot give weight to the allegedly high cost to customers of this special and highly inefficient by-product use of irrigation water for domestic purposes in arriving at just and reasonable irrigation rates. It is strongly urged that applicant establish a schedule of off-season irrigation periods which will accommodate the greatest number of such domestic users of irrigation water to the end that the cost of rendering such service will be minimized.

A question was raised at the hearing as to the company's procedure in extending irrigation ditches in response to requests for new service connections. Certain persons indicated that the company had refused to extend ditches at its own expense in certain instances. It developed that applicant does not have on file with this Commission any rule and regulation covering the conditions under which laterals will be constructed at its own expense. It was agreed at the hearing that applicant should file as a part of this record a proposed rule and regulation relating to extension of service, with copies to be furnished appearances of record. Appearances were afforded the opportunity of filing briefs in response to the proposed rule. Pursuant to these provisions, applicant filed its proposed Rule and Regulation No. 37, Service to Subdivided Lands, the body of which provides that "Facilities to distribute water to lands subdivided or partitioned to areas of less than ten (10) acres shall be provided and maintained to the company's point of delivery by the subdivider and/or owners of said subdivided or partitioned lands." The appearance for Happy Valley Grange No. 720 filed a protest to the proposed rule, alleging that Happy Valley Water Company in the past has, at its own expense, provided laterals to certain parcels of land under ten acres in area, in cases where the company sold such land. It was urged that owners of small acreage purchased from others have the same privileges as those purchasing such lands from applicant, and that service be extended at applicant's expense for irrigation of lands of one or more acres in area. It is perhaps superfluous to point out that the proposed rule is limited in no way in its applicability, and if it were to be made effective, applicant would be precluded from affording any preferential treatment to purchasers of its lands. It is reasonable that some restriction be placed on the company's obligation to extend irrigation laterals at its own expense to prevent unduly burdening its existing customers through rates; and, as a practical criterion, a certain minimum acreage appears to be proper. There is no practical mathematical means of determining the exact area that would be proper to use as the lower limit, it being rather a matter of judgment. This Commission is of the opinion that the ten-acre lower limit carried in the proposed rule is reasonable and proper, and the order will provide for the adoption of the rule as proposed by applicant.

Giving consideration to the unique aspects of this utility operation, including the nature, source and extent of its so-called non-operating revenues previously discussed, it is concluded that it is reasonable and proper to order rates which will result in a gross annual revenue on an average-water year basis of $16,500, representing an increase in revenue over present rates of about $6,900 annually, and the order will so provide. It is further concluded that the form of rate schedule requested by applicant, consisting of 41 "stepped" commodity rates is so complex that its disadvantages outweigh the benefits which might arise from its alleged spreading of the cost of service more uniformly between customers. The order will provide for an irrigation schedule with five "stepped" commodity rates ranging from 20 cents to 15 cents per miner's inch-day, together with the requested $3.60 minimum seasonal charge.

It was testified that the reason applicant desired to extend to its permanent employees a 50% discount on irrigation bills was to compensate them for the rather low hourly wages paid. It was further testified that none of the permanent employees is at present irrigating any sizable land areas; however, no assurance was given that such would necessarily be true in the future. It is concluded that allowance of the proposed discount, or even a lesser discount, conceivably could lead to a situation whereby the discount would be worth more to the employee than his wages, and at best the cost to the company of such a discount could not be predetermined with any certainty. It is deemed more proper that direct wages be paid sufficient to secure necessary employees and that revenues and expenses accordingly reflect their respective true values. The discount will not be included in the rates to be ordered.

The rate to be ordered for mining use will be 15 cents per miner's inch-day for flows up to 1,000, and ten cents for flows of 1,000 or greater. The service currently rendered in this category is negligible, but it is deemed appropriate that the present rate reflect the general upward adjustment in other rates of applicant, with view to the possibility of increased mining activity in the future. The order will also provide that, in case of a shortage of water, priority will be reserved for other classes of water users, as requested by applicant.

Relative to the very secondary yard-irrigation service through pipe rendered to about ten customers in the community of Igo, no data are in the record on the allocated cost to applicant of rendering this service; accordingly, it is deemed proper to increase the rates as presently charged in proportion to the increase to be ordered for general irrigation service, yielding an annual rate of $21.50 per 3/4-inch hydrant.

O R D E R

Happy Valley Water Company, a corporation, having applied to this Commission for an order authorizing increases in rates for water service and the filing of a rule and regulation covering extension of service, a public hearing having been held and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and the filing of the aforementioned rule and regulation authorized herein are justified; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order in conformity with the Commission's General Order No. 96, the schedule of rates shown in Exhibit A attached hereto and its Rule and Regulation No. 37, Service to Subdivided Lands, shown in Exhibit B likewise attached hereto, and, on not less than five (5) days' notice to the Commission and to the public, to make said rates and rule and regulation effective for service on and after the first day of April, 1949.

IT IS HEREBY FURTHER ORDERED as follows:

1. That Happy Valley Water Company within forty (40) days from the effective date of this order, shall file with this Commission four sets of rules and regulations governing relations with its customers, each set of which shall contain a suitable map or sketch, drawn to an indicated scale upon a sheet 8½ x 11 inches in size delineating thereupon in distinctive markings the boundaries of its present service area and the location thereof with reference to the immediate surrounding territory; provided, however, that

such filing shall not be construed as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof.

2. That Happy Valley Water Company, within forty (40) days from the effective date of this order, shall file with this Commission four copies of a comprehensive map, drawn to an indicated scale of not less than 600 feet to the inch, upon which shall be delineated by appropriate markings the territory presently served. This map should be reasonably accurate, show the source and date thereof, and include sufficient data to determine clearly and definitely the location of the property comprising the entire utility area of service; provided, however, that such filing shall not be construed as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof.

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

Dated at Los Angeles, California, this 8th day of March, 1949.

R. E. Mittelstaedt
Justus F. Craemer
Harold P. Huls

Commissioners.

A-29577
EM

Schedule No. 1

IRRIGATION SERVICE - MEASURED RATES

APPLICABILITY

Applicable to all irrigation water delivered at measured rates.

TERRITORY

Within the entire area served by the Company.

RATES

Quantity Rates Per Miner's Inch-Day of 24 Hours:

For first 10 miner's inches, per miner's inch...........	$0.20
For next 10 miner's inches, per miner's inch...........	.19
For next 10 miner's inches, per miner's inch...........	.18
For next 10 miner's inches, per miner's inch...........	.16
Over 40 miner's inches, per miner's inch...........	.15

Minimum Charge:

For the irrigation season March 1 to October 31, inclusive, in any calendar year...........	$3.60
For service from November 1 to February 28, inclusive, in successive calendar years, for each irrigation period, defined as the period of time extending from the delivery of ordered water until the customer requests discontinuance or a material change in the flow rate...	3.60

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

A miner's inch shall mean a continuous flow of water equivalent to 1/40th of a cubic foot per second, or 1.5 cubic feet per minute.

A-29577
HM

Schedule No. 2

MINING SERVICE - MEASURED RATES

APPLICABILITY

Applicable to all water delivered to mining enterprises at measured rates.

TERRITORY

Within the entire area served by the Company.

RATES

Quantity Rates Per Miner's Inch-Day of 24 Hours:

For first 1,000 miner's inches, per miner's inch........	$0.15
Over 1,000 miner's inches, per miner's inch........	.10

A miner's inch shall mean a continuous flow of water equivalent to 1/40th of a cubic foot per second, or 1.5 cubic feet per minute.

SPECIAL CONDITIONS

Service hereunder is subject to discontinuance in the event of an actual or threatened insufficiency of supply for the Company's other classes of water service.

Schedule No. 3

DOMESTIC SERVICE - FLAT RATE

APPLICABILITY

Applicable to yard irrigation at flat rates.

TERRITORY

Within the town of Igo.

RATES

	Per Customer Per Year
For each 3/4-inch hydrant..................................	$21.50

A-29577
EM

RULE AND REGULATION

No. - SERVICE TO SUBDIVIDED LANDS

Facilities to distribute water to lands subdivided or partitioned to areas of less than ten (10) acres shall be provided and maintained to the Company's point of delivery by the subdivider and/or owners of said subdivided or partitioned lands.