

Decision No. 48355

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application)
of CLEAR LAKE WATER COMPANY, a)
corporation, for authority to)
increase rates within its terri-)
tory and to make certain adjust-)
ments to its books of accounts.)

Application No. 33456
(As Amended)

Reginald L. Vaughan and C. T. Mess, for
applicant.

J. J. Duvel and Edson Abel, by Harold
Neeland, for California Farm Bureau
Federation, interested party.

Martin McDonough, for Western Yolo
Water Users Association, protestants.

Hal F. Wiggins and C. V. Shawler, for
the Commission staff.

O P I N I O N

By the above-entitled application, filed June 2, 1952 and as amended January 15, 1953, Clear Lake Water Company, a California corporation, seeks an order of this Commission authorizing an increase in rates for irrigation water service rendered in Yolo County.

Public hearings in the matter were held before Examiner Emerson in Woodland on December 4 and 5, 1952 and on January 26 and 27, 1953. The matter was submitted upon receipt of concurrent briefs on February 9, 1953. Twenty-four exhibits were received and 12 witnesses testified during the course of the hearings.

Rates, Present and Proposed

The charge for all irrigation water service, measured at the point the water is discharged from a company canal, is presently \$2.25 per acre-foot.^{1/} Applicant requests that this charge be increased to \$3.50 per acre-foot.

^{1/} Rate established by Decision No. 41993 in Application No. 29179, effective Sept. 15, 1948.

Under present rates, the consumer deposits \$1.00 per acre for general crops and \$1.50 per acre for rice at the time water is ordered and such deposit constitutes either the minimum annual charge or a credit on the total water bill of the consumer. Applicant requests that such deposit be made \$1.50 per acre for all crops. Neither under the present nor the requested rates are said deposits transferable from one field or crop to another.

Under present rates, a charge of \$1.25 per acre is made when the consumer applies subsequent to March 15 for water service for general crops. This charge is not a credit on the water bill but, in effect, is a penalty for late demands. Applicant requests no change in this provision.

Applicant's Position

Applicant alleges that both labor and material costs in connection with construction, operation and maintenance of the system have materially increased in recent years and that total operating expenses, excluding provisions for taxes and depreciation, have increased by 77 per cent since 1948. These increased costs are subject to only minor fluctuations in respect to the quantities of water sold and are, therefore, incapable of reduction according to applicant. In addition, applicant has had to meet an ever-increasing tax burden.

Applicant points out that never in the history of the corporation have dividends of any kind been paid to its stockholders.

Applicant has stated that it has been forced to seek the rate increase herein requested in order to pay the expenses of its water operations, maintain its credit and continue to meet its full responsibilities in the rendering of utility service.

Description of the System

Applicant's service area contains about 55,000 acres of irrigable land and is served through a canal system approximately 189 miles in length. The system is supplied principally from water stored in Clear Lake, supplemented by the normal flow of the North Fork of Cache Creek in the early part of the season. Although the water available in years of heavy rainfall exceeds the system requirements, in dry years it becomes necessary to prorate the deliveries among irrigators of general crops and to withhold service from rice irrigation. In addition to the service provided directly from company-owned facilities, water is delivered to several mutually owned ditch systems, no parts of which are carried in applicant's capital accounts.

The level of the water required to be maintained in Clear Lake, which has been established by two court decrees,^{2/} must be between the limits of zero feet and 7.56 feet on the Rumsey gauge at the town of Lakeport.

Summary of Presentations

The presentations of applicant, the Commission staff and of protestants are summarized in the following tabulations. Elements thereof are discussed in succeeding paragraphs.

Year 1952, Adjusted

Item	Applicant		CPUC Staff	
	Present Rates	Requested Rates	Present Rates	Requested Rates
Operating Revenues	\$ 158,560	\$ 243,970	\$158,700	\$244,200
Operating Expenses	180,910	208,540	174,242	201,012
Net Revenue	(22,350)	35,430	(15,542)	43,188
Rate Base, Depreciated	1,270,000	1,270,000	932,196	932,196
Rate of Return	(1.76)%	2.79%	(1.67)%	4.63%

(Red Figure)

^{2/} Gopcevic v. Yolo Water and Power Company, Superior Court of Mendocino County, No. 9118 dated October 7, 1920, and Mary E. Bemmerly and Agnes N. Bemmerly v. County of Lake, et al., No. 8812 dated December 18, 1940; (C.4826 and 4684, Dec. No.39058, dated June 5, 1946, 46 CRC 501, 508.)

Year 1953, Estimated

Item	Applicant		CPUC Staff		Protestant
	Present Rates	Requested Rates	Present Rates	Requested Rates	Present Rates ^a
Operating Revenues	\$ 158,560	\$ 243,970	\$158,700	\$244,200	\$182,545
Operating Expenses	186,160	211,710	174,945	201,710	166,755
Net Revenue	(27,600)	32,260	(16,245)	42,490	15,790
Rate Base, Depr.	1,291,200	1,291,200	963,998	963,998	775,666
Rate of Return	(2.14)%	2.50%	(1.69)%	4.41%	2.04%

(Red Figure)

a. Based on deliveries of 78,998 acre-feet of water, one of three average deliveries selected by protestant.

Rate Base

The major differences between the undepreciated rate bases developed by applicant and those developed by the staff occur in the account for intangible capital and in the allowance for working cash requirements. With respect to intangible capital the staff deducted \$98,507 from recorded figures for organization expense and prescriptive water rights which the staff assumed would be written off by transfer of certain depreciation reserve items to surplus. With respect to working cash the staff offset the total computed requirement by a proportion of accruals for taxes, thus developing an allowance about \$16,000 below that developed by applicant. While applicant is not in agreement with the undepreciated rate base developed by the staff, it has indicated that it acquiesces to the adoption of the staff figures for the purpose of this proceeding because such figures in its opinion will fully support the granting of the relief sought.

Differences in depreciated rate bases are occasioned by the treatment accorded the depreciation reserve. Applicant used a theoretical depreciation reserve requirement rather than the book

reserve primarily because of the over-accrued condition of the reserve resulting from applicant's having based book accruals on depreciation calculations used for income tax purposes. The staff used the book depreciation reserve adjusted by crediting surplus in the amount of \$278,377 to cover amounts charged or to be charged thereto. Protestants used a depreciated rate base taken from a section of an exhibit introduced at the first hearing by the staff but later withdrawn and replaced by another exhibit based upon further study.

In view of the evidence we shall adopt a depreciated rate base of \$964,000 for the average year 1953. We find such rate base to be reasonable.

Revenues

The operating revenues of this utility vary widely from year to year and depend to a large extent upon the amount of irrigation water available as well as upon the demands for deliveries placed by the farmers. Estimating the average amount of water that can be sold in the future has been based upon the record of water sales in the past and has resulted in applicant assuming an average amount of 68,330 acre-feet of water. By the same general approach the Commission staff estimated ~~maximum~~ average sales of 68,400 acre-feet of water. Both applicant and staff used 25-year periods in their development of these normalized averages. 2.7.27

Protestants based their estimates of the volume of water which the consumers could use on the average of eight recent years and thereby determined that 102,168 acre-feet of water could have been utilized by customers if available. Such demand was assumed as usable in any year except where legal or physical limitations might prevent. Protestants then derived average annual deliveries available to meet this demand which varied between 77,524 acre-feet as a 25-year average and 93,259 acre-feet as a 9-year average.

The figure of 78,998 acre-feet predicated upon a 31-year average, was urged by protestants to be used for computing 1953 estimated revenues as it encompassed the entire period of operations under the terms of the Gopcevic decree.

Analyses of the several figures for water usage indicates that all consider average hydrological conditions over a past period of time, adjusted to present water loss experience. The important difference is that the showings of applicant and the staff include the actual delivery experience of all the years, while protestant has attempted to relate such experience to present economic demands. We believe the latter principle to be sound for rate-fixing purposes. As to the time period for averaging hydrological conditions, experience of such conditions since the Gopcevic decree of 1920 appear not inappropriate; however, we are not convinced that protestant's basis of calculation is proper.

Expenses

Differences in expense estimates occur largely in calculations for the annual depreciation accrual and in taxes based on income. Amounts of total operating expenses which correspond to the rate base and revenues hereinabove set forth and which allow for the wage increase of October, 1952 total \$178,400 under present rates and \$205,000 under the rates requested by applicant.

It is apparent from the record in this proceeding that applicant will not even recover its bond interest, based on average availability of water in 1953, if present rates are continued.

Protestant and Consumer Participation

Protestants, in addition to presenting evidence relative to the financial results of operations of applicant, produced a number of witnesses who testified as to the position of the farmer and the effect of the requested rate increase upon farm operations. A number of witnesses called by the Farm Bureau gave similar testimony. In addition, several farmers who could not be present at the

hearings set forth their views in letters to the Commission. Over half of the hearing time was devoted to such matters. The considerable amount of testimony offered treated basically of the element of "ability to pay" and expanded into the influence of curtailment of water purchased upon underground water sources, the price of crops and profits from farming, as well as the forecasting of lesser revenues for applicant resulting therefrom.

Conclusion

In view of the entire record in this proceeding and after consideration of the briefs of applicant and protestant, we conclude that substantial rate relief must be authorized.

Applicant will not experience as high an average return as it would if it were possessed of a firm annual water supply. With a widely varying annual water supply, natural rainfall fluctuations being accentuated by the Gopcevic restrictions, full use cannot be made of all of applicant's facilities at all times.

The evidence is conflicting as to the ability of growers to pay the proposed rate and individual circumstances differ in this regard. However, the evidence seems clear that on the average a reasonable increase in rates may be made without exceeding the ability to pay in most instances.

The interests of the growers and the irrigation company are interdependent. The utility must be able to meet its financial obligations and maintain its credit. The present management has not paid dividends on its stock, but rather has improved and rehabilitated the properties, effectively improving the efficiency of the system. Such action makes more of the limited supply of water available for the growers demands.

Applicant has not requested a full return on its rate base, but seeks a net revenue of \$32,260. Based upon such net revenue and applicant's and the staff's estimated water sales for the immediate future, a rate of \$3.43 per acre-foot results. Using protestant's

basis for estimated sales, a rate of \$2.97 per acre-foot would produce the same net revenue.

Considering all of the evidence, we are of the opinion that a rate of \$3.25 per acre-foot will produce the \$32,260 of net income requested by applicant. The net revenue of \$32,260 above-mentioned will produce a rate of return of 3.35 per cent on the rate base hereinabove found to be reasonable.

The motion of applicant to strike certain testimony relating to a portion of Exhibit No. 9 superseded by Exhibit No. 13 is hereby denied.

In view of applicant's withdrawal of its original request for authority to restate its books such restatement will not be determined in this proceeding.

O R D E R

Clear Lake Water Company having applied to this Commission for an order authorizing increases in rates and charges for irrigation water service rendered in Yolo County, public hearings thereon having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges 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 and in conformity with General Order No. 96, the schedule of rates set forth in Exhibit A attached to this order, together with rules and four copies of a tariff service area map, and, after not less than one day's notice to this Commission and

to the public, to make said rates effective for all service rendered on and after March 31, 1953.

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

Dated at San Francisco California, this 10th day of March, 1953.

J. F. Craemer
President

Harold A. Kula

Franklin P. Tolson
John E. Mitchell

Commissioners.

JUSTUS F. CRAEMER
Commissioner....., being necessarily absent, did not participate in the disposition of this proceeding.

EXHIBIT A

Schedule No. 1

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all measured irrigation water service.

TERRITORY

Within portions of Yolo County lying generally West and South of Woodland.

RATES

For all irrigation water, based upon measurement at the point the water is delivered from the company's canal, per acre-foot\$3.25

SPECIAL CONDITIONS

1. All applications for irrigation water service must be signed by the irrigator, or his duly authorized agent, and must be accompanied by a deposit of \$1.50 per acre for each acre for which water service is applied. These deposits are a credit on the water bill of the applicant and are the minimum annual charge per acre for the land covered by the application, but are not transferable from one field or crop to another.

2. In the event that application for water service for general crops is made subsequent to March 15, a charge of \$1.25 per acre will be made, which charge will not be a credit on the water bill of applicant.