

Decision No. 49406**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 PACIFIC GAS AND ELECTRIC COMPANY for)
 an order of the Public Utilities)
 Commission of the State of California)
 authorizing applicant to file and make)
 effective the attached tariff schedule) Application No. 33960
 to be made applicable to irrigation)
 water service supplied by means of)
 applicant's Western Canal Water System)
 situated in Butte and Glenn Counties,)
 California.)
 (Water))

Appearances

For Applicant: Ralph W. Du Val.
 For Protestants: Jerome D. Peters and Reginald L. Vaughan,
 for 20 or more consumers; George A. Wirth, in propria
 persona.
 For Interested Parties: Edson Abel and Eldon N. Dye,
 for California Farm Bureau Federation and Butte County
 Farm Bureau.
 For Commission Staff: Harold J. McCarthy and C. T. Coffey.

O P I N I O N

Pacific Gas and Electric Company, a California corporation, by the above-entitled application filed December 18, 1952 and as amended on March 31, 1953, seeks an order of this Commission authorizing an increase in rates and charges for irrigation water service rendered from its Western Canal System in Butte and Glenn Counties.

Public hearings in the matter were held before Commissioner Kenneth Potter and Examiner F. Everett Emerson on June 10, 1953 at Oroville, before Examiner Emerson on August 26 and 27, 1953 at Oroville and before Commissioner Potter and Examiner Emerson on October 5 and 6, 1953 at San Francisco. Twenty witnesses were heard and 21 exhibits were received in this proceeding. The matter was submitted on October 6, 1953.

Applicant's Position and Request

Applicant alleges that the existing rate for water service now, and for an indefinite future period, is insufficient to enable it to earn a reasonable return. It further alleges that if it is required to continue supplying water at the present charge, it will be deprived of its property and the use thereof without just compensation.

Applicant has made substantial expenditures for capital additions and improvements to the canal system. Since 1936, when it acquired the system, applicant has made net capital additions and betterments totaling approximately \$376,000, an increase of more than 40%. In addition to capital outlays applicant has been faced with substantial increases in operating and maintenance expenses in recent years, occasioned primarily by higher labor and material costs and taxes. As a result, applicant has determined that under the present water rate the return for the year 1953 will be only 3.41% on its depreciated rate base.

Applicant proposes to increase the present water charge of \$1.25 per acre-foot to \$1.75 per acre-foot. By so doing, it estimates that the return on its depreciated rate base will approximate 5.75% for the average year 1954. Applicant further proposes to state, as part of the tariff, the dates within which irrigation service will be rendered, the tariff not now indicating the seasonal service period.

Applicant's Operations

The Western Canal System serves irrigation water in an area of approximately 60 square miles lying between the Feather and Sacramento Rivers in Butte and Glenn Counties. Water is obtained by diversion of the Feather River, at a point about 3 miles south of Oroville, and from Butte Creek at a point about

18 miles down canal from the Feather River intake. The main canal is 30.06 miles long; the Ward and Din laterals, 5.78 miles long; and the High Line Canal and Pratt lateral, 3.68 miles long, making a total of 39.52 miles of canals in the system. Canal capacities vary in the main canal from 650 cubic feet per second at the intake to 400 second-feet at Butte Creek and 125 second-feet at Dodgeland. Initial capacity of the High Line Canal is 125 second-feet, while that of the Ward lateral is 110 second-feet.

In the 10-year period ending with the 1952 irrigation season, the system served water for the irrigation of between 14,400 and 23,524 acres, rice lands receiving about 98% of all of the measured water delivered. During the 1953 season, water was ordered for approximately 24,385 acres of land. In the past few years the average system-wide duty of water has approximated 6.2 acre-feet per acre. Applicant bills its customers once yearly at the completion of the irrigation season.

Protestants' Position

Protestants represented by counsel comprise a group of approximately 20 water users who are almost exclusively growers of rice. Their position is that applicant can and will supply irrigation water for use on a greater rice acreage than applicant has heretofore served and that as a result applicant's requested rate is higher than that needed to produce the rate of return requested by applicant. These protestants alleged that any charge greater than \$1.40 per acre-foot of water is not justified.

One protestant, in propria persona, has heretofore received water for pasture or field crops at irregular intervals before and after the regular irrigation season. He alleges that applicant's proposal to state the beginning and end of the irrigation season in the tariff constitutes a withdrawal of present service.

He objects to any limitation being placed upon the service period.

Summary of Presentations

The presentations made by applicant and the Commission staff are summarized as follows. Protestant made no comparable showing.

Years 1952-Adjusted and 1953 Estimated, Present Rates

Item	1952 Adjusted		1953 Estimated	
	Applicant	CPUC Staff	Applicant ^a	CPUC Staff ^b
Operating Revenues	\$176,952	\$170,640	\$162,930	\$170,640
Operating Expenses				
Mtce. and Oper.	70,475	81,400	86,980	81,400
Gen'l. and Misc.	5,358	3,954	5,124	4,160
Uncollectibles	32	120	150	120
Taxes--other than income	17,312	16,837	17,341	16,990
Taxes on income	21,312	12,014	4,236	10,640
Depreciation	12,340	11,779	12,848	12,223
Total Oper. Exp.	126,829	126,204	126,679	125,533
Net Revenue	50,123	44,536	36,251	45,107
Rate Base (deprec.)	1,013,881	1,025,141	1,073,908	1,079,254
Rate of Return	4.94%	4.34%	3.38%	4.18%

a Reflects wage increase of September 1, 1953

b Does not reflect wage increase of September 1, 1953

Year 1954 Estimated, Proposed Rates, Applicant

Operating Revenues	\$227,800
Operating Expenses ^a	
Mtce. and Oper.	88,340
Gen'l. and Misc.	5,488
Uncollectibles	150
Taxes--other than income	18,135
Taxes on income ^b	37,348
Depreciation	12,867
Total Oper. Expenses	162,328
Net Revenue	65,472
Rate Base (deprec.)	1,112,958
Rate of Return	5.88%

a Reflects full-year effect of Sept. 1953 wage increase and 1954 pension increase.

b Federal Income Tax at 52%

Nature of Evidence

Applicant's presentation consisted of 14 exhibits, supported by oral testimony, setting forth in detail the results of operations of the Western Canal System for the year 1952, actual and adjusted, and for the years 1953 and 1954 as estimated. For the years 1953 and 1954 applicant's showing was on an average year basis with adjustments to show the effect of negotiated wage increases which became effective on September 1, 1953.

The Commission staff, by means of five exhibits and oral testimony, presented the results of its investigation of applicant's books, records, system and operations. Its showing paralleled that of applicant in that results of operations were set forth in detail on an average year basis for the years 1952 and 1953. No forecast was made respecting operations in 1954, however.

Protestants' showing consisted of testimony of a number of rice growers and representatives of the California Rice Growers Association and one engineer witness who presented one exhibit, based upon Commission staff Exhibit No. 12, later revised, which set forth an estimate of the rate per acre-foot of water required to produce a return of 6% on the staff-determined rate base.

Major differences between applicant and staff concerned use of certain lands and the necessity of dredging the entrance channel between the Feather River and the main canal. Applicant and staff were in close agreement as to the number of acres irrigable in a so-called normal or average year, applicant claiming approximately 21,000 acres and staff claiming 21,790 acres. Protestants differed with both staff and applicant, basing revenue estimates upon the serving of 24,385 acres, the largest acreage

served in any one year. As a result, the major controversy in this proceeding became one of supporting the various contentions respecting the number of acres to be served. Further, since in excess of 95% of the acreage served is devoted exclusively to the production of rice, world and local markets, foreign and domestic governmental policies, agricultural economics and individual growers' habits respecting rice production became points of contention.

Neither protestants nor staff indicated that applicant was not entitled to an increase in water rates. Nor did protestants present any evidence indicating any lack of ability to pay the increased rates requested by applicant. Protestants, in substance, questioned only the amount of the increase necessary to produce a reasonable rate of return to applicant. In its fundamentals, the final determination in this proceeding becomes one of finding the number of acres devoted to rice production which applicant may reasonably serve in the future, basing revenue requirements on such acreage and authorizing a rate therefor.

On the one hand, we have the testimony of applicant's witness on revenues, to the effect that he had averaged the acreage served in seven postwar years, discarded one year as being subnormal because of government-ordered limitations on rice plantings, substituted another year therefor, thereby including one specific year twice, and arrived at a statistically derived answer of 20,519 acres. Such answer was raised to a round figure of 21,000 acres by such witness on the premise that the canal system would operate at approximately 100% of its capacity when serving such an acreage. Such position was supported by the testimony of applicant's superintendent who stated that the limit of the canal is 21,000 acres "for good safe operation." In further

explanation, the superintendent indicated that if a larger acreage were to be served in a normal year, apportionment of water between irrigators might be necessary during the early period of the irrigation season.

On the other hand, we have the record, brought out by protestants, that applicant actually supplied water to 24,385 acres during the 1953 season. Further, applicant's records disclose that applicant has actually served 21,978 acres in 1949, 22,959 acres in 1951 and 22,493 acres in 1952, all being in excess of the acreage on which applicant based its estimates. During the year of government-curtailed plantings only 17,586 acres were served. Protestants' witnesses indicated that in future years they expected no curtailment of rice plantings and some indicated an increasing acreage for rice irrigation during the next few years. On the basis of such predictions protestants urge that revenue requirements be met by acceptance of the maximum water deliveries made to date as the quantity which applicant will sell in each future year.

Revenues

In weighing the evidence we shall consider the year 1950 as subnormal and the year 1953 as abnormal because of governmental control in the first and because of unusual climatic conditions in the second. Based upon the foreseeable future and relating the forecasts before us in this proceeding to the statistics of the postwar years, we find that applicant may be expected to serve 21,000 acres of rice land at a duty of 6.4 acre-feet per acre and 1,000 acres of other crops at a duty of 2.2 acre-feet per acre in a future normal year. Revenue requirements will be spread over such usage by the water rates hereinafter authorized.

Expenses

The differences between applicant and Commission staff with respect to adjustments or estimates of expenses lie primarily in three categories. The first concerns maintenance expenses and particularly the costs pertaining to dredging of the intake portion of the canal system. The second concerns the assignment of a reasonable portion of general and administrative costs to this system. The third pertains to increased salaries and pension expenses resulting from recently completed labor negotiations.

For dredging the intake channel, applicant included an allowance of \$5,800 as an average yearly expenditure for such work. Such allowance was based upon a 1947 cost of \$29,950 and an estimated cost of \$35,000 for doing similar work two years hence. The staff allowance for this item was \$850, apparently based upon the historical 35-year period between first usage and subsequent dredging. We are of the opinion that applicant's estimate of this item is the more realistic and will include its estimated amount as a reasonable average expense for the foreseeable future.

With respect to proration of administrative and general expenses applicant and staff differ by about \$1,200. The method used by each has been consistently followed in all of applicant's recent water rate increase applications. All but one of applicant's water systems having by this time been before the Commission and the Commission having thus far in such cases adhered to the staff method, such staff method will be followed in this instance and we shall adopt the staff calculated amount as being a reasonable estimated proration of these items of expense.

The annualized cost of increased wages and pension expense, in the amount of \$2,450 assignable to this system, was calculated following completion of the staff's investigation.

Such increased costs of operation will be fully effective for the entire year 1954, the first year in which increased rates may be effective. Such costs will be recognized herein.

At the present time Federal income taxes are calculated at an aggregate rate of 52% and will continue at such rate until April 1, 1954 when a 47% rate becomes effective. On an average basis the rate for the calendar year 1954 will be 48.23%. Due allowance will be made herein for such lesser tax rate on income.

Rate Base

For the year 1953 the difference between applicant's rate base of \$1,073,908 and the staff's rate base of \$1,079,254 (both under present rates) lies primarily in the requirement for working cash. Although applicant computed its working cash requirements as being equal to two months' average maintenance and operation expenses, it included a lesser amount in rate base for the purposes of this proceeding. The rate bases of applicant and staff are in close agreement when this one item is reconciled.

Applicant's estimated rate base of \$1,112,958 for the year 1954 is derived by adding net additions and betterments to the 1953 rate base. It appears to be reasonable and will be adopted herein at a rounded figure of \$1,113,000.

Net Revenue and Rate of Return

Relating the above-discussed elements on the basis of a 52% Federal income tax rate indicates net revenue and rate of return for the estimated year 1954 at the \$1.75 per acre-foot rate proposed by applicant as follows:

Gross Revenues	\$ 239,000	✓
Total Operating Expenses	165,600	✓
Net Revenue	73,400	✓
Rate Base	1,113,000	
Rate of Return	6.6%	✓

Such a return, in this instance, would be excessive. A lesser increase than that requested will be authorized.

With respect to rate of return, applicant's treasurer testified as to the needs of applicant revenue-wise and as to applicant's financial position. He testified that the Western Canal System operations involve greater risks than the balance of applicant's operations in that the system lacks diversity of revenue sources. Being a "one-crop" water system it lacks stability comparable to that of a system supplying domestic, commercial, industrial and agricultural customers. Because of its sensitivity to the reaction of the one-crop price, its earnings may fluctuate widely. The system should be accorded a rate of return, on an average basis, higher than that accorded other utility operations, according to this witness. Such testimony was uncontroverted and, in our opinion, has merit. We note that even in recent years, when rice has been a prosperous undertaking for its customers, applicant's rate of return has been steadily declining and for a number of years has been below the level normally considered as reasonable. Applicant is in need of and entitled to a substantial increase in the earning position of this system. ✓

Conclusions

We find that a rate of return of approximately 6.15% on an average depreciated rate base of \$1,113,000 is reasonable for this system for the year 1954. Based upon such finding we shall authorize a rate of \$1.65 per acre-foot which, when spread over the usage hereinabove determined to be reasonable, should produce gross revenues of approximately \$225,400. After allowance for \$156,900 as reasonable average total operating expenses, a net revenue of \$68,500 is indicated and a rate of ✓
✓
✓

return of 6.15% will result for the year 1954. In the light of the testimony respecting future decline in rate of return and the effect of possible income tax reductions we conclude that should tax reductions actually occur, applicant's rate of return will remain unchanged from that hereinabove found to be reasonable; further, that if the prospective tax reductions do not occur, the rate of return may decline to about 5.75% in the succeeding year.

Certain of applicant's customers are presently served unmeasured or estimated deliveries. In the light of the evidence respecting such so-called "deviations" from service under the filed tariffs, we find no element of discrimination existing and in view of the unfavorable economics of providing metering devices for all of such customers we conclude that present practices and plans of applicant concerning the same properly may be continued. No establishment of additional instances shall be made, however, unless specific authorization of the same shall first have been obtained from this Commission.

In the light of the evidence respecting specifying dates for the commencement and termination of the annual irrigation season we conclude that applicant's proposal is reasonable. Surely, there can be no denial of the fact that a canal and ditch system must be emptied of water for reasonable periods of maintenance and rehabilitation work. Logically, such work should be done during those periods when customers' usage of water is either nonexistent or at a minimum. Applicant's proposal to make gravity deliveries normally available throughout the system during the period April 1 to October 15 and during periods extending one month earlier and later when water conditions permit deliveries without the operation of check structures, will be authorized.

O R D E R

Pacific Gas and Electric Company having applied to this Commission for an order authorizing increases in rates and charges for irrigation water service rendered in Glenn and Butte Counties from its Western Canal System, public hearings thereon having been held, the matter having been submitted and being now ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates and charges, in so far as they differ therefrom, for the future are unjust and unreasonable; 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 provisions of General Order No. 96, the tariff set forth as Schedule No. 1 in Exhibit No. 6 in this proceeding, except that the rate per acre-foot therein designated shall be changed to \$1.65, and, after not less than three days' notice to the Commission and to the public, to make said tariff effective for service rendered on and after January 1, 1954. ✓

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

Dated at San Francisco, California, this 8th day of December, 1953.

R. T. Anderson
President

Justice F. Caserio

W. H. Patten

John E. McMill

Gene Higgins
Commissioners