

ORIGINALDecision No. 55200

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 EL SOLYO WATER COMPANY, a corpora-)
 tion, for an order authorizing it to) Application No. 38841
 increase its rates.)

Albert J. Watson and A. M. Bronzan, for
 applicant;
Leo J. Biegenzahn, for Thos. Daily,
 Adriano Neto, Robt. Hartman, Chester
 Hartman, Brazil & Coelho, Chas. A.
 Morris, S. C. Bingham, H. E. Chunn,
 and Hartman-Janss Ranch Co., pro-
 testants;
J. J. Deuel and Joseph Q. Joynt, for
 California Farm Bureau Federation,
 interested party;
Walter John Cavagnaro, for the Commis-
 sion staff.

O P I N I O NNature of Proceeding

By the above-entitled application, filed February 20, 1957, El Solyo Water Company, a California corporation, seeks an order of this Commission authorizing it to increase its present rate of \$4.00 per acre-foot to a new rate of \$4.85 per acre-foot of water delivered.

Public Hearing

After due notice to county officials and to each customer of applicant, public hearing in the matter was held before Examiner F. Everett Emerson on April 16 and May 21, 1957, at the office of applicant at Vernalis. The matter was submitted on the latter date.

Nature of Evidence

Applicant distributes water for irrigation purposes to customers within the original boundaries of El Solyo Ranch in

Stanislaus County near the town of Vernalis. The service area comprises about 4,320 acres of which approximately half is land owned and operated by El Solyo Ranch, applicant's parent and presently its sole stockholder. The ranch is the largest of 17 customers presently being served by applicant.

The utility system consists of the diversion and pumping of water from the San Joaquin River and its transmission and distribution through an extensive system of unlined ditches and pipelines. Water is successively lifted through pumping stations so as to maintain six levels, the highest being about 70 feet higher in elevation than the river source of water.

Applicant's present rate of \$4.00 per acre-foot of water has been in effect since February 6, 1951.

The annual revenues and operating expenses of an irrigation system vary over relatively wide limits from year to year, depending among other things, on crop changes, crop rotation and conditions of rainfall and temperatures. Applicant therefore based its showing as to revenues upon the arithmetic averages of actual operations in the three years 1954, 1955 and 1956. With respect to operating expenses, applicant based its showing on the average amount of the past six years of actual operations, such average being a lesser amount than its latest full year of operation.

The Commission staff analysis of applicant's operations included a determination of average annual water sales over the life of the utility, adjusted to account for recent changes tending to permanently decrease the amount of water to be delivered. An investigation of operating expenses led the staff to the conclusion that the expenses as computed and estimated by the utility were generally reasonable; however, the staff used an amount for power purchases

equivalent to its assumed water sales and recomputed depreciation expense. A comparison of utility and staff presentations is as follows:

Present Water Rate

Item	:Normal Year: : Utility	1957 : CPUC Staff:
Operating Revenue	\$ 52,000	\$ 53,200
Operating Expense		
Before Taxes and Depreciation	44,510	44,710
Taxes	2,275	2,900
Depreciation	5,633	4,600
Total Operating Expense	<u>52,418</u>	<u>52,210</u>
Net Revenue	(418)	990
Rate Base (Deprec.)	125,145	125,000
Rate of Return	loss	0.8%

(Red Figure)

Proposed Water Rate

Item	:Normal Year: : Utility	1957 : CPUC Staff:
Operating Revenue	\$ 63,050	\$ 64,500
Operating Expense		
Before Taxes and Depreciation	44,510	44,710
Taxes	6,172	6,600
Depreciation	5,633	4,600
Total Operating Expense	<u>56,315</u>	<u>55,910</u>
Net Revenue	6,735	8,590
Rate Base (Deprec.)	125,145	125,000
Rate of Return	5.37%	6.9%

In addition to the above summary of results of operations, the utility's evidence indicates that as an average of the last three years' operations, the utility realized a rate of return of only 1.75 per cent on an average rate base of \$136,411.

The utility has neither installed nor retired any items of plant in the last six years. The recorded utility plant as of January 1, 1957, totals \$197,142 with a corresponding depreciation reserve of \$71,996.

Witnesses appearing as or on behalf of protestants were mainly from the highest level of the system. In general they complained of inability to obtain the full quantities of water desired during the periods of peak demand and at specific hours. Some also complained about the quality of water, claiming that salt intrusion is degrading the quality of the river water and that weed seeds are carried into the various farms as the result of lack of proper maintenance of the utility's ditches. In particular, protestants took issue with the justification of certain expense items; viz, (1) truck expenses of \$50 per month per truck for trucks owned by the ranch company and rented to the utility, (2) office and employee quarters rented to the utility by the ranch company and (3) the salary paid the manager of the utility. In addition, protestants look upon the utility as a "trustee" of water rights of the farmers and maintain that in order to protect the farmers' interests the utility should install an additional pump at the river, and should create a cash depreciation reserve. An engineer, appearing on behalf of protestants, testified that additional pumping of about 15 cfs would, in his opinion, be needed in order fully to meet irrigation demands at the peak usage period but he provided no details of the recommended installation or its probable cost. An engineer appearing on behalf of applicant, who has been responsible for designing, constructing and overseeing the operation of a number of irrigation systems in the general area, testified that applicant's system compared very favorably with the better of neighboring systems rendering similar service and that an additional pump was not needed nor economically feasible at the river.

Conclusions

Applicant has conclusively demonstrated its need for and entitlement to increased revenues. In our opinion a rate of return

of approximately 6½ per cent on a 1957 depreciated rate base of \$125,000 is fair and reasonable for this utility. The water rate of \$4.75 per acre-foot hereinafter authorized should, on the average or normal year basis used by the Commission staff, produce such an indicated result. We find that the authorized increase is justified and that the existing rate of \$4.00 per acre-foot of water is for the future unjust and unreasonable.

With respect to the operating expense items challenged by protestants, we can find no unreasonableness. Nor can we find any reason why applicant should be required to establish a cash depreciation fund.

Applicant has been basing its depreciation accruals on a straight-line total life basis using depreciation rates suggested by our staff in 1951. Consistent with the practice now accepted as standard by this Commission, future accruals should be based upon the straight-line remaining life method and the order herein will so provide.

O R D E R

El Solyo Water Company having applied to this Commission for an order authorizing an increase in the rate for water service rendered near Vernalis, public hearing thereon having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96, the rate schedule shown in Appendix A attached hereto and, on not less than five days' notice to the public and to this Commission, to make

such revised schedule and rate effective for all service rendered on and after August 1, 1957.

2. Beginning with the year 1957, applicant shall determine depreciation expense by multiplying the dollar amount of its depreciable fixed capital by a rate of 2.7 per cent, using such rate thereafter until review indicates that it should be revised. Further, applicant shall review said rate, using the straight-line remaining life method of depreciation accounting, whenever major changes in plant composition occur and at intervals of not more than five years, and shall revise the above rate in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

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

Dated at San Francisco, California, this 9th day of January, 1957.

 President
Raul Lutarovich

W. J. ...

P. ...

E. ... Fox

 Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

Schedule No. 3M

MEASURED IRRIGATION SERVICE

APPLICABILITY

Applicable to all irrigation water service furnished on a measured basis.

TERRITORY

The area lying generally west of the San Joaquin River and east of State Highway No. 33, approximately 2 miles south of the unincorporated community of Vernalis, Stanislaus County.

RATE

Per Acre-foot

For irrigation water delivered from any ditch or pipe	\$4.75
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SPECIAL CONDITION

The water supplied under this schedule is untreated water from open ditches. The utility does not represent or guarantee that any water delivered hereunder is potable or fit for human consumption.