

ORIGINAL

Decision No. 74269

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of FARMERS IRRIGATION)
COMPANY under Section 454 of the)
Public Utilities Code for authority)
to increase its public utility water)
rates.)

Application No. 49833
(Filed December 1, 1967)

Wyman C. Knapp, of Knapp, Gill, Hibbert
& Stevens; and D. A. Murray, for
applicant.

Albert F. Braggins and S. Robert Weissman,
for the Commission staff.

O P I N I O N

Applicant Farmers Irrigation Company seeks authority to increase rates for water service.

Public hearing was held before Examiner Catey in Santa Paula on April 18, 1968. Copies of the application were served and notice of hearing was published, posted and mailed to each customer, in accordance with this Commission's rules of procedure. The matter was submitted on April 18, 1968, subject to receipt of a late-filed exhibit. That exhibit has since been received.

Testimony on behalf of applicant was presented by its engineer-manager and two consulting accountants. The Commission staff presentation was made through an accountant and an engineer. No customers attended the hearing.

Service Area and Water System

Applicant owns and operates a water system providing irrigation service to a portion of Ventura County in and adjacent to the City of Santa Paula. The irrigated acreage and the number of active

customers fluctuate somewhat from year to year but in 1967 applicant served 64 customers, with a total irrigated area of 4,135 acres.

The principal water supply for this system is obtained from applicant's eight active wells. A supplemental supply is available from three nearby wells of applicant's affiliate, Santa Paula Water Works. The well water is pumped directly into the distribution system, which includes about 16 miles of mains terminating in an equalizing reservoir at the lower end of the system.

The Commission staff's Exhibit No. 6 contains the statement that a review of Commission records shows that no informal complaints have been received by the Commission from any of applicant's customers during the past five years.

Rates

Applicant's present tariffs include a single schedule of rates which covers measured service for irrigation and for other agricultural uses such as spraying of trees. These rates became effective in 1956.

Applicant proposes to increase its quantity rates and its minimum charge for irrigation service by 50 percent and its service charge for nonirrigation service by 130 percent. The higher percentage increase in the service charge as compared with the other rates and charges is appropriate because of the relatively high cost of providing water deliveries on request when irrigation service is not being provided concurrently. The following Table I presents a comparison of applicant's present and proposed rates:

TABLE I
COMPARISON OF RATES

<u>Item</u>	<u>Per Service</u>	
	<u>Present</u>	<u>Proposed</u>
<u>Irrigation Service</u>		
Quantity Rate, per acre-foot	\$8.0672*	\$12.1008#
Minimum Charge, per delivery day	4.80	7.20
<u>Nonirrigation Service</u>		
Quantity Rate, per miner's inch day	0.32*	0.48#
Service Charge, per delivery day	6.50	15.00

* Equivalent to \$0.01852 per Ccf.

Equivalent to \$0.02778 per Ccf.

Results of Operation

Witnesses for applicant and the Commission staff have analyzed and estimated applicant's operational results. Summarized in Table II, from applicant's Exhibits Nos. 4 and 5 and the staff's Exhibit No. 6, are the estimated results of operations for the test year 1968, under present rates and under those proposed by applicant. For comparison, this table also shows the corresponding results of operation, modified as discussed hereinafter.

TABLE II

ESTIMATED RESULTS OF OPERATION, TEST YEAR 1968

<u>Item</u>	<u>Applicant</u>	<u>Staff</u>	<u>Modified</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 61,640	\$ 62,400	\$ 62,400
<u>Deductions</u>			
Power & Pumping Exp.	19,515	19,010	19,010
Admin. & Gen. Exp. Transferred	(288)	(1,400)	(500)
All other Oper. & Maint. Exp.	35,031	33,470	35,040
Ad Valorem Taxes & Bus. License	5,360	5,790	5,790
Payroll Taxes	1,756	1,390	1,390
Depreciation	8,612	8,890	8,890
Subtotal	69,986*	67,150	69,620
County Franchise Tax	338	350	350
Income Taxes	100	100	100
Total	70,424	67,600	70,070
Net Revenue	(8,784)*	(5,200)	(7,670)
Rate Base	233,501	237,500	237,500
Rate of Return	Loss	Loss	Loss
<u>At Rates Proposed by Applicant</u>			
Operating Revenues	92,512	93,700	93,700
<u>Deductions</u>			
Excluding Franchise & Income Taxes	69,986	67,150	69,620
County Franchise Tax	490	530	530
Income Taxes	5,863	6,600	6,000
Total	76,339	74,280	76,150
Net Revenue	16,173	19,420	17,550
Rate Base	233,501	237,500	237,500
Rate of Return	6.93%	8.18%	7.4%

*Adjusted to correct for applicant's inadvertent omission of payroll taxes in Table No. 13 of Exhibit No. 4.

From Table II it can be determined that the rates requested by applicant would result in an increase of 50 percent in operating revenues.

The differences between the revenue estimates presented by applicant and the staff result from the staff's estimate of a slightly greater acreage irrigated. Applicant's estimate is based primarily

upon the average irrigated acres during the nine-year period ended with 1966. Data for 1967 were available by the time the staff estimates were being prepared and the staff used the average irrigated acres during the five-year period ended with 1967. The staff revenue estimates, which give greater weight to more recent experience, are adopted in Table II.

There is conflicting testimony as to the difference between applicant's and the staff's estimates of power and pumping expense. The staff witness attributes the difference to the staff's elimination of high unit cost water from Well No. 10 of Santa Paula Water Works, whereas applicant's witness testified that his estimate does not include the cost of any water from that well and that no water was used from that well during 1967. The difference between the two estimates appears to be due to the use of different base periods for establishing average unit cost. The staff estimate, which is based upon data for the same five-year period used in estimating revenues, is adopted in Table II.

Applicant's estimate of administrative and general expenses transferred is based upon the overheads on below-average capital additions during 1968 whereas the staff's estimate is based in part upon the overheads on above-average capital additions during 1967. A further study was made by applicant of plant additions for the eleven-year period ended with 1967. That study, Exhibit No. 7, indicates that capital additions subject to overheads averaged \$6,455 during that period. Applying the staff's estimated seven percent overhead factor to the \$6,455, and rounding upward in recognition of present higher cost levels, results in the \$500 adopted in Table II for administrative and general expenses transferred.

Most of the other differences between the operating and maintenance expense estimates of applicant and the staff are in payroll and related items. Applicant included half the effect of a possible five percent wage increase and the staff used the wage levels in effect at the time its study was being made. Late-filed Exhibit No. 3 shows that the five percent increase has, in fact, been granted to applicant's employees. Inasmuch as a single test year, rather than two consecutive test years, is being used in this proceeding, the full-year effect of the wage increase has been included in the expenses adopted in Table II.

Another item related to payroll is the staff's exclusion of an extraordinary sick leave expense. This appears reasonable for the test year estimate. The staff's estimate of "All Other Oper. & Main. Exp." grouped together in Table II is adopted, modified only to add \$1,310 for the wage adjustment and to add \$260 for regulatory Commission expenses, all such modifications being based upon information in the record which did not become available until after the staff report had been completed.

The staff's estimate of ad valorem taxes is higher than applicant's because the staff treated certain 1968 capital additions which were not revenue-producing additions as though they were installed at the beginning of the year. This is appropriate for a single test year upon which future rates are to be based. The staff estimate is adopted in Table II.

The staff's estimate of payroll taxes is lower than applicant's because the staff prorated the payroll taxes related to employees shared with affiliates whereas applicant's estimate assumed each affiliate would pay the full tax on each such employee.

The staff basis is in accordance with the present practices of applicant and its affiliates. The staff estimate is adopted in Table II.

The staff's estimate of depreciation expense is higher than applicant's because of the staff treatment of 1968 plant additions discussed hereinbefore. The staff estimate is adopted in Table II.

The difference between applicant's, staff's and modified estimates of income taxes reflects the differences in revenue and expense estimates discussed hereinbefore. Also, applicant estimates an investment tax credit of \$188.25 compared with the staff estimate of \$540. The supplemental study presented in Exhibit No. 7 shows average capital additions for the past eleven years which, when multiplied by the three percent applicable to applicant's operations, gives the \$470 investment tax credit used in computing the income taxes adopted in Table II.

The staff's estimate of rate base is higher than applicant's primarily because of the staff treatment of 1968 plant additions discussed hereinbefore. Also, applicant's deduction of depreciation accruals in estimating a working cash allowance duplicates, in part, the deduction of depreciation reserve in estimating a depreciated rate base. The staff estimate is adopted in Table II.

Rate of Return

In Exhibit No. 6, the staff recommends a rate of return of 7-1/2 percent. A staff witness explained that this was somewhat higher than might be reasonable for an ordinary domestic water system but is justified for applicant's irrigation system because of the greater risk and fluctuation in earnings due to weather conditions. We concur. Table II shows that the rates requested by applicant should produce a 7.4 percent return.

Findings and Conclusions

The Commission finds that:

1.a. Applicant is in need of additional revenues.

b. The adopted estimates, previously discussed herein, of operating revenues, operating expenses and rate base for the test year 1968 reasonably indicate the results of applicant's operations for the near future.

c. A rate of return of 7.4 percent on applicant's rate base is reasonable.

d. The increase in rates and charges authorized herein is justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

2. The depreciation rates developed by the Commission staff in Exhibit No. 6 are reasonable for applicant's plant.

The Commission concludes that the application should be granted. Inasmuch as applicant is operating at a loss under present rates, the order herein shall become effective on the date thereof.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, applicant is authorized to file the revised rate schedule attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedule shall be four days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date hereof.

2. For the year 1968, applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit No. 6. Until reviews indicate otherwise, applicant shall continue to use those rates. Applicant shall review its depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by: (1) subtracting the estimated future net salvage, and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 18th day of JUNE, 1968.

[Signature]
President

[Signature]
William J. [Signature]
Jud P. Morrissey
Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No. 3 M

(T)

Measured Irrigation Service

APPLICABILITY

Applicable to all measured irrigation service.

(T)

TERRITORY

A portion of Santa Paula and vicinity, Ventura County.

(T)

RATES

1. Irrigation Service

Per Service

(T)

Quantity Rate:

For all water delivered, per miner's
inch day

\$ 0.48

(I)

Minimum Charge:

For each delivery per 24-hour period
or portion thereof

7.20

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

2. Nonirrigation purposes, when no irrigation
service is provided.

Service Charge:

For each delivery per 24-hour period
or any portion thereof

15.00

(I)

(Continued)

Schedule No. 3 M

Measured Irrigation Service

RATES - Contd.

Quantity Rate:	<u>Per Service</u>	
For all water delivered, per miner's inch day	0.48	(I)

The Service Charge is a readiness-to-serve charge applicable to serve for nonirrigation purposes and to which is to be added the charge computed at the Quantity Rate.

SPECIAL CONDITION

A miner's inch day is defined as a continuous flow equal to one-fiftieth (1/50) cubic foot per second for a 24-hour period.