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Decision No. 89907 JAN 30 1979**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the adequacy of gas and electric utility rates for master meter customers who provide domestic gas or domestic electric service, or both, to users through a submeter service system.

Case No. 10273  
(Filed March 1, 1977)

Kermit R. Kubitz, Attorney at Law, for Pacific Gas and Electric Company; John S. Fick and Les E. LoBaugh, Attorneys at Law, for Southern California Gas Company; H. R. Barnes, Rollin E. Woodbury, Robert J. Cahall, William E. Marx, and Carol B. Henningson, Attorneys at Law, for Southern California Edison Company; Jeffrey Lee Guttero, Attorney at Law, for San Diego Gas & Electric Company; John P. Vetromile, for California-Pacific Utilities Company; and Douglas C. Fletcher, Attorney at Law, for Sierra Pacific Power Company; respondents.

Boris H. Lakusta, David J. Marchant, and James T. Proctor, Attorneys at Law, for Western Mobile-home Association; Ann Murphy, Attorney at Law, for TURN (Toward Utility Rate Normalization); Thomas M. DiFranco, Attorney at Law, for Gerson Bakar & Associates; Dennis B. Kavanagh, Attorney at Law, for Golden State Mobile Home Owners; Randy Baldschun, for City of Palo Alto; and Eugene Peeples, for Mobile Home Park Tenants; interested parties.

James S. Rood and Richard D. Rosenberg, Attorneys at Law, and Gregory J. Hobbs, P.E., for the Commission staff.

O P I N I O N

By Senate Bill 1747, enacted in 1976, the California Legislature added Section 739.5 to the California Public Utilities Code. This section provides that:

"The commission shall require that, whenever domestic gas or domestic electric service, or both, is provided by a master meter customer to users through a submeter service system, the master meter customer providing such submeter service, whether such customer is a mobilehome park, an apartment house, or a similar establishment, shall charge each user at the same rate which would be applicable if the user were receiving such gas or electricity or both, directly from the serving utility. The commission shall require the serving utility to establish uniform rates for each service schedule area for master meter service at a level which will provide a sufficient differential to cover the reasonable average costs to master meter customers of providing such submeter service provided, however, that such costs shall not exceed the average cost that the serving utility would have incurred in providing comparable services beyond the master meter to the submeter tenants."

Pursuant to Public Utilities Code Section 739.5 we ordered the present investigation on our own motion by order of March 1, 1977. The order calls for determination of a sufficient rate differential to master meter customers of natural gas and electric utility corporations to enable such customers (whether mobile home parks, apartment houses, or similar establishments) to recover their reasonable average cost of providing submetered service, subject to the limitation set forth in Section 739.5.

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The investigation was to include a determination by the Commission whether the 10% energy rate differential and service charge level established in Decision No. 86087 constitutes a sufficient rate differential for compliance with the statute, and if not, a determination of the appropriate rate differential. All electrical corporations and all natural gas corporations in the State were made respondents.

The Commission ordered respondents Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (Edison), and Southern California Gas Company (SoCal) to file with the Commission comments and detailed responses to the following requested data no later than 50 days from March 1, 1977:

"The average cost that the serving utility would have incurred in providing submeter service beyond the master meter to the submeter tenants. The cost is to be determined separately by service schedule (rate) area and categorized between metering and billing costs and other costs.

"Proposed tariffs for master meter service by service schedule (rate area) which would provide a sufficient differential to cover the reasonable average cost to master meter customers of providing submeter service."

Other respondents and other interested parties were ordered to file with the Commission data and comments not later than 60 days from March 1, 1977. Data regarding costs submitted by or in behalf of owners or operators of mobile home parks, apartment houses, or similar establishments were to differentiate clearly between costs to provide functional facilities and those costs directly associated with providing submeter services. Such data were also to include, where applicable, a statement that they had been the subject or product of an audit by a professional auditor.

The State Energy Resources Conservation and Development Commission, publicly owned utilities, Western Mobilehome Association (WMA), Golden State Mobilehome Owners League, and other interested parties were invited to participate in order to develop a complete record.

A prehearing conference was held at San Francisco on May 13, 1977 before Administrative Law Judge Gillanders. Hearings were held at San Francisco on June 6, 8, 9, and 10, 1977.

At the hearings, exhibits and testimony were presented by respondents PG&E, SDG&E, Sierra Pacific Power Company (Sierra), Edison, SoCal, and interested parties WMA and Mr. Peeples.

On June 20, 1977, SDG&E filed a "Petition for Proposed Report of Administrative Law Judge". On June 27, 1977 WMA filed an objection to SDG&E's petition. On October 6, 1977 the presiding officer filed his proposed report. Exceptions to the proposed report were filed by the Commission staff, PG&E, SDG&E, Edison, SoCal, and WMA. Replies to the exceptions were filed by SoCal and WMA.

Subsequently, further hearings were held on November 28, 29, and 30 and December 1 and 2, 1977.

At these hearings, exhibits and testimony were presented by: respondents - PG&E, SDG&E, Sierra, Edison, SoCal, California-Pacific Utilities Company (Cal Pacific), and Southern California Water Company (SoCal Water); interested parties - WMA, Gerson Bakar & Associates (Gerson), Golden State Mobile Home Owners; and by the staff of the Electric Branch of the Utilities Division of the Commission. Southwest Gas Co. and Pacific Power & Light Company submitted cost study exhibits but failed to appear at the hearings in support thereof. Based upon proper objection, Southwest Gas Co.'s exhibit was not received into evidence.

Permission was granted for the filing of opening and closing briefs. Opening briefs were filed on January 5, 1978 by PG&E, Edison, SDG&E, SoCal, WMA, and Gerson. Closing briefs were filed by the Commission staff, PG&E, Edison, SDG&E, SoCal, and WMA on January 30, 1978 and the matter was submitted. On February 16, 1978, WMA filed a "Motion Of Western Mobilehome Association To Strike The Reply Brief Of The Commission's Staff". The motion is hereby denied.

Position of the Parties

In their briefs, PG&E, SDG&E, and Edison assert that Section 739.5 of the Public Utilities Code requires a two-part evidentiary showing: (1) evidence of the costs of the master meter customer to deliver submeter service, and (2) evidence of the costs to the utilities to provide comparable service beyond the master meter to submetered tenants. All three companies also maintain that without a sufficient record of evidence of type (1) the Commission may not adjust the current differential, even though there may be a substantial record of evidence of type (2).

PG&E contends that while evidence of type (1) was presented by WMA for its service area, the evidence failed to meet the requirements of Section 739.5 of the Public Utilities Code and that, therefore, the Commission should either maintain the existing differential or "grant the bare minimum differential justified by any credible data reported by WMA, utilities, or the staff".

SDG&E and Edison argue that no evidence of type (1) was presented relevant to their service areas and for this reason no adjustment from the current differential is permitted under Section 739.5 for their companies.

WMA appears to have accepted Section 739.5 as requiring a two-part evidentiary showing. WMA, however, maintains that its evidence regarding PG&E's service area was sufficient not only regarding the costs for mobile home parks within PG&E's territory but for all other areas of the State as well.

The staff agrees with the utilities' argument that Section 739.5 requires a two-part evidentiary showing before the current differential may be adjusted upward. However, the staff is also of the opinion that if evidence of type (2) demonstrates that the current differential exceeds the utilities' costs, then Section 739.5 requires the Commission to lower the current differential even without there being a record of evidence of type (1).

According to SoCal there is absolutely no credible basis upon which to increase the economic benefits of the master meter customers who provide submeter service in its territory over the level of benefits that are presently being enjoyed. Indeed, all reasonable analyses demand an end to the existing 10% discount applicable to all usage billed at lifeline rates under SoCal's Schedule No. GS-Multi-Family Service Submetered. The existing monthly customer charge of \$3.10 according to SoCal is more than adequate to compensate the master meter customer who provides submeter service.

Discussion

In order to resolve the issues raised and to issue a decision in this case it is necessary to interpret Section 739.5 of the Public Utilities Code.

Section 739.5 of the Public Utilities Code requires that each utility establish "uniform rates for each service schedule area" to compensate master meter customers for providing submeter

service. It further requires that such rates "provide a sufficient differential to cover the reasonable average costs of providing such submeter service ..." not to exceed "the average cost the serving utility would have incurred in providing comparable services beyond the master-meter to the submeter tenants."

The statute thus requires that rates established to compensate master meter customers be established upon analysis of the actual costs incurred by master meter customers. These costs must be analyzed independently for each utility service area, and a reasonable average derived upon which "uniform" rate differentials are to be predicated.

The average costs of the serving utilities are relevant under the language of the statute only as a maximum allowable cost or ceiling, to be utilized only where the reasonable average actual cost of master meter customers exceeds the serving utility's cost. In establishing such a ceiling the Legislature apparently sought to minimize the burden which might otherwise be borne by directly metered customers as a result of the establishment of a differential predicated upon uneconomic or imprudently designed submeter systems.

In view of the statute's emphasis upon "average costs" and costs for "comparable services" it is reasonable to interpret Section 739.5 as requiring that apartment houses and mobile home parks be considered separately in establishing rate differentials.

WMA representing approximately 1,400 parks and 50% of the total mobile home spaces in California participated actively throughout the proceeding and provided cost data relative to master metered mobile home parks. WMA's initial cost study included all historical capital and annual costs plus an allowance for working cash and a rate of return on investment. Due to questions from the presiding officer concerning the reasonableness of an allowance for working cash and the inclusion of a sum for rate of return on borrowed funds, WMA submitted a revised cost study which excludes such amounts but which uses 15% of capital costs as a reasonable figure to cover the cost of borrowed funds (at 9.75% actual average interest), associated taxes, and a small margin of profit to compensate for risk.

WMA's initial cost study (Exhibit 4) gave electric and gas service costs for each separate rate zone. Since the time that Exhibit 4 was prepared the serving utilities have consolidated all gas service rate zones into one zone and, thus, WMA's revised costs show the system average of gas service costs rather than the costs for each rate zone. The costs that mobile home parks incur in providing submetered gas and electric service are as follows, according to the WMA:

<u>Gas</u> (system average)	\$ 4.41
<u>Electric</u> (underground service)	
Zone 2	\$10.89
Zone 3	\$12.07
Zone 4	\$10.26
Zone 5	\$10.70



Although WMA's evidence appeared to be based upon adequate records, the auditor responsible for their study refused to certify its accuracy. This fact in addition to several other factors raises some doubt as to the credibility of the WMA evidence. Although they surveyed 1,885 parks in preparing their cost analysis, they submitted an analysis of only 27 parks with submetered gas systems and only 34 parks with submetered electric systems. Only these few parks contained adequate data upon which to produce a study, according to the WMA, but this fact results in the selection of the sample not being random nor producing results which in a statistical sense could be termed average. The evidence in the record appears to indicate that the sample was in fact in some respects unrepresentative. Every park surveyed was in the PG&E service territory. This severely limits the value of the analysis under the statute (which requires analysis by each utility service area) and leaves us with absolutely no evidence of the actual costs incurred by master metered mobile home parks in utility territories other than PG&E's since no other party provided such data. Further, the limitation of the study to relatively new parks and to parks with underground service raises additional questions.

There was very little evidence presented regarding the costs to deliver electric submeter service to tenants of apartment complexes. Evidence was submitted by Gerson who offered evidence and testimony regarding the few apartment complexes they owned. There was no attempt made to provide evidence of the costs statewide or even to segregate what evidence there was according to each utility company territory. In any case, however, the evidence presented shows that the cost to deliver submeter service excluding distribution costs comes to \$1.59 per unit per month (Exhibit 54), an amount which appears below that currently provided by the differential.

PG&E introduced data at the November 28, 1977 hearing showing the costs ranging by zone from \$4.61 to \$5.15 for underground electric service to mobile homes, \$2.45 to \$2.66 for overhead electric service to mobile homes, \$3.29 for gas service to mobile homes, and \$1.45 for electric service to apartments (Exhibit 21). PG&E's data were based on a study of 360 parks with electric service and 262 parks with gas service. PG&E's data segregated costs by cost of plant, including mains, services, meters and regulators, operations and maintenance expenses, customer accounts, tax, and depreciation, in arriving at a cost per space per month.

Other respondent utilities submitted cost data which need not be discussed in light of the absence of master meter cost data beyond PG&E's service area. We cannot modify the present differential except through the procedure established in the statute. Absent evidence of average actual costs incurred by master meter customers in providing submeter service we are precluded by statute from increasing the present differential. While the WMA states that the costs to install submeter systems are uniform throughout the state, the evidence would suggest otherwise. The costs to the utilities vary among service areas and companies. The statute requires rates for each service schedule area. This means costs must be analyzed independently for the service area of each utility. The WMA study, however, is limited to the PG&E service area. Thus, our inquiry is necessarily limited to whether the cost analysis submitted by WMA justifies increasing the present differential with respect to PG&E's service area.

Although WMA's figures are subject to doubt, we do not feel they are wholly without credibility. Comparison of these figures with those developed by PG&E reveals such a difference of such magnitude that even admitting some error, modification of the present differential appears justified and reasonable. Since Section 739-5

precludes the use of costs in excess of those which would be incurred by the serving utility in providing comparable service, we will employ PG&E's costs in lieu of WMA's. These costs range from \$4.61 to \$5.15 per unit per month for electric underground systems and \$2.45 to \$2.66 per unit per month for electric overhead systems. We will utilize an amount of \$4.70 as the average cost for the purpose of developing the tariff discount for mobile home parks.

The present PG&E tariff discount of 10% on the rates applicable to lifeline usage and the retention of all but one customer charge<sup>1/</sup> results in the master meter customer recovering as a discount \$2.34/unit/month for electric service (based on 240 kWh for the lifeline quantity) and \$2.28/unit/month for gas (based on an average of 66 therms per month for the lifeline quantity). The total present differential to cover the reasonable average cost to submeter mobile home customers includes the effect of diversity of use by submetered tenants and is equal to (on a per unit per month basis):

	<u>Electric</u>	<u>Gas</u>
10% discount on rates applicable to lifeline usage	\$0.62	\$1.09
Customer charge <sup>1/</sup>	<u>1.72</u>	<u>1.19</u>
Subtotal	2.34	2.28
Diversity	<u>.84</u>	<u>.44</u>
Total	3.18	2.72

<sup>1/</sup> The customer charge is \$1.75/unit/month for electric and \$1.20/unit/month for gas. The master meter customer collects a customer charge from each tenant but must pay one customer charge to PG&E. The use of \$1.72 and \$1.19 estimate the amount per unit per month retained by the master meter customer.

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To yield the adopted average cost of \$4.70 per unit per month for mobile home electric service at present tariff rates and service charges, a discount of 30% will be adopted. To yield the adopted average for mobile home gas service of \$3.29, a discount of 15% will be adopted.

In establishing the 10% discount we stated in Decision No. 86087, "By this decision, we are, as an incentive to submeter, providing that ... the rates for complexes that are submetered will be 10 percent lower for the lifeline blocks than for similar complexes that are not submetered." (Mimeo, page 47.) In Decision No. 88651 we have ordered the utilities to separately meter each unit in new multi-unit residential facilities including mobile home parks. Further, in Ordering Paragraph 5 of Decision No. 88651 we have ordered the utilities to initiate and expand programs to encourage separate metering of units in existing multi-unit residential facilities now served only through a master meter.

The conversion to separate metering of existing master metered facilities directly by the utility (or by submeter) is a part of our goal to promote conservation and the efficient use of energy. Changing the 10% discount where appropriate should be examined in the general rate cases of each utility. The discount will be increased for mobile home parks in the PG&E service area based on the evidence in this proceeding. Further increases and decreases for mobile home parks and apartments will be examined in the general rate cases of each utility.

We assume the Legislature was aware in passing Senate Bill No. 1747 that there would be a shift in utility revenue between certain classes of customers. The differential we adopt in this proceeding will result in smaller utility bills for PG&E master meter distributors (increasing their return for submetering activity), and

other PG&E ratepayers will eventually have to contribute more through higher rates to cover this transfer of revenue. The Legislature did not indicate how rates should be adjusted to apportion the loss occasioned by reducing the master meter customers' rates. This task was presumably left to our discretion. Revenue adjustments will be handled in each general rate proceeding.

#### Findings

1. Public Utilities Code Section 739.5 requires apartment houses and mobile home parks to be considered separately in establishing rate discounts for master meter customers who submeter.
2. Public Utilities Code Section 739.5 requires evidence of the actual average costs incurred by master meter customers in providing submeter service before the discount can be increased.
3. The evidence of actual costs for mobile home parks pertains to the PG&E service area and our inquiry on rates for mobile home parks that submeter is limited to the PG&E service area.
4. The current discount for mobile home parks that submeter in the PG&E service area is inadequate. Adequate discounts include the effect of diversity and are 30% for electric and 15% for gas.
5. Other modifications to the discount for mobile home parks and apartments can best be determined in each utility's general rate cases and will be examined in those proceedings.

#### Conclusions

1. The current discount for mobile home parks that submeter in the PG&E service area is inadequate. Adequate discounts include the effect of diversity and are 30% for electric and 15% for gas.
2. The discount for mobile home parks that submeter cannot be increased in the service areas of the other utilities without evidence of the actual average costs incurred by master meter customers in providing submeter service in the service area.
3. Other modifications to the current discount of 10% can best be determined in each utility's general rate cases.

O R D E R

IT IS ORDERED that:

1. Within five days after the effective date of this order PG&E shall file amended tariff sheets to provide for a 30% discount on rates applicable to mobile home park lifeline service in Schedule No. DS and a 15% discount on rates applicable to mobile home park lifeline service in Schedule No. GS. The discounts (10%, 15% and 30%, as appropriate) do not apply to the customer charge but apply to the rates applicable to the lifeline quantity (e.g., kilowatt-hours, therms). Such filings shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. These schedules shall apply only to service rendered on and after the effective date thereof.

2. Case No. 10273 is discontinued. *Is*

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

Dated at San Francisco, California, this 30th day of JANUARY, 1979.

*Richard D. Howard*  
President  
*Joseph L. Sturgeon*  
*William T. DeWick*  
*John E. Byrne*

Commissioners

Commissioner Leonard M. Grimes, Jr.

Present but not participating.