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Decision No. 92177 SEP 3 - 1980

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority, among other things, to increase its rates and charges for water service provided by the Western Canal Water System. (Water)	Application No. 58628 (Filed January 25, 1979)

Malcolm H. Furbush, Robert Ohlbach, and Joseph S. Englert, Jr., Attorneys at Law, for Pacific Gas and Electric Company, applicant.
Minasian, Minasian, Minasian, Spruance & Baber, by Jeffrey A. Meith and Paul R. Minasian, Attorneys at Law, for Western Canal Users Association, protestant.
Jeanne M. Bauby, Attorney at Law, for California Farm Bureau Federation; and Marsh, Mastagni & Marsh, by Maureen C. Whelan, Attorney at Law, for International Brotherhood of Electrical Workers, Local Union 1245; interested parties.
Grant E. Tanner, Attorney at Law, and Arthur Mangold, for the Commission staff.

OPINION

Summary of Decision

This decision grants the Pacific Gas and Electric Company (PG&E) the first increase in water rates since 1954 for its Western Canal Water System (Western Canal). The decision finds that an increase in rates to yield additional revenues of $262,500, a return on rate base of 9 percent, and a return of 11.49 percent on common equity is reasonable. The basic rate is changed from $1.65 per acre-foot to $2.77 per acre-foot.

This is an application by PG&E seeking an increase in rates and charges for its Western Canal Water System. Because of interrelated subject matter this application was consolidated for hearing with the following other PG&E applications for increases in water rates: A.58629 (Willits Water System), A.58630 (Jackson Water System), A.58631 (Tuolumne Water System), A.58632 (Placer Water System), and A.58633 (Angels Water System).

A duly noticed public hearing was held in this matter before Administrative Law Judge Donald B. Jarvis in Oroville on August 3, 1979. Further hearing was held in San Francisco on September 11, 12, 13, 14, 24, 25, 26, 27, 28 and October 22, 23 and 24, 1979. The proceeding was submitted subject to the filing of briefs which were received by November 20, 1979.

Description of System

PG&E's Western Canal is an irrigation water system which provides untreated water primarily for the production of rice in Butte and Glenn Counties. Water for the canal system is diverted from the Feather River at the State Department of Water Resources, Thermalito Afterbay. The system contains about 31 miles of canal, the capacities of which range from about 1200 cubic feet per second for the main Western Canal at its head gates to about 30 cubic feet per second at the end of the Ward and Din.

Western Canal provides gravity water service generally between March 1 and November 15 of each year, with the principal irrigation period being from April 1 to about October 15. Deliveries are made from the system's canals to fields immediately adjacent to the canal and to privately owned laterals which serve other areas.

In 1978 Western Canal delivered 174,900 acre-feet to 149 customers.

Material Issues

The material issues presented in this proceeding are: (1) Is PG&E entitled to an increase in rates? (2) If an increase is warranted, what is a reasonable rate of return for this system? (3) Should the Commission, in this decision, enter an order dealing with deliveries of water to duck clubs during the non-irrigation season?

Present and Proposed Rates

The present general rates of Western Canal were authorized by Decision No. 49406 dated December 8, 1953 in Application No. 33960. The rates became effective on January 1, 1954. It was estimated that they would produce a rate of return on rate base of 6.15 percent for 1954.

The rates currently charged were made effective September 1, 1978 by Advice Letter No. 162-W. Advice Letter No. 162-W was filed July 28, 1978 pursuant to Ordering Paragraph 5 of this Commission's OII No. 19. The primary purpose of OII No. 19 was to reduce rates by passing on to customers the ad valorem tax savings resulting from the addition of Article XIII-A to the Constitution of the State of California (Jarvis-Gann Initiative; Prop. 13). The mechanism employed was the addition of a Tax Change Adjustment Clause (TCAC) to the Preliminary Statement for PG&E's Tariff Schedules applicable to water service in the Western Canal district. The TCAC specifies that the rates given on the tariff schedule are to be reduced by 8.6 percent. Western Canal's current rate is as follows:

Rate:

For all water	$1.65 per acre-foot
Minimum delivery, April 1st to October 15th	
For irrigation of rice ...	5 acre-feet per acre
For irrigation of other crops	2 acre-feet per acre
For fertilization and preparation of lands ..	1/2 acre-foot per acre

PG&E introduced evidence which indicates that at present rates it had the following actual and estimated rate of return from Western Canal:

	Year 1977 Recorded	Year 1977 Adjusted	Year 1978 Estimated	Year 1979 Estimated	Year 1980 Estimated
At Present Rates	4.25%	4.71%	3.85%	3.16%	1.26%

PG&E seeks herein authority to raise Western Canal rates to generate approximately 84 percent additional revenue which it contends will allow it to earn a rate of return on rate base of 9.84 percent. The proposed rates are as follows:

Rate:

For all water .... $2.77 per acre-foot

Minimum delivery charge, April 1st to October 15th

For irrigation of rice ...... 5 acre-feet per acre
For irrigation of other crops 2 acre-feet per acre
For fertilization and preparation of lands ..... 1/2 acre-foot per acre

Position of Western Canal Users Association

The Western Canal Users Association (Association) appeared in this proceeding. At the hearing in Oroville it took the position that it wanted additional ditch tender service, water made available to Association users for duck habitat and water made available for irrigation of winter grain crops. A witness for Association testified that it was satisfied with the present services provided by PG&E.

At the continued hearing in San Francisco, Association took the additional position that the application should be dismissed because PG&E had not made a sufficient factual showing on rate of return, or, in the alternative, PG&E had not demonstrated that the financing requirements for Western Canal are, as contended by PG&E, similar to those of its gas and electric departments.

Position of the Commission Staff

The Commission staff (staff) takes the position that a return on rate base of 9.84 percent is appropriate for Western Canal. There are some differences between the revenue and expense figures presented by PG&E and those developed by the staff in its investigation. The staff figures differ in the amounts utilized for depreciation, uncollectibles, interest charges, pensions and benefits capitalized, allocations, and other expenses. The staff contends that, utilizing its calculations, Western Canal should be granted an increase to generate additional revenues of approximately 80 percent. The proposed increase in rates, utilizing the staff's calculations, would provide a rate of return of 9.08 percent.

The staff recommends that PG&E be ordered to do a cost of service study on the water which has been furnished to duck clubs for many years in the non-irrigation season.

Discussion

PG&E and the staff utilized 1980 as the estimated test year for this proceeding. Association did not produce any evidence dealing with results of operations or rate base.

A. Water Consumption and Operating Revenues

PG&E and the staff introduced evidence with different estimates of water consumption and operating revenues. The differences are summarized as follows:

Item	Staff	Utility	Staff Exceeds Utility
	(Thousands of Dollars)		
Total Operating Revenues - 1980			
Present Rates	$313.7	$297.0	$16.7
Proposed Rates	576.2	546.0	29.8

The differences exist because the staff used recorded data for 1978 and data for 1979 indicate that the average number of acres served is higher than PG&E's earlier estimate. The staff's estimate for the average number of acres to be served in 1980 is 39,000 compared to the applicant's estimate of 36,000.

The staff also made independent estimates of consumption utilizing a multiple regression analysis for normalization, with the independent variables being time, temperature, and precipitation. The staff estimated the 1980 normalized consumption to be 4.87 acre-feet per acre compared to PG&E's estimate of 4.97. The Commission finds that the staff estimates, which are based on more recent data than those of PG&E, are more reasonable and should be adopted, as hereinafter modified.

B. Operating Expenses

1. Operation and Maintenance Expenses (Direct)

PG&E and the staff are in substantial agreement about estimated direct operation and maintenance (O&M) expenses for the test year. In its estimates PG&E included purchased power under the item of "ditch-other". The staff estimate made it a separate item to focus on its magnitude. The amount of each estimate is the same. The other difference occurs in the estimate for uncollectibles. PG&E and the staff used 0.001534 as the rate for uncollectibles. The difference in the amount results from the staff's using a higher estimate of revenues. Since we have found the staff's revenue estimate to be more reasonable, we find that the staff's estimate of uncollectibles is more reasonable and should be adopted. The estimated direct O&M expenses are as follows:

PG&E-Western Canal Water System
Operation & Maintenance Expenses
Test Year 1980

Item	Staff	Utility	Util. Exceeds Staff
	(Thousands of Dollars)		
At Present Rates			
Purchased Power	$ 1.4	$ 0.0	$(1.4)
Purchased Chemicals	0.0	0.0	0.0
Town Payroll	0.0	0.0	0.0
Ditch Payroll	187.9	187.9	0.0
Town Other	0.0	0.0	0.0
Ditch Other	42.4	43.8	1.4
Uncollectibles	0.5	0.5	0.0
Total Direct O&M Expenses	232.2	232.2	0.0
At Proposed Rates			
Uncollectibles	0.9	0.8	(0.1)
Total Direct O&M Expenses	232.6	232.5	(0.1) ✓

(Red Figure)

2. Administrative and General Expenses (Direct)

PG&E and the staff are in agreement with respect to estimated direct Administrative and General (A&G) Expenses. The estimate is reasonable and is as follows:

PG&E-Western Canal Water System
Administrative and General Expenses
Test Year 1980

Item	Staff	Utility	Util. Exceeds Staff
	(Thousands of Dollars)		
Regulatory Commission Ex.	$ 0.2	$ 0.2	$ 0.0
Franchise & Business Tax	0.0	0.0	0.0
Total Direct A&G Expense	0.2	0.2	0.0

3. General Office Prorated Expenses

a. PG&E, in estimating O&M allocated expenses, only referred to the allocations associated with two of many accounts. The staff, however, considered the total recorded allocations for the last five years. Data for the total allocations were extracted from PG&E's Annual Reports to the Commission. Using recorded total allocations as the basis for its estimate, the staff estimated 1980 allocated expenses to be $8,300, as compared to PG&E's estimate of $400. The Commission finds that the staff methodology gives a better indication of the probable future O&M allocations and should be adopted.

b. There is a difference between the PG&E and staff estimates of indirect A&G expenses. To determine indirect A&G expenses, it is necessary to determine the total and allocate an appropriate amount to the Water Department. The amount allocated to the Water Department is further allocated to each of the districts. These allocations are based on the "four-factor" ratios. PG&E's allocation to the Water Department is 0.35 percent, of which 10.21 percent is allocated to Western Canal. The corresponding staff ratios are 0.26 percent and 13.99 percent. Since the staff's O&M estimates are adopted, we will adopt the staff's four-factor ratios. However, we do not agree with the figure the staff used in determining the total amount of A&G expenses to be allocated. At the time of these consolidated hearings, the issue of PG&E's total A&G expenses was before the Commission in A.58545 and A.58546. The Commission takes official notice that in Decision No. 91107 entered on December 19, 1979 in the referred-to applications it adopted PG&E's final revised A&G estimate of $126,405,000 (less $62,000 for correction of an error in advertising expense[1/] for test year 1980

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in the electric department, and $59,036,000[2] for test year 1980 in the gas department. Therefore, we find that the correct total amount of A&G expenses to be allocated is $185,379,000. Since the total amount of A&G expenses that the staff used is $161,798,000, we find that the staff's estimates for allocated A&G expenses should be increased by 14.57 percent. For Western Canal, this results in an allocated A&G expense of $83,400.

c. For prorated ad valorem taxes, the Commission finds that the staff's estimates, which are based on more recent and actual data, are reasonable and should be adopted.

A summary of the General Office Prorated Expenses is as follows:

PG&E-Western Canal Water System
General Office Prorated Expense
Test Year 1980

Item	Staff	Utility	Adopted
	(Thousands of Dollars)		
O&M Allocated	$ 8.3	$ 0.4	$ 8.3
A&G Indirect	72.8	73.8	83.4
Ad Valorem Taxes	1.3	2.0	1.3
Total Prorated Expense	82.4	76.2	93.0

4. Taxes Other Than Income

PG&E and the staff presented differing estimates of ad valorem and payroll taxes. PG&E used the five years' assessed value from 1972-73 to 1976-77 to develop a compound growth rate of 2 percent per year. The 2 percent compound growth rate was used to project the 1978-79, 1979-80, and 1980-81 assessed value. PG&E applied an estimated $5.20 property tax rate to its estimated assessed valuation for 1980 ad valorem taxes. The staff used the

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latest property tax rate of \$4.418 per \$100 assessed market value (post Article XIII-A) in its estimates. The ratio of 1978-79 assessed value to beginning-of-year 1978 plant is 0.2342. Staff used this ratio, its estimated 1980 beginning-of-year plant, and the \$4.449 tax rate for its estimate of ad valorem taxes. The 1978-79 tax bills information (post Article III-A) was available to staff at the time its estimates were made while PG&E made a judgment estimate of a \$5.20 tax rate. PG&E and the staff used 1980 rates for FICA, FUI and SUI payroll taxes estimates. The staff's lower payroll tax estimate reflects a lower payroll estimate.

The Commission finds that staff estimates, which are based on more recent and actual data, are reasonable and should be adopted. A summary of the estimates is as follows:

PG&E-Western Canal Water System
Taxes Other Than Income
Test Year 1980

Item	Staff	Utility	Utility Exceeds Staff
Ad Valorem Taxes	\$22,600	\$24,500	\$1,900
Payroll Taxes	10,600	17,700	7,100
Total	33,200	42,200	9,000

5. Income Taxes

PG&E and the staff used a flow-through basis for tax computations. A comparison of the estimates is as follows:

PG&E-Western Canal Water System
Taxes Based On Income
Year 1980 Estimated at Present and at Utility Proposed Rates

Item	Staff		Utility	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
California Corporation Franchise Tax	$(12,400)	$11,200	$(16,080)	$ 6,296
Federal Income Tax	(62,600)	47,100	(79,780)	23,872
Total Income Tax	(75,000)	58,300	(95,860)	30,168

(Red Figure)

The income tax estimates are based, in part, on estimated operating revenues and O&M expenses. Since the Commission has found that, generally, the staff's estimates are more reasonable than those of PG&E for these items, it finds that the adopted income taxes should be based on staff estimates of revenues and O&M expenses.

C. Utility Plant

PG&E and the staff presented different estimates of Western Canal's utility plant, as follows:

PG&E-Western Canal Water System
Utility Plant
Test Year 1980

Item	Staff	Utility	Utility Exceeds Staff
Utility Plant	$2,710,660	$3,002,500	$291,900

The difference between the estimates results primarily from the fact that PG&E used an estimate of 1979 beginning-of-year plant and the staff used recorded data. The Commission finds that the staff estimate is reasonable because it is based on more recent data. It should be noted that in making its estimate the staff made certain adjustments, for ratemaking purposes, of the transaction in which the California Department of Water Resources (DWR) purchased an upper portion of Western Canal. Thereafter, DWR constructed the Thermalito Afterbay which inundated that portion of the Canal. The Afterbay project included a headworks to supply the remaining Western Canal. As a result of the project, PG&E's reliable source of water was increased from 800 cfs to 1,200 cfs, and a higher head was made available.

The staff adjusted the loss of undepreciated plant ($281,600) and offset against the capital gain realized from the sale of land and land rights, or $148,000. It amortized over a five-year period the resulting net loss of $133,600 ($281,600 - $148,000 = $133,600). The amortized expense is included in the staff's estimate of depreciation expense.

D. Depreciation Expense and Reserve

PG&E and the staff presented differing estimates of depreciation expense and reserve, as follows:

PG&E-Western Canal Water System
Depreciation Expense and Reserve
Test Year 1980

Item	Staff	Utility	Utility Exceeds Staff
Depreciation Expense	$ 50,300	$ 24,200	$(26,100)
Depreciation Reserve	1,461,000	1,592,100	176,000

(Red Figure)

The PG&E and staff depreciation expenses estimates differ because each used different amounts for the common utility plant allocation and estimated plant in service. The staff also included an amount of $26,700 to reflect the amortization of inundated utility plant as a result of the flooding of the Upper Western Canal Water System. Since the Commission found the staff estimate on utility plant to be reasonable, the Commission finds the staff estimate on depreciation expense to be reasonable and that it should be adopted.

There are some minor differences between PG&E and the staff with respect to net salvage percentages. The primary differences between the PG&E and staff estimates of weighted average depreciation reserve are due to different figures used for the common utility plant allocation and estimated plant additions. Having found the staff estimate on utility plant to be reasonable, the Commission finds the staff's depreciation reserve figures to be reasonable and that they should be adopted.

E. Rate Base

PG&E's estimated total weighted average rate base for the test year 1980 is $1,427,986. The staff's is $1,312,100. The Commission has considered the differences in discussing utility plant. The Commission finds that the staff estimate is reasonable and should be adopted.

F. Rate of Return

"The theory on which the state exercises control over a public utility is that the property so used is thereby dedicated to a public use. The dedication is qualified, however, in that the owner retains the right to receive a reasonable compensation for use of such property and for the service performed in the operation and maintenance thereof." (Lyon & Hoag v Railroad Commission (1920) 183 C 145,147; Federal Power Commission v Hope Natural Gas Co. (1944) 320 US 591.)

Association contends that the application should be dismissed because PG&E has failed to make an affirmative showing justifying an increase in rates. There is no merit in this contention. Association cites California Mutual Water Co. Assn. v Public Utilities Commission (1955) 45 C 2d 152 in support of its position. That case holds that in the absence of a showing the Commission cannot order an increase in rates. The Commission agrees with that general principle of law; nor does it have any difficulty with the holdings of the other cases cited by Association which indicate that the burden of proof rests with PG&E in this proceeding. The problem with Association's contention is that the record is to the contrary. PG&E did assume the burden of proof and persuasion and there is abundant evidence in the record concerning revenues, expenses, and utility plant. (Exhibits 5-WC, 6-WC, 7-WC, 8-WC, 30-WC, and 35.) The gravamen of Association's position is that on one issue, rate of return, PG&E utilized the rate found to be reasonable by the Commission in its most recent prior gas and electric rate increase decisions. (Decision No. 89316 in A.57284 and A.57285, entered September 6, 1978.)

The question of what constitutes a reasonable rate of return is one to be determined by the Commission. (City of Visalia (1969) 69 CPUC 311, 319; PT&T Co. (1954) 53 CPUC 275, 284.)

> "Among the factors which the Commission has enumerated in recent decisions on other utilities as influencing the rate of return which also might affect the level of rates or of a particular rate are: investment in plant, cost of money, dividend-price and earnings-price ratios, territory, growth factor, comparative rate levels, diversification of revenues, public relations, management, financial policies, reasonable construction requirements, prevailing interest rates

> and other economic conditions, the trend of rate of return, past financing success, future outlook for the utility, outstanding securities and those proposed to be issued. Additional factors to be considered are adequacy of the service, rate history, customers acceptance and usage developed under existing rates, value of the service and cost to serve. No one of the above factors is solely determinative of what may constitute reasonableness of earnings, rates, or rate of return." (PT&T Co., supra at p. 309.)

Cost of money is not decisive on the issue of rate of return. (So. Cos. Gas Co. (1960) 58 CPUC 27, 44; California Water & Tel. Co. (1952) 52 CPUC 180, 190.) This record is replete with evidence on all issues except those relating to the cost of money. In this area reliance is placed upon the Commission's findings in Decision No. 89316.

The record indicates that PG&E finances its capital requirements as an entity, not separately by departments. The Commission authorizes PG&E to finance on a unitary basis. For example, in Decision No. 90872 in A.59010, entered on October 10, 1979, the Commission authorized PG&E to issue not more than 10,000,000 shares of its $10 par value common stock "to reimburse its treasury for capital expenditures." Furthermore, in the last rate case involving a PG&E water system the Commission considered overall PG&E financing requirements in determining rate of return. (PG&E Co. (1977) 81 CPUC 800, 806.) At this juncture this Commission is only considering whether PG&E has met its burden of proof and has ✓ gone forward with evidence on the rate of return issue. The ✓ Commission finds that PG&E has met the burden and that Association's motion to dismiss should be denied. As indicated, PG&E introduced evidence herein on revenues, expenses, and utility plant of Western Canal. Because of its unitary capital financing, it was permissible for PG&E in presenting its case to utilize the most recent previous Commission electric and gas decision which found a rate of return based on PG&E's cost of capital for the test year 1978.

Decision No. 89316 gave extensive consideration to return on equity (which is companywide) in determining the rate of return for PG&E's gas and electric departments. (Slip decision at pp. 15-18.) It authorized PG&E a return on equity of 12.83 percent and a 9.5 percent return on rate base. (Decision No. 89316, Finding 4.) In the circumstances, PG&E could in presenting its case herein utilize the findings in Decision No. 89316, although the Commission is not bound by them in this proceeding in determining, on the merits, the appropriate rate of return.

In considering the rate of return to be allowed PG&E herein, the Commission notes that PG&E cannot be granted rates in excess of those requested in its application. (Public Utilities Code Section 454.) Thus, in the light of the estimates heretofore adopted, PG&E could not be authorized the rate of return which it requests herein. The Commission has adopted the sum of $22,700 as the estimated weighted average additions to Western Canal plant in service for the test year 1980. The estimated end-of-year plant is $2,710,600. The amount of capital required for Western Canal is small in relation to the remainder of PG&E's operations. So is the amount of existing debt attributable to Western Canal which needs to be serviced. The Commission deems return on equity, as distinguished from servicing debt, as an important consideration in setting Western Canal's rate of return. In this connection, the Commission notes that it has previously held that water utilities are a less risky investment than industrial companies and are not necessarily comparable to gas and electric utilities. (Citizens Utilities Co. of Cal. (1972) 73 CPUC 81, 90; Larkfield Water Co. (1972) 73 CPUC 258, 268-69; Washington Water & Light Co. (1972) 73 CPUC 284, 295-96.)

In reaching our determination of a reasonable rate of return for a canal system, we keep in mind the following:

> "We have in the past stressed the significance of the rate of return based on rate base. A closer analysis indicates that this figure is basically derived from the cost of capital required by the utility. Since the cost of debt and preferred stock is fixed and non-judgmental, the cost of equity capital (the return on equity) is the determination we are required to make which requires the most subjective and judgmental evaluation. From this, we arithmetically determine the rate of return on rate base. Thus, it is clear that the return on equity is the major determinant of the just and reasonable rates we are required to produce." (PG&E Interim Rate Increase (1977) 83 CPUC 293 at 298.)

PG&E and the staff based their presentations concerning return on common equity on Decision No. 89316 which authorized PG&E a 12.83 percent return on equity. Having analyzed the evidence the Commission finds that a return on equity of 11.49 percent is reasonable for Western Canal for the following reasons:

1. The amount of existing debt and equity capital attributable to Western Canal as compared to PG&E's overall capital requirements is small.
2. Water utilities, and in particular canal systems, are less risky investments than gas and electric utilities.
3. The long period between requested rate increases for Western Canal and the steady decline in the return on equity in the intervening years indicate that PG&E does not expect as great a return on equity from Western Canal operations as from its gas and electric operations.

The following capital structure and cost of debt underlies the rate of return adopted as reasonable in Decision No. 89316. We have substituted in that calculation a return on equity of 11.49 percent, which we find reasonable in this proceeding for Western Canal. The above capital and related debt cost and the adopted return on equity produce a rate of return of 9.0 percent.

PACIFIC GAS AND ELECTRIC COMPANY

Total Company Capital Ratios and Costs (1977)

Capital Components	Capital Ratios	Cost Factors	Weighted Cost
Long-Term Debt	47.26%	7.36%	3.48%
Preferred Stock	13.66	7.54	1.03
Common Equity	39.08	11.49	4.49
Total	100.00%		9.00%

G. Association's Request for Additional Service

At the hearing in Oroville, Association took the position that it wanted additional ditch tender service water made available to its users for duck habitat and water made available for irrigation of winter grain crops. These proposals were in general terms and not supported by any revenue and cost estimates. The presiding Administrative Law Judge indicated that if the question of additional service were to be an issue in this proceeding, Association had the burden of presenting a specific proposal with evidentiary support. He stated that he would receive evidence of such a proposal at the further hearing in San Francisco. None was forthcoming. Therefore, the requests made by Association need not be further considered in this proceeding. The Commission notes, however, that the correspondence file discloses that PG&E and Association are discussing, on a voluntary basis, implementing Association's requests.

H. Staff's Request for Duck Club Cost of Service Study

During the non-irrigation season Western Canal delivers water to various duck clubs. In its initial presentation the staff sought an order requiring PG&E to make a comparative cost of service study. The staff contended that if the relative costs of serving the duck clubs exceeded those of the other Western Canal customers the amount of excess should be deducted from gross revenue requirements herein. At the time it made its recommendation, the staff was unaware that the contracts for providing water to the duck clubs were entered into in 1922 to satisfy the terms of an injunction which prohibited Western Canal and its customers from releasing water into Butte Creek at the end of the irrigation season. The staff modified its position. It still seeks a cost of service study but does not contend that any adjustments based on such study be made herein. The staff also raises questions respecting the contracts with the duck clubs.

The Commission is of the opinion that the study requested by the staff should not be ordered in this proceeding.

No other points require discussion. The Commission makes the following findings and conclusions.

Findings of Fact

1. Western Canal is presently authorized to charge the following rate:

Rate:

For all water .... $1.65 per acre-foot

Minimum delivery, April 1st to October 15th

For irrigation of rice ..	5 acre-feet per acre
For irrigation of other crops	2 acre-feet per acre
For fertilization and preparation of lands .	1/2 acre-foot per acre

2. Western Canal will have gross operating revenues of $313,700 and return on rate base of -0.73 percent at presently authorized rates for the test year 1980, which are unreasonably low. PG&E is in need of additional revenues from its Western Canal system.

3. The sum of $576,200 is a reasonable estimate of the total operating revenues for the test year 1980.

4. The sum of $240,900 ($232,600 direct + $8,300 allocated) is a reasonable estimate of the total O&M expenses for the test year 1980.

5. A reasonable estimate for total A&G expenses for the test year 1980 is $83,600 ($200 direct + $83,400 allocated). This figure is consistent with the A&G estimates adopted in Decision No. 91107.

6. To keep total A&G expenses consistent with Decision No. 91107, the staff's original estimate of $72,800 for allocated A&G expense should be increased by 14.57 percent, giving $83,400.

7. A reasonable estimate for the total general office prorated expense for the test year 1980 is $93,000.

8. The staff estimates of ad valorem and payroll taxes of $33,200 for the test year 1980 are more reasonable than those of PG&E because they are based on more recent, recorded information.

9. The staff estimate of $58,300 for total income taxes for the test year 1980 is more reasonable than PG&E's estimate because it is based on other estimates heretofore found reasonable.

10. The staff estimate of $2,710,600 for utility plant for the test year 1980 is more reasonable than PG&E's because it is based on recorded data.

11. The staff estimates of $50,300 for depreciation expense and $1,461,100 for depreciation reserve are more reasonable than those of PG&E because they are based on data heretofore found to be reasonable.

12. The staff estimate of $1,312,100 for rate base is more reasonable than PG&E's because it is based on other calculations heretofore found to be reasonable.

13. PG&E met its burden of proof with respect to all issues in this proceeding including the issue of rate of return.

14. A return on rate base of 9 percent is reasonable for Western Canal, and is in compliance with the Federal Wage and Price Guidelines issued by the Council on Wage and Price Stability.

The 9 percent rate of return on the adopted rate base of $1,312,100 will produce a gross revenue of $586,000. The proposed rates requested by the utility will produce only $576,200. The authorized rates will be limited to the rates requested by the utility as shown in Appendix A.

15. The increases in rates and charges authorized by this decision are justified and are reasonable; and the present rates and charges, insofar as they differ from those prescribed by this decision, are for the future unjust and unreasonable.

16. The total amount of the increase in annual revenue authorized by this decision is $262,500; the rate of return on rate base is 9 percent; the return on common equity is 11.49 percent.

17. Association has not produced any evidence of costs and revenues to support its requests for additional service.

✓

18. The California Legislature approved AB 66 (Bill), which covers inventories and corporation franchise tax rate, in September 1979. One of the provisions of the Bill would increase the State Franchise Tax rate from 9.0 percent to 9.6 percent effective January 1, 1980. Both utility and staff used a 9.0 percent rate. The adopted results of operation reflect the 9.6 percent rate.

Conclusions of Law

1. The following results of operations are adopted for the test year 1980 and are utilized in establishing the rates authorized herein:

	(Thousands Of Dollars)
Operating Revenues	
Sales Revenue	$ 576.2
Total Operating Revenues	576.2
Operating Expenses	
Operation & Maintenance	232.6
Administrative & General	0.2
General Office Prorated	93.0
Subtotal	325.8
Depreciation Expense	50.3
Taxes Other Than Income	33.2
State Corp, Franchise Tax	10.9
Federal Income Tax	42.4
Total Operating Expenses	462.6
Net Operating Revenues Adjusted	113.6
Rate Base	1,312.1

2. PG&E should be authorized to file for Western Canal the revised water rates set forth in Appendix A which are designed to yield $261,100 in additional revenues based on the adopted results of operations for the test year 1980.

3. Association's motion to dismiss this proceeding should be denied.

4. Western Canal should not in this proceeding be ordered to provide additional service.

5. No order should be entered in this proceeding dealing with the water furnished to various duck clubs.

O R D E R

IT IS ORDERED that:

1. The motion of Western Canal Users Association to dismiss this proceeding is denied.

2. After the effective date of this order, Pacific Gas and Electric Company (PG&E) is authorized to file for its Western Canal Water System 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 five days after the date of filing. The revised schedule shall apply only to service rendered on and after the effective date of the revised schedule.

3. Within forty-five days after the effective date of this order, PG&E shall file a revised tariff service area map, appropriate general rules, and sample copies of printed forms that are normally used in connection with customers' services. Such filing shall comply with General Order No. 96-A. The effective date of the revised tariff sheets shall be five days after the date of filing.

4. PG&E shall prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103-Series.

Within ninety days after the effective date of this order, PG&E shall file with the Commission two copies of this map.

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

Dated SEP 3 - 1980, at San Francisco, California.

John E. Bryson
President

Leonard M. Grimes, Jr.
Vernon L. Sturgeon
Richard D. Gravelle
Claire T. Dedrick
Commissioners

APPENDIX A

Schedule No. WC-1

IRRIGATION SERVICE, METERED

APPLICABILITY

This schedule is applicable to the service of water supplied for irrigation during the period from March 1st to November 15th, inclusive.

TERRITORY

This schedule is applicable to all territory in Butte and Glenn Counties served from the Company's Western Canal Water System.

RATE

For all water .... $2.77 per acre-foot

Minimum delivery charge, April 1st to October 15th

For irrigation of rice	5 acre-feet per acre
For irrigation of other crops	2 acre-feet per acre
For fertilization and preparation of lands	1/2 acre-foot per acre

SPECIAL CONDITIONS

Gravity water service from the entire Western Canal System will be made available only during the period April 1st to October 15th, inclusive. During the periods March 1st to March 31st and October 16th to November 15th, general water and operating conditions permitting, water will be supplied from the system, excluding the High Line Canal, at water levels which may be available without operation of the check structures.