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ORIGINAL

Decision No. 92192 SEP 3 - 1980

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 Willits Water System. (Water)	Application No. 58629 (Filed January 25, 1979)

Malcolm H. Furbush, Robert Ohlbach, and Joseph S. Englert, Jr., Attorneys at Law, for Pacific Gas and Electric Company, applicant.
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.

O P I N I O N

Summary of Decision

This decision grants Pacific Gas and Electric Company (PG&E) the first increase in water rates since 1953 for its Willits Water System (Willits System). The decision authorizes an increase in rates to yield additional revenues of $249,000, a return on rate base of 9 percent, and a return on common equity of 11.49 percent. The increase is authorized to be implemented in three steps.

Application

This is an application by PG&E seeking an increase in rates and charges for its Willits 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.58628 (Western Canal 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 Willits on August 1, 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 Willits System consists of watershed lands, a storage reservoir, a water treatment plant, and a piped distribution network serving about 1,800 customers. The service area includes part of the city of Willits and adjacent territories in Mendocino County. In 1978 the system served 1,797 customers with 234,500,000 gallons of treated water.

Water is diverted from company-owned watershed lands that are a tributary to James Creek and impounded in Morris Lake, located southeast of Willits. The water from Morris Lake is treated in the water treatment plant, and then flows by gravity, with the assistance of pumps during the peak-demand periods, through 18,000 feet of 18-inch and 14-inch transmission main to the distribution system.

The capacity of the water treatment plant is about two million gallons per day, with distribution storage being provided in five storage tanks that have an aggregate capacity of 390,000 gallons. At the time of the hearing, PG&E had an additional three-million-gallon storage tank under construction.

Material Issues

The material issues presented in this proceeding are: (1) Is PG&E entitled to an increase in rates? (2) If PG&E is entitled to a rate increase what is the appropriate amount? (3) Should any increase be implemented in one step or several? (4) What is the appropriate rate design for any increase which may be granted? (5) Should the Commission disallow for ratemaking purposes the discount which PG&E provides its employees? (6) Should the Commission in determining expenses utilize the wages paid by PG&E under the statewide collective bargaining agreement which it has with the International Brotherhood of Electrical Workers? (7) How should the revenue from the decennial timber harvest be treated for ratemaking purposes?

Present and Proposed Rates

The present general rates of the Willits System were authorized by Decision No. 48050, dated December 16, 1952, in Application No. 32446. The rates became effective on January 5, 1953. It was estimated that the authorized rates would produce a rate of return on rate base of no more than 3½ percent for 1953.

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 19. The primary purpose of OII 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, Proposition 13). The mechanism employed is an addition of a Tax Change Adjustment Clause (TCAC) to the Preliminary Statement for PG&E Tariff Schedules applicable to water service in Willits. The TCAC specifies that the rates given on the tariff sheet for each rate schedule are to be reduced by 8.6 percent. Willits System's current general metered service rates are as follows:

Rates		Per Meter Per Month
Quantity Rates:		
First	400 cubic feet or less	$ 2.25
Next	1,600 cubic feet, per 100 cubic feet	.45
Next	3,000 cubic feet, per 100 cubic feet	.40
Next	5,000 cubic feet, per 100 cubic feet	.30
Over	10,000 cubic feet, per 100 cubic feet	.17
Minimum Charge:		
For	5/8 x 3/4-inch meter	$ 2.25
For	3/4-inch meter	3.00
For	1-inch meter	4.00
For	1-1/2-inch meter	5.00
For	2-inch meter	7.50
For	3-inch meter	15.00
For	4-inch meter	25.00
For	6-inch meter	50.00
For	8-inch meter	75.00

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

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

	Year 1977		Year 1978	Year 1979	Year 1980
	Recorded	Adjusted	Estimated	Estimated	Estimated
At Present Rates	(11.22%)	(10.09%)	(4.24%)	(1.73%)	(1.47%)

(Red Figure)

PG&E seeks herein authority to raise Willits System rates to generate additional revenues of $627,190, or 368.25 percent, which it contends will allow it to earn a return of 9.84 percent on rate base. Because of the magnitude of the proposed increase, PG&E proposes to implement it in two steps at a one-year interval as follows:

Rates	Step 1 Per Meter Per Month	Step 2 Per Meter Per Month
Service Charge:		
For 5/8 x 3/4-inch meter	$ 4.70	$ 7.00
For 3/4-inch meter	7.00	10.50
For 1-inch meter	11.65	17.50
For 1½-inch meter	23.30	35.00
For 2-inch meter	37.35	56.00
For 3-inch meter	70.00	105.00
For 4-inch meter	117.00	175.00
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.	$ 0.34	$ 0.50
Over 300 cu.ft., per 100 cu.ft.	0.82	1.23

Minimum Charge:

The Service Charge.

The Service Charge is a readiness-to-serve charge applicable to all measured General Metered Service and to which is to be added the monthly charge computed at the Quantity Rates.

Under PG&E's proposal the monthly bill for average residential use of 950 cubic feet of water would increase from $4.73 to $11.05 at Step 1 and $16.50 at Step 2.

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 the Willits System. It produced different estimates than PG&E on revenues and expenses. It contends that the additional revenues requested by PG&E would produce a return on rate base of 14.12 percent. The staff recommends an increase in revenues of $417,400 which would yield a return on equity of 9.84 percent and amount to a 244.8 percent increase in revenues.

Some of the reasons for the differing estimates are: (1) The staff contends that PG&E employee discounts should not be considered for ratemaking purposes. (2) The staff contends that the wages paid by PG&E pursuant to its union contract under union work rules should not be directly applied for ratemaking purposes. (3) The staff made different adjustments in the amounts utilized for uncollectibles, interest charges, pensions and benefits capitalized, allocations, depreciation, and other expenses.

Position of Willits System Customers

Eight customers gave sworn statements at the hearing in Willits. Some testified that if the proposed increase were granted they would not be able to afford the water to water their gardens and maintain the greenery around their houses. One witness testified that she raised livestock, and that it would be too expensive to keep cattle at the proposed rates. Some witnesses complained of water quality problems at certain times of the year. Two witnesses stated that any increase in rates should be put into effect gradually.

Position of International Brotherhood of Electrical Workers

The International Brotherhood of Electrical Workers, Local Union No. 1245 (IBEW) appeared in this proceeding. The IBEW contends that the Commission should not adopt the staff recommendation to eliminate consideration of the employee discounts for ratemaking purposes. The IBEW argues that this recommendation is contrary to Commission Decision No. 89653 and a prohibited interference with the collective bargaining process. It argues that the recommendation would interfere with the vested benefits of retirees. The IBEW also contends that disallowance for ratemaking purposes of the wage rates and work practices provided for in its collective bargaining agreement with PG&E would be contrary to public policy and not in the best interest of PG&E's customers.

Discussion

As indicated, PG&E has not been authorized to increase the rates for its Willits System since 1953.

> "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.)

The record clearly indicates that some increase is warranted. It is necessary to consider the magnitude thereof. In this consideration the Commission will use the test year 1980.

A. Employee Discounts

For many years prior to the advent of a collective bargaining agreement with IBEW, PG&E gave its employees a 25 percent discount for utility service which it provided. The discount applied to retired employees. The first collective bargaining agreement between PG&E and IBEW provided for maintaining all employee benefits then in existence. The present agreement provides that PG&E shall not "(1) abrogate or reduce the scope of any present plan or rule beneficial to employees...or (2) reduce the wage rate of any employee covered hereby, or change the conditions of employment of any such employee to his disadvantage." (Exhibit 65, § 107.1.)

In Applications Nos. 55509 and 55510, which were applications by PG&E to increase electric and gas rates, various parties urged the abolition of the PG&E employee discount. The staff took the position that the discount should be maintained for then current retirees and phased out over a 2 to 4-year period. In Decision No. 89315 entered on September 6, 1978, a divided Commission ordered the phasing out of the employee discount with continuation permitted to those persons retired as of a specified date. Various petitions for rehearing in Decision No. 89315 were filed. Thereafter, on November 9, 1978, a divided Commission, in Decision No. 89653, modified Decision No. 89315 to provide for retention of the employee discount and denied rehearing.

The discussion in Decision No. 89653 is as follows:

"The Commission is of the opinion that elimination of employee discount rates is inappropriate at this time since recent federal legislation prohibits taxation of these benefits.1/ Employee discount rates apparently will continue to be a tax free fringe benefit, and any additional cost that elimination of the discount rates might create should not be placed on PG&E's customers absent a convincing showing that such additional cost will not in fact occur and that the discount rates are a disincentive to energy conservation.

"1/ On October 7, 1978, President Carter signed H.R. 12841, which prohibits the issuance of regulations that would include employee fringe benefits in gross income." (Slip Dec. p. 1.)

Decision No. 89653, as pertinent here, ordered as follows:

"IT IS FURTHER ORDERED that the following findings and conclusions are inserted in Decision No. 89315 as follows:"

* * *

"On page 25, Findings 2, 5, and 6:

"'2. PG&E's employee discount rates have not been shown to be a disincentive to energy conservation'

"'5. Employee discount rates will continue to be a tax free fringe benefit since recent federal legislation prohibits the issuance of regulations that would include employee fringe benefits in gross income.'

"'6. Eliminating employee discount rates would ultimately result in increased cost of service.'

"On page 26, Conclusion 1:

"'1. Based on the evidence in this record it cannot be concluded that employee discount rates should be discontinued.'" (Slip Dec. p. 2.)

In this proceeding the staff does not directly attack the employee discount. It argues that the discount should not be allowed for ratemaking purposes herein. The rationale for the staff's position is that not all employees who receive the discount are used or useful in the water utility operation and that including the equivalent number of full-time employees actually engaged in water operations would have a negligible effect on revenue estimates.

IBEW contends that the discounts are part of the collective bargaining agreement with PG&E and refusal to consider them for ratemaking purposes is an impermissible intrusion into the collective bargaining process which is preempted under federal law.1/ IBEW argues that the staff position is contrary to Labor Code Section 923, which provides in part as follows:

"In the interpretation and application of this chapter, the public policy of this State is declared as follows:

"Negotiation of terms and conditions of labor should result from voluntary agreement between employer and employees. Governmental authority has permitted and encouraged employers to organize in the corporate and other forms of capital control. . . . Therefore it is necessary that the individual workman have full freedom of association, self-organization, and designation of representatives of his own choosing, to negotiate the terms and conditions of his employment, ..."

1/ PG&E is engaged in interstate commerce and is an employer within the meaning of the National Labor Relations Act, 29 USC § 151, et seq.

Finally, IBEW contends that the Commission should follow its holding in Decision No. 89653. It asserts that if the discounts are eliminated, greater revenues for PG&E will be required to pay for the substantial, taxable benefits to which the employees would be entitled.

PG&E argues that employee discounts are part of its collective bargaining agreement and should be allowed in this proceeding. It contends that if the discounts are disallowed, the staff presentation fails to provide for additional revenue necessary to compensate for the disallowed benefit or the source of such revenue.

PG&E grants its employees and retired employees a 25 percent discount for every service it provides to residents of the area in which the employee resides. If water, gas, and electric service are provided to residents in the area in which the employee resides, he or she will receive discounts on each of these services. If none of the service is provided to residents in the area in which the employee resides, he or she will receive no discounts.

The following is a summary of the number and classifications of PG&E employees who receive a water discount in the Willits System:

Employee	Class	Reside in Serv. Area	Receives Discount
Supervisors:			
No. 1	Manager	Yes	Yes
No. 2	Gen. Fore..	No	No
Clerical:			
No. 3	"B" Clk.	Yes	Yes
No. 4	"C" Clk.	Yes	Yes
No. 5	D/MTR Rdr.	Yes	Yes
No. 6	Mtr. Rdr.	Yes	Yes
Water & Gas Department:			
No. 7	Water & Gas Subforeman	No	No
No. 8	Water Trt.Oper.	No	No
No. 9	Helper	Yes	Yes
Gas & Water Service:			
No. 10	Util. Serviceman	No	No
No. 11	Util. Serviceman	No	No
Electric T & D:			
No. 12	T-man	No	No
No. 13	T-man	No	No
No. 14	Fore/clk.	Yes	Yes
No. 15	L.S.F.	Yes	Yes
No. 16	L.S.F.	No	No
No. 17	Lineman	Yes	Yes
No. 18	Lineman	Yes	Yes
No. 19	Lineman	No	No
No. 20	Lineman	No	No
No. 21	T & D Dr.	Yes	Yes
No. 22	Comp. P/Roll	No	No
No. 23	T & Dor.	No	No
No. 24	T-man	Yes	Yes

The impact on revenues of the staff's proposed reduction is as follows:

Revenue Reduction Due To Employee Discount

	Present Rates	Proposed Rates	Number of Employee-Customers
Willits System	$190	$690	12

While this impact is relatively insignificant for the Willits System, the staff seeks to apply the concept to all PG&E water systems and contends it will have a greater impact in some of the other proceedings which were consolidated for hearing.

The hearings in the consolidated proceedings which included this application are the first occasion in which the staff has sought to utilize the concept that the employee discount should be limited to persons used and useful in the specific operation. The holding in this case will have precedential significance. It will be asserted not only in subsequent PG&E water system matters but also in those involving gas, electric, and steam. Therefore, extensive consideration is warranted.

The contention of IBEW that the Commission may not disallow the employee discounts because the National Labor Relations Act preempts the Commission from interfering with the terms of the collective bargaining agreement need not be considered at length. Section 3.5 of Article III of the California Constitution, adopted on June 6, 1978, provides that:

> "An administrative agency, including an administrative agency created by the Constitution or an initiative statute, has no power:"
>
> * * *
>
> "(c) To declare a statute unenforceable, or to refuse to enforce a statute on the basis that federal law or federal regulations prohibit the enforcement of such statute unless an appellate court has made a determination that the enforcement of such statute is prohibited by federal law or federal regulations."

IBEW has cited no appellate court decision which holds that provisions of the National Labor Relations Act preempt the California constitutional and statutory provisions which confer ratemaking jurisdiction on this Commission. Assuming arguendo that IBEW's contention is correct, the Commission has no jurisdiction to act upon it in this proceeding.

On the merits, the Commission is of the opinion that the employee discount should be allowed for ratemaking purposes for the reasons which follow.

Employee discounts are part of a total compensation package embodied in a collective bargaining agreement between PG&E and IBEW. Such agreements are favored by federal and state law. (29 USC § 151 et seq.; Labor Code § 923.) There is no evidence in this record which would support a finding that the total compensation package emobdied in the collective bargaining agreement is unreasonable.

Decision No. 89653 found that PG&E employee discounts should not be eliminated. If reasonable compensation paid to employees is excluded from consideration for ratemaking purposes the effect will be a surreptitious diminution of PG&E's authorized rate of return.

The staff presentation in support of excluding employee discounts for ratemaking purposes was weak and not well-considered. The staff engineer who testified in support of the position had never examined the collective bargaining agreement and was not very familiar with Decisions Nos. 89315 and 89653. (RT 589, 591.) The record clearly indicates that many PG&E employees, at different times, perform functions for the various departments (gas, electric, water, and steam). The staff witness made no attempt to quantify this with respect to the water system. (RT 632.) Finally the lack of logic in the staff's position is illustrated by the following colloquy between the presiding ALJ and the witness:

> "ALJ JARVIS: Well, aren't you saying it should be a disallowed for ratemaking purposes which means it does not come out of operating revenues, but comes out of shareholders money?
>
> "THE WITNESS: No.
>
> "ALJ JARVIS: Where does it come out if it does not come out of allowed revenues?
>
> "THE WITNESS: I am not saying the discount for the used or useful employees should not come out of revenues.
>
> "ALJ JARVIS: No, you are restricting it from all employees?
>
> "THE WITNESS: Yes.

"ALJ JARVIS: So, to that extent, to the extent that that is covered in the union contract as implied by the questions and what you are saying is it is not funded out of operating revenues of the company -- is that correct?

"THE WITNESS: I would correct that a little bit if I may, my perception of it.

"It should not come out of the revenues of the water department.

"I would have no objection to it coming out of the revenues for the entire PG&E operation.

"ALJ JARVIS: Well, couldn't the argument be made in an electric or gas proceeding that since they were water matters that they should not come out of the other departments?

"Don't we go through a little circle that doesn't come out of any department, but in each case you say it comes out somewhere else?

"THE WITNESS: I don't know, and I don't think so, though, because I think that with what we have to look at here is that given the example of Tuolumne, again, where there are 60 employees or retirees who are eligible for it.

"ALJ JARVIS: I understand. You are claiming that only ten are useful.

"What I'm saying: if we adopt your theory, we don't need to go through the facts. We all understand what your postulate is for this. You say it should not come out of the water thing, but you have no objection if it comes out of somewhere else of the operating revenues of the company.

"I'm asking you where in the company it comes out of, and would not the same objection be made in these other departments in another case before the Commission?

"THE WITNESS: I don't know."

The Commission will include the employee discount in estimating revenues in this proceeding.

B. Union Wage Rates and Working Practices

As later considered, the staff in presenting its operation and maintenance (O&M) expense estimate for the test year made certain adjustments to the estimates presented by PG&E. Among the adjustments was one for O&M payroll. There was testimony in the consolidated hearing about wage rates and union work practices. Much of the testimony dealing with wage rates dealt with cleaning ditches and is not applicable to the Willits System. However, the staff took the position that the Commission should not give full recognition to the union work rules for the purposes of ratemaking. (RT 685.)

The union work rules are part of the collective bargaining agreement heretofore discussed. As indicated, the collective bargaining agreement is consonant with federal and state policy. Assuming the Commission has jurisdiction to disregard the agreement for ratemaking purposes, a strong showing of unreasonableness should be required before it does so. The staff made no such showing in this proceeding.

The Commission will not disregard for ratemaking purposes in this proceeding the wages and work rules provided for in the collective bargaining agreement between PG&E and IBEW. However, this determination does not mean adjustments will not be made for any inefficient use of labor by PG&E.

C. Water Consumption and Operating Revenues

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

Water Consumption and Operating Revenues

Item	Staff	Utility	Utility Exceeds Staff
Total Operating Revenues - 1980			
Present Rates	$170,500	$139,000	$ (31,500)
Proposed Rates	772,900	638,900	(134,000)

(Red Figure)

Some of the differences exist because the staff made its projections of residential customers based on recorded data to December 31, 1978. Insofar as the staff recommendations are based on recorded data they are more reasonable than those of PG&E and should be adopted.

PG&E included in its estimate an arbitrary 10 percent decrease in consumption for residual conservation resulting from the 1976-1977 drought. The staff did not make such an adjustment. The staff made independent estimates of consumption utilizing a multiple regression analysis for normalization with the independent variables being time, temperature, and precipitation. This differed from PG&E's approach which for most subclasses of service was a regression analysis using only time as an independent variable. Except for two subclasses, the staff's estimates were not significantly different and PG&E's normalized estimates were accepted. The two exceptions were consumption for business and public authority customers. For both exceptions, PG&E estimated 1980 consumption to be the same as 1976 recorded. The staff's multiple regression analyses for the two exceptions indicated a statistically significant linear increase in consumption with time. The staff projected the increase to 1980. The record clearly indicates that there is no longer any significant residual conservation from the drought. The staff estimate of consumption which is based on more extensive estimates than PG&E's and does not include an amount for residual conservation is more reasonable than PG&E's and should be adopted.

The staff estimate of revenues for the test year also differs from that of PG&E because the staff did not exclude the amount of the employee discount and it included a minimum charge adjustment in its estimate of revenues at present rates. The Commission has found that the employee discount should be used in estimating revenues in this proceeding. Therefore, the staff estimate will be modified to reflect the discount.

After considering the entire record the Commission finds that a reasonable estimate of revenues for the test year is $592,000.

D. Timber Harvest

The record indicates that every ten years PG&E harvests timber in the Morris Lake watershed area, which serves the Willits System. The watershed area is included in the rate base of the system. At current market prices the projected 1980-81 harvest will yield revenues of $1,961,927 less expenses of 12 percent for a net of $1,726,496.

The staff contends that the amount recorded for the timber harvest be amortized over the ten-year harvest cycle and an appropriate amount credited against revenue requirements. PG&E argues that the revenue received from the harvest should inure to the benefit of its shareholders. There is no merit in PG&E's position.

PG&E contends that the revenues from the timber harvest should accrue to its shareholders because it has not earned a positive return on the Willits System since 1970. The record clearly indicates that any lack of positive return is due to PG&E's own actions. This is the first application for an increase in rates for this system since 1952. PG&E's inattention cannot be made the basis for changing normal regulatory accounting principles. The watershed is in rate base upon which PG&E is authorized to earn a rate of return. Revenues from the timber harvest should be amortized and included in the estimated revenues for the test year. The Commission finds that $172,650 is the appropriate amount.

E. Operating Expenses

1. Operation and Maintenance Expenses

(a) Purchased Power

PG&E included its estimate for purchased power expenses in the category of "town other" expenses. PG&E provided no data on the sizes, efficiencies, and power consumption of individual motors.[2/] The staff estimated power purchase expense based on the lowest power requirement during the last five years which was assumed to indicate peak pump efficiencies. The requirement was multiplied by the staff's estimate of treated water production. The staff estimate is more reasonable than PG&E's because it is based on the efficient use of pumps and other estimates heretofore found to be reasonable, and should be adopted.

(b) Purchased Chemicals

The staff and PG&E based their purchased chemicals estimates on recorded costs. Because the 1977 and 1978 recorded costs were unusually high due to treatment plant inefficiencies, the staff excluded 1977 and 1978 data when making its estimate. Early in 1979 the plant was renovated and costs have decreased. The staff estimate of $8,000 is more reasonable than PG&E's because it is based on the efficient use of plant, and should be adopted.

(c) Payroll

The staff agrees with PG&E's estimate of payroll for customer accounts and this will not be discussed.

2/ Case No. 10114 relates to water conservation and is still pending before the Commission. In Decision No. 88466, the second interim decision in that case, the Commission required in Ordering Paragraph 4 that: "Reports on pump efficiencies and pump overhaul status shall be presented as evidence during rate proceedings." PG&E is a respondent in Case No. 10114.

There is a considerable difference between the PG&E and staff estimates for the remaining payroll expenses.

PG&E is primarily a gas and electric utility. Its accounting procedures and computer data programs are not set up in the format usually utilized by water utilities. PG&E's payroll estimates are based on amounts actually allocated to the Willits System in its accounting system and projected for the test year. These allocations are derived in the following manner. The salaries of employees who work full-time for the Willits System are credited to payroll. As indicated, some PG&E personnel work for more than one department. In these instances, the person's field supervisor determines the percentage of time worked in each department. The dollar value of the percentage is placed in the payroll item for the appropriate department. The percentage allocations made by the field supervisors are not audited.

The ordinary methodology of the staff in estimating payroll expenses is to examine the recorded data for the water system in question. In this proceeding the staff made various data requests to which PG&E did not timely respond. When it did respond, PG&E found it necessary to twice correct its initial response. Certain information requested by the staff could not be provided.[3/]

When the staff became dissatisfied with PG&E's responses to the data requests it developed its own methodology for estimating payroll expense. A staff witness made a comparative analysis of customer expenses for 34 California water systems. The staff

3/ PG&E contends that to have provided the information would have required visual search of records where over 15,000 entries a day are made, which, it asserts, is unreasonable.

exhibit contains a graph which shows that the O&M payroll cost per customer in the 34 systems selected for comparison ranges from $18 to $52. PG&E's estimated cost per customer exceeds this range in each of its domestic systems. In the case of the Willits System it is $85, according to the staff. Based on his investigation, the witness recommended that an amount of $40 per customer for O&M payroll would be reasonable for the Willits System. The staff used this amount in its estimate.

In rebuttal, PG&E introduced an exhibit which purports to show that the O&M payroll estimate is a lesser amount per customer than stated by the staff. Under PG&E's figures the amount of O&M payroll per customer, before subtractions, is $68.48. PG&E contends that utilities with water treatment plants have greater labor costs than those using well water or purchased water. It contends that water treatment labor should be subtracted from the staff's comparison. PG&E also contends that its labor costs, which are based on the collective bargaining contract, are higher than those of nonunion utilities and this increment should be subtracted in the comparison. With these adjustments, PG&E contends that its payroll O&M for the Willits System is $35.75.

The Commission is of the opinion and finds that the methodology used by PG&E to determine payroll O&M is generally more reasonable than that used by the staff and, with a 20 percent adjustment, should be utilized.

PG&E is entitled to have deducted as expenses for ratemaking purposes the amount it will reasonably spend for O&M payroll during the test year. As the applicant, it has the burden of proof and going forward with the evidence on this issue. (Evidence Code §§ 500, 550; <u>Shivell v Hurd</u> (1954) 129 CA 2d 320, 324; <u>Ellenberger v City of Oakland</u> (1943) 59 CA 2d 337.) However, it is for the Commission to make the determination as to what are reasonable O&M payroll expenses. (Federal Power Commission v Hope Natural Gas Co., supra; City of Visalia (1969) 69 CPUC 311, 319.) The record clearly indicates that PG&E has produced evidence upon which findings can be made.

PG&E based its estimates for O&M payroll on recorded data of payroll allocated by its accounting procedures to the Willits System in past years. The use of recorded data as the basis for test year estimates is time-honored and appropriate. The difficulty with PG&E's figures is that the underlying data was not provided upon which examination into the following areas of inquiry could be made: (1) Whether PG&E's field supervisors made proper time allocations for percentage of salaries charged to the Willits System, and (2) whether PG&E used its personnel most efficiently in operating the Willits System.

The staff methodology for estimating O&M payroll is faulted. As indicated, PG&E is entitled to reasonable expenses for operating and maintaining the Willits System, regardless of what reasonable expenses may exist in other systems. The staff methodology of deriving a per-customer cost for O&M payroll for other systems is only a device for testing reasonableness.

The staff witness initially selected comparisons which differed materially from the PG&E water systems. Some of the examples were from large water systems with over 5,000 customers. Thereafter, he added to his reports 11 additional examples, which were more comparable to the PG&E water systems, but he did not redo his original estimates. Pertinent testimony of the staff witness is as follows:

> "THE WITNESS: My first rough estimate did not include systems, for want of a better term, that are PG&E-like.
>
> "I did not think that that was fair to PG&E.
>
> "So, I included half a dozen, possibly more systems, that were as close as I could come to duplicating PG&E's water treatment system.

"Q Now, when you added these systems, did you also redo the results of your original graph which you have before you to include those 11 additional systems to be compared, and did you revise your numbers based upon any additional data?

"A No.

"ALJ JARVIS: Excuse me.

"If the original systems were not PG&E-like, which I would assume would not be comparable, why did you keep them in?

"THE WITNESS: I wanted a wide variety.

"I wanted to examine all different kinds of water systems." (RT 690-91.)

Some of the systems used in the staff comparison had no water treatment and the staff witness made no attempt to determine the degree of water treatment existing in others. None of the systems used in the comparison paid PG&E wage rates. The witness was not familiar with whether the systems used in the comparison had union work rules similar to PG&E's. In view of the deficiencies in the staff methodology, it will not be adopted.

While the Commission will adopt PG&E's methodology, adjustments must be made. As indicated, the time allocations of the field supervisors have not been audited and the record indicates a possible margin of error in these allocations. It also indicates labor may not always be effectively utilized in the Willits System. The Commission finds that the magnitude of these deficiencies does not exceed 20 percent and PG&E's payroll estimate will be reduced by that amount.

(d) Other Expenses and Uncollectibles

PG&E included purchased power in its estimates under the item of "town other". The staff made a separate estimate which was previously adopted. 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 generally more reasonable, we find that the staff's estimate of uncollectibles is more reasonable and should be adopted. The estimated O&M expenses are as follows:

PG&E Willits Water System
Operation & Maintenance Expenses
Test Year 1980

Item	Staff	Utility	Adopted
	(Thousands of Dollars)		
At Present Rates			
Purchased Power	$ 15.8	$ 0.0	$ 15.8
Purchased Chemicals	8.0	12.5	8.0
Town Payroll	75.0	121.3	97.0
Ditch Payroll	0.0	0.0	0.0
Town Other	61.5	62.5	61.5
Ditch Other	0.0	0.0	0.0
Uncollectibles	0.3	0.2	0.3
Total O&M Expenses	160.6	196.5	182.6
At Proposed Rates			
Uncollectibles	1.2	1.0	1.2
Total O&M Expenses	161.5	197.3	183.5

2. General Office Prorated Expenses

PG&E only referred to the allocations associated with three of many accounts in estimating allocated O&M expenses. The staff, however, considered the total recorded allocations for the last five years. Data for the total allocations was 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 $6,000, as compared to PG&E's estimate of $4,900. The Commission finds that the staff methodology gives a better indication of the probable future allocations and should be adopted. The estimates of General Office Prorated Expense are as follows:

PG&E Willits Water System
General Office Prorated Expense
Test Year 1980

Item	Staff	Utility	Adopted
	(Thousands of Dollars)		
O&M Allocated	$ 6.0	$ 4.9	$ 6.0
A&G Indirect	50.7	76.1	63.4
Ad Valorem Taxes	1.2	2.5	1.2
Total Prorated Expense	57.9	83.5	70.6

3. Administrative and General Expenses

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 Willits Water System
Administrative and General Expenses
Test Year 1980

Item	Staff	Utility	Adopted
	(Thousands of Dollars)		
Regulatory Commission Ex.	$0.3	$0.3	$0.3
Franchise & Business Tax	2.0	2.0	2.0
Total A&G Expense	2.3	2.3	2.3

There is a difference between the PG&E and staff estimates of indirect A&G expenses. As indicated, the record clearly discloses that many PG&E employees, at different times, perform functions for its various departments (gas, electric, water, and steam). This procedure provides for the efficient use of personnel and benefits the ratepayers in each department. To determine indirect A&G expenses it is necessary to determine the total and allocate an appropriate amount to the water department. An additional allocation must be made to attribute to the Willits System the proper proportion of the amount determined for the water department.

At the time of these consolidated hearings the issue of PG&E's total A&G expenses was before the Commission in Applications Nos. 58545 and 58546. The staff based its estimates on the data which it presented in those proceedings. PG&E used a different methodology. 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 estimates. (Slip Decision, pp. 25, 46; Tables 4-1, 4-2; Finding No. 8 at p. 197.) In addition, the staff also reduced certain amounts to reflect the adjustments which it proposed be made in O&M payroll. These adjustments have not been adopted. The allocation of A&G indirect expenses is a complex procedure which is dependent to a large degree on the four-factor formula. The Commission finds that the sum of $63,400 is reasonable for A&G indirect expenses.

PG&E Willits Water System
Administrative and General Expenses
Test Year 1980

Item	Staff	Utility	Adopted
Total A&G Expenses - 1980	$53,000	$78,300	$65,700

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 5 percent per year. The 5 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 latest property tax rate of $4.449 per $100 assessed market value (post-Article XIII-A) in its estimates. The ratio of 1978-79 assessed market value to beginning-of-year 1978 plant is 0.2342. Staff used this ratio in 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 XIII-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 Commission finds that the staff estimate on ad valorem taxes, which is based on more recent and actual data, is reasonable and should be adopted.

The staff's estimate of payroll taxes is less than PG&E's because the staff estimated lower payroll expenses, an estimate heretofore rejected. We adopted PG&E's estimate of payroll expense less 20 percent and will adopt PG&E's estimate of payroll tax less 20 percent.

A summary of the estimates is as follows:

PG&E Willits Water System
Taxes Other Than Income
Test Year 1980

Item	Staff	Utility	Adopted
Ad Valorem Taxes	43.1	52.0	43.1
Payroll Taxes	10.4	13.7	11.0
Total	53.5	65.7	54.1

5. Income Taxes

Except for differences in estimates of revenues and expenses, there are no income tax issues to be resolved. The adopted amounts reflect the adopted revenues and expenses.

PG&E Willits Water System
Taxes on Income
Test Year 1980

Item	Staff Present Rates	Staff Proposed Rates	Utility Present Rates	Utility Proposed Rates	Adopted
California Corporation Franchise Tax	$ (25,000)	$ 29,200	$ (35,900)	$ 8,900	$10,300
Federal Income Tax	(152,900)	98,900	(204,800)	3,800	7,700
Total	(177,900)	128,100	(240,700)	12,700	18,000

F. Utility Plant

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

PG&E Willits Water System
Utility Plant
Test Year 1980

Item	Staff	Utility	Adopted
Utility Plant	$3,407,100	$3,481,600	$3,432,300

The staff's allocations of common utility plant for the Willits System were based upon its estimate of common plant presented in Applications Nos. 58545 and 58546 which was adopted with minor exceptions which are insignificant here. As with general office prorated expenses, common utility plant is allocated by the four-factor formula. As was previously indicated, the allocation factor is between those estimated by staff and PG&E. We will adopt $192,400 as reasonable.

The remaining differences occur because of the staff's treatment of the write-off of a nonproducing well and of construction jobs over $50,000. The Commission finds that the staff estimates in these areas are more reasonable and should be adopted.

G. Depreciation Expense and Reserve

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

PG&E Willits Water System
Depreciation Expense and Reserve
Test Year 1980

Item	Staff	Utility	Adopted
Depreciation Expense	$ 70,300	$ 64,500	$ 70,900
Depreciation Reserve	1,160,600	1,195,600	1,160,900

There are some minor differences between PG&E and the staff with respect to net salvage percentages. The Commission finds the staff estimates of net salvage percentages to be more reasonable than those of PG&E and that they should be adopted. The primary differences between the PG&E and staff estimates of depreciation expense and weighted average depreciation reserve are due to different figures used for the common utility plant allocation and estimated plant additions. We will adopt amounts which reflect our adopted common utility plant.

H. Rate Base

PG&E's estimated total weighted average rate base for the test year 1980 is $2,163,900. The staff's is $2,119,800. The Commission has considered the differences in discussing utility plant. The Commission finds that the staff estimate should be adjusted for the aforesaid modifications for common utility plant. As adjusted, the staff's estimate is reasonable and should be adopted. A summary is as follows:

PG&E Willits Water System
Average Depreciated Rate Base
Test Year 1980

Item	Staff	Utility	Adopted
	(Thousands of Dollars)		
Weighted Avg. Water Plant			
Total Weighted Avg. Plant	$3,407.1	$3,481.6	$3,432.3
Working Capital			
Materials & Supplies	5.6	5.6	5.6
Working Cash Allowance	17.3	23.0	17.3
Total Working Capital	22.9	28.6	22.9
Adjustments			
Advances	(74.8)	(74.8)	(74.8)
Deferred Inv. Tax Credit	(74.8)	(75.9)	(74.8)
Total Adjustments	(149.6)	(150.7)	(149.6)
Subtotal Before Deduct.	3,280.4	3,359.5	3,305.6
Deductions			
Depreciation Reserves	1,160.6	1,195.6	1,160.9
Avg. Depreciated Rate Base	2,119.8	2,163.9	2,144.7

(Red Figure)

I. Rate of Return

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.)

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. (D.89316, Finding No. 4.) In the circumstances, PG&E in presenting its case herein could 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.

The Commission has adopted the sum of $67,600 as the estimated weighted average additions to the Willits System plant-in-service for the test year 1980. The estimated end-of-year plant is $3,455,200. The amount of capital required for the Willits System is small in relation to the remainder of PG&E's operations. So is the amount of existing debt attributable to the Willits System which needs to be serviced. The Commission deems return on equity, as distinguished from servicing debt, as an important consideration in setting the Willits System'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.) The Commission, having weighed all the factors, finds that a rate of return on rate base of 9 percent is reasonable for the Willits System.

In reaching the determination of a reasonable rate of return the Commission has kept the following in mind:

> "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.)

As indicated, 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 the Willits System for the following reasons:

1. The amount of existing debt and equity capital attributable to the Willits System as compared to PG&E's overall capital requirements is small.
2. Water utilities are less risky investments than gas and electric utilities.
3. The long period between requested rate increases for the Willits System 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 the Willits System's 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 the Willits System. The above capital and related debt cost and the adopted return on equity produce a rate of return of 9.0 percent.

PG&E Willits Water System
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

J. Rate Design

The staff proposed changes in rate design for all of PG&E's domestic water systems, including the Willits System. Under the staff proposal revenues as determined by the Commission would be spread among rate schedules on the basis of cost of service, the rate of return on rate base for each schedule should be kept constant and the Commission policy of subsidizing the revenue requirements for Public Fire Protection Schedule F-1 should be continued.[4/]

PG&E did not oppose the staff proposal. It expressed concern that strict adherence to cost of service criteria could lead to aberrations in town and ditch systems where a ditch customer could pay more for untreated water than a town customer would pay for treated water. This concern is not relevant in this proceeding because the Willits System is solely a town, one which provides treated water.

4/ The question of fire protection costs is separately considered later in this opinion.

The staff proposal would change PG&E's present minimum-charge-type of schedule to a service charge-quantity charge one.[5] The Commission is of the opinion that this change is desirable. It promotes conservation. In addition, a minimum charge schedule which has a service charge increment is based on average consumption. A consumer who uses less than the average quantity subsidizes larger users. A service charge-quantity charge schedule fairly allocates basic costs among all users and provides for payment based on use.

In PG&E Decision No. 84902 (1975) 78 CPUC 638, 726-727, and 737, several ratemaking factors are listed for consideration when designing a particular rate spread and/or rate structure. The Commission stated that:

> "Over the years a generally accepted set of attributes of a good rate structure has evolved; these are:
>
> "Production of the revenue requirement.
> Simplicity and ease of understanding.
> Stability of revenue.
> Fair apportionment of cost of service.
> Discouragement of wasteful use.
> Encouragement of efficient operation of system.
>
> "In the attempt to design rates possessing these attributes, various factors are usually considered. These are:
>
> "Cost of service.
> Historical rate structure.
> Competitive conditions.
> Value of service, including 'What the traffic will bear.'
> Adequacy of service.
> Customer acceptance."

5/ PG&E's proposed new tariffs provided for service charge-quantity charge schedules.

The Commission also stated at page 737:

> "Earlier we listed the generally accepted attributes of a good rate structure. These criteria are as valid now as they have ever been, but...their application requires a major overhaul in the traditional 'declining block' rate structure. . . . Today, the overriding task for this Commission, the utilities, and the public is conservation."

The Commission finds that the rate design proposed by the staff is reasonable and should be adopted. The Commission does not necessarily accept the entire rationale urged by the staff in presenting the rate design.

K. Step Rates

PG&E seeks authority to put the requested rate increases into effect in two annual steps. The staff proposed that for all of PG&E's domestic water systems the increases be placed into effect over a period of years in steps not to exceed 65 percent of the increase in any one year. Under the staff proposal the steps would range depending on the system, from two to six years. In the case of the Willits System the staff proposal would result in a period of three years before the rates authorized herein would become completely effective.

The proposed step rates do not include a factor for attrition. The staff conceded that it knew of no instance where the Commission had authorized step rates for periods of four years or more. The staff engineer testified that if the staff step rate proposal were adopted it would be anticipated that PG&E would apply for an additional increase before all the steps were implemented.

Step increases are warranted in this proceeding because of the magnitude of the increases authorized, which is due primarily to the inaction of PG&E. It waited twenty-six years from its last increase in rates to file this application. PG&E devoted its regulatory efforts during these years to pursuing gas and electric applications which yielded revenues of a substantially larger magnitude for the company.

In PG&E Co. (Tuolumne Water System) (1957) 55 CPUC 556, the Commission considered a similar problem and stated at pages 564-565:

> "Applicant has continued, through all the recent years of inflationary price increases, to serve the area on basic rates found justified in 1922. The economy has adjusted itself to those rates, and cannot escape a serious shock from their sudden doubling. Even conceding that the rates applied for are fully justified by present costs, and that the residents of the area have enjoyed bargain rates for many years, and that applicant might properly have been granted rate increases, in a series of applications over the years, that would have raised its rates to or above the level it now seeks, applicant is still not free from blame in the course it has followed. A utility, in return for the privileges it enjoys, has an obligation to serve the public welfare. It is culpable, if it encourages its customers to invest their money and build their economy on the expectation of low water rates, adhered to over a period of a full generation, and then suddenly demands a drastic increase in those rates. While this Commission cannot, on the record in these proceedings, deny the applicant the revenue for which it has proved its need, we shall, in the order that follows, require it to provide some cushion to assist its customers to adjust themselves to the increased rates which we must authorize. We shall do this by specifying that the final rates we shall approve shall go into effect in three steps over a 2-year period. We find such treatment, although unusual, to be fair and reasonable under the circumstances disclosed in this record."

The controversy herein is not whether to have step increases, but the number thereof. The staff formula is not reasonable because it provides for too long a period of time and contemplates pyramiding of granted but unrealized rate increases. PG&E's proposed time is too short. Considering the magnitude of the increase and all the other factors present in the record the Commission finds that the increases authorized herein should go into effect in three annual steps.

L. Fire Protection

Public Utilities Code Section 2713 which was enacted in 1979 and became effective on January 1, 1980 provides in part that:

> "(a) No water corporation subject to the jurisdiction and control of the commission and the provisions of Part 1 (commencing with Section 201) of this division shall make any charge upon any entity providing fire protection service to others for furnishing water for such fire protection purposes or for any costs of operation, installation, capital, maintenance, repair, alteration, or replacement of facilities related to furnishing water for such fire protection purposes within the service area of such water corporation, except pursuant to a written agreement with such entity providing fire protection services. A water corporation shall furnish water for fire protection purposes to the extent of its means and as a condition of a certificate of public convenience and necessity, in case of fire or other great necessity, within the boundaries of the territory served by it for use within such territory."

There is no evidence in the record of any agreement between PG&E and any entity providing fire protection services in the Willits System. In the circumstances, the rates hereinafter authorized will include a surcharge for fire protection.

M. Service Matters

Some customer witnesses complained about the odor and taste of the water during certain times of the year. The record indicates that the reason for the taste and odor of the water is as follows.

The water for the Willits System, which is mainly rainwater, is collected from surrounding watershed land in the Morris Reservoir.

The temperature gets very hot in the summertime. The flow into the reservoir all but ceases from July through September, and sometimes October. During this hot period the greatest demand is made on the system. When this occurs, the water level of the reservoir is gradually lowered. During the period of low levels, the water gets very warm because of the high ambient temperatures. All sorts of algae and bacteria grow in the warm water. PG&E takes measures to treat the water in the reservoir and at the treatment plant to remove all the bacteria and algae; however, during the treatment process of killing the algae, they exude an odor which gets into the water.

At the time of hearing PG&E was in the process of constructing an additional three-million-gallon storage tank. A PG&E engineer testified that when the tank is placed in operation it would solve the taste and odor problem. By having the additional storage capacity, PG&E will be able to slow down the water treatment plant when there is an algae bloom or temperature inversion. The staff agrees with this conclusion.

N. Special Conditions

PG&E sought authority in the consolidated proceedings to include in its tariffs, including the one for the Willits System, certain special conditions. The staff took the position that they should not be considered in these proceedings. An abortive attempt was made between PG&E and the staff to arrive at a stipulation about the special conditions. (RT 725, Letters of November 6 and 21, 1979.) There is little evidence in the record dealing with the proposed special conditions. As a group, they will not be considered herein. Unless the Commission has made a specific finding relating to a special condition, it expressly does not intend to pass upon it in this proceeding. PG&E may file appropriate advice letters or appropriate formal proceedings to secure an adjudication on the proposed special conditions.

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

Findings of Fact

1. The Willits System will have gross operating revenues of $343,000 and a return on rate base of 3.34 percent at presently authorized rates for the test year 1980, which is unreasonable.

2. For many years prior to the advent of a collective bargaining agreement with IBEW, PG&E gave its employees a 25 percent discount for utility service which it provided. The discount applied to retired employees. The first collective bargaining agreement between PG&E and IBEW provided for maintaining all employee benefits then in existence. The present agreement provides that PG&E shall not "(1) abrogate or reduce the scope of any present plan or rule beneficial to employees...or (2) reduce the wage rate of any employee covered hereby, or change the conditions of employment of any such employee to his disadvantage."

3. In Decision No. 89653 entered on November 9, 1978, the Commission found that it was inappropriate to eliminate the PG&E employee discount. Decision No. 89653 and related decisions found that if the PG&E employee discount were eliminated PG&E would be required to obtain additional revenues through increased rates to compensate its employees for each dollar of discount. It was found that $1.79 of revenue would be required for each dollar of discount in the light of the tax-free status of the benefit.

4. The impact on revenues of the PG&E employee discount in the Willits System is negligible.

5. Many PG&E employees, at different times, perform functions for its various departments (gas, electric, water, steam).

6. PG&E's employee discounts are part of a total compensation package which was arrived at through collective bargaining between PG&E and IBEW.

7. Failure to include the PG&E employee discounts for rate-making purposes would result in a diminution of PG&E's authorized rate of return.

8. It is reasonable to include the PG&E employee discounts for ratemaking purposes in this proceeding.

9. There is no showing in this proceeding that the union wage rates and work rules embodied in the collective bargaining agreement between PG&E and IBEW are unreasonable.

10. It is reasonable to include the union wages and work rules for ratemaking purposes in this proceeding.

11. Every ten years PG&E harvests timber in the Morris Lake watershed area, which serves the Willits System. The watershed area is included in the rate base of the system. At current market prices the projected 1980-81 harvest will yield revenues of $1,961,927 less expenses of 12 percent for a net of $1,726,496.

12. It is reasonable to amortize revenues from the timber harvest and include them in the estimated revenues for the test year. The sum of $172,650 is the appropriate amount.

13. The sum of $592,000 is a reasonable estimate of the total operating revenues for the test year 1980.

14. The staff estimate of $15,800 for purchased power is more reasonable than PG&E's, because it is based on the efficient use of pumps and other estimates heretofore found reasonable.

15. The staff estimate of $8,000 for purchased chemicals is more reasonable than PG&E's because it is based on the efficient use of plant.

16. PG&E's methodology in determining O&M payroll which is based on recorded data, is, with a percent modification, more reasonable than the staff's. A reasonable amount for O&M payroll for the test year 1980 is $97,000.

17. The following total O&M expenses for the test year 1980 are reasonable.

Item	Adopted (Thousands of Dollars)
At Present Rates	
Purchased Power	$ 15.8
Purchased Chemicals	8.0
Town Payroll	97.0
Ditch Payroll	0.0
Town Other	61.5
Ditch Other	0.0
Uncollectibles	0.3
Total O&M Expenses	182.6
At Proposed Rates	
Uncollectibles	1.2
Total O&M Expenses	183.5

18. The sum of $70,600 for general office prorated expense for the test year 1980 is reasonable.

19. The sum of $2,300 is a reasonable estimate for the total direct A&G expenses for the test year 1980.

20. The sum of $65,700 for total A&G expenses for the test year 1980 is reasonable.

21. The staff estimate of $43,100 on ad valorem taxes is more reasonable than PG&E's because it is based on more recent and actual data.

22. PG&E's estimate of $13,700 payroll taxes is more reasonable than the staff's because it includes the employee discount and utilizes union wage rates.

23. Taxes on income calculated on the basis of income tax factors adopted are $18,000 for the test year 1980.

24. The sum of $3,455,200 is reasonable for utility plant for the test year 1980.

25. The staff estimates for depreciation expense and for depreciation reserve as modified are more reasonable than those of PG&E because

they are based on more reliable data. The following are reasonable for the test year 1980:

Depreciation Expense	$ 70,900
Depreciation Reserve	$1,160,900

26. The sum of $2,144,700 is a reasonable estimate for average depreciated rate base for the test year 1980.

27. A return on rate base of 9 percent is reasonable for the Willits System and is in compliance with the Federal Wage and Price Guidelines issued by the Council on Wage and Price Stability.

28. 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.

29. The total amount of the increase in annual revenue authorized by this decision is $249,000 the rate of return on rate base is 9 percent; the return on common equity is 11.49 percent.

30. It is reasonable to include in the tariff schedules filed to implement this decision a service charge-minimum charge format.

31. It is not reasonable to adjudicate generally the terms of the special conditions in PG&E's tariff in this proceeding.

32. Because of the inaction of PG&E in seeking rate relief for a period of twenty-six years, it is reasonable to provide that the increased rates authorized by this decision should be put into effect in three annual steps.

33. There is no evidence of any agreement between PG&E and any entity providing fire protection services in the Willits System.

Conclusions of Law

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

Item	Adopted (Thousands of Dollars)
Operating Revenues	
Water	$ 419.3
Timber	172.7
Total Operating Revenues	592.0
Operating Expenses	
Operation & Maintenance	183.5
Administrative & General	2.3
General Office Prorated	70.6
Subtotal	256.4
Depreciation Expense	70.2
Taxes Other Than Income	54.4
State Corp. Franchise Tax	10.3
Federal Income Tax	7.7
Total Operating Expense	399.0
Net Operating Revenues Adjustd	193.0
Rate Base	2,144.7
Rate of Return	9.00%

2. The rates authorized herein should be put into effect in three annual steps and be in the format found reasonable in this decision.

3. PG&E should be authorized to file for the Willits System the revised water rates schedules set forth in Appendix A which are designed to yield $249,000 in additional revenues based on the adopted results of operations for the test year 1980.

4. In the light of Public Utilities Code Section 2713, amounts chargeable for public fire protection should be allocated among other rate schedules.

O R D E R

IT IS ORDERED that:

1. After the effective date of this order, Pacific Gas and Electric Company (PG&E) is authorized to file for its Willits Water System the revised rate schedules attached to this order as Appendix A. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be five days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date of the revised schedules.

2. 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.

3. 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
Vernon L. Sturgeon
Richard D. Gravelle
Claire T. Dedrick
Leonard M. Grimes
Commissioners

I concur in the result but dissent to the treatment accorded the employee discount issue. Here we have a clear case of the unfairness of the application for ratemaking purposes of the unwarranted advantage granted to PG&E's employees.

Richard D. Gravelle
John E. Bryson

Pacific Gas and Electric Company

Schedule No. W-1

Willits Tariff Area

GENERAL METERED SERVICE - TREATED WATER

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The incorporated City of Willits, and unincorporated contiguous area as shown on the service area map of the Willits Water System.

RATES

	Per Meter Per Month: Before Jan. 1, 1981	During 1981	After Dec. 31, 1981	
Service Charge:				(N)
For 5/8 x 3/4-inch meter	$ 3.15	$ 4.00	$ 4.90	(I)
For 3/4-inch meter	4.40	5.80	7.20	
For 1-inch meter	5.80	7.70	9.60	
For 1½-inch meter	7.30	9.60	12.00	
For 2-inch meter	11.00	14.50	18.00	
For 3-inch meter	22.00	29.00	36.00	
For 4-inch meter	33.00	41.00	50.00	
For 6-inch meter	67.00	83.00	100.00	
For 8-inch meter	100.00	125.00	150.00	
Quantity Rates:				
First 300 cu.ft., per 100 cu.ft.	.300	.400	.500	
For all over 300 cu.ft., per 100 cu.ft.	.369	.500	.628	(I) (N)

The Service Charge is a readiness-to-serve charge applicable to all metered service and to which is to be added the monthly charge computed at the Quantity Rate.

Pacific Gas and Electric Company

Schedule No. WF-2

Willits Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately-owned fire protection systems.

TERRITORY

The incorporated City of Willits, and unincorporated contiguous area as shown on the service area map of the Willits Water System.

RATES

	Per Service Connection Per Month			
	Before Jan. 1, 1981	During 1981	After Dec. 31, 1981	
For each 4-inch connection	$ 7.50	$ 9.50	$11.00	(I)
For each 6-inch connection	10.00	12.00	14.00	|
For each 8-inch connection	14.00	18.00	21.00	|
For each 10-inch connection	34.00	42.00	50.00	(I)