

ORIGINAL

Decision No. 92297 OCT 8 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 Angels Water System. (Water)

Application No. 58633 (Filed January 25, 1979)

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

George A. Huberty, Attorney at Law, for CITY of Angels Camp, 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 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 Angels Water System (Angels System). The decision authorizes an increase in rates to yield additional revenues of \$175,200, a return on rate base of 9 percent, and a return of 11.49 percent on common equity. The increase is authorized to be implemented in three steps.

This is an application by PG&E seeking an increase in rates and charges for its Angels 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.58629 (Willits Water System).

A duly noticed public hearing was held in this matter before Administrative Law Judge Donald B. Jarvis in Angels Camp on August 17, 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 Angels System serves treated domestic water to portions of the city of Angels Camp, the community of Altaville, and certain adjacent areas.

This system served 943 customers in 1978. Water for the Angels System is diverted from the North Fork of the Stanislaus River by the PG&E's Utica Hydroelectric Project and from Angels Creek by its Angels Hydroelectric Project, both being under license by the Federal Regulatory Commission. The Angels System consists of a water treatment plant located at Pipe Reservoir situated to the northeast portion of the City of Angels and a pipe distribution system within the treated water service area. The capacity of the Angels' water treatment plant is about 2.2 million gallons per day. It supplies completely treated water to a 1.3 million-gallon gunite-lined reservoir adjacent to the plant which flows on the gravity distribution system.

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) Should the rates for Angels System continue to be based on its costs and expenses? (8) Should PG&E be required to replace sections of water main in the vicinity of Copperopolis Road and Highway 49?

Present and Proposed Rates

The present general rates of the Angels System were authorized by Decision No. 49452, dated December 21, 1953, in Application No. 34090. The rates became effective on February 15, 1954. It was estimated that the authorized rates would produce a rate of return on rate base of no more than $3\frac{1}{2}$ 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 the Angels System. The TCAC specifies that the rates given on the tariff sheet for each rate schedule are to be reduced by 8.6 percent. Angels System's current general metered service rates are as follows:

<u>Rates</u>	<u>Per Meter Per Month</u>
<u>Quantity Rates:</u>	
First 500 cu.ft. or less	\$ 2.50
Next 2,500 cu.ft., per 100 cu.ft.20
Over 3,000 cu.ft., per 100 cu.ft.10
<u>Minimum Charge:</u>	
For 5/8 x 3/4-inch meter	2.50
For 3/4-inch meter	3.00
For 1-inch meter	4.25
For 1-1/2-inch meter	6.50
For 2-inch meter	10.00
For 3-inch meter	15.00
For 4-inch meter	22.00
For 6-inch meter	45.00

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 Angels System:

	<u>Year 1977</u>		<u>Year 1978</u>	<u>Year 1979</u>	<u>Year 1980</u>
	<u>Recorded</u>	<u>Adjusted</u>	<u>Estimated</u>	<u>Estimated</u>	<u>Estimated</u>
At Present Rates	(6.89%)	(6.20%)	(7.71%)	(8.42%)	(9.63%)
	(Red Figure)				

PG&E seeks herein authority to raise Angels System rates to generate additional revenues of \$220,000, or 400 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:

<u>Rates</u>	<u>Step 1</u> <u>Per Meter</u> <u>Per Month</u>	<u>Step 2</u> <u>Per Meter</u> <u>Per Month</u>
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 1 1/4-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
For 6-inch meter	233.00	350.00
Quantity Rates:		
First 300 cu.ft., per 100 cu.ft.	\$ 0.34	\$ 0.50
Over 300 cu.ft., per 100 cu.ft.	0.51	0.76

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 the PG&E proposal the monthly bill for the average Angels System customer^{1/} would increase from \$4.40 to \$11.59 at Step 1 and \$17.24 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 Angels System. It produced different estimates than PG&E on revenues and

^{1/} Based on consumption of 1,450 cu.ft. per month.

expenses. It contends that the additional revenues requested by PG&E would produce a return on rate base of 16.95 percent. The staff recommends an increase in revenues of \$166,100 which according to the staff would yield a return on rate base of 9.84 percent and amount to a 282.5 percent increase in revenue.

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, and (3) the staff made different adjustments in the amounts utilized for uncollectibles, interest charges, pensions and benefits capitalized, allocations, depreciation and other expenses.

The staff also contends that PG&E should be ordered to replace approximately 2,200 feet of water main near Copperopolis Road and Highway 49 to increase fire flow in the area.

Position of Angels System Customers

Twenty-eight members of the public gave sworn statements at the hearing in Angels Camp. Some witnesses testified that there were many elderly and other persons with low incomes in the area and the proposed increase would have a substantial adverse impact on them. Several testified that if the proposed increase were granted they would not be able to afford to water their gardens and maintain the greenery around their houses. Six witnesses stated that they believed some increase was warranted but that the one proposed by PG&E was too high. One witness indicated that there was a high rate of unemployment in the area. Two witnesses testified that in their opinion, water rates should be the same throughout the State.

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 rate-making 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 Angels System since 1954.

"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. In considering the magnitude thereof, the Commission will use 1980 as the test year.

A. Consideration of Customer Contentions

PG&E operates a statewide system for the generation of electric power, a gas distribution system, a steam distribution system, and six local water systems, which are not interconnected. Longstanding Commission and federal regulations require PG&E

to account for revenues and expenses of electricity, gas, and steam sales in separate proceedings dealing with those sources of energy. (Re Electric Utilities (1937) 40 CRC 777; 16 USCA § 825; Re Gas Companies (1960) 58 CPUC 309.)

The six water systems are in different areas of Northern California. They have different costs and expenses and must be treated as separate entities for ratemaking purposes.

B. 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 furnished. 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 condition 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 specific date. Various petitions for a rehearing were filed. Thereafter, on November 9, 1978, in Decision No. 89315, the Commission, in Decision No. 89653, modified Decision No. 89315 to provide for retention of the employee discount and denied rehearing.

The pertinent portions of Decision No. 89653 are 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 Decision p. 1.)

"IT IS FURTHER ORDERED that Ordering Paragraphs 9, 10, 11, and 12 on page 33, Findings 2, 5, and 6 on page 25, and Conclusions 1 and 2 on page 26 are deleted from Decision No. 89315.

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

"On page 14a, Finding 1a:

'1a. CVR is an effective conservation measure and in view of PG&E's demonstrated reluctance to implement CVR, it is reasonable to require PG&E to revise its tariffs so that the maximum energy savings of CVR will be achieved.'

"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 Decision 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.^{2/} 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."

Finally, IBEW contends that the Commission should follow that 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 substitute, 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

^{2/} 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.

of the services is provided in the area in which the employee resides, he or she will receive no discounts.

The record indicates that 30 PG&E employees receive a water discount in the Angels System.

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

	<u>Revenue Reduction Due to Employee Discount</u>		<u>Number of Employee Customers</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	
Angels System	\$870	\$2,000	30

The contention of IBEW that the Commission may not disallow the employee discounts because the National Labor Relations Act (NLRA) 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 NLRA 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 embodied in the collective bargaining agreement is unreasonable. In Decision No. 89653 the Commission 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 discount 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 its 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 Administrative Law Judge and the witness:

"ALJ JARVIS: Well, aren't you saying it should be 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.

C. Union Wage Rates and Working Practices

As later considered, the staff in presenting its O&M estimates 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. The testimony dealing with wage rates for cleaning ditches is not applicable to the Angels System, which is a treated water, piped distribution 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.

D. 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

	<u>Staff</u>	<u>Utility</u>	<u>Staff Exceeds Utility</u>
Total Operating Revenues - 1980			
Present Rates	\$ 58,800	\$ 54,600	\$ 4,200
Proposed Rates	301,200	275,400	25,800

The growth in residential customers of the Angels System in 1978 was greater than had been estimated by PG&E. The staff estimate for residential customers is based on 1978 recorded data and current residential construction. The staff estimate for business customers is based on recorded data which shows virtually no change from 1973 to 1978. The staff estimate is more reasonable than that 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. 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. 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.

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. The Angels System has only two pumps. Both are located at the filter plant. The record indicates that the efficiencies meet the criteria established in connection with Case No. 10114, an open proceeding relating to water conservation. In making its estimate of purchased power expense, the staff calculated the power required to produce 100 cubic feet of treated water. This was done for each of the last five years. The lowest power requirement among the five years was assumed to indicate the peak pump efficiencies achieved during the period and was multiplied by the current cost per kWh to estimate the cost of producing 100 cubic feet of treated water. The staff estimate of \$6,500 for purchased power is reasonable and should be adopted.

(b) Purchased Chemicals

The staff and PG&E based their purchased chemicals estimates on recorded costs. Chemical costs per 100 cubic feet of treated water have been rising for the Angels System. The staff estimate, which is based on the trend, is \$0.02894 per 100 cubic feet of treated water produced. Multiplying this by the staff's 1980 estimate of 258,300 cubic feet of treated water results in a chemical cost of \$7,500. The staff's estimate is more reasonable than PG&E's 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.

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 Angels 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 Angels System are credited to payroll. As indicated, some PG&E personnel work for various departments. 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 supervisor 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 exhibit contains a graph which shows that the O&M payroll cost per customer in the 34 systems selected for comparison ranges

^{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.

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 Angels System, according to the staff it is \$93 per customer. The witness, based on his investigation, recommended that an amount of \$58 per customer for O&M payroll would be reasonable. The staff used these amounts 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 \$59.60. 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 Angels System is \$33.77.

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; Shivell v Hurd (1954) 129 CA 2d 320, 324;

Ellenberg v City of Oakland (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 Angels 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 Angels System, and (2) whether PG&E used its personnel most efficiently in operating the Angels 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 Angels 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 11 additional examples, which were more comparable to the PG&E water systems to his reports, 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.

Rate comparisons are of little probative value unless the factors compared are similar. 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 Angels System. The Commission finds that the magnitude of these deficiencies does not exceed 20 percent for the Angels System 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 Angels Water System
Operation & Maintenance Expenses
Test Year 1980

<u>Item</u>	<u>Staff</u>	<u>Utility</u> (Thousands of Dollars)	<u>Adopted</u>
<u>At Present Rates</u>			
Purchased Power	\$ 6.8	\$ 0.0	\$ 6.8
Purchased Chemicals	7.5	4.3	7.5
Town Payroll	56.2	86.7	69.4
Town Other	21.0	28.7	21.0
Uncollectibles	0.1	0.1	0.1
Total O&M Expenses	<u>91.6</u>	<u>119.8</u>	<u>104.8</u>
<u>At Proposed Rates</u>			
Uncollectibles	\$ 0.5	\$ 0.4	\$ 0.5
Total O&M Expenses	92.0	120.1	105.2

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 Angels Water System
Administrative and General Expenses
Test Year 1980

<u>Item</u>	<u>Staff</u>	<u>Utility</u> (Thousands of Dollars)	<u>Adopted</u>
Regulatory Commission Ex.	\$0.1	\$0.1	\$0.1
Franchise & Business Tax	0.0	0.0	0.0
Total A&G Expense	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>

3. General Office Prorated Expenses

(a) 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 company 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 6.89 percent is allocated to the Angels System. The corresponding staff ratios are 0.26 percent and 7.25 percent. The Commission will adopt the staff's O&M allocated and the four-factor ratios as more reasonable.

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 Applications Nos. 58545 and 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)^{4/} for test year 1980 in the electric department, and \$59,036,000^{5/} for test year 1980 in the gas department. Therefore,

^{4/} Page 25 of D.91107, A.58545 and 58546.

^{5/} Page 46 of D.91107, A.58545 and 58546.

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 the Angels System, this results in an allocated A&G expense of \$13,634.

(b) 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 Angels Water System General Office Prorated Expense Test Year 1980			
<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
		(Thousands of Dollars)	
O&M Allocated	\$ 3.9	\$ 3.1	\$ 3.9
A&G Indirect	28.8	42.2	30.3
Ad Valorem Taxes	0.7	1.3	0.7
Total Prorated Expense	33.4	46.6	34.9

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 13 percent per year. The 13 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 \$4.614 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 0.2457. Staff used this ratio, its estimated 1980 beginning-of-year plant, and the \$4.614 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. In the circumstances the Commission finds that the PG&E estimate of \$6,600 is reasonable.

A summary of the estimates is as follows:

<u>PG&E Angels Water System Taxes Other Than Income Test Year 1980</u>			
<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Ad Valorem Taxes	\$12,000	\$18,600	\$12,000
Payroll Taxes	5,500	8,300	6,600
Total	<u>17,500</u>	<u>26,900</u>	<u>18,600</u>

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 Angels Water System
Taxes Based On Income
Year 1980 Estimated At Present And At Utility Proposed Rates

<u>Item</u>	<u>Staff</u>		<u>Utility</u>		<u>Adopted Rates</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	
California Corp.					
Franchise Tax	\$(12,200)	\$ 9,600	\$ (16,100)	\$1,700	\$2,400
Federal Income Tax	(61,600)	39,700	(89,200)	2,700	5,400
Total Income Tax	<u>(73,800)</u>	<u>49,300</u>	<u>(107,300)</u>	<u>4,400</u>	<u>7,800</u>

(Red Figure)

The income tax estimates are based, in part, on estimated operating revenues and C&M expenses. In view of the adjustments heretofore made, the Commission finds the amounts of \$2,400 for California Corporation Franchise Tax and \$5,400 for Federal Income Tax to be reasonable.

F. Utility Plant

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

<u>PG&E Angels Water System Utility Plant Test Year 1980</u>			
<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Utility Plant	\$1,167,100	\$1,204,700	\$1,180,300

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 \$1,180,300 as reasonable.

G. Depreciation Expense and Reserve

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

<u>PG&E Angels Water System Depreciation Expense and Reserve Test Year 1980</u>			
<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Depreciation Expense	\$ 19,800	\$ 22,200	\$ 20,100
Depreciation Reserve	625,600	636,200	625,700

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. Having modified the estimate for common utility plant, the Commission finds that the staff estimate, similarly modified, is more reasonable than PG&E's and should be adopted.

H. Rate Base

PG&E's estimated total weighted average rate base for the test year 1980 is \$554,800. The staff's is \$525,700. 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 Angels Water System
Average Depreciated Rate Base
Test Year 1980

<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
<u>Weighted Avg. Water Plant</u>			
Total Weighted Avg. Plant	\$1,167.1	\$1,204.7	\$1,180.3
<u>Working Capital</u>			
Materials & Supplies	3.0	3.0	3.0
Working Cash Allowance	9.0	12.0	9.0
Total Working Capital	<u>12.0</u>	<u>15.0</u>	<u>12.0</u>
<u>Adjustments</u>			
Advances	(25.1)	(25.1)	(25.1)
Deferred Inv. Tax Credit	(2.7)	(3.5)	(2.7)
Total Adjustments	<u>(27.8)</u>	<u>(28.6)</u>	<u>(27.8)</u>
Subtotal Before Deduct.	1,151.3	1,191.1	1,151.3
<u>Deductions</u>			
Depreciation Reserves	625.6	636.3	625.7
Avg. Depreciated Rate Base	525.7	554.8	538.8
		(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 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.

The Commission has adopted the sum of \$11,300 as the estimated weighted average additions to the Angels System plant-in-service for test year 1980. The estimated end-of-year plant is \$1,191,600. The amount of capital required for the Angels System is small in relation to the remainder of PG&E's operations. So is the amount of existing debt attributable to the Angels System which needs to be serviced. The Commission deems return on equity, as

distinguished from servicing debt, as an important consideration in setting the Angels 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 Angels 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 Angels System for the following reasons:

1. The amount of existing debt and equity capital attributable to the Angels 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 Angels 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 Angels 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 Angels 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 Angels Water System
Total Company Capital Ratios and Costs
(1977)

<u>Capital Components</u>	<u>Capital Ratios</u>	<u>Cost Factors</u>	<u>Weighted Cost</u>
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 Angels 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 need for rate of return on rate base for each schedule to be kept

constant, and the Commission policy of subsidizing the revenue requirements for Public Fire Protection Schedule F-1.^{6/}

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 Angels System provides solely treated water for a town.

The staff proposal would change PG&E's present minimum-charge type of schedule to a service charge-quantity charge one.^{7/} The Commission is of the opinion that this change is desirable because 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. 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.

^{6/} The question of fire protection costs is separately considered later in this opinion.

^{7/} PG&E's proposed new tariffs provided for service charge-quantity charge schedules.

"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."

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."

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

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 Angels System the staff proposal would result in a period of five years before the rates authorized herein would become completely effective. The proposed step rates do not include a factor for attrition.

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 shall 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."

The record indicates that PG&E and the city of Angels Camp fire agency have an agreement dealing with fire protection services. The agreement generally provides that the city is responsible for hydrant installation and maintenance costs and that PG&E will make no charges for fire hydrant service. (Exhibit 56-A.) In the circumstances, the rates hereinafter authorized will include an increment for the costs of fire protection service not covered by the agreement.

M. Service Matters

The testimony presented at the hearings indicates that there are no general service problems which require adjudication in this proceeding. As indicated, PG&E disputes a staff recommendation that approximately 2,200 feet of water main be replaced commencing at the 8-inch crosstie at Copperopolis Road, along Highway 49, to the present end of the main. The staff contends that this main replacement would eliminate a number of constrictions in the existing main caused by pipe of various diameters which severely limit rate of fire flow in the area.

PG&E argues that replacement of the entire main would ultimately benefit developers and commercial interests at or near the end of the main. PG&E contends that replacement of this main should be financed by main extension agreement pursuant to Rule 15 of its tariff. PG&E also asserts that replacement of a 380-foot section of 4-inch main northwest of Clifton Lane and of a 430-foot section of 4-inch pipe northwest of Esmeralda Road with 10-inch pipe (both of these sections constitute large bottlenecks in the existing 2,200 feet of main) would not bring fire flow in the immediate area up to G.O. 103 standards. It would, however, increase the flow from 600 to 900 gallons per minute. PG&E therefore proposes to seek replacement of the entire main through main extension agreements.

The staff agrees with PG&E that replacement of the entire main should be financed pursuant to Rule 15. However, the staff argues that the evidence indicates that PG&E customers other than developers and other commercial interests in the area would benefit from replacement of the two sections of main. The record discloses that homes and small businesses located on Esmeralda Road, Clifton Lane, Francis, Bennett, and Wilson Streets, and along Highway 49 would benefit from a 50 percent increase in fire flow if this replacement were made. The evidence indicates that the present fire flow available to these homeowners is inadequate. The Commission is of

the opinion and finds that improvement of service should not be delayed by negotiation with other interests for replacement of the entire main. PG&E should replace the 2,200 feet of main.

N. Special Conditions

PG&E sought authority in the consolidated proceedings to include in its tariffs, including the one for the Angels 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 or no 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 Angels System will have gross operating revenues of \$59,700 and a return on rate base of minus 5.67 percent at presently authorized rates for the test year 1980, which is unreasonably low. PG&E is in need of additional revenues from the Angels System. ✓
2. PG&E operates a statewide system for the generation of electrical power. It also operates six local water systems which are not interconnected. The Angels System is one of these water systems.
3. Commission and federal regulations require PG&E to account for revenues and expenses of electricity, gas, and steam sales in separate proceedings dealing with those sources

of energy. The six separate water systems have different costs and expenses and they should be treated as separate entities for ratemaking purposes.

4. 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."

5. 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.

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

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

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

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

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

11. 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.

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

13. The sum of \$234,900 is a reasonable estimate of the total operating revenues for the test year 1980 at authorized rates.

14. The staff estimate of \$6,800 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 \$7,500 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 \$69,400.

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

<u>Item</u>	<u>Adopted</u> (Thousands of Dollars)
<u>At Present Rates</u>	
Purchased Power	\$ 6.8
Purchased Chemicals	7.5
Town Payroll	69.4
Town Other	21.0
Uncollectibles	0.1
Total O&M Expenses	-104.8

18. The sum of \$34,900 for general office prorated expenses for the test year 1980 is reasonable.

19. The sum of \$100 is a reasonable estimate for the total direct A&G expenses for the test year 1980.

20. The staff estimate of \$12,000 on ad valorem taxes is more reasonable than PC&E's because it is based on more recent and actual data.

21. The sum of \$6,600 for estimated payroll taxes for the test year 1980 is reasonable.

22. The estimate of \$7,800 for total income taxes for the test year 1980 is reasonable.

23. The sum of \$1,180,300 is reasonable for utility plant for the test year 1980.

24. The staff estimates for depreciation expense and for depreciation reserve as modified are more reasonable than those of PC&E because they are based on more reliable data. The following are reasonable for the test year 1980:

Depreciation Expense	\$ 20,100
Depreciation Reserve	\$625,700

25. The sum of \$538,800 is a reasonable estimate for average depreciated rate base for the test year 1980.

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

27. 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.

28. The total amount of the gross revenues authorized by this decision is \$234,900; the rate of return on rate base is 9 percent; the return on common equity is 11.49 percent.

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

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

31. 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.

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:

<u>Item</u>	<u>Adopted</u> (Thousands of Dollars)
<u>Operating Revenues</u>	
Sales Revenue	\$234.9
Total Operating Revenues	234.9
<u>Operating Expenses</u>	
Operation & Maintenance	105.0
Administrative & General	0.1
General Office Prorated	34.9
Subtotal	<u>140.0</u>
Depreciation Expense	20.1
Taxes Other Than Income	18.6
State Corp. Franchise Tax	2.4
Federal Income Tax	5.4
Total Operating Expense	<u>186.5</u>
Net Operating Revenues	48.4
Rate Base	538.8
Rate of Return	9.0%

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 Angels System the revised water rates set forth in Appendix A which are designed to yield \$175,200 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.

5. PG&E should be ordered to replace approximately 2,200 feet of water main in the area of Copperopolis Road and Highway 49.

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 Angels 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.

4. Within six months after the effective date of this order PG&E shall replace approximately 2,200 feet of 4-inch water main in the vicinity of Copperopolis Road and Highway 49 with 10-inch

water main to provide for a water flow of approximately 900 gallons per minute for service connections on Esmeralda Road; Clifton Lane; Francis, Bennett, and Wilson Streets; and along Highway 49.

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

Dated OCT 8 1980, at San Francisco, California.

*Indesent in part,
see attached:*

Richard W. Gwalle

John E. Byron

 President

Deamon L. Stinson

Richard W. Gwalle

Lawrence J. Smith

 Commissioners

Commissioner Claire T. Dadrick, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 2

Pacific Gas and Electric Company

Schedule No. A-1

Angels Tariff Area

GENERAL METERED SERVICE - TREATED WATER

APPLICABILITY

Applicable to all metered water service.

TERRITORY

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

RATES

	<u>Per Meter Per Month</u>			(N)
	<u>Before June 1, 1981</u>	<u>June 1, Through June 1, 1982</u>	<u>After June 1, 1982</u>	
Service Charge:				
For 5/8 x 3/4-inch meter	\$ 3.35	\$ 5.00	\$ 6.50	(2)
For 3/4-inch meter	4.00	6.00	7.80	
For 1-inch meter	5.35	8.00	10.40	
For 1 1/2-inch meter	6.70	10.00	13.00	
For 2-inch meter	10.00	15.00	20.00	
For 3-inch meter	20.00	30.00	39.00	
For 4-inch meter	30.00	45.00	60.00	
For 6-inch meter	46.00	65.00	85.00	
For 8-inch meter	60.00	90.00	120.00	
Quantity Rates:				
First 300 cu.ft., per 100 cu.ft.	.250	.350	.400	(2) (N)
For all over 300 cu.ft., per 100 cu.ft.	.305	.460	.630	

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.

APPENDIX A
Page 2 of 2

Pacific Gas and Electric Company

Schedule No. AF-2

Angels Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

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

RATES

	Per Service Connection Per Month		
	Before Jan. 1, 1981	After Jan. 1, 1981	
For each 4-inch connection	\$ 7.30	\$11.00	(I)
For each 6-inch connection	9.30	14.00	
For each 8-inch connection	14.00	21.00	
For each 10-inch connection	33.30	50.00	(I)

RICHARD D. GRAVELLE, Commissioner, Partially dissenting:

I partially dissent. The issues of employee discounts and collective bargaining agreements, as they may affect the Commission's ratemaking responsibility, are incorrectly treated in the majority's decision.

We should make crystal clear to those concerned with our ratemaking activities that the level of rates assessed to every customer of a utility is the absolute and sole responsibility of this Commission. Only when the California Supreme Court or a Federal Appellate Court intervenes does that responsibility subside. Here there has been no intervention; consequently, it is within the Commission's discretion and its view of the evidence of record as to the proper treatment of employee discounts. The decision criticizes the staff showing. I do not share in that criticism.

Today's reality dictates that utility management, its employees, and its regulators must all be extremely circumspect, not only in contacts with the consuming public, but also with regard to the public's perception of how we each interact in the process of providing utility service. More and more the public will object to "special breaks" given to utility employees who hold good, steady jobs while others are unemployed and while utility rates are escalating rapidly. More and more the public will object to regulators who fail to eliminate these inequities. The employee discount issue is a classic example of a small sore that may fester and grow large enough to become a severe malady for labor, management, and regulator - it should be treated now rather than later.

As with employee discounts, the related issue of collective bargaining wage rates and working practices is an area that

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we must clearly identify as within the ambit of ratemaking when we have a record which will support an adjustment. The veil of collective bargaining cannot be used to cover excessive costs which in a regulated utility setting can only be borne by the ratepayer. As a Commission, we must protect the ratepayer from all excessive costs no matter what the source. Again, it would behoove management and labor to realize that utility bills in today's world have made the public more aware than ever before of their utility company and the service it provides. Efficiency in operation will become more and more critical in the future as costs rise and we, as regulators, will be called upon to scrutinize with growing vigilance the labor practices of each utility. If inefficiency exists - covered by collective bargaining or not - it must be disallowed for ratemaking purposes. Were we to do less, we would cheat the public we serve.


RICHARD D. GRAVELLE, Commissioner

San Francisco, California
October 8, 1980