

92298

OCT 8 1980

Decision No. \_\_\_\_\_

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 Placer Water System.

Application No. 58632  
(Filed January 25, 1979)

(Water)

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

Bob Jeffries, for Meadow Vista County Water District; Jim Henry, for Placer County; and Wayne H. Robinson, for himself; protestants.

Jeanne M. Bauby, Attorney at Law, for California Farm Bureau Federation; Marsh, Mastagni & Marsh, by Maureen C. Whelan, Attorney at Law, for International Brotherhood of Electrical Workers, Local Union 1245; and Kronick, Moskovitz, Tiedemann & Girard, by Edward J. Tiedemann, Attorney at Law, for Placer County Water Agency; interested parties.

Grant E. Tanner, Attorney at Law, and Arthur Mangold, for the Commission staff.

I N D E X

<u>Subject</u>	<u>Page No.</u>
Opinion .....	2
Summary of Decision .....	2
Description of System .....	2
Material Issues .....	3
Present and Proposed Rates .....	3
Position of the Commission Staff .....	9
Position of Placer System Customers .....	9
Position of the PCWA .....	10
Position of IBEW .....	11
Discussion .....	11
A. Consideration of Customer Contentions .....	11
B. The PCWA Contract .....	15
C. Employee Discounts .....	19
D. Union Wage Rates and Working Practices .....	27
E. Water Consumption and Operating Revenues .....	30
F. Operating Expenses .....	32
1. Operation and Maintenance Expenses .....	32
(a) Purchased Power .....	32
(b) Purchased Chemicals .....	32
(c) Payroll .....	32
(d) Other Expenses and Uncollectibles .....	37
2. A&G Expenses (Direct) .....	38
3. General Office Prorated Expenses .....	38
4. Taxes Other Than Income .....	40
5. Income Taxes .....	41
G. Utility Plant .....	42
H. Depreciation Expense and Reserve .....	42
I. Rate Base .....	43

<u>Subject</u>	<u>Page No.</u>
J. Rate of Return .....	44
K. Rate Design .....	47
L. Step Rates .....	49
M. Fire Protection .....	51
N. Service Matters .....	52
O. Special Conditions .....	52
Findings of Fact .....	52
Conclusions of Law .....	57
Order .....	58
Appendices A and B	

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 1954 for its Placer Water System (Placer System). The decision finds that an increase in rates to yield additional revenues of \$330,100, a return on rate base of 9 percent, and a return of 11.49 percent on common equity is reasonable. The increase is authorized to be implemented in two annual steps.

Because of interrelated subject matter, the application was consolidated for hearing with the following other PG&E applications for increases in water rates: A.58628 (Western Canal Water System), A.58629 (Willits Water System), A.58630 (Jackson Water System), A.58631 (Tuolumne Water System), and A.58633 (Angels Water System). Separate decisions will be issued on each application.

A duly noticed public hearing was held in this matter before Administrative Law Judge Donald B. Jarvis in Colfax on August 15, 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 Placer System consists of a series of canals and reservoirs beginning at the Alta Powerhouse tailrace near the community of Alta, serving areas adjacent to the canals and three treated water distribution systems serving the communities of Colfax, Alta, and Monte Vista. In 1978 the system served 1,337 customers with water diverted from the Bear River and Canyon Creek, supplemented by water diverted from the South Yuba River through PG&E's Drum-Spaulding Hydroelectric Project which is partly under license by the Federal Energy Regulatory Commission (FERC). Water

supplied to customers from the canals is untreated. Water supplied to the town distribution-system areas of Alta, Colfax, and Monte Vista is treated.

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 use 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 Commission consider revenues received by PG&E for the hydrogeneration of electric power in establishing the rates for the Placer System? (8) How should the contract between the Placer County Water Agency (PCWA) and PG&E be treated for ratemaking purposes in this proceeding?

Present and Proposed Rates

The present general rates of the Placer System were authorized by Decision No. 50248 dated July 6, 1954 in Application No. 34449. The rates became effective on January 1, 1955. It was estimated that the authorized rates would produce a rate of return on rate base of 0.90 percent for 1954.

The rates currently charged were made effective September 1, 1978 by Advice Letter No. 162-W. Advice Letter No. 162-W was filed July 28, 1978 pursuant to Ordering Paragraph 5 of this Commission's Order Instituting Investigation (OII) No. 19. The primary purpose of OII No. 19 was to reduce rates by passing on to customers the ad valorem tax savings resulting from the addition of Article XIII-A to the Constitution of the State of California (Jarvis-Gann Initiative, 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 Placer System. The TCAC specifies that the rates given on the tariff sheet for each rate schedule are to be reduced by 8.6 percent. Placer System current general metered service rates are as follows:

Treated Water Colfax Water Service Area

<u>Rates</u>	<u>Per Meter Per Month</u>
<u>Quantity Rates:</u>	
First 500 cu.ft. or less .....	\$ 1.75
Next 2,000 cu.ft., per 100 cu.ft. ....	.25
Next 2,500 cu.ft., per 100 cu.ft. ....	.18
Next 5,000 cu.ft., per 100 cu.ft. ....	.13
Over 10,000 cu.ft., per 100 cu.ft. ....	.10
<u>Minimum Charge:</u>	
For 5/8 x 3/4-inch meter .....	\$ 1.75
For 3/4-inch meter .....	2.25
For 1-inch meter .....	3.00
For 1-1/2-inch meter .....	4.00
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.

Treated Water Monte Vista Service Area

<u>Rates</u>	<u>Per Meter Per Month</u>
Quantity Rates:	
First 400 cu.ft. or less .....	\$ 3.00
Over 400 cu.ft., per 100 cu.ft. ....	.25
Minimum Charge:	
For 5/8 x 3/4-inch meter .....	\$ 3.00
For 3/4-inch meter .....	4.00
For 1-inch meter .....	5.00
For 1-1/2-inch meter .....	8.00
For 2-inch meter .....	11.50
The Minimum Charge will entitle the customer to the quantity of water which that Minimum Charge will purchase at the Quantity Rates.	

Untreated Water

<u>Rates</u>	<u>Per Meter Per Month</u>
Quantity Rates:	
First 1,000 cu.ft., per 100 cu.ft. ....	\$ .20
Next 2,000 cu.ft., per 100 cu.ft. ....	.15
Next 7,000 cu.ft., per 100 cu.ft. ....	.05
Next 90,000 cu.ft., per 100 cu.ft. ....	.03
Over 100,000 cu.ft., per 100 cu.ft. ....	.025
Minimum Charge:	
For 3/4-inch meter .....	\$ 2.00
For 1-inch meter .....	2.50
For 1-1/2-inch meter .....	3.50
For 2-inch meter .....	5.00
For 3-inch meter .....	7.50
For 4-inch meter .....	10.00
For 6-inch meter .....	15.00
For 8-inch meter .....	20.00
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 Placer 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	(5.91)%	(3.24)%	(3.78)%	(2.91)%	(3.90)%

(Red Figure)

PG&E seeks herein authority to raise Placer System rates to generate additional revenues of \$473,000, or 288 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:



Treated Water Colfax and Monte Vista Service Areas

<u>Rates</u>	<u>Step 1</u>	<u>Step 2</u>
	<u>Per Meter</u>	<u>Per Meter</u>
	<u>Per Month</u>	<u>Per Month</u>
<b>Service Charge:</b>		
For 5/8-inch meter .....	\$ 4.70	\$ 7.00
For 3/4-inch meter .....	7.00	10.50
For 1-inch meter .....	11.65	17.50
For 1-1/2-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
For 8-inch meter .....	370.00	560.00
<b>Quantity Rates:</b>		
First 300 cu.ft., per 100 cu.ft. ..	\$ 0.34	\$ 0.50
Over 300 cu.ft., per 100 cu.ft. ..	0.38	0.57

**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.

Untreated Water

Rates

	<u>Step 1</u>	<u>Step 2</u>
	<u>Per Meter</u>	<u>Per Meter</u>
	<u>Per Month</u>	<u>Per Month</u>
<b>Service Charge:</b>		
For 5/8 x 3/4 or 3/4-inch meter ....	\$ 4.70	\$ 7.00
For 1-inch meter ....	8.00	12.00
For 1-1/2-inch meter ....	15.30	23.00
For 2-inch meter ....	24.70	37.00
For 3-inch meter ....	46.70	70.00
For 4-inch meter ....	76.70	115.00
For 6-inch meter ....	153.00	230.00
For 8-inch meter ....	247.00	370.00
<b>Quantity Rates:</b>		
First 1,000 cu.ft., per 100 cu.ft.	\$ 0.30	\$ 0.45
Next 2,000 cu.ft., per 100 cu.ft.	0.23	0.35
Next 7,000 cu.ft., per 100 cu.ft.	0.17	0.25
Over 10,000 cu.ft., per 100 cu.ft.	0.07	0.11

**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 the average Colfax treated water customer<sup>1/</sup> would increase from \$3.94 to \$9.81 at step 1 and \$14.63 at step 2. The bill for the average Monte Vista customer would increase from \$5.94 to \$10.57 at step 1 and \$15.77 at step 2. The bill for the average untreated metered water customer<sup>3/</sup> (Ditch System) would increase from \$3.69 to \$10.29 at step 1 and \$15.44 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 Placer 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 18.28 percent. The staff recommends an increase in revenues of \$259,400 which, according to the staff would yield a return on rate base of 9.84 percent and amount to a 95.7 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.

Position of Placer System Customers

Fifteen members of the public gave sworn statements at the hearing in Colfax. In addition, three of these witnesses gave additional testimony at the hearing in San Francisco.

---

1/ Based on consumption of 1,375 cu.ft. per month.

2/ Based on consumption of 1,575 cu.ft. per month.

3/ Based on consumption of 2,125 cu.ft. per month.

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.

Three witnesses testified that the watershed in Placer County abounds with water which is used for domestic and agricultural consumption and the generation of hydroelectric power. It was the contention of these witnesses that "profits" derived from the sale of hydroelectric power should be used to offset expenses of the Placer System so that there would be no increase in water rates or a nominal one.

One witness expressed a concern that persons receiving untreated water under Schedule P-11 would pay more for water than customers receiving treated water under Schedule P-1. Two witnesses testified that the proposed increase would preclude them from raising cattle because the cost of water would be so high they could not recoup the amount in the going sales price.

The general manager of the Meadow Vista County Water District (Meadow Vista) testified that there are approximately 71 water companies and districts west of the Sierra Crest in Placer County. Most of them are run on a "shoestring". These companies and districts must pay more for water than PCWA. To the extent Meadow Vista and other companies or districts buy water for resale from PG&E, the proposed rates would have a significant adverse effect on them.

#### Position of the PCWA

The PCWA contends that its rates are governed by a power sale and water supply contract entered into between it and PG&E in 1968, which was approved by this Commission. It argues that long-term power sale and water rates were established in the contract and bonds sold on that basis. PCWA takes the position that the contract rate is controlling, or in the alternative, the evidence presented in this record does not justify a change in the contract rate.

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 Placer 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 in the present application clearly indicates that some increase is warranted.

A. Consideration of Customer Contentions

Some of the Placer System customers contend that the watershed which provides water for the system also provides water

for the generation of hydroelectric power and that the "profits" from the sale of power should be used to offset Placer System expenses so that there would be no increase in water rates or a nominal one. There is no merit in this contention.

PG&E operates a statewide system for the generation of electrical power and six local water systems, which are not interconnected. The distribution of electricity in California is one of statewide concern. (Pacific Tel. & Tel. Co. v City of Los Angeles (1955) 44 Cal 2d 272, 280; Pacific Tel. & Tel. Co. v City and County of San Francisco (1961) 197 CA 2d 133, 149; In re Johnston (1902) 137 Cal 115.) PG&E is required by longstanding Commission and federal regulations to account for its electric revenues and expenses in proceedings involving electric rates. (Re Electric Utilities (1937) 40 CRC 777; 16 USCA § 825.) Common sense and rudimentary due process indicate that power revenues can only be accounted for once. They must be accounted for in electric proceedings. Furthermore, to remove a segment of power revenues from electric proceedings would cause the fragmentation of PG&E's statewide electric system which is not in the interest of all the citizens of California.

The customers have a misconception of what they call the "profits" from power which PG&E earns. In an electric rate proceeding this Commission authorizes PG&E to charge rates which will yield revenues giving it a reasonable rate of return. In Decision No. 89316, which was relied upon herein, PG&E was authorized a return of 9.84 percent on its electric rate base. PG&E may not realize the full rate of return from the rates authorized. If the rates yield more than the authorized rate of return, they will be

adjusted downward in the next electric rate proceeding. Since PG&E has invested vast sums of money in electrical plant the dollar amount of the reasonable rate of return will be substantially greater than the dollar amount of the reasonable rate of return for a water system. There are no open-ended "profits".

Essentially the "profits" argument is another form of the argument heretofore considered and rejected. The "profits" which the customers look to are the revenues produced by hydroelectric plants in the area. However, these revenues and all other electric system revenues must be balanced against systemwide expenses. To do otherwise would fragment PG&E's statewide electric distribution system and is not in the public interest.

One point deserves comment in passing. The record indicates that canals which have been included in the facilities licensed as a hydroelectric project by the FERC are designated as electric canals and are accounted for in proceedings involving PG&E's electric department. The remaining canals are accounted for in PG&E's water systems. There is absolutely no evidence in this record which would support a finding of improper classification of canals. However, were this to be established in a subsequent proceeding, it could have an impact on water rates.

The customers also contend that there was a contract between the city of Colfax and the South Yuba Water Company (South Yuba) (PG&E's predecessor in interest) which provided that water be supplied to users from the Boardman Canal on the basis of maintenance costs only. They urge that rates be set on that basis.

The presiding Administrative Law Judge, while questioning its ultimate relevance, directed PG&E to produce a copy of the contract, if one existed. PG&E contends that no such contract ever existed.

At the hearing in San Francisco PG&E introduced in evidence a copy of the resolution of its board of directors, dated December 30, 1910, which approved the purchase of South Yuba. (Exhibit 41-P.) There is no mention of the alleged contract in the exhibit. One of the customer witnesses introduced in evidence a copy of the deed, recorded in the Nevada County Recorder's Office, which conveyed South Yuba to PG&E (Exhibit 42-P). The alleged contract is not mentioned in the deed. There is simply no credible evidence in this record which shows the existence of the alleged contract.

The California Supreme Court has clearly stated that the "Commission is not a body charged with the enforcement of private contracts." (See Hanlon v. Eshelman, 169 Cal 200, [146 Pac. 656].) Its function, like that of the Interstate Commerce Commission, is to regulate public utilities and compel the enforcement of their duties to the public...not to compel them to carry out their contract obligations to individuals." (Atchison, T.&S.F. Ry. Co. v Railroad Commission (1916) 173 Cal 577, 582.) When the Commission acts pursuant to Division 1 of the Public Utilities Code, it is acting under the police power of the state and is not bound by private contracts in the exercise of that power. (San Bernardino v Railroad Commission (1923) 190 Cal 562; Miller v Railroad Commission (1937) 9 C 2d 190, 195-96; Truck Owners, etc., Inc. v Superior Court (1924) 194 Cal 146, 156; People v Superior Court of Sacramento County (1965) 62 C 2d 515, certiorari denied, 85 S. Ct. 1341; People v Ryerson (1966) 241 CA 2d 115; Pratt v Coast Trucking, Inc. (1964) 228 CA 2d 139; Vallejo Bus Co. v Superior Court (1937) 19 CA 2d 201, 205.) The Commission can, however, consider such contracts in arriving at its decision. (Application of The City of Parlier (1930) 34 CRC 739, 742.) Since the existence of the alleged contract has



not been established, it is unnecessary to speculate what consideration should be given to its alleged provisions.

Finally, the customers argue that the Commission should consider for ratemaking purposes that the Placer System is the remnant of what was once a larger system, the remainder having been acquired by PCWA in 1968. The customers claim that the better part of the original system was transferred to PCWA and that they must generate the revenues to support that which remains of the system.<sup>4/</sup>

The facts surrounding that acquisition will be considered at length in the ensuing discussion dealing with the PCWA contract. For the purposes of this analysis it is only necessary to note that: (1) The transfer of the portion of the Placer System to PCWA was financed by revenue bonds which were approved by the voters of Placer County in 1961, and (2) the transfer was approved by this Commission in Decision No. 74617 in Application No. 50372 entered on August 27, 1968. Since the transaction has long become final and acted upon for many years the Commission has no jurisdiction to disregard it in this proceeding. (Golconda Utilities Co. (1968) 68 CPUC 296, 305-06 and cases cited therein.)

In sum, the Commission finds that the Placer System which is not interconnected with any of PG&E's other water systems must be treated as an entity for ratemaking purposes. PG&E's electric department revenues cannot be considered for ratemaking purposes herein.

#### B. The PCWA Contract

Initially, the staff took the position that any rate increase which might be authorized in this proceeding should be

---

<sup>4/</sup> There are suggestions that the Placer System customers would like to be included in the PCWA but that the agency is not interested in acquiring the system at this time.

partially allocated to PCWA. During the course of the hearings the staff changed its position. It now recommends that, based upon its cost of service study, there be no increase in rates for PCWA.

The PCWA was created by special statute in 1957. In 1963 it entered into a power sales contract with PG&E. Pursuant to that contract PCWA constructed its Middle Fork American River Project. The project included four powerhouses and tunnels from the north fork of the American River to Auburn. All of the electricity generated by the powerhouses is sold to PG&E pursuant to the contract. The project also included a tunnel under Auburn to the western part of Placer County. The purpose of this portion of the project was to develop by storage and diversion water for irrigation purposes in western Placer County.

In 1965, PCWA and PG&E entered into negotiations dealing with PCWA's purchasing a portion of the Placer System. The negotiations culminated in two contracts dated June 18, 1968. One provided for the purchase of the water system. The other was a water supply contract in which PG&E agreed to provide PCWA with specified amounts of water at determined rates. The contracts were presented to the Commission for authorization to carry out their provisions in Application No. 50372. The Commission in Decision No. 74617 found that:

- "1. The transfer of Pacific's water facilities known as the Lower Drum Division Water System in accordance with the terms of the Water System Sale Contract executed on June 18, 1968 would not be adverse to the public interest.
- "2. The Water Supply Contract executed by Pacific and Agency on June 18, 1968 is not adverse to the public interest." (Slip Decision, p. 5.)

The Commission authorized PG&E to sell the system to PCWA. It also ordered that:

- "4. Pacific Gas and Electric Company is hereby authorized to enter into and carry out the terms and conditions of the contract entitled 'Water Supply Contract Between Pacific Gas and Electric Company and Placer County Water Agency', executed on June 18, 1968, which is attached to the application as Exhibit D and by this reference made a part hereof." (Slip Decision, p. 6)

Because of the manner in which the Commission views the record, it is unnecessary to dwell at length on PCWA's contention that the Commission has no jurisdiction to modify the water supply contract rates. Assuming arguendo, that the Commission has jurisdiction to change herein the rates PG&E charges PCWA under Public Utilities Code §§ 2701, 2712; (San Bernardino v Railroad Commission, supra; Miller v Railroad Commission, supra; Truck Owners, etc., Inc. v Superior Court, supra; People v Superior Court of Sacramento County, supra; People v Ryerson, supra; Pratt v Coast Trucking, Inc., supra; Vallejo Bus Co. v Superior Court, supra.) the record does not justify exercising that jurisdiction for the reasons which follow.

Both the staff and PG&E presented exhibits showing cost of service analyses for furnishing water to PCWA. The studies, while disparate, indicate that the revenues produced by the PCWA contract rates yield more than the rate of return hereinafter authorized.

The staff study is flawed in two respects: (1) The staff used a length capacity factor in allocating ditch system expenses among PCWA and the other ditch users. This factor contains the erroneous assumption that the cost of operating and

maintaining a canal is directly proportional to its length. The overwhelming weight of the evidence indicates that, for example, a canal of 20 cfs capacity would not require twice the amount of money to operate, construct, or maintain than one of 10 cfs capacity. The inner surface of the larger canal would not be twice as large as the one with half its capacity. (2) The staff did not properly allocate the expenses of the lower system facilities. The staff allocated all the expenses of the Middle and Lower Fiddler Green and the Ragsdale Canals to PCWA. The record indicates that the Middle Fiddler Green Canal is used to deliver water to the Nevada Irrigation District (NID) and PG&E. During the past eleven years only approximately one-third of the deliveries through that canal went to PCWA. The record also discloses that PCWA only uses a percentage of the water passing through the Lower Fiddler Green and the Ragsdale Canals.

PG&E introduced in evidence a cost of service study prepared by Brown and Caldwell, Engineers. Brown and Caldwell made an incremental analysis based on PCWA's proportional share of annual utilization of the transmission and distribution system. (Exhibit 66-P.) While the Brown and Caldwell methodology is somewhat more reasonable than the staff's, the exhibit has two deficiencies: (1) It excludes general and administrative expenses. As a user of the system PCWA should bear its share of all expenses connected with it. (2) The exhibit relies on operation and maintenance expense (O&M) figures in other PG&E exhibits.

The Commission finds that, in light of the findings hereinafter made, under a full cost analysis the revenues generated under the PCWA water contract will generate revenues that will yield PG&E at least the rate of return authorized herein. In the circumstances, PG&E should not be required to increase the rates provided for in the contract. (Half Moon Bay Light & Power Co. (1914) 5 CRC 778.)

The Commission also notes that the record indicates that NID has a contract with PG&E with similar rates. (Exhibit 55-P.) In the light of our previous findings it is unnecessary to consider PCWA's argument that to change its rates without changing NID's would violate the equal protection of the laws. Furthermore, NID is not a party in this proceeding. In general, its water is delivered from PG&E electric department canals. Again, we comment that there is no evidence in this record to support a finding of improper classification of canals. However, were this to be established in a subsequent proceeding, it could have an impact on water rates.

To recapitulate, assuming the Commission has jurisdiction to order an increase in the rates PG&E charges PCWA, it will not do so in this proceeding because the contract rates on a full cost of service basis will yield revenues which provide PG&E at least the rate of return herein authorized.

C. 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 also 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, the 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.<sup>1/</sup> 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.

---

<sup>1/</sup> 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 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.'"

In this proceeding the staff does not propose directly eliminating the employee discount. It argues that the discount should not be allowed for ratemaking purposes herein, or that revenues be imputed for ratemaking purposes. 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.<sup>5/</sup> 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 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 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

---

<sup>5/</sup> 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 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 classification of PG&E employees who receive a water discount in the Placer System:

<u>Employee</u>	<u>Class</u>
No. 1	Retired
No. 2	Meter Reader
No. 3	Water Systems Repairman
No. 4	Retired
No. 5	Troubleman
No. 6	Retired
No. 7	Retired
No. 8	Line Subforeman
No. 9	Retired
No. 10	Retired
No. 11	Helper, Hydro Maint.
No. 12	Ditch Tender
No. 13	L.T.D.
No. 14	Retired
No. 15	Retired
No. 16	Line Subforeman
No. 17	Water Subforeman
No. 18	Troubleman
No. 19	Retired
No. 20	Fld. Clerk Water
No. 21	Retired

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

A.58632 ALJ/cc/ks/ec \*

	<u>Revenue Reduction Due To Employee Discount</u>		<u>Number of Employee Customers</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	
Placer System	\$300	\$1,500	21

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 under 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. 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 not persuasive. 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 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.

D. Union Wage Rates and Working Practices

As later considered, the staff in presenting its operating and maintenance (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.

In the Placer System, piped, treated water is distributed in Colfax, Alta, and Monte Vista. In the remainder of the system untreated water is supplied from canals (ditch system or ditches). A staff assistant engineer testified that his estimate for the annual expense of ditch maintenance for all of PG&E's ditch systems was \$1,000 per mile, which included \$500 per mile for repairs and \$500 per mile for cleaning. He based his estimate on four factors:

- (1) Observation of a ditch-cleaning crew on a field trip.
- (2) Information provided by PG&E that a ditch-cleaning crew consisted of eight persons, whom he believed to be casual laborers.

(3) Information received by telephone from an employment agency in Auburn and the PCWA which indicated that ditch-cleaning labor could be obtained at wages between \$3.50 and \$5.50 per hour.

(4) His opinion that an eight-man crew should be able to clean an average of one mile of ditch per day. Part of the staff engineer's estimate was based on wage rates for highway weed-cleaning crews and construction laborers. He also testified that the union work rules should not be fully recognized for the purposes of the consolidated proceedings.

PG&E and IBEW presented testimony differing from that of the staff on the question of ditch maintenance expenses.

An IBEW shop steward who is a PG&E subforeman and was formerly a ditch patrolman gave the following testimony: Water system ditches are narrower than hydro-ones and therefore cannot be cleaned with the use of mechanical equipment. Ditch-cleaning is not comparable to chopping weeds at the side of the road. Ditch-cleaning is backbreaking work in mud all day. The ditch cleaner works in hip boots with a shovel or a hazel hoe. Except for a lunch break, the work is constant. The subforeman testified that he has observed ditch-cleaning workers quit after half a day on the job and many quit after two or three days because of the rigorous nature of the work. He testified that in his opinion an eight-man crew would clean an average of one-half mile of ditch per day. He also testified that in maintaining ditches PG&E personnel gunite them, cement them, build flumes, remove trees and rocks, repair leaks, construct headgates, fix meters and regulator pits, and put in new services, sometimes blasting as required. ✓

Evidence adduced by PG&E and IBEW indicates that if PG&E were to contract out the ditch-cleaning operation, IBEW contends that it must pay the prevailing union wage rate for laborers.<sup>6/</sup> ✓

---

<sup>6/</sup> The IBEW contends that its position is similar to that required under Section 1771 of the Labor Code for public works projects.

The evidence indicates that under the Laborer's Union Master Agreement, the prevailing rate for the labor in question, including overhead, would be \$14.10 per hour. However, PG&E does not contract out this work.

Ditch-cleaning is performed by eight-man crews who are employees of PG&E. Under the collective bargaining agreement between PG&E and IBEW all persons performing the same job receive the same salaries, whether they are permanent employees or casual ones. Many of the persons hired to do ditch-cleaning are casual employees who do not become permanent ones.<sup>7/</sup> Sometimes they continue on to become employees in the construction department. PG&E pays ditch-cleaners \$6.98 per hour under the collective bargaining agreement. The foreman and truck driver receive higher wages because of their job classifications, although the entire crew works at cleaning the ditches.

The staff produced no evidence which would indicate that the collective bargaining agreement between PG&E and IBEW was not arrived at fairly or that the wages and working conditions provided for therein are unreasonable. (Labor Code § 923.) The basis upon which the staff engineer estimated ditch maintenance costs is weak. He did not use the collective bargaining wage rates. His comparison of ditch-cleaning with highway weed removal does not stand up under the weight of the evidence. His estimate, based upon observations on a field trip, of how much ditch-cleaning an eight-man crew would average, is not as persuasive as the testimony of those who have actually done the work and described what it entails.

The wages paid PG&E employees and the union work rules are part of the collective bargaining agreement heretofore discussed.

---

<sup>7/</sup> Six months employment is required to achieve permanent employee status.

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.

E. 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>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Utility Exceeds Staff</u>
Total Operating Revenue - 1980			
Present Rates	\$ 271,100	\$ 251,700	\$ (19,400)
Proposed Rates	773,100	724,600	48,500
(Red Figure)			

The staff agreed with the PG&E estimate of customers, except for the residential and irrigation categories of the ditch system. The staff's estimates for those categories are based on annual recorded data from 1969 to 1978 and include a projection which takes into account an increased rate of growth which began in 1976. The staff estimate which is based on recorded data 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 1976-77 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 indicated that there was a significant decrease in water consumption by the residential and business customers under Schedule No. 11, which did not appear in other schedules. There was no significant difference in the staff and PG&E estimates on this schedule. PG&E estimated 1980 consumption to be the same as 1976 recorded for Schedule No. 1 business customers. The staff's multiple regression analysis indicates a statistically significant linear increase in consumption with time, and it projected the increase to 1980. The staff estimated 1980 consumption to be the same as 1978 recorded for Schedule No. 2 business customers while PG&E estimated it to be the same as 1976 recorded. 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. 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.

F. 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.<sup>8/</sup> 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. Chemical costs per 100 cubic feet of treated water have been rising for the Placer System. The staff estimate, which is based on the trend, is \$0.03050 per 100 cubic feet of treated water produced. Multiplying this by the staff's 1980 estimate of 227,700 cubic feet of treated water results in a chemical cost of \$6,900. 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.

---

<sup>8/</sup> 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 Placer 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 Placer 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.<sup>9/</sup>

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

---

<sup>9/</sup> 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 Placer System, according to the staff it is \$86 per customer for the domestic system and \$5,043 per mile of ditch. The witness, based on his investigation, recommended that an amount of \$48 per customer for O&M payroll would be reasonable for the domestic customers and \$1,050 per mile of ditch. 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 \$74.31. 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 Placer System is \$29.59.

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 with a 20 percent adjustment for the domestic system and a 30 percent adjustment for the ditch system.

PG&E is entitled to have included 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 to present evidence on this issue. (Evidence Code §§ 500, 550; Shivell v Hurd (1954) 129 CA 2d 320, 324;

Ellenberger 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 Placer 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 the percentage of salaries charged to the Placer System, and (2) whether PG&E used its personnel most efficiently in operating the Placer System.

The staff methodology for estimating O&M payroll is flawed. As indicated, PG&E is entitled to reasonable expenses for operating and maintaining its Placer 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. As previously noted, the staff estimate on ditch-cleaning is flawed. (Page 29, supra.)

Rate comparisons are of little probative value unless the factors compared are similar. (Delta Warehouse Co. (1950) 49 CPUC 702, 705.) In view of this deficiency 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 Placer System. The Commission finds that the magnitude of these deficiencies does not exceed 20 percent for the domestic system and PG&E's payroll estimate will be reduced by that amount. An additional adjustment will be made for the ditch system. In addition to the factors just enumerated, the record indicates the close proximity and interrelationship of electric department canals in the Placer System. The margin of error in these allocations is thus increased. The Commission finds that the magnitude of deficiency does not exceed 30 percent for the ditch 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; since the PG&E ditch expenses as modified have been adopted, the PG&E "ditch other" expenses will also be 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 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 Placer Water System  
Operation & Maintenance Expenses  
Test Year 1980

<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
	(Thousands of Dollars)		
<u>At Present Rates</u>			
Purchased Power	\$ 33.1	\$ 0.0	\$ 33.1
Purchased Chemicals	6.9	3.0	6.9
Town Payroll	34.0	52.9	42.3
Ditch Payroll	42.4	178.7	125.0
Town Other	13.4	36.6	13.4
Ditch Other	98.6	94.0	94.0
Uncollectibles	0.4	0.4	0.4
Total O&M Expenses	<u>228.8</u>	<u>365.6</u>	<u>315.1</u>
<u>At Proposed Rates</u>			
Uncollectibles	1.2	1.1	1.2
Total O&M Expenses	229.6	366.3	315.9

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 Placer Water System  
Administrative And General Expenses  
Test Year 1980

<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
	(Thousands of Dollars)		
Regulatory Commission Ex.	\$ 0.3	\$ 0.3	\$ 0.3
Franchise & Business Tax	0.0	0.0	0.0
Total A&G Expense	<u>0.3</u>	<u>0.3</u>	<u>0.3</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 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 15.86 percent is allocated to the Placer System. The corresponding staff ratios are 0.26 percent and 13.93 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)<sup>10/</sup> for test year 1980 in the electric department, and \$59,036,000<sup>11/</sup> for test year 1980 in the gas department. Therefore, we find that the correct total amount of A&G expenses to be allocated is \$185,379,000. Since the total amount of A&G expenses that the staff used is \$161,798,000, we find that the staff's estimates for allocated A&G expenses should be increased by 14.57 percent. For the Placer System, this results in an allocated A&G expense of \$51,400.

(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:

---

<sup>10/</sup> Page 25 of D.91107, A.58545 and A.58546.

<sup>11/</sup> Page 46 of D.91107, A.58545 and A.58546.

PG&E Placer 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	\$10.8	\$ 3.6	\$10.8
A&G Indirect	44.9	104.1	51.4
Ad Valorem Taxes	<u>1.3</u>	<u>3.1</u>	<u>1.3</u>
Total Prorated Expense	57.0	110.8	63.5

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, 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. In the circumstances the Commission finds that the PG&E estimate should be modified and adopted.

A summary of the estimates is as follows:

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

<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Ad Valorem Taxes	\$37,400	\$50,900	\$37,400
Payroll Taxes	10,500	18,900	14,175
Total	47,900	69,800	51,575

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 Placer 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	\$(17,500)	27,600	(43,600)	(1,100)	3,700
Federal Income Tax	(92,000)	117,800	(223,800)	(26,000)	5,500
Total Income Tax	(109,500)	145,400	(267,400)	(27,100)	9,200

(Red Figure)

The income tax estimates are based, in part, on estimated operating revenues and O&M expenses. In view of the adjustments heretofore made, the Commission finds the amounts of \$3,700 for California Corporation Franchise Tax and \$5,500 for Federal Income Tax to be reasonable. ✓

G. Utility Plant

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

<u>PG&amp;E Placer Water System Utility Plant Test Year 1980</u>			
<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Utility Plant	\$4,089,900	\$4,398,600	\$4,079,900

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 \$4,079,900 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.

H. Depreciation Expense and Reserve

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

<u>PG&amp;E Placer Water System Depreciation Expense and Reserve Test Year 1980</u>			
<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Depreciation Expense	\$ 35,000	\$ 38,800	\$ 35,000
Depreciation Reserve	2,702,900	2,721,400	2,702,900

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. 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.

I. Rate Base

PG&E's estimated total weighted average rate base for the test year 1980 is \$1,689,500. The staff's is \$1,411,300. 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:

FG&E Placer Water System  
Average Depreciated Rate Base  
Test Year 1980

<u>Item.</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
	(Thousands or Dollars)		
<u>Weighted Avg. Water Plant</u>			
Total Weighted Avg. Plant	\$4,089.9	\$4,398.6	\$4,079.9
<u>Working Capital</u>			
Materials & Supplies	6.8	6.8	6.8
Working Cash Allowance	17.5	28.0	17.5
Total Working Capital	<u>24.3</u>	<u>34.8</u>	<u>24.3</u>
<u>Adjustments</u>			
Advances	(1.9)	(1.9)	(1.9)
Deferred Inv. Tax Credit	(1.9)	(20.6)	(1.9)
Total Adjustments	<u>0.0</u>	<u>(22.5)</u>	<u>0.0</u>
Subtotal Before Deduct.	4,114.2	4,410.9	4,104.2
<u>Deductions</u>			
Depreciation Reserves	2,702.9	2,721.4	2,702.9
Avg. Depreciated Rate Base	1,411.3	1,689.5	1,401.3
	(Red Figure)		

J. 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 \$52,500 as the estimated weighted average additions to the Placer System plant-in-service for the test year 1980. The estimated end-of-year plant is \$4,079,900. The amount of capital required for the Placer System is small in relation to the remainder of PG&E's operations. So is the amount of existing debt attributable to the Placer System which needs to be serviced. The Commission deems return on equity, as

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



1. The amount of existing debt and equity capital attributable to the Placer 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 Placer 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 Placer System's operations as from its gas and electric operations.

The following capital structure and cost of debt underlie 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 Placer 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 Placer 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

K. Rate Design

The staff proposed changes in rate design for all of PG&E's domestic water systems, including the Placer 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 continuing to subsidize the revenue requirements for Public Fire Protection Schedule F-1 should be continued.

PG&E did not oppose the staff proposal. However, 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.

The staff proposal would change PG&E's present minimum-charge type of schedule to a service charge-quantity charge one.<sup>13/</sup> 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.

---

<sup>12/</sup> The question of fire protection costs is separately considered later in this opinion.

<sup>13/</sup> PG&E's proposed new tariffs provide for service charge-quantity charge schedules consisting of a two-block rate structure (0-300 cu.ft. and over 300 cu.ft.) with inverted rates.

"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."

The Commission finds that the rate design proposed by the staff is reasonable except that Schedule No. P-11 will be changed from a declining block schedule to a semi-inverted rate schedule. The adopted rate design will not result in ditch customers paying higher rates than town ones.

L. 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 Placer System the staff proposal would result in a period of two 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 question herein is not whether to have step increases, but the number of steps. In this application the staff and PG&E agree that two years is an appropriate period in which to implement the increases. 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 two annual steps.

M. 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 Placer System. In the circumstances, the rates hereinafter authorized will include an increment for fire protection.

N. Service Matters

The testimony presented at the hearings indicates that there are no general service problems which require adjudication in this proceeding.

O. Special Conditions

PG&E sought authority in the consolidated proceedings to include in its tariffs, including the one for the Placer 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 Placer System will have gross operating revenues of \$271,400 and a return on rate base of .82 percent at presently authorized rates for the test year 1980, which is unreasonably low. PG&E is in need of additional revenues from the Placer 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 Placer System is one of these water systems.

3. Commission and federal regulations require PG&E to account for its electric revenues and expenses in proceedings involving electric rates.

4. Revenues which are accounted for in electric rate proceedings cannot be included in water rate proceedings.

5. If it were possible to remove revenues produced by individual hydroelectric plants from consideration in electric rate proceedings and include them in water rate proceedings, it would not be in the public interest to do so. This would result in the fragmentation of PG&E's statewide electric distribution system and be detrimental to California electric users as a whole.

6. The PCWA was created by special statute in 1957. In 1963 it entered into a power sales contract with PG&E. Pursuant to that contract PCWA constructed its Middle Fork American River Project. The project included four powerhouses and tunnels from the north fork of the American River to Auburn. All of the electricity generated by the powerhouses is sold to PG&E pursuant to the contract. The project also included a tunnel under Auburn to the western part of Placer County. The purpose of this portion of the project was to develop by storage and diversion water for irrigation purposes in western Placer County.

7. In 1965, PCWA and PG&E entered into negotiations dealing with PCWA purchasing a portion of the Placer System. The negotiations culminated in two contracts dated June 18, 1968. One provided for the purchase of the water system. The other was a water supply contract in which PG&E agreed to provide PCWA with specified amounts of water at determined rates. The contracts were presented to the Commission for authorization to carry out their provisions in Application No. 50372. ✓

8. The contracts, including the one for transfer of a portion of the Placer System to PCWA, were authorized by this Commission in Decision No. 74617 entered on August 27, 1968. The acquisition was financed by revenue bonds which were approved by the voters of Placer County in 1961.

9. The rates presently provided for in the PCWA and PG&E water service contract will generate revenues that will yield PG&E at least the rate of return authorized herein for the test year 1980.

10. 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 also 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."

11. 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.

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



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

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

15. 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.

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

17. The job of chopping weeds at the side of a roadway is not substantially comparable for O&M payroll analysis purposes to that of cleaning a water ditch or canal.

18. 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.

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

20. The sum of \$601,600 is a reasonable estimate of the total operating revenues for the test year 1980 at authorized rates. ✓

21. The staff estimate of \$33,100 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.

22. The staff estimate of \$6,900 for purchased chemicals is more reasonable than PG&E's because it is based on the efficient use of plant.

23. 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 \$42,300 for the town system and \$125,000 for the ditch system.

24. 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	\$ 33.1
Purchased Chemicals	6.9
Town Payroll	42.3
Ditch Payroll	125.0
Town Other	13.4
Ditch Other	94.0
Uncollectibles	.4
Total O&M Expenses	315.1
<u>At Proposed Rates</u>	
Uncollectibles	1.2
Total O&M Expenses	315.9

25. The sum of \$63,500 for general office prorated expense for the test year 1980 is reasonable.

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

27. The staff estimate of \$37,400 on ad valorem taxes is more reasonable than PG&E's because it is based on more recent and actual data.

28. The sum of \$14,175 for estimated payroll taxes for the test year 1980 is reasonable.

29. The estimate of \$9,200 for total income taxes for the test year 1980 is reasonable. ✓

30. The sum of \$4,079,900 is reasonable for utility plant for the test year 1980.

31. 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	\$ 35,000
Depreciation Reserve	\$2,702,900

32. The sum of \$1,401,300 is a reasonable estimate for average depreciated rate base for the test year 1980.

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

34. 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.

35. The total amount of the increase in annual revenue authorized by this decision is \$330,200; the rate of return on rate base is 9 percent; the return on common equity is 11.49 percent. ✓

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

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

38. 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 two 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	\$ 601.6
Total Operating Revenues	<u>601.6</u>
<u>Operating Expenses</u>	
Operation & Maintenance	315.9
Administrative & General	0.3
General Office Prorated	63.5
Subtotal	<u>379.7</u>
Depreciation Expense	35.0
Taxes Other Than Income	51.6
State Corp. Franchise Tax	3.7
Federal Income Tax	5.5
Total Operating Expense	<u>475.5</u>
Net Operating Revenues Adjusted	126.1
Rate Base	1,401.3
Rate of Return	9.00%

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

3. PG&E should be authorized to file for the Placer System the revised water rates set forth in Appendices A and B which are designed to yield \$330,200 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.

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 Placer 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 OCT 8 1980, at San Francisco, California.

*I dissent in part, see attached!*  
*Richard D. Howell*

*John E. Bryan*  
\_\_\_\_\_  
President

*Gerron L. Sturgeon*  
\_\_\_\_\_

*Richard D. Howell*  
\_\_\_\_\_

*Leonard M. Jensen*  
\_\_\_\_\_  
Commissioners

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

APPENDIX A  
Page 1 of 5

Pacific Gas and Electric Company

Schedule No. P-1

Placer Tariff Area

GENERAL METERED SERVICE - TREATED WATER

APPLICABILITY

Applicable to all treated water service on a metered basis.

TERRITORY

In the territory in Placer County as shown on the Colfax, Alta, and Monte Vista Water Service Area Maps of the Placer Water System.

RATES

	<u>Per Meter Per Month</u>		
	<u>Before Jan. 1 1982</u>	<u>After Dec. 31, 1981</u>	
Service Charge:			
For 5/8 x 3/4-inch meter .....	\$ 3.50	\$ 6.50	(2) (N) ✓ ✓
For 3/4-inch meter .....	4.00	7.80	
For 1-inch meter .....	5.50	10.40	
For 1 1/2-inch meter .....	7.00	13.00	
For 2-inch meter .....	11.00	20.00	
For 3-inch meter .....	20.00	39.00	
For 4-inch meter .....	35.00	60.00	
For 6-inch meter .....	45.00	85.00	
For 8-inch meter .....	70.00	120.00	
Quantity Rates:			
First 300 cu.ft., per 100 cu.ft. ....	.220	.400	
For all over 300 cu.ft., per 100 cu.ft. ....	.260	.488	

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 5

Pacific Gas and Electric Company

Schedule No. P-11

Placer Tariff Area

GENERAL METERED SERVICE - UNTREATED WATER

APPLICABILITY

Applicable to untreated water service furnished from the ditch system.

TERRITORY

Within the territory served by the Placer Ditch System as shown on the Placer Ditch System Service Area Map.

RATES

	<u>Per Meter Per Month</u>		(N)
	<u>Before</u>	<u>After</u>	
	Jan. 1 1982	Dec. 31, 1981	
<b>Service Charge:</b>			
For 5/8 x 3/4-inch meter .....	\$ 2.50	\$ 4.55	(2)
For 3/4-inch meter .....	3.00	5.50	
For 1-inch meter .....	4.00	7.30	
For 1 1/2-inch meter .....	5.00	9.00	
For 2-inch meter .....	8.00	14.00	
For 3-inch meter .....	14.00	27.00	
For 4-inch meter .....	25.00	42.00	
For 6-inch meter .....	32.00	60.00	
For 8-inch meter .....	50.00	84.00	
<b>Quantity Rates:</b>			
First 2,000 cu. ft., per 100 cu. ft. ....	.14	.25	(I) (N) ✓ ✓ ✓
Next 7,000 cu. ft., per 100 cu. ft. ....	.18	.31	
Over 10,000 cu. ft., per 100 cu. ft. ....	.16	.28	

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.

SCHEDULE NO. P-12

GENERAL IRRIGATION SERVICE

APPLICABILITY

Applicable to untreated water for irrigation purposes from the Utility's Ditch System.

TERRITORY

Within the territory served by the Placer Ditch System as shown on the Placer Ditch System Service Area Map.

RATES

Per Month	
Before	After
Jan. 1, 1982	Dec. 31, 1981

- A. Irrigation season, 5-month period May 1 through September 30 inclusive.

For service of a continuous flow of water through a master box on regular delivery outlet for the irrigation season, per miner's inch .....

\$ 27.00    \$ 38.00

(I)

- B. Non-irrigation season, 7-month period October 1 through April 30 inclusive

1st 15 miner's inch days, or less.....  
Over 15 miner's inch days, per miner's inch day.....

7.00    .90

11.00    1.00

(I) (N)

(N)



Pacific Gas and Electric Company

Schedule No. PF-2

Placer Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

In the territory in Placer County as shown on the Colfax, Monte Vista, and Alta Water Service Area Maps of the Placer Water System.

RATES

	Per Service		
	Connection Per Month		
	Before	After	
	Jan. 1,	Dec. 31,	
	1982	1981	
For each 4-inch connection .....	\$ 9.50	\$11.00	(I)
For each 6-inch connection .....	12.00	14.00	
For each 8-inch connection .....	18.00	21.00	
For each 10-inch connection .....	42.00	50.00	(I)

SCHEDULE NO. PR-1

PLACER TARIFF AREA

RESALE SERVICE - UNTREATED WATER

APPLICABILITY

Applicable to untreated water furnished for resale for domestic or agricultural purposes.

TERRITORY

Within the territory served by the Placer Ditch System as shown on the Placer Ditch System Service Area Map.

RATES

	<u>Per Month</u>		
	<u>Before</u>	<u>After</u>	
	Jan. 1, 1982	Dec. 31, 1981	
Service Charge:			
For each service connection .....	\$ 7.00	\$ 12.00	(I)
Quantity Rates:			
First 20 miner's inch days, per miner's inch-day .....	1.00	1.20	✓
Next 80 miner's inch days, per miner's inch-day .....	.85	1.00	✓
Next 900 miner's inch days, per miner's inch day .....	.79	.90	✓
Over 1000 miner's inch days, per miner's inch day .....	.75	.80	(I) ✓

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

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

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