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ORIGINAL

Decision No. 92490 DEC 2 - 1979

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 Tuolumne Water System.)

Application No. 58631
(Filed January 25, 1979)

(Water)

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District No. 2, interested parties.

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O P I N I O N

Summary of Decision

This decision grants Pacific Gas and Electric Company (PG&E) an increase in water rates for its Tuolumne Water System (Tuolumne System). The decision finds that an increase in rates to yield additional revenues of \$736,700, 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.

This is an application by PG&E seeking an increase in rates and charges for its Tuolumne System. 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.58632 (Placer 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 Sonora on August 23, 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 Tuolumne System consists of a series of canals (ditches) and reservoirs serving untreated water to rural areas adjacent to the ditches, and treated water to the towns of Sonora, Tuolumne, and Jamestown. It is located generally between the South Fork Stanislaus River and the North Fork Tuolumne River in Tuolumne County.

In 1978 the system served 3,772 customers with water diverted from the South Fork Stanislaus River by PG&E's Phoenix Hydroelectric Project, which is partly under license by the Federal Energy Regulatory Commission.

The Tuolumne System has four general operating areas:

1. The area which includes the company's Tuolumne treated water service area, and the Section 4 Eureka and Soulsbyville Ditches.

2. The area downstream of the Phoenix Penstock diversion, which is served by the Columbia, Matelot, and San Diego Ditches.

3. The area downstream of the Phoenix powerhouse at the Phoenix Reservoir; including the treated water service areas of Sonora and Jamestown which are served from the Shaw's Flat, Sonora, Racetrack, Table Mountain, and Montezuma Ditches.

4. The area downstream of the Phoenix Reservoir, which is served by the Kincaid Ditch and the Phoenix Ditch, and seasonally by the Algerine Ditch.

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?

Present and Proposed Rates

The present general rates of the Tuolumne System were authorized by Decision No. 87468 dated June 21, 1977 in Application No. 54199. The rates became effective in two steps on July 16, 1977 and July 16, 1978. It was estimated that the authorized rates would produce a rate of return on rate base of 3.79 percent for the test year 1973.

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

General Metered Service
Treated Water

APPLICABILITY

Applicable to all treated water furnished on a metered basis.

TERRITORY

The unincorporated communities of Jamestown and Tuolumne and the incorporated city of Sonora, and vicinity, Tuolumne County.

RATES

Per Meter
Per Month

Quantity Rates:

First	400 cu. ft. or less	\$ 3.90
Next	2,600 cu. ft., per 100 cu. ft. ....	.39
Next	7,000 cu. ft., per 100 cu. ft. ....	.23
Over	10,000 cu. ft., per 100 cu. ft. ....	.16

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 3.90
For	3/4-inch meter	4.70
For	1-inch meter	6.20
For	1½-inch meter	7.80
For	2-inch meter	12.00
For	3-inch meter	23.00
For	4-inch meter	39.00

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

General Metered Service
Untreated Water

APPLICABILITY

Applicable to all untreated water furnished from the ditch system on a metered basis.

TERRITORY

The territory adjacent to the Company's ditch system, Tuolumne County.

RATES

Per Meter
Per Month

Quantity Rates:

First	1,000 cu. ft. or less	.....	\$ 3.85
Next	2,000 cu. ft., per 100 cu. ft.	.....	.29
Next	7,000 cu. ft., per 100 cu. ft.	.....	.10
Next	90,000 cu. ft., per 100 cu. ft.	.....	.06
Over	100,000 cu. ft., per 100 cu. ft.	.....	.05

Minimum Charge:

For	5/8 x 3/4 or 3/4-inch meter	.....	\$ 3.85
For	1-inch meter	.....	5.80
For	1½-inch meter	.....	9.60
For	2-inch meter	.....	14.40
For	3-inch meter	.....	19.20
For	4-inch meter	.....	22.00
For	6-inch meter	.....	48.00

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 Tuolumne 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	(7.11%)	(5.61%)	(5.15%)	(8.89%)	(6.75%)

(Red Figure)

PG&E seeks herein authority to raise Tuolumne System rates to generate additional revenues of \$1,054,000, or 235.8 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:

General Metered Service
Treated Water

APPLICABILITY

Applicable to all treated water furnished on a metered basis.

TERRITORY

The unincorporated communities of Jamestown, Tuolumne City, and the incorporated city of Sonora, and vicinity, Tuolumne County as shown on the service area maps of said systems.

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>
Service Charge:		
For 5/8 x 3/4-inch meter	\$ 5.25	\$ 7.00
For 3/4-inch meter	7.75	10.50
For 1-inch meter	13.00	17.50
For 1½-inch meter	26.00	35.00
For 2-inch meter	41.00	56.00
For 3-inch meter	78.00	105.00
For 4-inch meter	130.00	175.00

Quantity Rates:

First 300 cu. ft., per 100 cu. ft.	\$ 0.35	\$ 0.50
Over 300 cu. ft., per 100 cu. ft.	0.70	0.95

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.

General Metered Service
Untreated Water

APPLICABILITY

Applicable to untreated water service from the ditch system.

TERRITORY

The territory adjacent to the Company's ditch system, Tuolumne County, as shown on its Tuolumne Ditch System Service Area map, excepting the Algerine, Kincaid Ditch, and new services from the Tuolumne Main Canal.

RATES

	<u>Step 1</u> Per Meter <u>Per Month</u>	<u>Step 2</u> Per Meter <u>Per Month</u>
Service Charge:		
For 5/8 x 3/4 or 3/4-inch meter	\$ 5.25	\$ 7.00
For 1-inch meter	9.00	12.00
For 1½-inch meter	17.00	23.00
For 2-inch meter	27.00	37.00
For 3-inch meter	50.00	70.00
For 4-inch meter	185.00	115.00
For 6-inch meter	170.00	230.00

Quantity Rates:

First 1,000 cu. ft., per 100 cu. ft. ..	\$ 0.30	\$ 0.50
Next 2,000 cu. ft., per 100 cu. ft. ..	0.25	0.40
Next 7,000 cu. ft., per 100 cu. ft. ..	0.20	0.30
Next 90,000 cu. ft., per 100 cu. ft. ..	0.12	0.20
Next 400,000 cu. ft., per 100 cu. ft. ..	0.07	0.14
Over 500,000 cu. ft., per 100 cu. ft. ..	0.04	0.06

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 Tuolumne System treated water customer^{1/} would increase from \$7.02 to \$12.60 at Step 1 and \$17.05 at Step 2. The bill for the average untreated metered water customer^{2/} (Ditch System) would increase from \$11.55 to \$17.05 at Step 1 and \$25.70 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 Tuolumne 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 18.94 percent. The staff recommends an increase in revenues of \$618,700 which according to the staff would yield a return on rate base of 9.84 percent and amount to a 128.4 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 Tuolumne System Customers

Five members of the public gave sworn statements at the hearing in Sonora. In addition, two of these witnesses gave additional testimony at the hearing in San Francisco.

1/ Based on consumption of 1,200 cu. ft. per month.

2/ Based on consumption of 4,900 cu. ft. per month.

Two of the witnesses expressed concern about the increase in rates for agricultural irrigation.

The president of the Ponderosa Water Company (Ponderosa) gave testimony in Sonora and San Francisco. PG&E sells Ponderosa untreated water for use in its system. At the time of the hearing Ponderosa had a complaint against PG&E on file with the Commission (Case No. 10629). The matter is still pending.

Ponderosa's president testified that an increase in rates for the treated water portion of the Tuolumne System was warranted because capital investments had been made to comply with Safe Drinking Water Bond Act Standards. He objected to any major increase for the ditch system on the grounds that it was inefficient and inadequate.

The acting general manager (manager) of Tuolumne County Water District No. 2 (District) testified at the hearing in San Francisco. He indicated that District is one of 28 customers which purchase water for resale from PG&E. He stated that Tuolumne County is growing in population and there is need for additional water to support this growth. The Tuolumne System is the basic water supply system for the area and that provisions should be made for increasing the supply of treated water. The manager indicated that this issue was before the Commission in Application No. 54199 and various complaint proceedings. The manager also testified that District was not opposed to a reasonable increase in rates in this proceeding.

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

The last increase in rates for the Tuolumne System was in 1977. That increase was an interim one which allowed no return on equity.

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

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

A. Consideration of Customer Contentions

The contentions of District and Ponderosa have only nominal relevance in this proceeding. The Commission takes official notice that Case No. 10629 is still pending and that Decision No. 92064 was entered in Application No. 54199 on January 29, 1980^{3/}.

^{3/} PG&E filed a petition for rehearing on August 18, 1980 and District filed a petition for modification on August 27, 1980. Decision No. 92314 dated October 8, 1980, modified Decision No. 92064 as requested by District and denied rehearing.

Decision No. 92064 orders PG&E to prepare a study on the desirability of providing metered water service for unmetered portions of the Tuolumne System, prepare a plan for piping the existing ditch system, and file rules concerning the supplying of potable water to the entire service area.

Decision No. 92064 has no effect on this proceeding. Much of the order mandates the preparation of plans or studies. Any changes or improvements to the system would have an impact on rate base and operation and maintenance (O&M) expenses. It is clear that none of this will occur during the test year 1980. The impact of Decision No. 92064 must be left to subsequent rate proceedings.

B. Employee Discounts

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

In Applications Nos. 55509 and 55510 which were applications by PG&E to increase electric and gas rates, various parties urged the abolition of the PG&E employee discount. The staff took the position that the discount should be maintained for then current

retirees and phased out over a 2-to 4-year period. In Decision No. 89315 entered on September 6, 1978, 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, the Commission, in Decision No. 89653, modified Decision No. 89315 to provide for retention of the employee discount and denied rehearing.

The pertinent portions of Decision No. 89653 are as follows:

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

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

* * *

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

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

* * *

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

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

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

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

"On page 26, Conclusion 1:

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

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

IBEW contends that the discounts are part of the collective bargaining agreement with PG&E and refusal to consider them for ratemaking purposes is an impermissible intrusion into the collective

bargaining process which is preempted under federal law.^{4/} 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

^{4/} 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.

Fifty-four PG&E employees receive discounts in the Tuolumne System. Of the 21 employees assigned to the water department in Sonora, 8 receive the discount. All clerical employees in Sonora have water department responsibilities. Of the 17 persons assigned to the clerical department, 6 receive the discount; of the 39 employees assigned to the electric department, 9 receive the discount. The remaining 31 persons receiving the discount are retirees or persons assigned to the general construction department.

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

	<u>Revenue Reduction Due to Employee Discount</u>		<u>Number of Employee Customers</u>
	<u>Present Rates</u>	<u>Proposed Rates</u>	
Tuolumne System	\$1,350	\$3,870	54

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 embodies 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 embodies in the collective bargaining agreement is unreasonable. Decision No. 89653 found that PG&E employee discounts should not be eliminated. For purposes of this proceeding compensation paid to employees will be included for ratemaking purposes.

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. 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. 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.

C. 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 Tuolumne System piped, treated water is distributed in the communities of Jamestown, Tuolumne and the city of Sonora. 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, which he believed to be casual laborers.

(3) Information received by telephone from an employment agency in Auburn and the Placer County Water Agency which indicated that ditch-cleaning labor could be obtained at wages between \$3.50 and \$5.50 per hour.^{5/}

(4) In his opinion, 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.^{6/}

5/ This information which was developed in the geographical area of PG&E Placer Water System was used in the estimates for all the PG&E ditch-systems.

6/ 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.^{7/} 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.

^{7/} 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.

As has been mentioned, no evidence was produced which would indicate that the collective bargaining agreement between PG&E and IBEW was not arrived at fairly or that wages and working conditions provided therein are unreasonable. The United States Supreme Court has repeatedly held that the principle of voluntary uncoerced agreement is the cornerstone of federal labor law; and that California and this Commission have always recognized the foregoing principle as evidenced by the following:

"Again, there is great public interest in the relations between labor and management, for wages invariably affect rates, and disputes over them or other matters are bound to affect services. Accordingly, there has been considerable state and federal legislation to diminish economic warfare between labor and management. In the absence of statutory authorization, however, it would hardly be contended that the commission has power to formulate the labor policies of utilities, to fix wages or to arbitrate labor disputes." (Pacific Telephone & Telegraph Co. v Public Utilities Commission (1950) 34 Cal 2d 822 at 829).

However, productivity, union work rules and numbers of employees were all issues in this proceeding.

We have no desire to place our finger on either end of the delicate balance in labor-management negotiations. However, we have a fundamental responsibility, under Public Utilities Code Sections 701, 728, and 761, to ensure that ratepayers receive

adequate service at just and reasonable rates. Accordingly, we hereby put PG&E on notice that it must improve its productivity and efficiency. The Commission will not view as sacrosanct in its ratemaking process every element of a collective bargaining agreement when such affects rates and service to the detriment of ratepayers, who, we note, are not represented at the collective bargaining table and have only this Commission to protect them. The Commission will not shy away from examining the deleterious effect on service and rates of inefficient utility management. We reserve the right to order such changes - or disallow such costs - as we find necessary.

D. Water Consumption and Operating Revenues

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

Water Consumption and Operating Revenues

<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Utility Exceeds Staff</u>
Total Operating Revenue - 1980			
Present Rates	\$ 481,700	\$ 446,400	\$ (35,300)
Proposed Rates	1,647,100	1,499,800	(147,300)
	(Red Figure)		

The staff agreed with the PG&E estimate of customers, except for Schedule No. 13, General Irrigation Service. The staff's estimate for that category is based on recorded growth in 1978 and includes a projection of an increased rate of growth. The staff estimate is more reasonable than that of PG&E and should be adopted.

PG&E included in its estimate an arbitrary 10 percent decrease in consumption for residual conservation resulting from the 1976-77 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 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.

E. Operating Expenses

1. Operation and Maintenance Expenses

(a) Purchased Power

PG&E included its estimate for purchased power expenses in the category of "town other" expenses. PG&E provided reports on the efficiency of 11 pumps with ratings from 7½ hp to 30 hp.^{8/} The efficiency of these pumps is low. 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 Tuolumne System. The staff estimate, which is based on the trend, is \$0.2770 per 100 cubic feet of treated water produced. Multiplying this by the staff's 1980 estimate of 780,500 cubic feet of treated water results in a chemical cost of \$21,600. 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.

^{8/} 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 Tuolumne 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 Tuolumne 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.^{9/}

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

^{9/} 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 Tuolumne System; according to the staff it is \$80 per customer for the domestic system and \$3,597 per mile of ditch. The witness, based on his investigation, recommended that an amount of \$49 per customer for O&M payroll would be reasonable for the domestic customers and \$1,100 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 \$78.01 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 Tuolumne System is \$32.03.

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 Tuolumne 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 Tuolumne System, and (2) whether PG&E used its personnel most efficiently in operating the Tuolumne System.

The staff methodology for estimating O&M payroll is flawed. As indicated, PG&E is entitled to reasonable expenses for operating and maintaining the Tuolumne 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. (Pages 22 - 23, 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 Tuolumne 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 Tuolumne 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's using a higher estimate of revenues. Since we have found the staff's revenue estimate to be generally more reasonable, we find that the staff's estimate of uncollectibles is more reasonable and should be adopted. The estimated O&M expenses are as follows:

PG&E Tuolumne 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	\$ 21.1	\$ 0.0	\$ 21.1
Purchased Chemicals	21.6	14.3	21.6
Town Payroll	153.0	245.5	196.4
Ditch Payroll	105.0	288.4	201.9
Town Other	63.3	80.5	63.3
Ditch Other	67.4	62.5	62.5
Uncollectibles	0.7	0.7	0.7
Total O&M Expenses	432.1	691.9	567.5
<u>At Proposed Rates</u>			
Uncollectibles	2.5	2.3	1.9
Total O&M Expenses	433.9	693.5	568.7

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 Tuolumne 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.	\$ 0.7	\$ 0.7	\$ 0.7
Franchise & Business Tax	0.0	0.0	0.0
Total A&G Expense	0.7	0.7	0.7

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 35.37 percent is allocated to the Tuolumne System. The corresponding staff ratios are 0.26 percent and 33.36 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)^{10/} for test year 1980 in the electric department, and \$59,036,000^{11/} 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 Tuolumne System, this results in an allocated A&G expense of \$136,200.

(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:

^{10/} Page 25 of D.91107, A.58545 and A.58546.

^{11/} Page 46 of D.91107, A.58545 and A.58546.

PG&E Tuolumne 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	\$ 10.4	\$ 12.0	\$ 10.4
A&G Indirect	127.9	234.4	146.5
Ad Valorem Taxes	3.0	6.8	3.0
Total Prorated Expense	141.3	253.2	159.9

4. Taxes Other Than Income

PG&E and the staff presented differing estimates of ad valorem and payroll taxes. PG&E used the five years' assessed value from 1972-73 to 1976-77 to develop a compound growth rate of 11 percent per year. The 11 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 \$4.648 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 0.2302. Staff used this ratio, its estimated 1980 beginning-of-year plant, and the \$4.648 tax rate for its estimate of ad valorem taxes. The 1978-79 tax bills (post-Article XIII-A) were 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 Tuolumne Water System
Taxes Other Than Income
Test Year 1980

<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Ad Valorem Taxes	\$59,600	\$83,900	\$59,600
Payroll Taxes	25,200	50,200	31,000
Total	84,800	134,100	90,600

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 Tuolumne 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 Corporation					
Franchise Tax	\$(41,600)	\$ 63,200	\$ (88,800)	\$5,900	\$10,800
Federal Income Tax	(220,200)	266,800	(440,200)	300	19,800
Total Income Tax	(261,800)	330,000	(529,000)	6,200	30,600

(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 \$10,800 for California Corporation Franchise Tax and \$19,800 for Federal Income Tax to be reasonable.

F. Utility Plant

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

PG&E Tuolumne Water System Utility Plant Test Year 1980			
<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Utility Plant	\$6,126,300	\$6,356,500	\$6,152,000

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 \$6,152,000 as reasonable.

G. Depreciation Expense and Reserve

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

PG&E Tuolumne Water System Depreciation Expense and Reserve Test Year 1980			
<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
Depreciation Expense	\$ 99,700	\$106,400	\$100,300
Depreciation Reserve	3,007,700	3,075,800	3,016,600

There are some minor differences between PG&E and the staff with respect to net salvage percentages. The Commission finds the staff estimates of net salvage percentages to be more reasonable

than those of PG&E and that they should be adopted. The primary differences between the PG&E and staff estimates of depreciation expense and weighted average depreciation reserve are due to different figures used for the common utility plant allocation and estimated plant additions. Having modified the estimate for common utility plant, the Commission finds that the staff estimate, similarly modified, is more reasonable than PG&E's and should be adopted.

H. Rate Base

PG&E's estimated total weighted average rate base for the test year 1980 is \$3,117,900. The staff's is \$2,938,900. The Commission has considered the differences in discussing utility plant. The Commission finds that the staff estimate should be adjusted for the aforesaid modifications for common utility plant. As adjusted, the staff's estimate is reasonable and should be adopted. A summary is as follows:

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

<u>Item</u>	<u>Staff</u>	<u>Utility</u>	<u>Adopted</u>
	(Thousands of Dollars)		
<u>Weighted Avg. Water Plant</u>			
Total Weighted Avg. Plant	\$6,126.3	\$6,356.5	\$6,152.0
<u>Working Capital</u>			
Materials & Supplies	15.2	15.2	15.2
Working Cash Allowance	42.0	61.0	42.0
Total Working Capital	57.2	76.2	57.2
<u>Adjustments</u>			
Advances	(229.0)	(229.0)	(229.0)
Deferred Inv. Tax Credit	(7.9)	(10.1)	(7.9)
Total Adjustments	(236.9)	(239.1)	(236.9)
Subtotal Before Deduct.	5,946.6	6,193.6	247.0
<u>Deductions</u>			
Depreciation Reserves	3,007.7	3,075.7	3,016.6
Avg. Depreciated Rate Base	2,938.9	3,117.9	2,955.7
	(Red Figure)		

I. Rate of Return

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

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

return, past financing success, future outlook for the utility, outstanding securities and those proposed to be issued. Additional factors to be considered are adequacy of the service, rate history, customers' acceptance and usage developed under existing rates, value of the service and cost to serve. No one of the above factors is solely determinative of what may constitute reasonableness of earnings, rates, or rate of return." (PT&T Co., supra at p. 309.)

Cost of money is not decisive on the issue of rate of return. (So. Cos. Gas Co. (1960) 58 CPUC 27, 44; California Water & Tel Co. (1952) 52 CPUC 180, 190.)

Because of its unitary capital financing, it was permissible for PG&E in presenting its case to utilize the most recent previous Commission electric and gas decision which found a rate of return based on PG&E's cost of capital for the test year 1978.

Decision No. 89316 gave extensive consideration to return on equity (which is companywide) in determining the rate of return for PG&E's gas and electric departments. (Slip decision at pp. 15-18.) It authorized PG&E a return on equity of 12.83 percent and a 9.5 percent return on rate base. (D.89316, Finding No. 4.) In the circumstances, PG&E 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.

A.59631 ALJ/jn

The Commission has adopted the sum of \$89,400 as the estimated weighted average additions to the Tuolumne System plant-in-service for the test year 1980. The estimated end-of-year plant is \$6,126,300. The amount of capital required for the Tuolumne System is small in relation to the remainder of PG&E's operations. So is the amount of existing debt attributable to the Tuolumne System which needs to be serviced. The Commission deems return on equity, as distinguished from servicing debt, as an important consideration in setting the Tuolumne 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 and a return on equity of 11.49 percent is reasonable for the Tuolumne System.

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 Tuolumne 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 Tuolumne 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	<u>100.00%</u>		<u>9.00</u>

J. Rate Design

The staff proposed changes in rate design for all of PG&E's domestic water systems, including the Tuolumne 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.^{12/}

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.^{13/} 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.

^{12/} The question of fire protection costs is separately considered later in this opinion.

^{13/} 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 T-1 will be changed from a declining block schedule to a semi-inverted rate schedule. This rate design will not result in ditch customers paying higher rate than town customers.

K. Step Rates

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

L. Fire Protection

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

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

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

M. Service Matters

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

N. Special Conditions

PG&E sought authority in the consolidated proceedings to include in its tariffs, including the one for the Tuolumne 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 Tuolumne System will have gross operating revenues of \$480,300 and a return on rate base of minus 3.15 percent at presently authorized rates for the test year 1980, which is unreasonably low. PG&E is in need of additional revenues from the Tuolumne System.

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

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

4. The impact on revenues of the PG&E employee discount in the Tuolumne System is not significant.

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

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

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

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

9. 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.

10. 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.

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

12. The sum of \$1,217,000 is a reasonable estimate of the total operating revenues for the test year 1980 at authorized rates.

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

14. The staff estimate of \$21,600 for purchased chemicals is more reasonable than PG&E's because it is based on the efficient use of plant.

15. 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 \$196,400 for the town system and \$201,900 for the ditch system.

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

<u>Item</u>	<u>Adopted</u> (Thousands of Dollars)
Purchased Power	\$ 21.1
Purchased Chemicals	21.6
Town Payroll	196.4
Ditch Payroll	201.9
Town Other	63.3
Ditch Other	62.5
Uncollectibles	1.9
Total O&M Expenses	<u>568.7</u>

17. The sum of \$159,900 for general office prorated expense for the test year 1980 is reasonable.

18. The sum of \$700 is a reasonable estimate for the total direct A&G expenses for the test year 1980.

19. The staff estimate of \$59,600 on ad valorem taxes is more reasonable than PG&E's because it is based on more recent and actual data.

20. The sum of \$31,000 for estimated payroll taxes for the test year 1980 is reasonable.

21. The estimate of \$30,600 for total income taxes for the test year 1980 is reasonable.

22. The sum of \$6,152,000 is reasonable for utility plant for the test year 1980.

23. 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 \$ 100,300

Depreciation Reserve 3,016,600

24. The sum of \$2,955,700 is a reasonable estimate for average depreciated rate base for the test year 1980.

25. A return on rate base of 9 percent is reasonable for the Tuolumne System.

26. 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. The rate increases are in compliance with the Federal Wage and Price Guidelines issued by the Council on Wage and Price Stability.

27. The total amount of the increase in annual revenue authorized by this decision is \$736,700; the rate of return on rate base is 9 percent; the return on common equity is 11.49 percent.

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

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

30. 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	
Total Operating Revenues	\$1,217.0
<u>Operating Expenses</u>	
Operation & Maintenance	568.7
Administrative & General	0.7
General Office Prorated	159.9
Subtotal	<u>729.3</u>
Depreciation Expense	100.3
Taxes Other Than Income	90.6
State Corp. Franchise Tax	10.8
Federal Income Tax	19.8
Total Operating Expense	<u>950.8</u>
Net Operating Revenues Adjusted	266.2
Rate Base	2,955.7
Rate of Return	9.0 %

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 Tuolumne System the revised water rates set forth in Appendix A which are designed to yield \$736,700 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 Tuolumne 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.

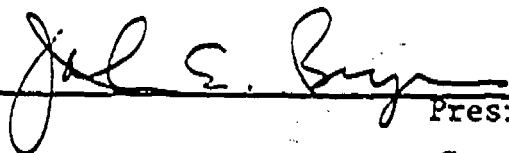
3. PG&E shall prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103-Series. Within ninety days after the effective date of this order, PG&E shall file with the Commission two copies of this map.

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


Dated DEC 2 - 1990, at San Francisco, California.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.

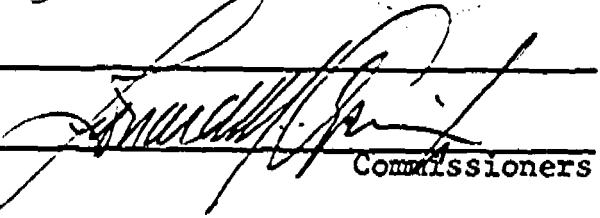
Commissioner Claire T. Dodrick, being necessarily absent, did not participate in the disposition of this proceeding.



President



Commissioners



Commissioners

APPENDIX A
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Pacific Gas and Electric Company

Schedule No. T-1

Tuolumne Tariff Area

GENERAL METERED SERVICE - TREATED WATER

APPLICABILITY

Applicable to all treated water service on a metered basis.

TERRITORY

Within the territory served from the company's Tuolumne Water System.

RATES

	<u>Per Meter Per Month</u>		(N)
	<u>Before Nov. 1, 1981</u>	<u>After Oct. 31, 1981</u>	
Service Charge:			
For 5/8 x 3/4-inch meter	\$ 4.55	\$ 6.50	(I)
For 3/4-inch meter	5.40	7.80	
For 1-inch meter	7.25	10.40	
For 1 1/2-inch meter	9.00	13.00	
For 2-inch meter	14.00	20.00	
For 3-inch meter	27.00	39.00	
For 4-inch meter	42.00	60.00	
For 6-inch meter	60.00	85.00	
For 8-inch meter	85.00	120.00	
Quantity Rates:			
The first 300 cu.ft., per 100 cu.ft.	.35	.52	
The next 9,700 cu.ft., per 100 cu.ft.	.49	.71	
For all over 10,000 cu.ft., per 100 cu.ft.	.44	.66	(I) (N)

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

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Pacific Gas and Electric Company

Schedule No. T-11

Tuolumne Tariff Area

GENERAL METERED SERVICE - UNTREATED WATER

APPLICABILITY

Applicable to untreated water service furnished from the ditch system.

TERRITORY

Within the territory served from the company's Tuolumne Water System.

RATES

		<u>Per Meter Per Month</u>		
		<u>Before</u>	<u>After</u>	
		<u>Nov. 1, 1981</u>	<u>Oct. 31, 1981</u>	(N)
Service Charge:				
For	5/8 x 3/4-inch meter	\$ 3.00	\$ 4.55	(I)
For	3/4-inch meter	3.70	5.50	
For	1-inch meter	4.90	7.30	
For	1 1/2-inch meter	6.00	9.00	
For	2-inch meter	9.00	14.00	
For	3-inch meter	18.00	27.00	
For	4-inch meter	28.00	42.00	
For	6-inch meter	40.00	60.00	
For	8-inch meter	56.00	84.00	
Quantity Rates:				
First	3,000 cu. ft., per 100 cu. ft.	.04	.06	
Next	7,000 cu. ft., per 100 cu. ft.	.07	.11	
Over	10,000 cu. ft., per 100 cu. ft.	.06	.09	(I) (N)

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

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Pacific Gas and Electric Company

Schedule No. T-12

Tuolumne Tariff Area

FLAT RATE SERVICE - UNTREATED WATER

APPLICABILITY

Applicable to untreated water for domestic service on a flat rate basis.

TERRITORY

Within the territory served from the company's Tuolumne Water System.

RATES

	Per Service Connection	
	Per Month	
	Before <u>Nov. 1, 1981</u>	After <u>Oct. 31, 1981</u>
For a single-family residential unit, including premises having the following areas:		
7,000 sq. ft., or less	\$14.00	\$20.00 (I)
7,001 to 16,000 sq. ft.	16.00	23.00
16,001 to 25,000 sq. ft.	18.00	26.00
For each additional single-family residential unit on the same premises and served from the same service connection	10.00	15.00 (I)

SPECIAL CONDITIONS

1. The above flat rates apply to service connections not larger than one inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.

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Pacific Gas and Electric Company

Schedule No. T-13

Tuolumne Tariff Area

GENERAL IRRIGATION SERVICE

APPLICABILITY

Applicable to untreated water for irrigation purposes from the Utility's ditch system.

TERRITORY

The territory adjacent to the Utility's ditch system, Tuolumne County, as shown on its Tuolumne Ditch Service Area Maps, excepting the Algerine and Kincaid Ditches during the non-irrigation season and to all new services from the Tuolumne Main Canal.

RATES

- A. Irrigation season, 6-month period
April 15, to October 15 inclusive:

	<u>Per Connection Per Month</u>		
	<u>Before</u>	<u>After</u>	
	<u>Nov. 1, 1981</u>	<u>Oct. 31, 1981</u>	
Service Charge:			
First $\frac{1}{2}$ miner's inch of contract capacity, or less	\$6.10	\$8.60	(I)
Additional capacity, per $\frac{1}{2}$ miner's inch	3.05	4.30	
Charge for Turn on, Turn off or Regulation Change:			
First 6 turns on, turn offs or regulation changes	No Charge		
Over 6 turn ons, turn offs or regulation changes, per change	\$8.50	\$12.00	
Quantity Rates			
First 23 miner's inch-days, per miner's inch-day ..	\$1.40	\$2.00	
Next 57 miner's inch-days, per miner's inch-day ..	1.30	1.80	
Over 80 miner's inch-days, per miner's inch-day ..	1.15	1.60	

- B. Nonirrigation season, 6-month period
October 16 to April 14 inclusive

Quantity Rate:			
For all water delivered, per miner's inch-day ...	\$1.40	\$2.00	
Minimum Charge:			
For each delivery	\$10.50	\$14.80	(I)

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Pacific Gas and Electric Company

Schedule No. TF-12

Tuolumne Tariff Area

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

Within the territory served from the company's Tuolumne Water System.

RATES

		<u>Per Service Connection Per Month</u>		
		<u>Before</u>	<u>After</u>	
		<u>Nov. 1, 1981</u>	<u>Oct. 31, 1981</u>	
For each	4-inch connection	\$9.00	\$11.00	(I)
For each	6-inch connection	12.00	14.00	|
For each	8-inch connection	17.00	21.00	
For each	10-inch connection	41.00	50.00	(I)

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Pacific Gas and Electric Company

Schedule No. T-6

Tuolumne Tariff Area

RESALE SERVICE - UNTREATED WATER

APPLICABILITY

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

TERRITORY

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

RATES

		<u>Per Month</u>		
		<u>Before</u>	<u>After</u>	
		Nov. 1,	Oct. 31,	
		1981	1981	
Service Charge:				
For each service connection		\$9.00	\$12.00	(I)
Quantity Rates:				
First	50 miner's inch-days, per miner's inch-day	1.20	1.65	
Next	150 miner's inch-days, per miner's inch-day	1.10	1.60	
Over	200 miner's inch-days, per miner's inch-day	1.05	1.50	(I)
Minimum Charge:				
The Service Charge, but not less than * per month(accumulative annually) per miner's inch of contract capacity.		8.20*	12.00*	(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.