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Decision 90-12-025 December 6, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the)
 Commission's own motion to revise)
 General Order 103 and Water Tariff)
 Rules 15 and 16.)

ORIGINAL
 R.90-07-004
 (Filed July 6, 1990)

**INTERIM OPINION PROPOSING CHANGES IN
 GENERAL ORDER 103 AND WATER TARIFF RULES
 15 AND 16 AND SOLICITING FURTHER COMMENTS**

Introduction

By Order Instituting Rulemaking (OIR) on July 6, 1990, the Commission invited comments on whether to amend General Order (GO) 103 and Water Tariff Rules 15 and 16 to (1) revise funding of water main extension costs, and (2) permit assessment of service connection fees and facilities fees. A service connection fee would cover costs of installing new service connections, including service pipe, meter box and meter, and labor. A facilities fee would cover a proportionate amount for production, storage, and distribution facilities required to provide service to new customers.

Our rules allow customer advances and contributions for main extensions and other identifiable facilities for new customers. However, they do not permit service connection fees or facilities fees on the basis that investor-owned utilities are responsible for raising the capital to finance provision of service. We have noted that, since the adoption of the main extension rules in 1954, some water utilities may have difficulty in raising funds to finance main extensions and other facilities to serve new customers. Recent changes in federal tax laws have made customer advances and contributions in aid of construction less desirable since both are now taxed as income.

In Decision (D.) 90-02-020 in the general rate increase application (Application (A.) 88-05-021) of Southern California Water Company (SCWC), that utility was authorized, on an experimental basis, to charge a facilities fee to new customers in its Desert District. We commented, based on the record in A.88-05-021, that authorization of connection fees and facilities fees could be an appropriate source of revenue to help utilities finance the additional plant needed to serve new customers. We stated, however, that such a step was a major deviation from GO 103, and we instituted this proceeding to receive comments from the regulated water utilities and other interested persons.

We have received comments from 13 respondents. On September 21, 1990, pursuant to Ordering Paragraph 3 of the OIR, we directed each respondent to serve its comments on other parties upon request. Based upon these comments and upon the record in A.88-05-021, we now propose changes in GO 103 and Water Tariffs 15 and 16. These proposed changes are being served on all regulated water utilities, and on others who submitted comments, and they will be afforded an opportunity to comment before we make a final decision on whether to adopt the changes.

Proposed Changes

A. We propose to change Paragraph V(2)(a)(1) of GO 103 as follows (proposed changes are underlined):

"2. Service Connections.

"(a) Ownership of Service.

"(1) Charge for Service Connections.
Except as noted in 2(a)(1)(A) below, the utility shall make no charge to a customer for making a service connection except in case of connections for private fire protection service, connections for temporary service, changes made at the request and for the convenience of the customer, where additional connections are requested, because

of divisions of land ownership when the land before division was receiving service, and as otherwise provided in the utility's main extension rules.

"(A) Individual Customer Connection Fee/Facilities Fee. If, in the opinion of a utility, extensions to serve individuals will not, within a reasonable period, develop sufficient revenue to make the extensions self-supporting, a Class C or Class D utility, or a Class A or Class B utility district or subsidiary serving 2,000 or fewer connections, may accept from individual customers amounts in contribution as a connection fee and/or a facilities fee calculated pursuant to tariffs approved by the Commission."

B. We propose to change Paragraph B of Tariff Rule 15 as follows (changes indicated by underlines):

"B. Extensions to Serve Individuals

- "1. Extensions of water mains to serve new individual customers shall be paid for and contributed to the utility by the individual customer requesting the main extension. Calculation of payment shall be on the basis of a main not in excess of 6" in diameter, except where a larger main is required by the special needs of the new customer. The utility shall be responsible for installing and paying for service pipes, meter boxes and meters to serve the new individual customer; provided, a Class C or Class D utility, or a Class A or Class B utility district or subsidiary serving 2,000 or fewer connections, may accept from individual customers amounts in contribution as a connection fee and/or a facilities fee calculated pursuant to tariffs approved by the Commission.

"2. Refunds

If subsequent applicants for water service are connected directly to the main extension contributed by the original individual customer, such subsequent applicants shall pay to the utility an amount equal to the cost of 100 feet of the original extension. Such amounts shall be immediately refunded by the utility to the initial customer who originally paid for and contributed the main extension to the utility. Total payments to the initial customer by subsequent applicants for water service who are connected directly to the extension shall not exceed the original cost of the extension. No refunds shall be made after a period of ten years from completion of the main extension."

C. We propose to change Tariff Rule 16(B)(1) as follows (new material underlined):

"1. Charge for Service Connections

Except as provided in subparagraph (a) below, the utility shall make no charge to a customer for making a service connection except in case of connections for private fire protection service, connections for temporary service, changes made at the request and for the convenience of the customer, where additional connections are requested, because of divisions of land ownership when the land before division was receiving service, and as otherwise provided in the utilities main extension rules.

"(a) Individual Customer Connection Fee/Facilities Fee. If, in the opinion of a utility, extensions to serve individuals will not, within a reasonable period, develop sufficient revenue to make the extensions self-supporting, a Class C or Class D utility, or a Class A or Class B utility district or subsidiary serving 2,000 or

fewer connections, may accept from individual customers amounts in contribution as a connection fee and/or a facilities fee calculated pursuant to tariffs approved by the Commission."

Background

The main extension rules and the rule prohibiting connection and facilities fees were established in 1954 in D.50580. By this decision, as later modified, an applicant (whether an individual or a developer) for service was required to advance to the water company the estimated reasonable cost of any extension to the water main. Developers, as an alternative, could install the facilities for the extension if authorized by the water company. In the case of developers, the amount advanced was then refunded by the water company, without interest, for a period not to exceed 20 years at the rate of 22 percent of revenue received from customers who subsequently received service from the extension.

As to individuals, the first 50 feet of an extension to serve a new customer was to be installed by the company without charge. The cost of individual extensions longer than 50 feet was to be paid by the applicant requesting service. If, during a 10-year period, other services were connected directly to the water main extension, refunds were to be made by the water utility to the original applicant paying for the extension.

As refunds were made to developers or individuals, facilities installed pursuant to an extension contract became part of the rate base of the water company. Whenever the amount of existing unrefunded advances together with the amount of the advance that would be required to finance a proposed extension exceeded 50 percent of a company's total capital, the company was prohibited from extending service without authorization by the Commission. Often, such authorization was conditioned on the requirement that the cost of the proposed extension be contributed by the applicant.

In the late 1970s, the Commission in Case (C.) 9902 conducted a comprehensive review of the uniform main extension rule and other issues related to it. In D.82-01-62, the Commission adopted a new Water Main Extension Rule (Rule No. 15) that, among other things, changed the way that developers' advances for main extensions were to be refunded. Under the new rule, water companies were to make refunds to developers at the rate of 2-1/2 percent of the advance per year for 40 years, instead of basing refunds on a percentage of revenue. The rule also permitted the utility to require nonrefundable contributions for main extensions if the utility considered the extension to be noneconomic or if for other reasons the main extension would be an excessive burden on customers.

Rule 15 allowed customer advances and contributions for main extensions and other identifiable facilities, but it prohibited service connection and facilities fees. The utility was responsible for installing service pipes, meter boxes and meters to serve the new individual customer, as well as the cost of production, storage, and distribution facilities required for the new service. If subsequent applicants for water service were connected directly to the main extension contributed by the original individual customer, such subsequent applicants were to pay to the utility an amount equal to the cost of 50 feet of the original extension. Such amounts were immediately refundable by the utility to the initial customer who originally paid for and contributed the main extension to the utility.

GO 103, adopted in 1956 and last amended in 1983, generally codifies these rules, and references tariff filings made in conformance with Tariff Rules 15 and 16.

Issues in This Proceeding

There are two issues in this proceeding:

1. Should there be a change in the rules related to advances and contributions for

main extensions and other identifiable facilities to serve new customers?

2. Should service connection fees and facilities fees be permitted?

Responses

Our OIR listed six questions that we deemed fundamental to our consideration of these issues. Most respondents framed their comments in response to these questions. The questions, responses, and our preliminary conclusions are set forth below.

Question 1: Are there financing problems facing any of the different classes of water utilities in connection with extending service to new customers?

There is general agreement among those responding that Class C and D companies often lack the financial resources to construct extensions to water distribution facilities and the attendant water production, storage, and transmission facilities necessary to serve additional customers. By definition, these are smaller water companies, with Class C serving between 200 and 2,000 connections, and Class D serving fewer than 200 connections. Russian River Management Company, Inc., d/b/a Armstrong Valley Water Co. and Rancho Del Paradiso Water Co. (Russian River) states that many small companies serve rural areas where developer main extensions are rare and where most growth comes from individual connections to existing mains. Since a utility must pay for service connections for individuals, it frequently must borrow in order to expand service. Toro Water Service, Inc. (Toro Water) comments that, with a permitted rate of return of from 10.25% to 10.75%, small utility owners have difficulty obtaining loans for expansion and have little incentive to invest more of their own funds.

The larger (Class A and B) water utilities responding to the OIR stated that they are not currently facing financial

problems in extending service to new customers. Park Water Company (Park Water), while not opposing alternatives for the smaller utilities, states that it does not want changes in Tariff Rules 15 and 16 and GO 103 and does not have the need or a desire to charge connection fees. San Jose Water Company (SJWC) states that it has not experienced problems in financing new service, but it adds:

"(W)e have had many conversations with the proprietors of small regulated water systems who have expressed a critical need. They often do not have the capital to provide these new connections. They cannot obtain financing for various reasons and must provide the capital themselves. When they do have the funds, it means they are investing their hard-earned savings in a losing proposition."

Question 2: How is Tariff Rule 15 presently being used by utilities in raising the needed funds for main extension and how effective is it in providing financing assistance to different classes of utilities?

Respondents that deal regularly with developers agree that Rule 15 is effective for raising funds for water system facilities to serve new housing and commercial developments. San Gabriel Valley Water Company (San Gabriel) states that the 40-year refund provision of the rule is accepted by developers, permits the utility to remain competitive with public water utilities, and helps the builder to minimize the cost of installing water system facilities. San Gabriel urges that no change be made in this proceeding in Rule 15 and the 40-year refund provision. The California Water Association (CWA) states that the advance, income tax and 40-year components of Rule 15 work satisfactorily for Class A utilities, but that Rule 15 provisions for individual connections--affecting smaller water companies--require revision.

Other respondents, notably Toro Water and Russian River, argue that the provisions for advances in Rule 15 should be eliminated and that all main extensions should be financed with non-refundable contributions. Toro Water comments that changes in the tax laws that made advances taxable and that ended investment tax credits eliminated much of the rationale for advances. Branch comments that although the current rules contain extensive provisions concerning advances, there are few provisions regarding when a utility can require contributions for facilities. Branch states that, while advances were common and contributions rare when the rules were written, a number of utilities today no longer issue advance contracts and do all extensions by contributions.

**Question 3: Should the contribution
portion of Tariff Rule 15 be revised?
In what way?**

As noted above, larger water utilities do not themselves seek changes in Rule 15. Smaller water companies, and Branch, support an expansion of contribution provisions of the rules. CWA, a non-profit organization representing most of the major investor-owned water companies in the state, recommends that utilities have the option, with prior Commission approval, to require that new customers make contributions for service connections and for other facilities. Dominguez Water Corporation and Utility Subsidiaries (Dominguez Water) and others, while supporting the CWA proposal, emphasize that utilities should have the option to seek or not to seek such contribution, depending on competitive factors.

The current rules require that a customer connecting to a main extension already paid for by an individual customer pay the utility for 50 feet of the main. That amount is then reimbursed to the customer who paid for the main extension. In rural areas, however, main extensions can be for distances much greater than 50 feet. By limiting subsequent connection reimbursement requirements to 50 feet, subsequent customers do not pay a fair share of the

cost of the extension. Branch recommends increasing the reimbursement requirement of subsequent customers to 100 feet, thus more equitably sharing the cost of the extension. CWA recommends that subsequent applicants pay half the footage, but not less than 50 feet nor more than 300 feet of the original extension.

Question 4: What are the income tax repercussions and problems with advances, contributions, connection fees, facilities fees and other such charges?

In D.87-09-026, the Commission considered the income tax consequences of the Tax Reform Act of 1986 as they affect contributions and advances in aid of construction. The Commission permitted the collection of a tax component to help defray the utility's income tax expense associated with receipt of contribution or advance. The income tax component associated with a refundable advance also is refunded over the same 40-year period as the developer's advance for main extension.

SJWC states that the income tax gross-up fee is a competitive disadvantage when a regulated utility competes with a municipal system not subject to federal income taxes. For that reason, it urges, as it did in the prior proceeding (D.87-09-026), that a utility have the option of paying the tax without the obligation of grossing up. California Water Service Company (Cal Water) agrees. It proposes that utilities have the option of paying taxes on contribution except for uneconomic extensions, with appropriate rate base adjustments.

Similarly, SCWC urges the Commission to reconsider its decision in D.87-09-026 and eliminate what is known as the "method 5" procedure for grossing up contributions and advances for income tax. SCWC, along with others, states that the method is complex and the cost of accounting associated with it is high. SCWC asks that utilities be permitted to pay the taxes from internally generated funds, and that such taxes then be allowed in rate base.

This method of dealing with the tax obligation was rejected in D.87-09-026 on the basis that it requires ratepayers to pay the tax caused by the contribution. The Commission in that order stated its belief that the person or entity that caused the tax should be the one to pay for it. (In re Tax Reform Act of 1986, 25 CPUC 2d 299, at 327-28.)

Branch suggests that the utilities consider replacing the advances concept with an interest-bearing loan concept. Loans, it believes, are not taxable as income. Thus, it suggests, the Commission could require developers and individuals now subject to advance or contribution provisions to loan the cost of main extension and other facilities to the utility, thus reducing the tax burden.

CWA states that each company it represents takes the position that it should be permitted to determine on a case by case basis whether to use gross up, partial gross up or pay the tax itself when considering a request for new service.

On the other hand, San Gabriel states that legislative efforts to limit or exempt the taxability of refundable advances are under way, and that the Commission ought not move hastily in changing the tax methodology conclusions reached in D.87-09-026. Other respondents agree that this is not the forum in which tax methodology should be reconsidered.

Question 5: What are the policy implications of utilities' customers providing financing for investor-owned utilities?

Historically, customers have not provided financing for investor-owned utilities. San Gabriel and other large investor-owned utilities urge that this policy remain unchanged. San Gabriel states that no water company has sought any change in this policy, or in the main extension rules, except to permit small companies to levy connection and facilities fees on an individual

company basis. San Gabriel would accomplish this as an exception to existing rules, without other change in the rules.

CWA believes that permitting contributions by new customers for service connections will protect the utilities and their existing customers from uneconomic main extensions. CWA states that connection fees and facilities fees could provide additional cash flow to enable small operators to replace and repair old plant.

Russian River states that customers of public water agencies are accustomed to paying "connection fees" that include both a facilities fee plus actual cost of installation of the new service. In a survey of public water agencies surrounding its two service areas in Sonoma County, Russian River states that typical fees and for a new single family dwelling are:

<u>District</u>	<u>Facilities Fee</u>	<u>Installation</u>
Forestville Co. Water Dist.	\$1,515	\$550
Russian River Co. Water Dist.	3,300	Actual cost
Windsor Co. Water Dist.	2,080	Actual cost
City of Santa Rosa	1,810	Actual cost
City of Sebastopol	3,820	\$200 + Actual cost
City of Healdsburg	1,650	Actual cost
8 County Serv. Areas	2,500	Actual cost

Russian River notes that this equates to an average facilities fee of \$2,084 plus an additional installation charge for the service lateral and meter. Because so many new customers are accustomed to installation charges from municipal water districts, Russian River states that, in its experience, applicants for new service are surprised that there is no fee or installation charge from a regulated water company.

Similarly, Dominguez Water believes that policy implications of connection and facilities fees for new customers could be positive. In systems where funds are limited and water rates are high, additional costs of new customers attaching to the system would be borne by those customers responsible for the added costs.

Toro Water states that smaller companies, already financially burdened, are facing new capital outlays to meet water quality and environmental standards. Connection fees, Toro states, will enable small companies to meet these new costs and to improve service.

Question 6: What other changes should be made to General Order 103 and Tariff Rules 15 and 16 with respect to implementing proposals on connection fees and revisions to main extension rules?

Toro Water recommends formation of an industry advisory committee to update GO 103 to reflect current use of materials and construction practices. As part of its comments, Toro Water has submitted its own revision of Rule 15, intended to eliminate ambiguities, require contributions for extension contracts and eliminate advances for construction. Similarly, SJWC has listed a number of changes to conform the rules to existing practices. Branch recommends a series of hearings or workshops to consider and adopt changes to GO 103 and Tariff Rules 15 and 16. SJWC suggests that informal workshops would be the better format to accommodate smaller water companies.

San Gabriel urges the Commission to keep the focus of this OIR on the possible adoption of connection and facilities fees for small water systems. San Gabriel asserts that fundamental changes in the main extension rule and its refund provisions are not necessary or desirable. Instead, it argues that this OIR should be limited to approval of connection and facilities fees for

those companies that are able to show a need and justification for the fees.

Park Water agrees. While Park Water does not oppose revising the rules to allow smaller water companies the option to charge connection and facilities fees upon a showing of good cause, it resists any major revisions that would impose additional requirements on all water utilities.

Discussion

Connection Fee

There is a consensus among those responding to our OIR that an exception to our rules to permit smaller water utilities to collect connection and facilities fees would be an important benefit to some companies and their ratepayers. The companies that make use of such fees will reduce costs and risks of new connections. Existing ratepayers of those companies will not be obligated to pay, through rate increases, for the connection costs associated with new service requests. New ratepayers would be asked to pay a connection fee and/or facilities fee comparable to what they would pay to a municipal water company. At the same time, those water utilities that, for competitive or other reasons, decide not to assess connection or facilities fees, would have the flexibility to continue business as usual. We agree that a revision to our rules to permit smaller water utilities to assess a connection fee (with or without a facilities fee) can be beneficial to some water companies and their current ratepayers.

Having concluded that the option of collecting tariffed connection and/or facilities fees is desirable, we next consider the form such fees should take.

Our proposed rule change contemplates that a connection fee will cover, as closely as possible, the actual cost of installing service pipe, meter box and meter. Labor costs should be no higher than those customarily incurred by the utility itself for work of like nature. New customers should be advised that they

have the right to complain to the Commission if they believe that a connection fee does not reflect actual or prevailing costs of the work.

Because connection or facilities fees will be an increase in charge to new customers, we could require approval of each such charge by separate Commission resolution. However, we would prefer to avoid burdening small utilities with a filing for each new customer connection. Consequently, our proposed rule change contemplates a tariff filing by each utility that intends to impose a connection fee stating the elements of the fee (i.e., service pipe, meter box, meter and labor) and the conditions on which such a fee will be assessed.

The facilities fee is more complicated. It involves a judgment on costs of production, storage and distribution facilities attributable to new service. In D.90-02-020, the Commission adopted SCWC's methodology for calculation of a service connection fee, including a facilities fee. The amount of the fee was \$1,250. It was calculated by using the following formula: $(\text{Rate Base}/\text{Annual Sales}) \times \text{Inflation factor} \times \text{Average use per customer}$. In the case of SCWC, the fee was calculated as follows:

Calculation of Service Connection Fee
(Including Facilities Fee)

1. Adopted Weighted Average Rate Base	\$ 3,550,137
2. Adopted Annual Sales	449,484 Ccf
3. Adopted Rate Base per Ccf (1/2)	7.90
4. Inflation Adjustment	1.05
5. Adjusted Rate Base per Ccf (3x4)	8.29
6. Typical Customer Annual Usage	120 Ccf
7. Service Connection Fee (5x6) (Rounded to Nearest \$50)	\$ 1,250

(Note: This fee is considered a contribution in aid of construction and is subject to an income tax gross-up factor.)

SCWC reports that it has collected \$53,231 since the company began to charge this fee in February 1990. In an exhibit estimating long-term effects, SCWC has calculated the effect of the fee, adjusted for inflation, over a 10-year period. SCWC concludes that had the fee been in effect since 1980, rates in its Desert District would now be lower by approximately \$195,000, or 11.67%. In the Desert District, where rates are already high, this would be a significant reduction. Moreover, SCWC reports little negative reaction from the 42 new customers who were assessed the connection fee. SCWC's fee of \$1,250 per 5/8 x 3/4-inch meter connection compares favorably to adjacent purveyors, where fees can be as high as \$3,400 per connection.

We recognize that this formula may not be appropriate for other utilities. Small water companies may have small rate bases, skewing results. Other utilities with sufficient capacity may incur no significant increase in facilities costs because of new individual connections.

Accordingly, our proposed rule change contemplates that smaller water utilities may file a tariff for facilities fees based on the formula set forth in D.90-02-020 if use of that formula reflects actual costs that the utility reasonably anticipates will be incurred because of new connections. If that formula is not appropriate in particular cases, the Commission will consider other methods of calculating a facilities fee, so long as such methods reasonably reflect costs to be incurred by new connections.

Implementation

Our next consideration is the development of a procedure by which small utilities can take advantage of the option of a tariffed connection fee and/or facilities fee. As noted by Branch, those small companies that would benefit most by this change may lack the staff to navigate new tariff procedures. A tariff exception intended to benefit small water companies and their ratepayers will be ineffective if it is not used because of time-consuming paperwork.

Accordingly, we will direct staff to devise a one- or two-page form setting forth the criteria for calculating a connection fee and facilities fee and stating the information required in filing for such fees under the proposed amended tariff provisions. We envision a form that can be mailed to Class C or D water companies upon request and that, upon completion, can be processed quickly.

Contributions/Advances

Rule 15 enables utilities to receive refundable advances from developers. If utilities determine that proposed extensions for developers may be non-economic, the utilities have the option of requiring the developer to make nonrefundable contributions of plant facilities in lieu of a main extension contract. San Gabriel states that, in its experience, there is sufficient flexibility in the existing rules to permit utilities to determine whether the cost of an extension to serve a particular development should be

refundable or not. Other large water utilities, including Citizens Utilities and San Jose Water, generally agree. We are not persuaded that any substantial change in the rules related to advances and contributions is necessary or desirable. If administrative changes to the rules are desirable to reflect the increased use of contributions, such changes should be proposed in the workshop proceedings that we will direct or in comments addressed to this order.

Other Matters

We agree with San Gabriel that the focus of this OIR is a limited one, directed primarily at whether to permit connection fees and whether to revise advance/contribution rules for main extensions. Under Rule 14.1 of our Rules of Practice and Procedure, an OIR contemplates written proposals, comments and exceptions, rather than evidentiary hearings. We believe that any reconsideration of D.87-09-026 and utility treatment of income taxes, as proposed by SJWC and others, and Branch's proposal to consider interest-bearing loans in place of advances, are matters beyond the scope of this OIR. Parties or staff may seek a financial risk investigation of these tax matters or, if new facts have developed that were not before the Commission in D.87-09-026, then reconsideration of that decision may be sought.

However, a revision to the rules is in order as to the 50-foot refund rule for contributions for main extensions. As discussed above, Branch and CWA agree that by limiting subsequent connection reimbursement to an arbitrary 50 feet of main extension, later customers do not pay a fair share of the cost of the extension. While Branch's proposal to increase subsequent reimbursement to 100 feet of main extension is as arbitrary as the existing 50-foot rule, it has the advantage of retaining the basic procedure now in place. CWA's proposal, on the other hand, would require a new procedure and new interpretations. On balance, our

proposed rule change adopts Branch's recommendation to extend subsequent connection reimbursement to 100 feet of main extension.

Finally, we believe that there is merit in Toro Water's proposal to edit and update GO 103 and Tariff Rules 15 and 16 to reflect use of materials and construction practices that have come about since implementation of these rules. Accordingly, as part of the workshops directed below, we ask staff and the parties to review and recommend revisions and updates that will reflect modern practices.

Workshops

Branch and others recommend a series of hearings or workshops to consider this OIR and changes to GO 103 and Tariff Rules 15 and 16. Several parties have commented that small water companies, with their limited staff, would have difficulty attending formal hearings. For that reason, and because the focus of this OIR is a limited one, we have directed Branch to schedule one workshop, or a limited number of workshops, to consider:

(i) the changes proposed in this order, (ii) a simple form and procedure by which smaller utilities may seek tariff approval to assess connection fees and/or facilities fees, and (iii) editing changes in the water tariff rules to reflect current practices. We ask that Branch seek the participation of small water companies, either at the workshops or through telephone and written communication.

Further Comments

The rule changes proposed in this Order are being served on all regulated water utilities, and on others who commented on this OIR, and we invite further comments by those parties and others before we make a final decision on whether to adopt the changes as proposed. We will ask that further comments and recommendations be filed as pleadings within 90 days in order to give Branch an opportunity to conduct and comment on workshop results within that 90-day period.

Findings of Fact

1. Some smaller water companies lack financial resources to construct water supply and distribution facilities to serve additional individual customers.

2. GO 103 and Water Tariff Rules 15 and 16 permit customer advances and contributions for main extensions and other identifiable facilities for new customers, but they prohibit connection fees and facilities fees.

3. A service connection fee would cover costs of installing new service connections, including service pipe, meter box and meter, and labor.

4. A facilities fee would cover a proportionate amount of costs for production, storage, and distribution facilities.

5. Larger Class A and Class B water utilities responding to this OIR do not seek changes in GO 103 or Tariff Rules 15 and 16 to provide for connection fees or facilities fees, but they do not oppose such tariffed fees for smaller water companies.

6. Public water agencies customarily charge new customers facilities fees, plus costs of installation of the new service. In a sampling in Sonoma County, facilities fees averaged \$2,084 plus installation charges for a new single-family dwelling.

Conclusions of Law

1. A revision of our rules, under prescribed conditions, to permit smaller water utilities to file tariffs for connection fees and/or facilities fees for new individual connections would be an important benefit to some companies.

2. Implementation of connection fees and facilities fees for smaller water utilities is likely to mean lower rates for current ratepayers, because they will not be required to pay costs associated with new service requests.

3. Connection fees should reflect actual and reasonable costs of service pipe, meter box, meter and labor for installation.

4. Facilities fees should reflect reasonable costs of new facilities likely to be reasonably incurred in providing new individual service connections.

5. For competitive or other reasons, smaller water utilities should have the option not to assess connection fees or facilities fees for new individual connections.

INTERIM ORDER

IT IS ORDERED that:

1. Changes in GO 103 and in Water Tariff Rules 15 and 16 are proposed to permit Class C or Class D water utilities, or Class A or Class B utility districts or subsidiaries serving 2,000 or fewer connections, to file tariffs to accept from individual customers amounts in contribution as a connection fee and/or a facilities fee.

2. A change in Tariff Rule 15(B) is proposed to increase from 50 feet to 100 feet the subsequent reimbursement requirement for main extension costs serving an individual customer.

3. The Commission's Water Utilities Branch is directed, within the next 60 days, to conduct and report upon one or more workshops with respect to: (i) these proposed changes in GO 103 and Water Tariff Rules 15 and 16, and (ii) the proposal to edit and update the rules to reflect current materials and construction practices. Branch also is directed to develop and propose a one- or two-page form for use by small water utilities in seeking to file a tariff for the collection of connection fees.

4. All water utilities subject to the Commission's jurisdiction continue to be respondents in this proceeding. All respondents and interested parties are invited to provide comments to the proposed rule changes set forth in this order.

5. An original and 12 copies of all comments and recommendations shall be filed as pleadings with the Commission's

Docket Office within 90 days of the issuance of this order. Two additional copies shall be mailed directly to the Water Utilities Branch of the Commission Advisory and Compliance Division. Parties needing assistance on understanding the procedure for filing comments may contact the Commission's Public Advisor's Los Angeles Office at (213) 620-3725.

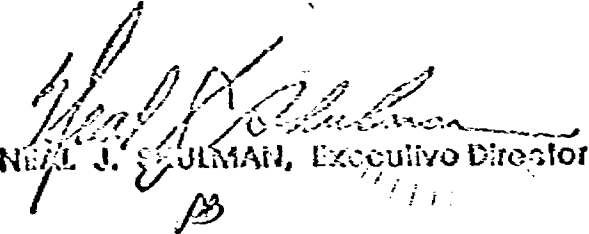
6. The Executive Director is directed to mail a copy of this order to all regulated water utilities and to other potentially interested parties listed in Appendix A.

This order is effective today.

Dated December 6, 1990, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY


NEAL J. SCHULMAN, Executive Director

APPENDIX A

California Water Association
Sharun B. Carlson, Executive Secretary
12510 Fallcreek Lane
Cerritos, CA 90701

National Association of Water Companies
1725 "K" Street N.W., Suite 1212
Washington, D.C. 20006

California Building Industry Association
1107 Ninth Street, Suite 1060
Sacramento, CA 95814
Attention: Robert Raymer

Toward Utility Rate Normalization
Karen Miller
625 Polk Street, Suite 403
San Francisco, CA 94102

Consumer Action
Ken McEldowney
116 New Montgomery Street, Suite 223
San Francisco, CA 94105

League of California Cities
Don Benninghoven, Executive Director
1400 "K" Street, Suite 400
Sacramento, CA 95814

County Supervisors Association of
California
Karen Keene, Legislative Representative
1100 "K" Street, Suite 101
Sacramento, CA 95814

(END OF APPENDIX A)

APPENDIX B

List of Appearances

Respondents: Donald Houck, for California Water Association; Francis S. Ferraro, for California Water Service Company; Cooper, White & Cooper, by E. Garth Black, Attorney at Law, for Citizens Utilities Company of California; John S. Tootle, for Dominguez Water Corporation and Utility Subsidiaries; John A. Fulton, for Fulton Water Company; Leigh K. Jordan, for Park Water Company; Phil E. Guidotti, for Russian River Management Co., Inc.; Michael L. Whitehead, for San Gabriel Valley Water Company; Fred R. Meyer, for San Jose Water Company; Joel A. Dickson, for Southern California Water Company; David Robertson, for Tahoe Park Water Company and Lake Forest Utility; and Robert T. Adcock, for Toro Water Service, Inc.

Commission Advisory and Compliance Division: Fred L. Curry.

(END OF APPENDIX B)