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Decision 90-12-058 December 19, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Petition for Modification of Resolution E-3162 re Advice Letter 1253-E of Pacific Gas and Electric Company, for authority to enter into an agreement with Lake California Property Owners Association and the County of Tehama for the installation of underground electric facilities in Tehama County.

ORIGINAL

Application 89-12-034 (Filed December 21, 1989)

O P I N I O N

Background

By Resolution (R.) E-3162 dated November 22, 1989 the Commission authorized Pacific Gas and Electric Company (PG&E) to enter into an agreement with Lake California Property Owners Association (LCPOA) and the County of Tehama for the installation of underground electric facilities at Tract 1006 of the Lake California subdivision in Tehama County. The agreement superseded an earlier court-approved agreement of these parties which had resolved certain litigation arising over the fiscal insolvency of the original developer of the tract. Agreements for service within several Lake California tracts have been the subject of litigation and protracted negotiations since 1970. PG&E requested Commission approval of the agreement by filing Advice Letter 1253-E on June 20, 1989.

The negotiated agreement which was approved by R. E-3162 deviated from PG&E's filed extension rules (Rules 15.1 and 20). Under these rules, there typically would be a contract with a developer providing for an advance of the estimated cost of installing underground facilities in Tract 1006, as well as a cost-of-ownership charge (which was estimated to be \$1,385,000 and

\$837,000 respectively). The advance would then be refunded as revenues from new service connections are received. The negotiated agreement provides for a non-refundable advance payment of \$350,000 by LCPOA to PG&E. In return, PG&E will install a "backbone" underground distribution system at an estimated cost of \$650,000 and add additional facilities as needed.

The Commission Advisory and Compliance Division (CACD) analyzed Advice Letter 1253-A and recommended that PG&E assume the risk of insufficient revenue due to possible low growth in Tract 1006. As explained in the resolution, CACD's analysis concluded that a potential financial risk of \$400,000 to the utility exists. The Commission found in R. E-3162 that such revenue shortfalls should not be a burden on all ratepayers. Ordering Paragraph 2 of R. E-3162 states:

- "2. In the event that future applications for service and resulting revenue do not develop sufficiently to fully offset the cost of construction and the cost of ownership, the financial burden created by this revenue shortfall shall not be the responsibility of all ratepayers. Pacific Gas and Electric Company shall not place into rate base any capital investments for this project which exceed capital contributions and advances on construction."

Application 89-12-034

By Application (A.) 89-12-034 PG&E requests that Ordering Paragraph 2 of R. E-3162 be modified to permit the rate based amounts for Tract 1006 to include PG&E's investment supported by revenues from the development. PG&E believes the ordering paragraph is inconsistent with CACD's analysis and recommendations as well as the Commission's findings. PG&E points out that CACD's conclusion that the agreement places PG&E at risk for \$400,000 and the Commission's finding that there should not be a burden on ratepayers were made with reference to potential revenue

shortfalls. PG&E argues that by not allowing any amount to be placed in rate base, Ordering Paragraph 2 is inconsistent with the analysis and findings which recognize the importance of considering the associated revenues in assessing the potential risk to ratepayers.

PG&E also asserts that Ordering Paragraph 2 is inconsistent with the Commissions's established treatment of uneconomical line extension agreements. (Resolutions E-3155, E-3099, E-3098 applicable to PG&E, and E-3059 applicable to Southern California Edison Co.) PG&E states that agreements for which the estimated installed cost of the facilities will exceed five times the base annual revenue have been consistently approved by the Commission. These permit PG&E to provide the developer a credit of five times the base annual revenue in assessing the appropriate advance.

PG&E recommends that the same formula be used in developing the appropriate amount to be included in rate base for Tract 1006. Specifically, PG&E requests that it be allowed to place into rate base the lesser of: (a) the installed cost of facilities net the amount of the advance, or (b) an amount equal to five times the base annual revenue. PG&E argues this is consistent with prior treatment of such agreements and achieves CACD's and the Commission's objective of ensuring that ratepayers bear no risk from the development of Tract 1006.

Ordering Paragraph 3 of R. E-3162 required PG&E to file a supplement to Advice Letter 1253-E signifying its acceptance of the "No Risk To Ratepayers" restriction imposed by the resolution. By A.89-12-034 PG&E also requests deletion of this requirement. However, the application was filed on December 21, 1989, one day before the required filing date for the supplement. PG&E filed the required supplement on December 22, 1989, acknowledging there was no time for the Commission to act on the requested modification.

CACD Position

After the application was filed, CACD submitted a data request to PG&E in which it asked for estimates of the addition to rate base under its proposal if 40% of the lots are developed and if 100% of the lots are developed. Using updated construction costs, PG&E responded with estimates of \$370,000 under the 40% scenario and \$1,130,000 under the 100% scenario. Both estimates were calculated with the \$350,000 contribution excluded. Under the 40% development scenario, the second alternative component of PG&E's proposal ("an amount equal to five times the base annual revenue") yields the lower figure. Under the 100% development scenario, the first alternative component (the installed cost) yields the lower figure.

CACD notes that the second component of PG&E's proposal does not clearly specify that the \$350,000 contribution is to be excluded, although its calculations assume that to be the case. CACD agrees that the contribution should not be included in rate base.

CACD supports PG&E's application, noting that the proposal is consistent with the Commission's treatment of other uneconomic line extensions. CACD agrees that the proposed partial recovery of the investment at Tract 1006 is reasonable.

Discussion

As noted by PG&E and CACD, the proposal for partial recovery of PG&E's investment for this line extension is consistent with our past treatment of uneconomic line extensions. In our opinion, the provision for allowing only the lesser of actual costs or five times annual revenues provides adequate protection for all ratepayers in the event that Tract 1006 does not develop sufficiently. We agree with CACD that the order should clearly provide for exclusion of the \$350,000 advance from rate base.

Since PG&E filed the supplemental advice letter required by R. E-3162, there is no need to address its request to be excused from the requirement.

Findings of Fact

1. The proposal for partial recovery of PG&E's investment for this line extension is consistent with our past treatment of uneconomic line extensions.

2. Allowing only the lesser of actual costs or five times annual revenues provides adequate protection for all ratepayers in the event that Tract 1006 does not develop sufficiently.

3. It is reasonable to exclude the \$350,000 advance from rate base.

4. There are no protests, and a hearing is not necessary.

Conclusion of Law

The application should be granted as provided in the order which follows.

ORDER

IT IS ORDERED that Ordering Paragraph 2 of Resolution E-3162 is modified to read as follows:

- "2. In the event that future applications for service and resulting revenue do not develop sufficiently to fully offset the cost of construction and the cost of ownership, the financial burden created by this revenue shortfall shall not be the responsibility of all ratepayers. Pacific Gas and Electric Company shall not place into rate base any capital investments for this project which exceed the lesser of  
(a) the installed cost of facilities net

the amount of the advance or (b) an amount equal to five times the base annual revenue, net the amount of the advance."

This order is effective today.

Dated December 19, 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

*[Handwritten Signature]*  
JOHN B. OHANIAN, PRESIDENT

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