

APR 25 1991

Decision 91-04-068 April 24, 1991

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)

And Related Matters.

I.90-11-033

(Connection Fee Phase)

I.89-03-005

OPINIONSummary

This decision authorizes Class C and Class D water utilities, and Class A and Class B utility districts or subsidiaries serving 2,000 or fewer connections, to accept from individual customers amounts in contribution as connection fees covering actual costs to the utility of installing new connections. To implement this procedure, a utility must file as part of its tariffs a blank connection fee data form that would be completed and presented to each prospective customer prior to installing a service connection. The utility also must advise prospective customers that (1) they may retain a qualified contractor to install the connection, subject to inspection at a stated fee by the utility, and (2) they may complain to the Commission if they believe that the utility's connection fee charges exceed the utility's actual costs.

This decision also authorizes Class C and Class D water utilities, and Class A and Class B utility districts or subsidiaries serving 2,000 or fewer connections, to accept from individual customers amounts in contribution as facilities fees representing a proportion of the cost of additional or replacement facilities required because of the new connections. However, the

facilities fee may not be assessed until a utility files and obtains approval of its facility fee as part of an advice letter filing seeking general rate relief.

Finally, this decision increases from 50 feet to 100 feet the subsequent reimbursement requirement for main extension costs serving an individual customer, and it makes certain additional technical changes in General Order (GO) 103 and Water Tariff Rules (Rules) 15 and 16.

This is a final order in Order Instituting Rulemaking (OIR or R.) 90-07-004, and the proceeding is closed.

#### Introduction

By OIR dated July 6, 1990, the Commission invited comments on whether to amend 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 covers costs of installing new service connections, including service pipe, meter box and meter, and labor. A facilities fee covers 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 their provision of service.

In Decision (D.) 90-02-020 in the general rate increase application (A.88-05-021) of Southern California Water Company (SCWC), that utility was authorized, on an experimental basis, to charge a connection/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 additional

plant needed to serve new customers. However, we stated 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 others.

We received comments from 13 respondents in response to the OII. Based upon these comments and the record in A.88-05-021, we proposed changes in GO 103 and Water Tariff Rules 15 and 16. (D.90-12-025, dated December 6, 1990.) We served that interim opinion on all regulated water utilities and on others who submitted comments. We now have received the report and recommendations of the Water Utilities Branch (Branch) of the Advisory and Compliance Division following utility workshops that Branch conducted on January 11 and 15, 1991. We also have received additional comments from respondents.<sup>1</sup>

This decision closes R.90-07-004. The final rule changes are set forth in Appendix A.

#### Background

The main extension rules and the rule prohibiting connection fees and facilities fees were established in 1954 in D.50580. By this decision, as later modified, an applicant for service (whether an individual or a developer) 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

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1 Among those responding are the California Water Association, the Small Company Committee of the California Water Association, Mountain Water Company, San Jose Water Company, Fulton Water Company and Rogina Water Co., Inc.

from customers who subsequently received service from the extension.

As for individuals, the first 50 feet of an extension to serve a new customer was to be installed by the utility 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 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 an 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 Commission approval. Often, such approval was conditioned on the requirement that the cost of the proposed extension be contributed by the prospective customer.

In the late 1970s, the Commission in Case (C.) 9902 reviewed the uniform main extension rule. 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. The rule also permitted the utility to require nonrefundable contributions for main extensions if the utility considered the extension to be noneconomic.

Rule 15 permitted customer advances and contributions for main extensions and other identifiable facilities, but it prohibited service connection fees and facilities fees. The utility was responsible for installing service pipes, meter boxes and meters to serve the new individual customer, and the utility

was responsible for the cost of production, storage, and distribution facilities required for the new service. If subsequent applicants for service were connected directly to a 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 refundable by the utility to the initial customer who paid for the main extension.

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

In D.90-12-025, we identified 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?

Based on responses by Branch and utilities, we concluded in our interim decision that a change in rules related to advances and contributions for main extensions was neither generally sought nor otherwise necessary for the larger water utilities. However, we concluded that an exception to our rules to permit smaller water utilities (those companies or districts serving 2,000 or fewer connections) to assess actual connection costs or facilities fees would be a benefit to those utilities and their ratepayers. With such an exception, current ratepayers will not be obligated to pay, through rate increases, for the connection costs of new service requests. New ratepayers would be asked to pay a connection fee and/or a facilities fee comparable to what they would pay for new service from a public water company.

The interim order also proposed a change in Tariff Rule 15(B) to increase from 50 feet to 100 feet the subsequent reimbursement requirement for main extension costs serving an individual customer.

Finally, we directed Branch to conduct and report on one or more workshops to discuss these proposed changes, to consider editing and updating Rules 15 and 16 to reflect changes in practices and materials, and to devise a simple form to be used by small water companies in filing a tariff to collect connection fees.

Based on responses received, we have narrowed the issues in promulgating these final rules to consider the following questions:

1. What change is necessary to permit smaller water utilities to charge a connection fee for new individual connections?
2. What change is necessary to permit smaller water utilities to charge a facilities fee for new individual connections?
3. What change is necessary to increase from 50 feet to 100 feet the subsequent reimbursement requirement for main extension costs serving an individual customer?
4. What editing and updating revisions are appropriate to reflect current materials and construction practices?

Branch and utility comments on each of these four issues, and our conclusions, are set forth below.

1. What change is necessary to permit smaller water utilities to charge a connection fee for new individual connections?

Branch reports that there is a consensus among utilities and workshop participants that it will be beneficial to permit smaller water companies to impose connection fees. Branch agrees

that connection fees can relieve smaller water utilities of the burden of financing the cost of new service installations. Larger water utilities, in general, are capable of financing new connections and do not seek to impose a connection fee.

Branch has produced a five-page form intended to cover the actual cost of connecting a new customer, including any local government fee and a gross-up for federal income taxes assessed on contributions.<sup>2</sup> The California Water Association (CWA) and others attending the workshops recommend adoption of staff's connection fee data form.

There is disagreement, however, on how a connection fee for smaller water companies is to be implemented. Branch proposes that smaller water utilities complete and file the form with advice letter filings for general rate cases. In Branch's view, combining connection fee requests with advice letter requests for rate relief will reduce the burden on staff, update connection costs concurrently with the three-year rate cycle, and encourage smaller utilities to file general rate cases.

CWA and other respondents oppose this procedure, arguing that a fee for actual costs does not require elaborate review, and that smaller water companies are not likely to seek connection fees if it requires filing a general rate case. CWA comments:

"The Commission if it MUST review these Connection Fee Data Forms should consider establishing fees and changing connection fee amounts in the utilities' Advice Letter Filings. Each utility should be allowed to file more than one form to show the actual costs form one location to another.

"The Commission through its own investigation reports that small water utilities do not file

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<sup>2</sup> The income tax consequences of the Tax Reform Act of 1986 as they affect contributions and advances in aid of construction were considered by the Commission in D.87-09-026.

rate relief applications because of the costs associated with it and the time involved and the company's inability to file the appropriate paperwork. How then will the connection fee, which is designed to assist the small utilities in their capital costs, help if they have to file a general rate application?"

San Jose Water Company (SJWC) states that even the advice letter process is too formidable for most small water companies, particularly if multiple forms must be filed to reflect widely varying conditions in installing a connection. It notes our expressed preference, in D.90-12-025, at pages 14-15, that new customers be charged the actual costs for their connection without the filing of a form for each and every connection. To accomplish that, SJWC suggests that the form recommended by staff be adopted as a blank form to be inserted in tariffs of smaller water utilities. Branch opposes a blank form tariff filing because of a concern that companies could overcharge individual customers.

On another matter, Branch supports a proposal by SCWC that, as an alternative to a utility connection fee, a customer be permitted to contract for his own service connection in accordance with specifications of the utility. Branch states:

"[This would be] similar to the provisions for developers to construct main extensions to the utility's specifications in lieu of paying the utility to do it. The applicant for a service connection may be permitted to hire a licensed contractor, if qualified in the judgment of the utility, to install a service connection in accordance with the service installation plans and specifications of the utility. The utility should have the right to inspect all non-utility installations and be paid by the applicant for the cost of such inspections."

In separate comments, both the CWA and its Small Company Committee object to the phrase in our proposed connection fee rule that the fee would be permitted "if in the opinion of a utility, extensions to serve individuals will not, within a reasonable



period, develop sufficient revenue to make the extension self-supporting." The Committee states that most new service connections are made to existing mains and do not involve main extensions. It adds that while the qualifying language is appropriate for developer extension contracts (where a subdivision may not develop revenues that exceed refund obligations), it is inappropriate for individual connection fees, which are not subject to refund by the utility.

Finally, SCWC suggests that connection fees be made available to utilities on the basis of density (i.e., number of connections per foot of main) instead of our proposed measure of "2,000 or fewer connections." This would permit inclusion within the rule of somewhat larger utilities, like SCWC's Desert District Branch opposes this suggestion as unnecessarily vague.

#### Discussion

As we noted in our interim opinion, there is a consensus among those responding to this OIR that an exception to our rules to permit smaller water utilities to collect a connection fee would be an important benefit to some companies and their ratepayers. Existing ratepayers of those companies will not be obligated to pay, through rate increases, for the connection costs associated with new service requests. New customers would be asked to pay a connection fee comparable to the actual connection costs charged by many public water agencies.

Our final rule 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. As Branch points out, a utility also should be permitted to recover any local fee associated with the connection, along with a gross-up for income tax liability associated with the customer contribution for connection.

However, we do not agree that requiring smaller utilities to file a completed form as part of a general rate case will provide the relief that this rule seeks to accomplish. Nor do we believe that requiring water companies to submit multiple copies of cost forms to cover different types of connections is an efficient use of staff or utility resources. As several respondents comment, the very companies we seek to assist by authorizing a connection fee are the ones least likely to file multiple advice letters.

Therefore, we will require only that smaller water companies that want to charge a connection fee to new customers file in their tariffs the blank Connection Fee Data Form attached to this decision as Appendix B. To guard against potential abuse, we also will require that a utility advise each customer requesting connection that any complaint about the connection fee may be made to the Commission, and that the customer has the option of retaining a qualified contractor to complete the connection, subject to inspection by the utility. The fee for such inspection service must be communicated to the customer at the same time a customer is given the completed Connection Fee Data Form showing the cost of the connection. The modified version of the Connection Fee Data Form developed by Branch accomplishes these objectives.

We also have changed the final rule to delete the reference to uneconomic extension of service. We agree with CWA and its Small Company Committee that the reference is inappropriate for a non-refundable connection fee assessed on an individual.

Finally, we agree with Branch that the proposal to make connection fees available to smaller water companies on the basis of density of connections would serve little purpose other than to make the fee available to somewhat larger companies. If larger water utilities seek to assess a connection fee, or a combination of connection fee and facilities fee, they may seek to justify such charges as part of their general rate cases, as did SCWC's Desert District in Application 88-05-021 (D.90-02-020).

2. What change is necessary to permit smaller water utilities to charge a facilities fee for new individual connections?

A facilities fee, as defined in this rulemaking proceeding, is an amount representing a proportion of the cost of additional production facilities, including storage and distribution facilities, that will be required because of a new connection. As Branch notes, the primary objective of a facilities fee is to provide smaller utilities with a source of capital for new or replacement facilities needed because of customer growth. Generally, smaller water companies have limited borrowing capability and limited access to financial markets.

With that said, Branch notes that the proposal to permit smaller water utilities to assess a separate facilities fee for new customers raises many more questions than the assessment of a connection fee. Among the questions: How can plant costs be calculated accurately on a per-customer basis? How can the Commission be assured that a facilities fee would be used to finance plant additions or replacements? How would this contribution to plant affect a company's rate base, which now is calculated in part on a return of the capital that owners invest in plant facilities?

Moreover, Branch notes that the method for calculating a facilities fee that was adopted for SCWC's Desert District<sup>3</sup>

3 The facilities fee authorized for SCWC's Desert District was \$1,250. It was calculated by using the following formula: (Rate Base/Annual Sales) x Inflation factor x Average use per customer. In the Desert District case, the calculation was made as follows:

1. Adopted Weighted Average Base Rate \$ 3,550,137

(Footnote continues on next page)

D.90-02-020 is unworkable when applied generally. When Branch sought to calculate a facilities fee using the SCWC formula for 22 randomly selected Class D water utilities, the resulting fee ranged from \$63 to \$1,950. In general, the formula produces a higher fee for those with a high rate base than for those with a low rate base, regardless of their need for capital improvements.

The SCWC formula is calculated on the basis of a proportionate cost of the value of existing plant. Another basis for calculation, suggested at workshop by Dominguez Water Corporation and Utility Subsidiaries (Dominguez) and Armstrong Valley Water Company (Armstrong Valley), relies on a forecast of customer growth and the estimated cost of new plant to support new customers, as calculated by a utility's master plan.<sup>4</sup> Branch also

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| 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)<br>(Rounded to Nearest \$50) | \$ 1,250    |

4 Armstrong Valley also proposed the following simplified method of calculating a facilities fee:

1. Calculate number of parcels in service area which are likely to require connections.
2. From this, calculate number of potential new customers.
3. Calculate Commission and state health requirements for required source of supply, storage and fireflow for new customers.

(Footnote continues on next page)

finds this proposed formula equally unworkable on a general basis, stating:

"[W]ho would develop the master plan for the small water utilities? Branch's experience is that many owner/operators of Class D water companies, especially those most in need of capital infusion, lack the resources to develop a master plan."

Because of these complexities, Branch recommends that we defer consideration of the facilities fee proposal to the Risk Phase OII (I.90-11-033) of this proceeding. Branch states:

"The Commission is aware of the financial problems of small water utilities and the precarious [nature] of their ability to provide reliable service; this was demonstrated by its issuance of the Risk and Return OII. Branch agrees. It sees the need for an effective, long-lasting solution. A quick fix should be avoided. Although facilities fees may be helpful, Branch would like to explore other alternatives before recommending facilities fees. Examples of alternatives follow: (1) Pennsylvania has created a pool of bond money, known as PennVest, earmarked for water system improvements; (2) Kentucky has streamlined its regulations to allow water utilities to flow through to ratepayers automatically all costs related to the construction of new plant....Branch would like to consider alternatives such as [these]..."

The CWA and its Small Company Committee oppose deferring the facilities fee issue. The Small Company Committee states: "If

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4. Determine new plant required (storage, wells, hydrants, main replacement).
5. Estimated cost per new customer equals facilities fee.

[this issue] is shunted off to the Risk and Return OII it is certain to die of neglect. The Water Branch may be correct in suggesting that facilities fees would be only a superficial solution. Nevertheless, this is an issue which merits full and immediate consideration."

Mountain Water Company (Mountain), a privately owned utility serving approximately 200 metered customers in a 2,300-acre service area in Riverside County, about 25 miles west of Palm Springs, urges adoption of both a connection fee and a facilities fee. It proposes that the facilities fee be made subject to refund, without interest, over a period not to exceed 40 years, in much the same manner that refunds are made for subdivision and industrial projects. (See Water Tariff Rule No. 15(C)(2).)

Mountain explains that it is in a high-growth area, and it expects to serve 2,000 or more connections over the next 20 to 50 years. Mountain comments:

"As land in our service area is developed and...the number of water service connections increases, it will be necessary to spend millions of dollars drilling new wells, putting new pumps in the wells, putting in large water tanks for storage and large main pipes long distances from the wells to the storage tanks.

"The City of Banning with the 20,000 acre service area just east of our service area is providing money for its expansion costs by charging a service connection [facilities] fee of approximately \$2,000 for each new meter installed. The [adjacent] Beaumont/Cherry Valley Water District with its 20,000 acre service area is also charging a service connection [facilities] fee of approximately \$2,000 for each new meter installed. As new houses are built and new service connections and water meters are installed by us in our service area, the new water customers are very surprised that we do not charge a service connection fee the same as the large 20,000 acre water district west of us does, and the same as the city-owned 20,000-acre water purveyor east of us does.

"The costs of enlarging our water system will be very high. For an example, a new well 1,000 feet deep with a 14-inch casing installed with a gravel pack around the casing costs more than \$110,000....

"Our income from our water customers from the sale of water is only just enough to cover our cost of furnishing this water, and does not leave any money to cover the cost of enlarging our facilities. We feel that this is as it should be. Our present customers should not be asked or forced to pay for the cost of expanding our facilities to take care of new customers. These new customers should have to pay these costs of increasing our water supply and expanding our water facilities to take care of their water needs."

#### Discussion

We agree with CWA and its Small Water Committee that there is no need to defer the issue of whether Class C and D water companies and those water districts serving 2,000 or fewer connections should be permitted to assess a facilities fee for new connections where it is shown that the new connections will require new or replaced plant.

Mountain Water makes a persuasive case that a facilities fee can help a small utility finance necessary expansion when it anticipates growth in its service area.<sup>5</sup> We also are impressed with the benefits accruing to both ratepayers and the utility in the single instance where we have permitted assessment of a connection facilities fee. That authority was granted to SCWC's Desert District in D.90-02-020.

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<sup>5</sup> We do not at this point address Mountain Water's suggestion that a facilities fee be made refundable in a manner similar to developer contributions, except to note that a 40-year payback to individual homeowners does not appear feasible.

SCWC reports that, between February and July, 1990, it had collected \$53,231 in facilities fees. (See Exhibit 1, SCWC comments dated August 31, 1990.) In an exhibit estimating long-term effects, SCWC calculated 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%. Moreover, SCWC reports little negative reaction from the 42 new customers who were assessed the facilities fee. SCWC's fee of \$1,250 per 5/8 x 3/4-inch meter connection compares favorably to adjacent public and mutual purveyors, where fees range from \$2,000 to \$3,400 per connection.<sup>6</sup>

We agree with Branch, however, that no single formula presents itself for calculating the amount of a facilities fee for all water companies. Water companies with substantial well and plant capacity and few new connections may not need the revenue from a facilities fee to maintain plant. Companies with a low rate base, for whatever reason, may have plant needs that justify a facilities fee higher than would be calculated by the SCWC formula or by the other proposed formulas suggested on this record. Unless we regard a facilities fee as simply a new source of windfall revenue, without regard to plant requirements, it is clear that the need for a facilities fee, and its calculation, is specific to the particular utility in question.

Based on this analysis, our conclusion is that a facilities fee for new connections should be authorized for a smaller water company only when the company is able to show us that

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<sup>6</sup> SCWC reported these service connection charges for neighboring water purveyors (with number of connections in parentheses):

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|--|---------|
| Apple Valley Heights County District (211)   | \$3,400 |
| Marianna Ranchos Mutual (280)                | 2,000   |
| Hesperia County Water District (14,900)      | 2,865   |
| Victor Valley County Water District (10,700) | 2,740   |



new connections will require new or refurbished plant. It is reasonable that those seeking service should contribute, in part, to facilities costs incurred in order to provide the new service.

This showing can only be made on a case-by-case basis. That is, a water company must determine whether prospective new connections will require additional or replacement plant. Then it must determine the estimated cost of new facilities required to serve the new connections. Finally, it must propose an appropriate facilities fee. The fee may be based upon one of the formulas suggested in this proceeding, or any other formula that fairly matches the amount and duration of the facilities fee with the proposed facilities that the fee will help finance.

Since we have concluded that the facilities fee should be authorized on a case-by-case basis, one method of accomplishing this is to adopt Branch's proposal to have small water companies request facilities fee authority with their advice letter filings seeking general rate relief. Combining facilities fee requests with advice letter requests for rate relief is preferable to processing facilities fee requests separately for at least three reasons. First, it permits Branch to assess the amount of facilities fee in connection with over-all financial needs of the utility, as was the case with SCWC's Desert District. Second, it permits updating of the facilities fee concurrently with the three-year rate cycle. Third, it encourages small water companies to file general rate cases, which in turn serves the long-term best interests of water customers.

Our final rule authorizes assessment of a facilities fee by smaller water utilities upon filing and approval of an advice letter in connection with their general rate cases.

Branch correctly points out that a facilities fee is a major departure from the long-standing principle in regulating investor-owned utilities that the owners provide capital, either debt or equity, for the construction of plant facilities, and

customers pay nothing until the plant is used and useful. A return on the owners' investment, including capital recovery through depreciation expense, is part of the utility's revenue requirement, which is the basis for rates.

Our change in rules to permit water companies with fewer than 2,000 connections to propose a facilities fee is intended to establish a rebuttable presumption, at rate proceedings, that such a fee is appropriate for smaller utilities because their access to capital for facilities improvements is more limited than that of larger water utilities. We do not preclude water utilities like SCWC's Desert District from also seeking a facilities fee as part of a rate case, but such districts will not have a rebuttable presumption that such a fee is appropriate. As in D.90-02-020, they will have to show that their need for a facilities fee outweighs the ratemaking principle that shareholders, rather than ratepayers, should bear the cost of plant facilities.

3. What change is necessary to increase from 50 feet to 100 feet the subsequent reimbursement requirement for main extension costs serving an individual customer?

Existing rules require a customer connecting directly to a main extension that was contributed earlier by another customer to pay to the utility an amount equal to the cost of 50 feet of the original extension. The utility then refunds that amount to the customer who made the contribution.

The majority of small water companies are located in rural areas. Main extensions in rural areas often are longer than 50 feet. Typically, customer growth in such areas is slow. Thus, a customer who contributes an extension often is not fairly reimbursed as new customers come on line. Branch's proposal to double the footage allowance to 100 feet is designed to alleviate this. Branch states that workshop participants unanimously agreed with this proposal.

As we noted in our interim opinion, the proposed change to increase subsequent reimbursement to 100 feet of main extension is as arbitrary as the existing 50-foot rule, but it has the advantage of retaining the basic procedure now in place. Branch now recommends that we adopt this change, but that we leave the record open for development of a less arbitrary policy.

#### Discussion

In the absence of any objection, we will adopt this rule as proposed. We will not keep the record open for this matter. However, Branch or any other party may propose an alternative rule in another proceeding if it deems such a change desirable.

#### 4. What editing and updating revisions are appropriate to reflect current materials and construction practices and construction practices are appropriate?

In our interim opinion, we directed Branch at its workshop to consider editing and updating 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.

Branch states that interest in such editing was limited. Toro Water Service, Inc., urged that the rules be revised and edited to eliminate advances for construction and to require contributions for extension contracts. In our interim opinion, we declined to make that substantive change.

Branch recommends that any editing changes in the rules be deferred. SJWC objects to deferring this issue and states that its proposed changes to GO 103 and Rules 15 and 16 are not substantive and are endorsed by workshop participants and others.

We have reviewed the editing changes proposed by SJWC. We see no reason to defer action on these proposals, and our order adopts most of these proposed changes for the reasons that follow.

Changes to GO 103

Paragraph III(2)(a)

Paragraph III(2)(a) states:

"Minimum Pipe Sizes. The distribution system shall be of adequate size, and so designed in conjunction with related facilities to maintain the minimum pressures required by paragraph II 3 a and the minimum pipe size required by paragraph VIII 3. In no event, however, should the minimum pipe size for new mains be less than four inches in diameter."

The last sentence of Paragraph VIII(3) states:

"Any new mains to which a [fire] hydrant may be attached shall be not less than six inches in diameter."

SJWC states that it is the industry's experience that all mains sooner or later require a fire hydrant. It proposes, and we adopt, a revision in Paragraph III(2)(a) to require a minimum size of six inches. The last sentence in III(2)(a) will be amended to state: "In no event, however, should the minimum size for new mains be less than six inches in diameter."

Paragraph VIII(1)

Paragraph VIII(1) provides:

"The flow standards for public fire protection purposes set forth below are those the Commission considers appropriate for application on an average statewide basis. However, the Commission recognizes that there are widely varying conditions bearing on fire protection throughout the urban, suburban, and rural areas of California. Therefore, the standards prescribed by the local fire protection agency or other prevailing local governmental agency will govern. Such local flow standards shall be provided whether greater or lesser than those set forth below...."

SJWC states that utilities agree that the minimum flows set forth in Paragraph VIII(1) are and should be minimums, and there is no reason to provide for any local authority to lower the minimums. It proposes, and we adopt, the following revision to Paragraph VIII(1):

"The flow standards for public fire protection purposes set forth below are those the Commission considers the minimum for application on a statewide basis. However, the Commission recognizes that there are widely varying conditions bearing on fire protection throughout the urban, suburban, and rural areas of California. Therefore, the standards prescribed by the local fire protection agency or other prevailing local governmental agency will govern when such local flow standards are greater than those set forth below...."

#### Changes to Rule 15

##### Paragraph A(5)(a)

Paragraph A(5)(a) provides for preliminary installation estimates without charge to a customer. In the case of developers, SJWC states that estimates sometimes require more than 40 hours of engineering time because of the complexity of the proposed extension to a new development. The burden for these costs, it states, falls upon ratepayers. SJWC proposes, and we adopt, a revision that will limit the no-charge engineering estimates to extensions of 100 feet or less. As revised, Paragraph A(5)(a) reads as follows:

"Upon request by a potential applicant for a main extension of 100 feet or less, the utility shall prepare, without charge, a preliminary sketch and rough estimates of the cost of installation to be advanced by said applicant."

Changes to Rule 16

Paragraph A(3)(a)

Paragraph A(3)(a) states:

"The service pipe, curb stop, meter, and meter box furnished by the utility at its own expense and located wholly or partially upon a customer's premise are the property of the utility."

SJWC states that all workshop participants agree that the described parts of their systems must remain utility property and must remain in utility control regardless of whether they were furnished at the utility's own expense. Problems related to ownership of the connection could proliferate when small utilities assess a connection fee. We will revise this paragraph to read as follows:

"The service pipe, curb stop, meter, and meter box furnished by or on behalf of the utility and located wholly or partially upon a customer's premise are the property of the utility."

Paragraph B(3)

Paragraph B(3) provides that a utility will in all cases make the connection to the customer's piping. SJWC states that water companies have experienced situations where the customer's piping was deteriorated or absent, resulting in excess costs to repair the piping. SJWC states that workshop participants agreed that this paragraph should be revised to permit the utility to require the customer to make the connection from the meter to the customer's piping. We will revise this paragraph to read as follows:

"Only duly authorized employees or agents of the utility (or contractors, upon approval of the utility) will be permitted to install a service pipe from the utility's main to the location of the service connection. The connection from the meter to the customer's piping will be made

by the utility; provided, however, that if the customer's piping requires repair or replacement, the connection may, at the option of the utility, be made by the customer or his agent."

SJWC proposed two other changes dealing with developer installations and with a staff interpretation of a utility's service area. These changes deal with substantive matters that are beyond the scope of this proceeding. We decline to make those proposed changes at this time.

#### Other Proceedings

The Commission on November 21, 1990, issued its Order Instituting Investigation (OII or I.) 90-11-033 to consider financial and operational risks of Commission regulated water utilities, and whether current ratemaking procedures and policies require revision. This Connection Fee OIR (R.90-07-004) and the Drought OII (I.89-03-005) were consolidated into I.90-11-033 to facilitate consideration of all utility risk and rate of return issues. While our decision today closes R.90-07-004, it does not preclude further consideration, if necessary, of related risk and rate of return issues in these companion proceedings.

#### SCWC Desert District Authority

In D.90-02-020, we stated that the temporary authority of SCWC's Desert District to charge a connection/facilities fee would "be in effect until the Commission issues a decision in the [Connection Fee] OIR." (D.90-02-020, Ordering Paragraph 5.) In view of our decision today, we will provide that the authority granted to SCWC's Desert District will continue. Whether the fee in its present form will be authorized in the future is a subject that the utility should address in its subsequent rate cases.

### Findings of Fact

1. 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.

2. Connection fees can relieve smaller water utilities of the burden of financing the cost of new service installations.

3. Larger water utilities, in general, are capable of financing new connections and do not seek to impose a connection fee.

4. A facilities fee would provide smaller utilities with a source of capital for new or replacement facilities needed because of customer growth.

5. Generally, smaller water companies have limited borrowing capability and limited access to financial markets.

6. A facilities fee is utility specific, and calculation of the fee depends on the circumstances of the utility in question.

7. Public water agencies customarily charge new customers facilities fees, including costs of installing new connections.

8. The majority of small water companies are located in rural areas, where main extensions often are longer than 50 feet.

9. A customer who contributes an extension may not be fairly reimbursed under an extension reimbursement rule limited to 50 feet.

### Conclusions of Law

1. A revision of our rules should be made to permit smaller water utilities to file tariffs permitting connection fees for new individual connections.

2. A service connection fee should be booked as a contribution.

3. A revision of our rules should be made to permit smaller water utilities to file tariffs, in connection with general rate cases, permitting facilities fees for new individual connections.



4. A service connection fee should cover actual costs of a utility in installing new service connections, including service pipe, meter box and meter, labor, local government fees (if any) and a gross-up amount for income taxes.

5. A facilities fee should represent a proportion of the cost of additional production facilities, including storage and distribution facilities, that will be required because of a new connection.

6. A change in our rules should be made to increase from 50 feet to 100 feet the subsequent reimbursement requirement for main extension costs serving an individual customer.

#### ORDER

##### IT IS ORDERED that:

1. 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 in accordance with General Order (GO) 103 and Water Tariff Rules 15 and 16.

2. 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 facilities fee pursuant to tariffs approved by the Commission.

3. GO 103 and Water Tariff Rules 15 and 16 are amended as set forth in Appendix A.

4. The authorization granted to Southern California Water Company Desert District in D.90-02-020 to charge a connection/facilities fee shall remain in effect.

5. This is a final order, and the Order Instituting Rulemaking 90-07-004 is closed.  
This order becomes effective 30 days from today.  
Dated April 24, 1991, at San Francisco, California.

PATRICIA M. ECKERT  
President  
G. MITCHELL WILK  
JOHN B. OHANIAN  
DANIEL Wm. FESSLER  
NORMAN D. SHUMWAY  
Commissioners

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

NEAL J. SHERMAN, Executive Director

APPENDIX A  
Page 17

Amendments to General Order 103

Paragraph V(2)(a)(1) of General Order (GO) 103 is amended as follows (changes are underlined):

"2. Service Connections.

"(a) Ownership of Service.

"(1) Charge for Service Connections. Except as noted in 2(a)(1)(A) or 2(a)(1)(B) 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. 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 calculated pursuant to the Commission's Connection Fee Data Form contained in the utility's tariffs.

"(B) Individual Customer Facilities Fee. 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 facilities fee calculated pursuant to tariffs approved by the Commission."

Paragraph III(2)(a) of GO 103 is amended as follows (changes are underlined):

"Minimum Pipe Sizes. The distribution system shall be of adequate size, and so designed in conjunction with related facilities to maintain the minimum pressures required by paragraph II 3 a and the minimum pipe size required by paragraph VIII 3. In no event, however, should the minimum pipe size for new mains be less than six inches in diameter."

APPENDIX A  
Page 2

Paragraph VIII(1) of GO 103 is amended as follows (changes are underlined):

"The flow standards for public fire protection purposes set forth below are those the Commission considers appropriate for application on an average statewide basis. However, the Commission recognizes that there are widely varying conditions bearing on fire protection throughout the urban, suburban, and rural areas of California. Therefore, the standards prescribed by the local fire protection agency or other prevailing local governmental agency will govern when such local flow standards are greater than those set forth below."

Amendments to Rule 15

Water Tariff Rule A(5)(a) is amended to read as follows (changes are underlined):

"Upon request by a potential applicant for a main extension of 100 feet or less, the utility shall prepare, without charge, a preliminary sketch and rough estimates of the cost of installation to be advanced by said applicant."

Water Tariff Rule 15(B)(1) is amended as follows (changes are underlined):

"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 individual customer; provided, however, 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 calculated pursuant to the Commission's Connection Fee Data Form contained in the utility's tariffs."

APPENDIX A  
Page 3

Water Tariff Rule 15(B)(2) is amended as follows (changes are underlined):

"2. 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 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 shall not exceed the original cost of the extension. No refunds shall be made after a period of ten years from the completion of the main extension."

Amendments to Rule 16

Water Tariff Rule 16(B)(1) is amended as follows (changes are underlined):

"1. Charge for Service Connections

"Except as provided in subparagraphs (a), b, or (c) 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. 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 calculated pursuant to the Commission's Connection Fee Data Form contained in the utility's tariffs.

"(b) In lieu of paying the connection fee, an applicant for a service connection may retain a licensed contractor, qualified in the

APPENDIX A

Page 4

judgment of the utility, to install the service connection. Cost to the utility of inspection and supervision of the installation, including gross-up for tax required by a contribution, shall be paid by the applicant. The applicant shall provide the utility with a statement of actual construction cost in reasonable detail. The amount shall be treated as contribution by the utility. The installation shall be in accordance with plans and specifications of the utility.

"(c) Individual Customer Facilities Fee. 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 facilities fee calculated pursuant to tariffs approved by the Commission."

Water Tariff Rule 16(A)(3)(a) is amended as follows (changes are underlined):

"The service pipe, curb stop, meter, and meter box furnished by or on behalf of the utility and located wholly or partially upon a customer's premise are the property of the utility."

Water Tariff Rule 16(B)(3) is amended to provide as follows (changes are underlined):

"Only duly authorized employees or agents of the utility (or contractors, upon approval of the utility) will be permitted to install a service pipe from the utility's main to the location of the service connection. The connection from the meter to the customer's piping will be made by the utility; provided, however, that if the customer's piping requires repair or replacement, the connection may, at the option of the utility, be made by the customer or his agent."

(END OF APPENDIX A)

## APPENDIX B

Page 18

\_\_\_\_\_  
 (Name of Water Company)  
 Connection Fee Data Form for Service to \_\_\_\_\_  
 \_\_\_\_\_  
 (Address) (Telephone)

## I. Local Government Permits and Fees

| Line | Name of Agency                | Name of Fee | Cost      |
|------|-------------------------------|-------------|-----------|
| 1    | _____                         | _____       | \$ _____  |
| 2    | _____                         | _____       | \$ _____  |
| 3    | _____                         | _____       | \$ _____  |
| 4    | _____                         | _____       | \$ _____  |
| 5    | Total (Add lines 1 through 4) |             | \$ _____* |

## II. Materials

## A. Service Pipe

6 Type (e.g., copper) \_\_\_\_\_  
 7 Unit cost = \$ \_\_\_\_\_ per foot of length  
 8 Length of service pipe (Use typical connection in your service area) = \_\_\_\_\_ feet  
 Service  
 Pipe Cost = Unit cost (Line 7) x Length (Line 8)  
 9 Service  
 Pipe Cost = \$ \_\_\_\_\_/ft. x \_\_\_\_\_ ft. = \$ \_\_\_\_\_

APPENDIX B  
Page 2

## II. Materials (continued)

## B. Other than Service Pipe

Line

|    |   |           |
|----|---|-----------|
| 10 | Saddle tap                              | \$ _____  |
| 11 | Valve (corp stop)                       | _____     |
| 12 | Valve (meter stop)                      | _____     |
| 13 | Cast concrete box                       | _____     |
| 14 | Meter                                   | _____     |
|    | Other (describe)                        | _____     |
| 15 | _____                                   | _____     |
| 16 | _____                                   | _____     |
| 17 | Subtotal (Add Lines 10 through 16)      | _____     |
| 18 | Miscellaneous allowance (5% of Line 17) | _____     |
| 19 | Total (Add lines 17 and 18)             | \$ _____* |

## III. Installation

## A. Tapping

Labor for tapping main, installing valves, setting meter and meter box (not applicable to flat rate service), and all other hardware work regardless of the length of service pipe.

Tapping cost = Avg. time for tapping x hourly rate

For metered service

20 Tapping cost = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_\*



## APPENDIX B

Page 3

## III. Installation (continued)

## A. Tapping (continued)

For flat rate service

Line

21 Tapping Cost = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_\*

## B. Earth Work

Labor and Equipment for trenching and compaction of backfill.

22 Length of trench (Use typical connection in your service area) = \_\_\_\_\_ feet

## 1. Labor

Cost = Avg. time x hourly rate

23 Operator cost = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_

24 Laborer cost = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_

25 \_\_\_\_\_ = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_  
(other)

26 Total Labor (Add Lines 23 through 25) \$ \_\_\_\_\_\*

## APPENDIX B

Page 4

## III. Installation (continued)

## B. Earth Work (continued)

## 2. Equipment

Cost = Avg. time x hourly rate

Line

27 Backhoe cost = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_

28 Compactor cost = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_

29 \_\_\_\_\_ = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_

(other)

30 \_\_\_\_\_ = \_\_\_\_\_ hr. x \$ \_\_\_\_\_ /hr. = \$ \_\_\_\_\_

(other)

31 Total Equipment (Add Lines 27 thru 30) \$ \_\_\_\_\_\*

## C. Pavement replacement (including base)

32 Pavement type (e.g., asphalt concrete) \_\_\_\_\_

33 Unit cost = \$ \_\_\_\_\_ /ft. \_\_\_\_\_

34 Length of pavement (Use typical connection in your  
service area = \_\_\_\_\_ feet

35 Cost = Unit cost (Line 33) x Avg. Length (Line 34)

36 Pavement Cost = \$ \_\_\_\_\_ /ft. x \_\_\_\_\_ = \$ \_\_\_\_\_\*  
(Line 33) (Line 34)

## APPENDIX B

Page 5

## IV. Total Cost of Service Connection

Total

Cost = Local Gov't Fees + Materials + Installation

= Local Gov't Fees + (Service Pipe + Other than Service Pipe) + (Tapping + Labor for Earth Work + Equipment for Earth Work + Pavement Replacement)

Line

37 =  $\frac{\text{Line 5}}{\text{(Line 5)}} + \left( \frac{\text{Line 9}}{\text{(Line 9)}} + \frac{\text{Line 19}}{\text{(Line 19)}} \right) + \left( \frac{\text{Line 20 or 21}}{\text{(Line 20 or 21)}} + \right.$

$\left. \frac{\text{Line 26}}{\text{(Line 26)}} + \frac{\text{Line 31}}{\text{(Line 31)}} + \frac{\text{Line 36}}{\text{(Line 36)}} \right)$

38 = \$ \_\_\_\_\_ (rounded to nearest 10 dollars)

## V. Federal Income Tax Gross-up

Connection Fee = Total Cost + (Total Cost) x (Tax Rate)

39 =  $\frac{\text{Line 38}}{\text{(Line 38)}} + \left( \frac{\text{Line 38}}{\text{(Line 38)}} \right) \times 15\%$

40 = \$ \_\_\_\_\_ (rounded to nearest \$10)

## Notes to Customer:

You have the right, if you disagree with this estimate, to appeal to the California Public Utilities Commission, Water Branch, 505 Van Ness Avenue, San Francisco, CA 94102. Please include a copy of this completed form, annotated to show the costs with which you disagree.

You may choose to have this work done at your own expense by a licensed contractor subject to inspection by the utility. The inspection fee for this installation is \$ \_\_\_\_\_.

Signed

---

 Owner or Utility Representative

APPENDIX B

Page 6

1. This Connection Fee Data Form is available to Class C and Class D water utilities and Class A and Class B utility districts or subsidiaries serving 2,000 or fewer connections. The blank Connection Fee Data Form must be filed in the tariffs of a utility seeking to assess a connection fee.
2. When the Connection Fee Data Form is filed in a utility's tariffs, the completed form showing costs of installation must be presented to all new individual customers seeking installation of a connection.
3. At the time a completed Connection Fee Data Form is presented to a customer, the utility must advise the customer, in writing, of the following:
  - a. An applicant for a water utility connection who disputes the fees set forth by the utility in its Connection Fee Data Form may file a complaint with the California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, California 94102-3298.
  - b. An applicant for a water utility connection may, as an alternative to connection by the utility, have the connection performed by a contractor deemed qualified by the utility. Such installation must be done in accordance with utility specifications. Such installation is subject to inspection and approval of a utility, at an inspection fee rate of \$\_\_\_\_\_ per hour. At completion of the installation, applicant must provide the utility with a copy of the contractor's invoice for the installation.
4. The Total Service Connection Cost (Line 38) represents a typical service connection in your service area for one service size. A separate calculation is required for each size.
5. Separate calculations are required for metered and flat rate service.
6. It is assumed that if procedures and equipment other than those included above are selected for a particular (but typical) installation (e.g., boring rather than trenching), it is because it is more economical for that particular installation. There is no need for special provisions for such cases.

APPENDIX B  
Page 7

7. The utility may request a deviation from its Connection Fees tariff and charge the actual cost of installation for any service for which the Total Cost of Service Connection exceeds the typical cost (Line 38) by three times.
8. Connection fees are assumed to be in the first \$50,000 of income for which the federal income tax rate is 15%.

(END OF APPENDIX B)