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Decision 82 01 62 JAN 19 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion to determine the revisions to the Uniform Main Extension Rules for water utilities necessitated by modifications to General Order No. 103 ordered by Decision No. 84334.	Case 9902 (Filed April 15, 1975)

Thomas Sakai, for Laguna Hills Water Company; Robert W. Kendall, Attorney at Law, and Cecilia Sanchez, for Southern California Edison Company; William V. Caveney, for Southern California Water Company; Michael L. Whitehead, Attorney at Law, for San Gabriel Valley Water Company; Robert O. Randall, for Southwest Suburban Water Company; McCutchen, Doyle, Brown, and Enersen, by A. Crawford Greene, Attorney at Law, for California Water Service Company and San Jose Water Works; Kennan W. Beard, Sr., for Del Este Water Company; Dinkelspiel, Pelavin, Steefel & Levitt, by Lenard G. Weiss, Attorney at Law, for California-American Water Company; Robert T. Adcock, for Alco Water Service; and Graham & James, by Thomas J. MacBride, Jr., Attorney at Law, for Laguna Hills Water Company; respondents.

Brobeck, Phleger & Harrison, by Robert N. Lowry, Attorney at Law, for California Water Association; and Fred P. Cooper, Attorney at Law, for Neptune Investment Company and California Building Industry Association; interested parties.

Peter Fairchild, Attorney at Law, and T. B. Nacao, for the Commission staff.

O P I N I O N

I - BACKGROUND

On September 28, 1954, in Decision No. 50580, the Commission established rules governing the extension of service by water companies. By this decision, as later modified, an applicant (whether an individual or a developer) for an extension is required to advance to the water company the estimated reasonable cost of the extension. As an alternative, a developer may install the facilities constituting the extension, if authorized by the water company. The amount advanced by a developer is then refunded without interest by the company for a period not to exceed 20 years, at the rate of 22 percent of revenue received from customers who subsequently receive service from the extension. If at any time during this period 80 percent of the customers who were intended to be served by a particular extension actually receive service, the water company becomes obligated to repay the entire amount of the advance. A pro rata share of the cost of special facilities is refunded to a developer as each new service is connected to the system.

The first 50 feet of an extension to serve an individual are installed by the company without charge. The cost of individual extensions longer than 50 feet must be paid by the applicant requesting service. If, during a ten year period, other services are connected directly to the extension, refunds are made by the water utility to the original applicant paying for the extension.

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

On April 15, 1975, in Case (C.) 9902, the Commission instituted an investigation into the operations and service of all public utility water corporations under its jurisdiction for the purpose of determining what revisions to the Uniform Main Extension Rule were necessitated by the modifications to General Order No. 103 (GO 103), ordered by D. 84334 dated April 15, 1975 in C.9263, our investigation into the revision of GO 103 for fire protection standards. By D. 87507 dated June 28, 1977, concerned over implications of current practice which permits compensation to a water company in the event of condemnation of contributed facilities, the Commission amended C.9902 to consider whether facilities contributed by developers and customers should be held in trust for the public and, in the event of condemnation, be surrendered without compensation. In response to legislative resolution, C.9902 was further amended by D.87934 dated October 4, 1977 to determine by what means water utilities can finance the fire protection improvements. Finally, by D.89695 dated November 28, 1978, in the interest of clarity and for the purpose of undertaking a comprehensive review of sewer and water main extensions, the Commission ordered that the inquiries previously ordered in C.9902 be superseded by the following:

1. Should facilities contributed to a sewer or water utility be transferred without compensation in the event of their acquisition by a public agency?

2. Should money or facilities provided by an applicant for a sewer or water main extension no longer be subject to refund?

3. Should free-footage allowances for individual applicants be either modified or eliminated?

D.89695, supra, also ordered the Commission staff to prepare a report setting forth its recommendations on these inquiries, including revised tariffs which incorporate any recommended changes, within 90 days after the effective date of the order. The time for filing of the staff report was extended to July 2, 1979 by D.90009 dated February 27, 1979; to February 2, 1980 by D.90433 dated June 1, 1979; and to May 9, 1980 by D.91278 dated January 29, 1980.

A prehearing conference was held before Administrative Law Judge N. R. Johnson in Los Angeles on July 3, 1979 and public hearings were held in Los Angeles on August 6 and 7, 1980 and October 29, 30, and 31, 1980. The matter was submitted upon receipt of concurrent briefs due March 2, 1981. Briefs were received from Neptune Investment Company (Neptune) and California Building Industry Association (CBIA), San Gabriel Valley Water Company (San Gabriel), Laguna Hills Water Company (Laguna), California Water Association (CWA), and the Commission staff.

On March 25, 1981 Neptune and CBIA filed a motion to strike portions of the Commission staff brief as follows:

> "The recommendation that refunds be paid at an annual rate of 2.5 percent of the advance would provide the lowest possible rates consistent with reasonable protection of financial stability. By providing eligibility for ITC, it could reduce the revenue otherwise required by some water companies. At the same time, by doubling the period during which refunds are paid, it would provide substantially increased protection of financial stability. The cost of providing this protection would be borne by new applicants, or by buyers of their houses or renters of their apartments, through reduced refunds. Because the cost of financing new extensions is the primary cause of financial instability for many companies, however, allocation of cost in this manner would be highly equitable.

"Similarly, special facilities should be financed at the discretion of the water company by means of advances refundable at an annual rate of 2.5 percent of cost. Under the present rule, the cost of special facilities is required to be refunded as a percentage of the total number of lots to be served. In the case of rapid development, such cost is subject to faster repayment. To avoid this result, special facilities should be financed at the discretion of the water company by the same means as are the other facilities of an extension. To insure an equitable allocation of cost, however, a later developer who would receive service from special facilities installed by an earlier developer should be required to pay to that earlier developer the percentage of total cost of such facilities that is equal to the percentage of the total number of lots intended to be served by such facilities that is represented by the number of lots for which the later developer seeks service." (Page 11, lines 21 to end.)

* * *

"3. That an extension to serve a developer be financed by means of an advance refundable at an annual rate of 2.5 percent of its adjusted reasonable cost;" (Page 13, last four lines.)

"C. That special facilities installed by a developer be financed at the discretion of the water company by means of an advance refundable at an annual rate of 2.5 percent of their adjusted reasonable cost;" (Page 14, first four lines.)

The basis for the motion is that there is no evidence in this record to support the above recommendations and, therefore, the moving parties have been deprived of their right of due process of law in that they have been given no notice or hearing or right to cross-examine or rebut the proposals of the staff and that

until the moving parties have been given their rights of due process with respect to the recommendations, the recommendations should be stricken and not considered by the Commission. A review of the record shows that the allegations of Neptune and CBIA are unfounded. Both Laguna and Alisal Water Company (Alisal) and Toro Water Service (Toro) recommended a 2-1/2 percent of advance annual refund as an alternative to a full contributions rule. The motion of Neptune and CBIA is denied.

At the hearings testimony was presented on behalf of the Hydraulic Branch of the Commission staff by one of its utilities engineers, Eugene M. Lill, and on behalf of the Revenue Requirements Division by the assistant director of the Financial Analysis Group, J. J. Gibbons; on behalf of Laguna by its vice president and controller, Thomas Sakai; on behalf of Neptune by a bookkeeper of Oldham Construction Company, Betty Eyraud, by a vice president of Butler Housing, Frank Kindstrand, and by an administrative assistant of Lewis Homes, Greg M. Salvato; on behalf of CWA by a vice president of San Jose Water Works, Homer H. Hyde, a vice president of Park Water Company, Daniel M. Conway, and by its executive secretary, Sharun Zastrow; and on behalf of Alisal and Toro by their president and general manager, Robert Thomas Adcock.

II - POSITIONS OF PARTIES

Position of the Hydraulic Branch

The Hydraulic Branch staff witness, E. M. Lill, addressed each of the three C.9902 issues, together with four major proposed changes to Rule 15 - Main Extensions.

According to this witness, the Commission should not mandate the transfer of contributed plant facilities without compensation in the event of their acquisition by a public agency but should consider the matter on a case-by-case basis. He notes that transfers of contributed assets to public agencies frequently follow lengthy condemnation proceedings and he questions whether this Commission should prejudge either a Superior Court or future commissions with respect to the amount of just compensation to be awarded the utility.

The Hydraulic Branch believes that money or facilities advanced by an applicant for a water main extension should remain subject to refund but that such a refund should be made to the customer rather than the developer. According to the Hydraulic Branch witness, such a procedure would eliminate the alleged common complaint that the customer pays twice for the facilities to serve him, once in the cost of the house and once in the rates to pay for the refund of advances.

The Hydraulic Branch notes that the free-footage allowance for individual water extensions was decreased from 100 to 150 feet down to 65 feet by D.50530 dated September 28, 1954 in C.5501, our investigation into the revision of water main extension rules, and further to 50 feet by D.64536 dated November 8, 1962 in reopened C.5501. The Hydraulic Branch recommends that this latter 50-foot-free-footage allowance be retained.

Although the Hydraulic Branch recommends a negative response to the three issue questions raised in this matter, it proposes the following four major changes to the water main extension rule which it believes will be beneficial:

1. Reduce the refund from 22 to 20 percent of revenues to lengthen somewhat the period of complete payback and ease the administrative problem of computing the amount of refund due the customer;
2. Make the refunds directly payable to the customer rather than the developer to eliminate the customer complaint that the developer gets paid twice for the extension;
3. Eliminate the provision for assignment of main extension contracts because if the refund is made to the customer, there would be no main extension contract with the developer to assign; and
4. Add water conservation measures as factors in extending service.

The above-discussed proposed modifications were included in the Hydraulic Branch-proposed water main extension rule.

Position of the Revenue Requirements Division

The position of the Revenue Requirements Division was presented by J. J. Gibbons. This witness made the following recommendations with respect to the three issues to be resolved in this proceeding:

1. "I recommend that the Commission state clearly and unequivocally that it will not attempt to prescribe in this proceeding how plant facilities contributed to a sewer or water utility will be valued if at some future date the utility is acquired by a public agency."

The primary basis for this witness's recommendation is his conclusion that this Commission should maintain flexibility to decide how it will value contributed plant in the event of condemnation by a public agency instead of being required to order that the contributed facilities be transferred without compensation. The necessity of maintaining such flexibility was demonstrated by three examples resulting in widely divergent compensations being awarded the owners as a result of condemnation proceedings. In these examples the operator who conscientiously attempted to keep rate base and rates low by purchasing the outstanding agreements at a discount and transferring the balance to contributions would receive much less in the event of condemnation than the example cited when the owner purchased the contracts and kept them alive as advances. Also, he testified:

> 2. "I recommend that the Commission issue an order in this proceeding revising the present water main extension rule to require subdividers to contribute to water utilities those in-tract plant facilities presently covered by main extension contracts, together with those special facilities (other than source and storage facilities) needed to serve their subdivisions.
>
> "I also recommend that the Commission reaffirm its prior decisions that contributions in aid of construction are the appropriate method of financing sewer company extensions."

In support of his recommendations this witness testified that the two principal objectives to the water main extension rule when it was adopted were:

> (a) To provide a water utility with a competitive advantage over public agencies which require the developer to contribute plant facilities without refund.
>
> (b) To protect a water utility and its customers from the adverse effects of uneconomic and speculative extensions.

According to his testimony, although these objectives have generally been met, a full contributions rule would be preferable at this time because it would improve a utility's cash position through elimination of refund obligations and could result in a substantial decrease in revenue requirements in all but the first few years of the plant life. He further notes that a full contributions rule would eliminate the substantial amounts of staff time required to administer the water main extension rule as well as the administrative costs a utility incurs in compiling revenue records by subdivision in order to compute refunds.

3. "I recommend that the Commission discontinue all free footage allowances on extensions to serve individuals, except that for single family residence extensions longer than 100', other customers who subsequently connect directly to the extension should share in its cost."

This recommendation shifts the cost of extending service to a new subdivision from the general body of ratepayers to the subdivider who is the primary beneficiary of the extension. To be consistent, this witness recommends that the individual be required to pay the cost of the main that is installed to serve him. However, such a provision in the rule could result in the first customer, in a series of extensions, paying a disproportionate share of the extension costs. To mitigate such inequities, this staff witness proposes that subsequent customers to extensions in excess of 100 feet pay to the utility, for refund to the original applicant, the cost of 100 feet of the extension.

This witness further recommends that depreciation expense be allowed a utility on contributed plant to provide some incentive for the utilities to manage, maintain, operate, and eventually replace the contributed plant. He also proposes additional rule changes to correct allegedly existing shortcomings in the rule relating to limitation of expansion, special facilities, refunds, and termination of main extension contracts. These proposed changes generally conform the extension rule to his recommended elimination of refundable advances and free-footage allowances and the proposed changes in the treatment of special facilities.

Exhibits and testimony by other than the Commission staff were presented at the second series of hearings and generally consisted of exceptions to all or portions of the staff's presentations.

Position of CWA

As previously noted, testimony and exhibits were presented on behalf of CWA by three witnesses.

CWA's position was summarized by Homer M. Hyde who is a vice president with San Jose Water Works and is serving as a cochairman of CWA's ad hoc committee on the water main extension rule. It is CWA's position, as argued in its brief, that:

1. Facilities contributed to a water utility should not be transferred without compensation in the event of their acquisition by a public agency.[1/] Instead, such facilities should be valued in accordance with the laws governing just compensation in eminent domain proceedings.

2. Money or facilities provided by an applicant for a water main extension should continue to be subject to refund, except in those cases where the utility has requested and been granted authority to accept such money or facilities as a contribution in aid of construction.[1/]

1/ Present main extension rules for sewer utilities provide for such facilities to be funded by contributions in aid of construction. CWA is not recommending any change in such rules in this proceeding.

3. Free-footage allowances for individual applicants should not be modified or eliminated but should be retained.

In his testimony witness Hyde set forth the bases for: (1) CWA's opposition to the Hydraulic Branch proposal that refunds be reduced from 22 percent to 20 percent of revenues and be made to the customers rather than the developers, (2) its opposition to the Revenue Requirements Division proposal that a full contributions rule be adopted with depreciation allowable for ratemaking purposes, and (3) its recommended modifications to the present water main extension rule.

The Hydraulic Branch refund proposal is objectionable to CWA because: (a) it would make refunds payable to persons who did not make the advance, resulting in discrimination among the customers and complex and expensive administrative and programming costs; (b) it would be inconsistent with the conservation goal of the Commission and the water industry; (c) it would result in unenforceable conservation measures; (d) it would aggravate an already serious cash-flow problem; (e) it could threaten utilities with the loss of tax depreciation deductions and investment tax credit (ITC); and (f) the allegation of customer complaints about double paying for extension facilities is unfounded.

CWA opposes the Revenue Requirements Division proposal of a full contributions rule because: (a) it would deprive the utilities of the opportunity for orderly capital growth through refunds of advances; (b) it would make many utilities vulnerable to condemnation by public agencies at prices below market value; (c) it would deprive the utility of a viable means of ensuring the developer's compliance with GO 103 standards; (d) it would deprive the utilities of tax depreciation deductions and ITC; and (e) it would subject utilities to the risk of speculative and uneconomic investment.

CWA recommends that the present water main extension rule be retained with the following modifications: (a) to minimize the cash-flow burden, the refund be maintained at 22 percent of revenues but not exceed 6 percent of the advance in any one year; (b) refunds of the cost of special facilities be made on a percent-of-revenue basis instead of the present per-lot basis; (c) provide for the equitable allocation of the cost of special facilities among multiple developers seeking service from the same extension; and (d) eliminate the requirement of notification to the Commission when advances equal 40 percent of total capital.

Testimony and exhibits presented on behalf of CWA by Daniel M. Conway, vice president for Park Water Company, set forth a comparison of revenue requirements and customer costs with water main extensions financed by advances, contributions, or utility funds, together with CWA's recommended revisions to the water main extension rule. A comparison of the monthly costs to a water customer resulting from a $1,000 investment in facilities under various funding plans, as computed by CWA, is as follows:

Source of Funds	Utility Revenue Requirements	Customer Housing Costs	Total Cost
Present Rule	$ 2.52	$5.37	$ 7.89
Financial Analysis Group Proposal	4.17	8.17	12.34
Hydraulic Branch Proposal	2.75	5.44	8.19
Association Proposal	2.11	5.40	7.51
Utility Funds	10.51	-	10.51

CWA's executive secretary, Sharun Zastrow, detailed the procedures by which the position of CWA was formulated.

Position of Neptune and CBIA

It is the position of Neptune and CBIA that the present water main extension rule for refunds is working well and the staff proposals would create more problems than they would solve. With respect to CWA's proposed reduction in refunds, i.e., limit such refunds to 6 percent of the advance in any one year, Neptune and CBIA state such a proposal not only ignores economic realities but does not provide significant relief. It is stated that the housing industry in California is in serious trouble and there is no evidence in the record to justify creating more problems for the housing industry, particularly since the present rule provides a substantial subsidy from the housing consumer to the water industry in the form of interest-free loans. In support of this position to maintain the present water main extension rule, Neptune and CBIA note that the staff proposals would cause a proliferation of new small utilities; the Hydraulic Branch proposal would cause confusion as to who would get refunds and would mandate conservation practices better addressed by building codes; and the Revenue Requirements Division proposal would increase the customer's payment to the developer by paying the depreciation expense in addition to the refund payment for the older customers and would reduce rate base and cause the loss of federal income tax benefits.

Neptune and CBIA also oppose Laguna's proposal of a full contributions rule with no refunds and a management fee for contributed plant for the same reasons it opposes the staff's Revenue Requirements Division proposal.

Position of San Gabriel

It is the position of San Gabriel that the present water main extension rule is working well and that no fundamental changes to the rule have been shown to be necessary. San Gabriel firmly believes that this Commission should not address, within the context of this proceeding, whether or not contributed facilities should be transferred without compensation in the event of their acquisition by a public agency. Such valuation, according to San Gabriel, should be made only on a case-by-case basis when the issue is properly before the Commission in a specific valuation proceeding.

San Gabriel opposes any changes which would result in the elimination of refundable advances for water main extensions on the bases that such a change would have the effect of restricting growth of rate base and, consequently, growth of the utility's earning ability, would prevent the expansion of utility plant through refundable advances and thereby deny the utility its presently enjoyed expansion growth without debt or equity financing, and would cause the loss of such tax benefits as depreciation expense, tax deductions, and ITC.

In its brief San Gabriel argues that while the Hydraulic Branch supports its recommendations that refunds be made to customers as a means of counteracting some of the undesirable aspects of refunding advances, there is no support for such a position in the record. San Gabriel further argues that the Hydraulic Branch refund recommendation will require monthly refund calculations for each customer rather than one annual calculation per subdivision at an unreasonable cost ultimately to be paid by the ratepayers. San Gabriel further objects to the Hydraulic Branch proposal with respect to the conservation proposals on the basis that such provisions are unenforceable.

Position of Laguna

Laguna generally supports, with certain exceptions, the proposal of the Commission staff's Revenue Requirements Division.

It notes that the Uniform Main Extension Rule contemplated the repayment of an advance over a period of 20 or more years, but at this period of time the actual repayment time averages 14.2 years for Laguna with experienced payback periods as short as six years. Laguna argues that such accelerated payback periods are caused by rapid increases in gross revenues unmatched by increased net operating revenues. Consequently, the increased repayment sums must come from net operating revenues with the result that the bulk of net revenue is required to meet advance repayments and sinking fund and interest obligations on long-term debt, leaving little, if any, money to pay dividends or even all of the advance repayments.

Laguna argues that the refundable advances have little, if any, effect on housing costs as it is problematical whether the value of such advance refunds is credited against the cost of the house. Laguna notes that development can and does occur in the service areas of public water districts in spite of the fact that developers are required to contribute the entire cost of in-tract facilities.

Laguna also favors the implementation of the Revenue Requirements Division staff proposal to permit depreciation on contributed plant provided that taking such depreciation will not preclude the exclusion of contributed plant from taxable income under Section 118 of the Internal Revenue Code. Laguna suggests that this Commission, in conjunction with CWA or a large utility, seek an Internal Revenue Service ruling on the effects of taking depreciation expense on contributed plant.

Laguna further suggests that this Commission apply its adopted treatment for depreciation on contributed plant to all contributed plant not just prospectively. In the event that a full contributions rule with depreciation expense on such contributed plant is not adopted, Laguna recommends the maintenance of the present rule with the refund period tied to depreciation, i.e., if plant has a 40-year depreciation life, the advance should be refunded over a 40-year life.

Position of Alisal and Toro

The position of Alisal and Toro was presented by their president and general manager, Robert T. Adcock.

According to his testimony, contributed plant should not be transferred to a public agency without compensation upon condemnation.

This witness further stated that the CWA position was advanced by representatives of large Class "A" water utilities which do not face the same cash-flow problems experienced by the small Class "C" and "D" water utilities. Consequently, according to the record, these small water utilities would support the Revenue Requirements Division's full contributions rule rather than the CWA proposal, provided the water utility is compensated for the management of the contributed plant and receives assurance it will receive compensation for contributed plant in a condemnation proceeding if it is providing good service.

If the Commission does not adopt a full contributions rule, this witness recommends that refunds be tied into a 40-year period and the elimination of free-footage allowances as a further aid to the resolution of the severe cash-flow problems being experienced by small water companies.

III - DISCUSSION

General

For convenience and ready reference this section of the decision has been subdivided into the following subsections:

A - COMPENSATION FOR CONTRIBUTED FACILITIES

B - ELIMINATION OF REFUNDABLE ADVANCES

C - FREE-FOOTAGE ALLOWANCE MODIFICATIONS

D - MODIFICATIONS TO UNIFORM WATER MAIN EXTENSION RULE

A - COMPENSATION FOR CONTRIBUTED FACILITIES

As previously stated, the matter of the proper compensation to be allowed for contributed plant transferred to a public agency upon condemnation was included in C.9902 by D.87507, supra. All witnesses addressing this question testified that this Commission should not in this proceeding order that compensation not be paid for contributed facilities in the event of their acquisition by a public agency.

The bases supporting this position include the following:

1. The question should be addressed only on a specific case-by-case basis. For the Commission at this time to prescribe the treatment of such plant would be prejudging either a Superior Court or future commissions and thereby destroying this Commission's ability to judge each case on its merit;

2. Absent the possibility of being compensated, in the event of a condemnation proceeding, for the added risk and responsibility of operating and managing the contributed plant, a utility would have no incentive for accepting such plant;

3. This Commission generally does not require that contributed plant be transferred to a public agency without compensation. In the few instances that the Commission required the transfer of contributed plant without compensation, special circumstances prevailed which dictated such action;

4. Similar action has never been considered for electric, gas, or telephone utilities, and the basis for singling out water utilities for such treatment is unclear; and

5. Excluding contributed plant in the determination of just compensation will encourage condemnation proceedings by offering public agencies the opportunity to acquire public utility property at considerably less than its replacement cost less depreciation.

The above reasons are persuasive and we will, therefore, not prescribe in this proceeding how plant facilities contributed to a sewer or water utility will be valued upon transfer to a public agency through condemnation proceedings.

B - ELIMINATION OF REFUNDABLE ADVANCES

The second question raised in this proceeding is whether money or facilities advanced by an applicant for sewer or water main extension should no longer be subject to refund.

Although a number of witnesses presented different recommendations with respect to water utility extensions, all parties agreed that the present rules regarding sewer utilities which provide for facilities to be funded by contributions should be retained.

As summarized in the section setting forth the positions of the parties, testimony was presented both in support of retaining refundable advances and in support of establishing of a full contributions rule.

Neptune and CBIA, together with San Gabriel, advocate retaining the existing water main extension rule. CWA proposes retaining it with the maximum refund limited to 6 percent of the advance in any one year and advances for special facilities to be refunded on a percent-of-revenue basis rather than on the present per-lot basis, and the Hydraulic Branch proposes retaining the basic provisions of the rule modified to provide 20 percent of revenue refunds to the customer rather than 22 percent of revenue to the developer and the establishment of specified water conservation measures.

It is apparent from the record that the present rule works reasonably well for the large Class "A" utilities that are adequately capitalized and where the advances do not constitute a major portion of the utility's capitalization. Even for those utilities, however, there is room for improvement in the water main extension rule with respect to the refund period for in-tract main extension contracts and the treatment of special facilities. It is equally obvious that the present rule creates hardships in the form of cash-flow and financing problems for some utilities, particularly those where advances constitute a major portion of the capitalization.

Some water utilities are essentially satisfied with the present rule, as it permits them to invest more funds and build up their rate bases more rapidly. However, the Commission must be at least equally concerned with the effect on utility customers. Permitting utilities to build up their rate bases more rapidly will result in needless hikes in water rates for their customers. Extension of the refund period for water main extension agreements from twenty years to forty years and revision of the refund provisions for special facilities will benefit the water companies by reducing the cash drain from refund payments. These changes also will benefit the customers of such utilities through lower rate bases and lower rates.

CWA's proposal to limit the refund of an advance to 6 percent of the advance in any one year and the Hydraulic Branch proposal to decrease the amount of refund from 22 percent of revenues down to 20 percent of revenues are both wholly inadequate to measurably affect the cash-flow problem for those water utilities experiencing such a problem and will, therefore, not be adopted.

As argued by CWA, Neptune and CBIA, and San Gabriel, the Hydraulic Branch proposal to pay advance refunds to customers would create more problems than it would solve. Included as such problems are: (a) refunds to customers would result in an unjustified windfall to persons who have not borne the cost of the extension; (b) the required monthly adjustment to each customer billing in place of an annual adjustment to a development would substantially increase the administrative costs; (c) granting refunds to some customers and not others would be discriminatory; (d) basing the size of refund on the amount of water consumed is an anti-conservation measure; and (e) to the extent that the price of housing reflects costs plus profits, making refunds to customers rather than developers would increase the cost of the house. These reasons are persuasive and the Hydraulic Branch proposal for refunds to customers, together with the related elimination of the provision for assignment of main extension contracts, will not be adopted.

The Hydraulic Branch also recommends the addition of water conservation measures as factors in extending service. The basic concept is commendable. However, we recognize that such measures are not enforceable unless included in local building codes. We will adopt the Hydraulic Branch proposal and encourage all Class A, B and C water utilities to seek the inclusion of these conservation measures in local building codes and/or ordinances in their respective service areas.

To reduce the cash requirements now imposed by refunds of the cost of special facilities on a per-lot basis, CWA proposes that the refunds be based on a percent-of-revenue basis. CWA further recommends that when special facilities are installed to serve more than one development, subsequent developers advance their pro rata share of the cost of the special facilities to be refunded to the original developer who was required to advance the entire cost of the special facilities. Such an advance would be additional to the normal advance for in-tract facilities. Such a proposal appears reasonable and will be adopted.

The full contributions rule with a depreciation expense and/or management fee for contributed plant, as proposed by the Revenue Requirements Division staff accountant and supported by Laguna and Alisal and Toro, would improve a utility's cash position through elimination of refund obligations. It would also reduce work requirements imposed on the staff for the administration of the refund provisions of the effective extension rule. There are, however, certain adverse aspects which preclude our adoption of such a rule. These adverse aspects include: (a) a full contributions rule would deprive the utilities of tax depreciation and ITC, (b) from the viewpoint of utilities with excess cash, a full contributions rule would deprive them of an opportunity to invest additional funds in the business and thus increase their rate bases and earnings, and (c) concern that plant financed by contributions would be excluded from consideration in a condemnation proceeding might encourage some utilities to rely instead on more costly debt or equity financing.

In its brief the staff recommended that an extension to serve a developer, including, at the discretion of the water company, the special facilities installed by the developer, be financed by means of an advance refundable at an annual rate of 2.5 percent of its adjusted reasonable cost. Laguna and Alisal and Toro recommended a similar rule as an alternative to a full contributions rule. Such a rule would appear to provide the lowest possible rates consistent with reasonable protection of financial stability, as well as retain a water utility's eligibility for ITC and income tax depreciation. With abundant indication in this record that Class "B", "C", and "D" water utilities are generally experiencing serious cash-flow problems caused by gross revenue water cost offset increases far in excess of net revenue increases, it would appear that refunding of advances over a 40-year period should be mandated for these utility classes. It is also clear from the record that while most Class "A" water utilities are operating satisfactorily under the existing water main extension rule, adoption of a 40 year refund period in lieu of the more rapid refund provisions of the present rule would materially benefit customers of those utilities through lower rates. Moreover, a 40 year refund period that is not dependent on gross revenues would be less costly for a utility to administer and more easily understood by all parties. It would eliminate the need to segregate revenues from each subdivision for which a main extension contract has been issued and to compute refunds on this basis. Likewise, the immediate establishment of a definite liability to repay the amount advanced under the contract would enable the utilities to immediately claim investment tax credits and should eliminate any questions as to their eligibility to claim tax depreciation on the entire balance of plant financed through main extension contracts.

The Commission believes the proposed rule will improve the financial situation of the utilities; however, it is concerned about the impact of contract obligations incurred for tracts or subdivisions which do not develop and, therefore, provide little or no revenue to the utility. Under the new rule the risk exists that the utilities will have to repay main extension contracts regardless of whether the subdivisions develop and provide revenue to the utility. It would be unjust to pass this risk on to the ratepayers. Thus the utilities are placed on notice that under the new rule it may be necessary to apply a saturation adjustment in general rate proceedings which could result in a reduction to rate base, depreciation and property taxes.

Small utilities which would find it difficult to repay advance contracts out of net revenues should therefore require that the plant for these extensions be financed through non-refundable contributions from the developer.

C - FREE FOOTAGE ALLOWANCE MODIFICATIONS

In response to the issue whether or not free-footage allowances for individual applicants should be either modified or eliminated, the Hydraulic Branch and CWA presented testimony that the present allowances should not be modified, and the Revenue Requirements Division presented testimony indicating that to be consistent with its full contributions rule recommendation the free-footage allowance should be eliminated, except that for extensions in excess of 100 feet the cost of 100 feet of extension should be refunded the original applicant for each additional customer served directly from the extension within a 10-year period.

In its brief the staff recommends that an extension to serve an individual applicant be financed by the customer requesting service. Each subsequent applicant who receives service directly from that extension would pay the original applicant an amount equal to the adjusted reasonable cost of 50 feet of the extension. These changes would shift the cost of individual extensions to those directly benefiting from them. The proposed changes are reasonable and will be adopted.

D - MODIFICATIONS TO UNIFORM WATER MAIN EXTENSION RULE

In addition to the basic conceptual changes to the water main extension rule previously discussed, the Commission staff and CWA proposed additional changes as follows:

Paragraph A.1.b.

The present rule provides that extensions solely for fire protection facilities shall not be made under this rule. In some cases, domestic services are tapped off of private fire protection mains to minimize cost. CWA proposes this provision be made applicable to extensions primarily for fire protection to conform the rule to actual practice. The proposed change is reasonable and will be adopted.

Paragraph A.2.a.

CWA proposes the elimination of this paragraph requiring the utility to notify the Commission whenever the advance contract balances reach 40 percent of total capital as being unnecessary and cumbersome. We disagree and will retain this provision.

Paragraph A.3.b.

The Hydraulic Branch proposes that the definition of "real estate developer" or "builder" be expanded to include those that engage in the business of construction and sale of individual structures on a continuing basis. This recommendation, supported by CWA, appears reasonable and will be adopted.

Paragraph A.4.a.

The Commission staff recommends that this paragraph be expanded to specifically state that facilities that will be held by a political subdivision will neither be owned by the utility nor subject to refund under the provisions of the rule. This recommendation, supported by CWA, appears reasonable and will be adopted.

Paragraph B.1

The Commission staff recommends that existing free footage allowances on main extensions to serve individuals be eliminated and that new individual customers requesting main extensions pay the entire cost. This recommendation is reasonable and will be adopted.

Paragraph B.3

This paragraph has been renumbered Paragraph B.2. The Commission staff recommends that additional customers who subsequently are conneceted to an individual main extension be required to share in the cost. This recommendation is reasonable and will be adopted.

Paragraph B.4

This paragraph has been omitted since its intent and effect are now included in Paragraph B.2.

Paragraph C.1.d.

This is a new paragraph enabling utilities to negotiate with developers to secure non-refundable contributions of plant facilities in instances where it appears that a proposed main extension will not produce sufficient revenues within a reasonable period to make it self-supporting, or where it appears that a main extension contract would place an excessive burden on customers.

Paragraph C.2.a.

Presently, the refund period is limited to 20 years (except as modified in Paragraph C.2.d.). We shall change this provision by adopting a 40 year refund period for contracts entered into after the effective date of this order. Also the Hydraulic Branch proposes to change this paragraph to provide for the utility to report the status of refunds annually by March 31 for the preceding year ending December 31. This latter proposed change will not be adopted as the information is already included in annual reports filed by the utilities.

Paragraph C.2.b.

The Hydraulic Branch proposes changes to provide 20 percent of revenue refund to customers. This will not be adopted.

Paragraph C.2.b.

CWA proposes a new paragraph specifying specific dates for repayment of refunds. This proposal will be adopted. CWA also proposes to renumber present paragraph C.2.b. to paragraph C.2.c. and change the refund provisions to include special facilities and an annual limitation of refunds to 6 percent of the advance. We will modify the paragraph to include special facilities as previously discussed, and provide for annual refunds on main extension contracts and on contracts for special facilities equal to 2.5 percent of the amount of the advance.

Paragraph C.2.c.

CWA proposes that subsequent builders who benefit from special facilities shall share in their cost. We will adopt this change.

Paragraph C.2.d.

This paragraph will be deleted because establishment of a fixed liability at the date the contract is entered into makes the paragraph unnecessary.

Paragraph C.2.e.

This paragraph will be renumbered Paragraph C.2.d.

Present Paragraph C.3.a.

This paragraph is renumbered Paragraph C.3.b. and reference to the present rule is deleted.

New Paragraph C.3.a.

Provision is made for termination of main extension contracts entered into after the effective date of this Order in accordance with a new maximum payment schedule.

Paragraph D.3.

CWA proposes changes to clarify treatment of hydrant costs consistent with other portions of the rule and to specify the type of allocation required which is in accordance with present staff practice. This proposal appears to be reasonable and will be adopted.

IV - FINDINGS AND CONCLUSIONS

Findings of Fact

1. A Commission order providing for the transfer of contributed plant without compensation to a public agency upon condemnation could discourage utilities from seeking contributions from developers, relying on higher cost debt or equity financing instead.

2. The rapidly escalating cost of water, resulting in the necessity of offset water rate increases, has accelerated the refunding of advances based on a percentage of revenues.

3. The acceleration of refunding of advances described in Finding 2 has created a serious cash-flow problem for water utilities that are undercapitalized and have refundable advances representing a major portion of their capitalization.

4. Although the present water main extension rule works satisfactorily for most water utilities where advances do not represent a large portion of the capitalization of a utility, the cash positions of all water utilities could be improved by extending the contract period to 40 years.

5. CWA's proposal to limit the refund of an advance to 6 percent of the advance in any one year and the Hydraulic Branch proposal to decrease the amount of refund from 22 percent of revenue to 20 percent of revenue are both insufficient measures to significantly ameliorate the serious cash-flow problems described in Finding 3.

6. The Hydraulic Branch proposal to include water conservation measures as a prerequisite to receiving water service in the water main extension rule can be enforced only if included in local building codes and/or ordinances.

7. Advances made for special facilities should be refunded on a percent-of-advance basis rather than on a per-lot basis as is presently being done.

8. Under the new rule, water utilities will have to repay main extension contracts regardless of whether the subdivisions develop and provide revenue to the utility.

9. A full contributions rule, as proposed by the Revenue Requirements Division, would deprive a utility of ITC and tax depreciation on the facilities. This loss of tax benefits would more than offset, at least for a number of years, the benefits that would result from a lower rate base and lower book depreciation under a contributions rule.

10. An extension to serve a development, including, at the discretion of the water company, the special facilities installed by the developer, should be financed by means of an advance refundable at an annual rate of 2.5 percent of the amount advanced. Other developers who subsequently use the special facilities should bear a proportionate share of the cost.

11. The proposal to eliminate the free footage allowance for individuals would shift the cost of individual extensions to those directly benefiting from them and, therefore, should be adopted.

12. Paragraph A.2.a. of the existing water main extension rule, requiring the utility to notify the Commission whenever the advance contract balances reach 40 percent of total capital, should be retained.

Conclusions of Law

1. The question of the proper compensation to be awarded for contributed plant to be acquired by a public agency through condemnation should be decided on a case-by-case basis and should not be ruled upon in this proceeding.

2. Present rules for sewer companies which provide for facilities to be funded by contributions are reasonable and should be retained.

3. Class "A", "B", "C", and "D" water utilities should be authorized and ordered to file the revised uniform water main extension rule set forth in Appendix A attached to this decision.

4. The revised uniform water main extension rule set forth in Appendix A, attached to this decision, is just and reasonable; and the existing rule, insofar as it differs from it, is unjust and unreasonable.

5. Presently effective main extension contracts should remain in effect.

6. In light of the fact that utilities will have to repay advance contracts regardless of whether the subdivisions develop and provide revenue to the utility, water companies should require non-refundable contributions from developers when, in the judgment of the utility, it appears that services will not be connected at a rapid enough rate to make an extension self-supporting, or when it otherwise appears that a main extension contract would place an excessive burden on customers. Commission approval will not be required. Water utilities will be on notice that the Commission may apply a saturation adjustment in rate proceedings. This could result in reductions to rate base, depreciation, and property taxes for extensions which do not generate enough income to be self-supporting.

O R D E R

IT IS ORDERED that:

1. Within sixty days after the effective date of this order, each water utility is authorized and ordered to file a revised water main extension rule substantially in conformance with the rules set forth in Appendix A attached to this decision and to concurrently withdraw and cancel its presently effective water main extension rule. Such filing shall comply with General Order No. 96-A.

2. The effective date of the revised rule authorized by Ordering Paragraph 1 shall be four days after the date of filing. The revised rule shall apply only to extension contracts entered into on and after the effective date thereof.

3. Presently effective water main extension contracts shall remain in effect.

4. Class A, B and C water utilities shall make all reasonable efforts to encourage local authorities in their respective service areas to acopt the water conservation measures included in Appendix A in local building codes and/or ordinances.

5. The Executive Director is directed to mail a copy of this order to all water utilities.

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

Dated JAN 19 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

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

Joseph E. Bodovitz, Executive Director

Rule No. 15

MAIN EXTENSIONS

A. General Provisions and Definitions

1. Applicability

a. All extensions of distribution mains, from the utility's basic production and transmission system or existing distribution system, to serve new customers, except for those specifically excluded below, shall be made under the provisions of this rule unless specific authority is first obtained from the Commission to deviate therefrom. A main extension contract shall be executed by the utility and the applicant or applicants for the main extension before the utility commences construction work on said extensions or, if constructed by applicant or applicants, before the facilities comprising the main extension are transferred to the utility.

b. Extensions solely primarily for fire hydrant, private fire protection, resale, temporary, standby, or supplemental service shall not be made under this rule.

c. The utility may, but will not be required to, make extensions under this rule in easements or rights-of-way where final grades have not been established, or where street grades have not been brought to those established by public authority. If extensions are made when grades have not been established and there is a reasonable probability that the existing grade will be changed, the utility shall require that the applicant or applicants for the main extension deposit, at the time of execution of the main extension agreement, the estimated net cost of relocating, raising or lowering facilities upon establishment of final grades. Adjustment of any difference between the amount so deposited and the actual cost of relocating, raising or lowering facilities shall be made within ten days after the utility has ascertained such actual cost. The net deposit representing actual cost is not subject to refund. The entire deposit related to the proposed relocation, raising or lowering shall be refunded when such displacements are determined by proper authority to be not required.

Rule No. 15

MAIN EXTENSIONS

A. General Provisions and Definitions (Continued)

2. Limitation of Expansion

a. Whenever the outstanding advance contract balances reach 40 percent of total capital (defined, for the purpose of this rule, as proprietary capital, or capital stock and surplus, plus debt and advances for construction) the utility shall so notify the Commission within thirty days.

b. Whenever the outstanding advance contract balances plus the advance on a proposed new extension would exceed 50 percent of total capital, as defined in Section A.2.a, plus the advance on the proposed new extension, the utility shall not make the proposed new extension of distribution mains without authorization of the Commission. Such authorization may be granted by a letter from the Executive Director of the Commission.

c. Whenever the outstanding advance contract balances reach the above level, the utility shall so notify the Commission within thirty days.

3. Definitions

a. A "bona-fide customer," for the purposes of this rule, shall be a customer (excluding any customer formerly served at the same location) who has given satisfactory evidence that service will be reasonably permanent to the property which has been improved with a building of a permanent nature, and to which service has commenced. The provision of service to a real estate developer or builder, during the construction of development period, shall not establish him as a bona-fide customer.

b. A "real estate developer" or "builder," for the purposes of this rule, shall include any individual, association of individuals, partnership, or corporation that divides a parcel of land into two or more portions, or that engages in the construction and resale of individual structures on a continuing basis.

Rule No. 15

MAIN EXTENSIONS

A. General Provisions and Definitions (Continued)

c. The "adjusted construction cost," for the purposes of this rule, shall be reasonable and shall not exceed the costs recorded in conformity with generally accepted water utility accounting practices, and as specifically defined in the Uniform System of Accounts for Water Utilities prescribed by the Commission for installing facilities of adequate capacity for the service requested. If the utility, at its option, should install facilities with a larger capacity or resulting in a greater footage of extension than required for the service requested, the "adjusted construction cost," for the purpose of this rule, shall be determined by the application of an adjustment factor to actual construction cost of facilities installed. This factor shall be the ratio of estimated cost of required facilities to estimated cost of actual facilities installed.

4. Ownership, Design, and Construction Facilities

a. Any facilities installed hereunder shall be the sole property of the utility. In those instances in which title to certain portions of the installation, such as fire hydrants, will be held by a political subdivision, such facilities shall not be included as a part of the main extension under this rule, and will neither be owned by the utility nor subject to refund under the provisions of Section C.2. of this rule.

b. The size, type, quality of materials, and their location shall be specified by the utility; and the actual construction shall be done by the utility or by a constructing agency acceptable to it.

c. Where the property of an applicant is located adjacent to a right-of-way, exceeding 70 feet in width, for a street, highway, or other public purpose, regardless of the width of the traveled way pavement; or a freeway, waterway, or railroad right-of-way, the utility may elect to install a main extension on the same side thereof as the property of the applicant, and the estimated and adjusted construction costs in such case shall be based upon such an extension.

Rule No. 15

MAIN EXTENSIONS

A. General Provisions and Definitions (Continued)

d. When an extension must comply with an ordinance, regulation, or specification of a public authority, the estimated and adjusted construction costs of said extension shall be based upon the facilities required to comply therewith.

e. If the following provisions for water conservation are included in local building codes and/or ordinances the main extension contract shall contain those provisions.

(1) All interior plumbing in new buildings shall meet the following requirements:

(a) Toilets shall not use more than 3½ gallons per flush, except that toilets and urinals with flush valves may be installed.

(b) Shower heads shall contain flow controls which restrict flow to a maximum of approximately 3 gallons per minute.

(c) Kitchen and lavatory faucets shall have flow controls which restrict flow to a maximum of approximately 2 gallons per minute.

(2) All new parks, median strips, landscaped public areas and landscaped areas surrounding condominiums, townhouses, apartments and industrial parks shall have a well-balanced automatic irrigation system designed by a landscape architect or other competent person, and shall be operated by electric time controller stations set for early morning irrigation.

B. Estimates, Plans, and Specifications

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

Rule No. 15

MAIN EXTENSIONS

A. General Provisions and Definitions (Continued)

b. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, and cost estimates shall be required to deposit with the utility an amount equal to the estimated cost of preparation of such material. The utility shall, upon request, make available within 45 days after receipt of the deposit referred to above, such plans, specifications, and cost estimates of the proposed main extension. If the extension is to include oversizing of facilities to be done at the utility's expense, appropriate details shall be set forth in the plans, specifications, and cost estimates.

c. In the event a main extension contract with the utility is executed within 180 days after the utility furnishes the detailed plans and specifications, the deposit shall become a part of the advance, and shall be refunded in accordance with the terms of the main extension contract. If such contract is not so executed, the deposit to cover the cost of preparing plans, specifications, and cost estimates shall be forfeited by the applicant for the main extension and the amount of the forfeited deposit shall be credited to the account or accounts to which the expense of preparing said material was charged.

d. When detailed plans, specifications, and cost estimates are requested, the applicant for a main extension shall furnish a map to a suitable scale showing the street and lot layouts and, when requested by the utility, contours or other indication of the relative elevation of the various parts of the area to be developed. If changes are made subsequent to the presentation of this map by the applicant, and these changes require additional expense in revising plans, specifications, and cost estimates, this additional expense shall be borne by the applicant, not subject to refund, and the additional expense thus recovered shall be credited to the account or accounts to which the additional expense was charged.

Rule No. 15

MAIN EXTENSIONS

A. General Provisions and Definitions (Continued)

6. Timing and Adjustment of Advances

a. Unless the applicant for the main extension elects to arrange for the installation of the extension himself, as permitted by Section C.1.c., the full amount of the required advance or an acceptable surety bond must be provided to the utility at the time of execution of the main extension agreement.

b. If the applicant for a main extension posts a surety bond in lieu of cash, such surety bond must be replaced with cash not less than ten calendar days before construction is to commence; provided, however, that if special facilities are required primarily for the service requested, the applicant for the extension may be required to deposit sufficient cash to cover the cost of such special facilities before they are ordered by the utility.

c. An applicant for a main extension who advances funds shall be provided with a statement of actual construction cost and adjusted construction cost showing in reasonable detail the costs incurred for material, labor, any other direct and indirect costs, overheads, and total costs; or unit costs; or contract costs, whichever are appropriate.

d. Said statement shall be submitted within sixty days after the actual construction costs of the installation have been ascertained by the utility. In the event that the actual construction costs for the entire installations shall not have been determined within 120 days after completion of construction work, a preliminary determination of actual and adjusted construction costs shall be submitted, based upon the best available information at that time.

e. Any differences between the adjusted construction costs and the amount advanced shall be shown as a revision of the amount of advance and shall be payable within thirty days of date of submission of statement.

Rule No. 15

MAIN EXTENSIONS

A. General Provisions and Definitions (Continued)

7. Assignment of Main Extension Contracts

Any contract entered into under Sections B and C of this rule, or under similar provisions of former rules, may be assigned, after settlement of adjusted construction costs, after written notice to the utility by the holder of said contract as shown by the utility's records. Such assignment shall apply only to those refunds which become due more than thirty days after the date of receipt by the utility of the notice of assignment. The utility shall not be required to make any one refund payment under such contract to more than a single assignee.

8. Interpretations and Deviations

In case of disagreement of dispute regarding the application of any provision of this rule, or in circumstances where the application of this rule appears unreasonable to either party, the utility, applicant or applicants may refer the matter to the Commission for determination.

B. Extensions to Serve Individuals

1. Payment

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.

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 50 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.

Rule No. 15

MAIN EXTENSIONS
(Continued)

C. Extensions to Serve Subdivisions, Tracts, Housing Projects, Industrial Developments, Commercial Buildings, or Shopping Centers

1. Advances

a. Unless the procedure outlined in Section C.1.c., is followed, an applicant for a main extension to serve a new subdivision, tract, housing project, industrial development, or organized commercial district shall be required to advance to the utility, before construction is commenced, the estimated reasonable cost of the extension to be actually installed, from the nearest utility facility at least equal in size or capacity to the main required to serve both the new customers and a reasonable estimate of the potential customers who might be served directly from the main extension. The costs of the extension shall include necessary service stubs or service pipes, fittings, gates and housing therefor, and meter boxes, but shall not include meters. To this shall be added the cost of fire hydrants when requested by the applicant for the main extension or required by public authority, whenever such hydrants are to become the property of the utility.

b. If special facilities consisting of items not covered by Section C.1.a. are required for the service requested and, when such facilities to be installed will supply both the main extension and other parts of the utility's system, at least 50 percent of the design capacity (in gallons, gpm, or other appropriate units) is required to supply the main extension, the cost of such special facilities may be included in the advance, subject to refund, as hereinafter provided, along with refunds of the advance of the cost of the extension facilities described in Section C.1.a. above.

c. In lieu of providing the advances in accordance with Sections C.1.a. and C.1.b., the applicant for a main extension shall be permitted, if qualified in the judgment of the utility, to construct and install the facilities himself, or arrange for their installation pursuant to competitive bidding procedures initiated by him and limited to the qualified bidders. The cost, including the cost of inspection and supervision by the utility, shall be paid directly by applicant. The applicant shall provide the utility with a statement of actual construction cost in reasonable detail. The amount to be treated as an advance subject to refund shall be the lesser of (1) the actual cost or (2) the price quoted in the utility's detailed cost estimate. The installation shall be in accordance with the plans and specifications submitted by the utility pursuant to Section A.3.b.

Rule No. 15

MAIN EXTENSIONS

C. Extensions to Serve Subdivisions, Tracts, Housing Projects, Industrial Developments, Commercial Buildings, or Shopping Centers (Continued)

d. If, in the opinion of the utility it appears that a proposed main extension will not, within a reasonable period, develop sufficient revenue to make the extension self-supporting, or if for some other reason it appears to the utility that a main extension contract would place an excessive burden on customers, the utility may require nonrefundable contributions of plant facilities from developers in lieu of a main extension contract.

If an applicant for a main extension contract who is asked to contribute the facilities believes such request to be unreasonable, he may request that the matter be jointly referred to the Commission for determination, as provided for in Section A.8. of this rule.

Rule No. 15

MAIN EXTENSIONS

C. Extensions to Serve Subdivisions, Tracts, Housing Projects, Industrial Developments, Commercial Buildings, or Shopping Centers (Continued)

2. Refunds

a. The amount advanced under Sections C.1.a., C.1.b., and C.1.c. shall be subject to refund by the utility, in cash, without interest, to the party or parties entitled thereto as set forth in the following two paragraphs. The total amount so refunded shall not exceed the total of the amount advanced and for a period not to exceed ~~20~~ 40 years after the date of the contract.

b. Payment of refunds shall be made not later than June 30 of the year following the calendar year in which revenues are received, or not later than 6 months after the contract anniversary date if on an anniversary date basis.

c. Whenever costs of main extensions and/or special facilities have been advanced pursuant to Section C.1.a., C.1.b., or C.1.c., the utility shall annually refund to the contract holders an amount equal to 2½ percent of the advances until the principal amounts of the contracts have been fully repaid.

Whenever costs of special facilities have been advanced pursuant to Sections C.1.b. or C.1.c., the amount so advanced shall be divided by the number of lots (or living units, whichever is greater) which the special facilities are designed to serve, to obtain an average advance per lot (or living unit) for special facilities. When another builder applies for a main extension to serve any lots for which the special facilities are to be used, the new applicant shall, in addition to the costs of his proposed main extension, also advance an amount for special facilities. This amount shall be the average advance per lot for special facilities for each lot to be used less 2½ percent of the average advance for each year in which advances have been due and payable on the original contract, prorated to June 30 on a monthly basis.

The amount advanced to the utility by the new applicant shall be immediately refunded to the holder of the original contract, which included the cost of the special facilities, and the original contract advance will be reduced accordingly. The utility will thenceforth refund 2½ percent annually on each of the contract amounts, as determined above, to the holders of the contracts.

Rule No. 15

MAIN EXTENSIONS

C. Extensions to Serve Subdivisions, Tracts, Housing Projects, Industrial Developments, Commercial Buildings, or Shopping Centers (Continued)

Advances and refunds based on additional builder participation will be determined in a similar manner.

In no case shall the refund on any contract exceed the amount advanced.

d. With respect to a contract entered into before the effective date of this tariff sheet if, at any time during the 20-year refund period, 30 percent of the bona fide customers for which the extension or special facilities were designed are being served therefrom, the utility may, with the approval of the contract holder, modify the contract so that the utility shall become obligated to pay, in cash, any balance which may remain unrefunded at the end of said 20-year period. Such balance shall be refunded in five equal annual installments, payable beginning 4½ 21 years after the date of the contract.

3. Termination of Main Extension Contracts

a. Any contract whose refunds are based on a percentage of the amount advanced may be purchased by the utility and terminated provided that the terms are mutually agreed to by the parties or their assignees and Section C.3.b. and Section C.3.c. are complied with. The maximum price that may be paid by the utility to terminate a contract shall be calculated by multiplying the remaining unrefunded contract balance times the appropriate termination factor set out below. No contract that has been in effect for less than 10 years shall be terminated without prior Commission approval.

Rule No. 15

MAIN EXTENSIONS

C. Extensions to Serve Subdivisions, Tracts, Housing Projects, Industrial Developments, Commercial Buildings, or Shopping Centers (Continued)

Termination Factors

Years Remaining	Factor	Years Remaining	Factor	Years Remaining	Factor	Years Remaining	Factor
1	.8929	11	.5098	21	.2601	31	.2600
2	.8450	12	.5162	22	.3475	32	.2535
3	.8006	13	.4941	23	.3356	33	.2465
4	.7593	14	.4734	24	.3242	34	.2399
5	.7210	15	.4541	25	.3137	35	.2336
6	.6852	16	.4359	26	.3027	36	.2276
7	.6520	17	.4188	27	.2942	37	.2218
8	.6210	18	.4028	28	.2851	38	.2136
9	.5920	19	.3877	29	.2766	39	.2111
10	.5650	20	.3729	30	.2685	40	.2061

b. Any contract with refunds based upon percentage of revenues and entered into under Section C. of the former rule, may be purchased by the utility and terminated, provided the payment is not in excess of the estimated revenue refund multiplied by the termination factor in the following table, the terms are otherwise mutually agreed to by the parties or their assignees and Section C.3.b. and Section C.3.c. hereof are complied with. The estimated revenue refund is the amount that would otherwise be refunded, at the current level of refunds, over the remainder of the twenty-year contract period, or shorter period that would be required to extinguish the total refund obligation. It shall be determined by multiplying 22 percent of the average annual revenue per service for the immediately preceding calendar year by the number of bona fide customers at the proposed termination date, times the number of years or fractions thereof to the end of the twenty-year contract period or shorter period that would be required to refund the remaining contract balance.

Rule No. 15

MAIN EXTENSIONS

C. Extensions to Serve Subdivisions, Tracts, Housing Projects, Industrial Developments, Commercial Buildings, or Shopping Centers (Continued)

Termination Factors

Years Remaining	Factor	Years Remaining	Factor
1	.8929	11	.5398
2	.8450	12	.5162
3	.8006	13	.4941
4	.7593	14	.4734
5	.7210	15	.4541
6	.6852	16	.4359
7	.6520	17	.4188
8	.6210	18	.4028
9	.5920	19	.3877
10	.5650		

e. The utility shall furnish promptly to the Commission the following information in writing and shall obtain prior authorization by a formal application under Sections 816-830 of the Public Utilities Code if payment is to be made other than in cash:

(1) A copy of the main extension contract, together with date data adequately describing the development for which the advance was made and the total adjusted construction cost of the extension.

(2) The balance unpaid on the contract and the calculation of the maximum termination price, as above defined, as of the date of termination and the terms under which the obligation was terminated.

(3) The name of the holder of the contract when terminated.

d. Discounts obtained by the utility from contracts terminated under the provisions of this section shall be accounted for by credits to Ac. 265, Contributions in Aid of Construction.

Rule No. 15

MAIN EXTENSIONS
(Continued)

D. Extensions Designed to Include Fire Protection

1. The cost of distribution mains designed to meet the fire flow requirements set forth in Section VIII.1(a) of General Order No. 103 is to be advanced by the applicant. The utility shall refund this advance as provided in Sections B.2. and C.2. of this rule.

2. Should distribution mains be designed to meet fire flow requirements in excess of those set forth in Section VIII.1(a) of General Order No. 103, the increase in cost of the distribution mains necessary to meet such higher fire flow requirements shall be paid to the utility as a contribution in aid of construction.

3. The cost, ~~allocated as appropriate~~, of facilities other than hydrants and distribution mains required to provide supply, pressure, or storage primarily for fire protection purposes, or portions of such facilities allocated in proportion to the capacity designed for fire protection purposes, shall be paid to the utility as a contribution in aid of construction.

(END OF APPENDIX A)