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(entire decision)

Decision No. 82-04-068 April 8, 1982

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the allowances, rules practices, and procedures concerning free footage for new connections of Pacific Gas and Electric Company, San Diego Gas & Electric Company, Southern California Gas Company, Sierra Pacific Power Company, California-Pacific Utilities Company, Southwest Gas Corporation, and Pacific Power & Light Company, respondents.	Case No. 10260 (Filed February 15, 1977)

(Appearances are listed in Apendix A.)

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INTERIM OPINION

Summary

Today's decision significantly changes the rules according to which gas and electric utilities contribute to extending service to new customers. Under the old format, an applicant for new service would receive a free allowance of gas main extension footage and/or electric line extension footage in direct proportion to the amount of energy consumed in the new structure. Free footage allowances were designed to promote energy demand and new load growth so that economies of scale could be realized with resulting lower unit rates to all ratepayers.

However, greater energy demand no longer produces lower rates. The costs of providing energy to new customers have risen dramatically, with no indication that such increases will abate in the foreseeable future. As energy costs have escalated along with increased demand, the justification for existing ratepayers to provide a subsidy in excess of $100 million yearly for new service extensions has disappeared. These economic realities have prompted the Commission to re-evaluate the consumption-promoting policies of the old extension rules in favor of rules which phase down this subsidy over the next five and one half years. The new rules will ease the unwarranted burden on existing ratepayers, while at the same time providing a period of adjustment for those customers who will experience new and possibly unexpected costs due to the operation of those rules. Specifically, the new rules provide:

1. Six months from the effective date of this order, new customers will be eligible for only 2/3 of the allowance they would have been entitled to under the present rules for both gas and electricity. In order to remain neutral on the promotional aspects of the present rules, this allowance will be determined without inquiry being made as to the appliances installed, i.e., it will be assumed that the customer has installed the maximum number of appliances for which the utility affords allowances. After this calculation is made,

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However, greater energy demand no longer produces lower rates. The costs of providing energy to new customers have risen dramatically, with no indication that such increases will abate in the foreseeable future. As energy costs have escalated along with increased demand, the justification for existing ratepayers to provide a subsidy in excess of $100 million yearly for new service extensions has disappeared. These economic realities have prompted the Commission to re-evaluate the consumption-promoting policies of the old extension rules in favor of rules which phase down this subsidy over the next five and one half years. The new rules will ease the unwarranted burden on existing ratepayers, while at the same time providing a period of adjustment for those customers who will experience new and possibly unexpected costs due to the operation of those rules. Specifically, the new rules provide:

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1/3 of the allowance will be subtracted, to determine the utility and customer contribution, respectively. In no event will any customer receive an allowance for more than 2/3 of the length of his actual extension.

2. It is the Commission's intent that three years after phase 1 has become effective, new customers will be eligible for only 1/3 of the amount they would have been entitled to under the present rules, determined on the same basis as above.

3. During the third year of phase 1, the Commission will review the operation of the new rules to determine whether the direction proposed for phase 2 is the most appropriate way to proceed. This review will occur, therefore, prior to implementation of phase 2. During this review, it will also be determined how long phase 2 should last and what the most appropriate next step should be.

While it is not possible to determine with certainty the economic impact these rules will have on existing ratepayers, our staff estimates that utility capital expenditures will be reduced by over $65 million in 1982 dollars annually, under phase one. By the end of phase two, if implemented as described above, capital expenditures are anticipated to be reduced by over $470 million. All such reductions will be passed on to ratepayers as offsets to utility rate increases.

The rules we adopt today do not incorporate a system of conservation incentive payments within them. Our general policy goal for all end use sectors is the attainment of the least cost mix of conservation investments and life cycle energy costs. The CEC building standards are intended to ensure that new homes will be built to achieve this mix; any additional incentives we might provide for conservation investments above and beyond the building standards would undoubtedly produce a less efficient allocation of energy service related resources thereby by definition violating our societal test of cost effectiveness and defeating our general goal.

Finally, we do not adopt a special free footage allowance for any specific customer class based on location of that class. The judgments that are involved in making the determination that agricultural, rural residential, or even urban customers should be given a different allowance than other customers are best left to the Legislature, rather than this Commission.

I. Introduction

On May 21, 1957, the Commission on its own motion initiated Case No. 5945 to investigate whether new rules governing the extension of electric and gas service should be established. Existing rules of each utility serving electricity or gas provided a length of extension which would be made at no expense to each new customer. Beyond the length provided free by the utility, the new customer was required to advance an amount based on the cost per foot of the extension. Money so advanced was subject to refund. The length of the free extension, or allowance, which would be made available was determined by the number and type of appliances which the new customer installed and varied according to the rules of each utility. Among utilities serving electricity, the maximum allowance thus available varied from 700 feet to 2,000 feet. Among utilities serving gas, the maximum allowance varied from 25 feet to over 175 feet. Moreover, the cost per foot of extension varied from utility to utility.

On September 15, 1959, following public hearing and oral argument, the Commission issued Decision No. 59011. By this decision, the Commission ordered that extension rules be made uniform throughout the State. In recognition of declining marginal and average costs of producing energy, however, the Commission ordered that allowances continue to be determined by the number and type of appliances installed. In continuing to provide such allowances, the rules were intended to reflect the benefits conferred on ratepayers as a whole. As the Commission concluded, "allowances should be sufficient to encourage load, but not so great as to burden existing customers."

As a result of changing circumstances regarding natural gas supply and electrical generation, this Commission instituted this investigation on February 15, 1977 to consider whether existing free footage allowances should be modified or abolished. The respondent utilities, Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (Edison), Southern California Gas Company (SoCal), Sierra Pacific Power Company (Sierra), CP National (CPN), Southwest Gas Corporation (Southwest), and Pacific Power & Light Company (PP&L), were ordered to present comprehensive reports, including examples of proposed revised tariffs addressing the following issues:

1. If the allowances are abolished, would housing costs increase or construction activity be depressed?

2. Would abolition result in new construction being all electric? If so, would the electrical system be able to absorb the additional load demands?

3. Should allowances be suspended for all uses other than for basic needs--space

and water heating, cooking, lighting, and refrigeration?

4. Should conversions be discouraged by eliminating allowances for equipment presently served by another source of energy?

5. Should refund provisions be eliminated in whole or in part?

Nineteen days of public hearings were held before Administrative Law Judge N. R. Johnson in Los Angeles, San Diego, and San Francisco commencing March 1, 1978 and concluding July 25, 1979. The matter was submitted upon receipt of concurrent reply briefs due October 1, 1979. Testimony was presented on behalf of the Commission staff, PG&E, SDG&E, Sierra, Edison, SoCal, Southwest, Associated Building Industry of Northern California (ABI), California Energy Resources Conservation and Development Commission (CEC), California Building Industry Association (CBIA), Land Developers of Northern California (Developers), and Western Mobilehome Association (WMA). Statements were made on behalf of the California Farm Bureau Federation (Farm Bureau) and ABI. Opening and/or closing briefs were received from Farm Bureau, the Commission staff, PG&E, SDG&E, Edison, SoCal, Southwest, CEC, CBIA, Developers, and WMA.

The original gas and electric extension rule proposals submitted by the Commission staff and respondent utilities were predicated on the assumption of declining natural gas supplies and the individual parties' analyses of the basic issues as discussed above. However, in late 1978 and early 1979, the parties to the proceeding modified their original proposals to reflect: (a) this Commission's recommended use of natural gas over alternate fuels as the main energy source pending the full development of renewable energy resources; (b) a Department of Energy study suggesting that regulatory decisions, which inhibit the growth of gas usage by residential users, are promoting the inefficient allocation of premium energy supplies; and (c) the present improved outlook for natural gas supplies. In addition, in the interest of developing uniform extension rules, the California utilities attempted to refine their proposals in order to develop rules which are similar in structure and philosophy and contain only minor differences to reflect individual utility operations.

On February 13, 1980, the Commission issued Decision No. 91328, an Interim Opinion. Decision No. 91328, among other things, terminated present gas and electric line and service extension rules.[1] Free footage allowances for electric line extensions were abolished, except for agricultural extensions in which case 700 feet of electric line allowance was provided. Also, the provision for refunds of advances for residential electric line extensions was terminated. Decision No. 91328 further prescribed a new gas main extension free footage allowance of 75 feet and a free service extension allowance of 40 feet, with both available only upon the condition that the applicant for service use gas for space heating, water heating and cooking, and provide an outlet for gas clothes drying.[2]

The proposed new rules also established a series of monetary conservation incentives pursuant to which points worth $2.50 each and payable by the utility would be received by an applicant for a line extension who installed specified energy conservation features in new residential construction. These incentive payments or "conservation allowances" would be payable in "areas served by gas"[3] only if the applicant provides for the four uses of gas in the premises to be served. Outside of "areas served by gas" the four gas-use prerequisite to eligibility for conservation incentive payments would not apply and the amount of incentives paid by the electric utility for each conservation measure would be doubled.

1/ Throughout the text of this decision, "line extensions" will refer to gas and electric distribution extensions; "service extensions" will refer to utility connections from the distribution line to the customer's meter.

2/ Hereinafter, the "four gas-use" requirement may be referred to as the "prerequisite".

3/ Decision No. 91328 defined "area served by gas" as the area which is within a distance equal to 200 feet times the number of metered residences to be served from an existing gas main.

Additionally, Decision No. 91328 provided for "crossover allowances". Each designated conservation measure installed would generate an allowance for both gas and electric service. Thus, in a residence meeting the four gas-use prerequisite, both electric and gas point allowances would be given for the same conservation feature and would be payable by both the gas and electric utility to the qualifying applicant.

The Interim Opinion provided that unless further hearings were scheduled in response to comments the rules prescribed in Decision No. 91328 would become effective within 45 days from the date of the order, February 13, 1980.

Under the old line extension rules, the maximum extension allowance available among utilities serving electricity varied from 700 feet to 2,500 feet. Among utilities serving gas, the maximum allowance varied from 25 feet to over 175 feet. It is not surprising that Decision No. 91328 which abolished all electric line extension allowances and significantly altered the gas extension allowances engendered the filing of numerous petitions for rehearing.[4/]

By notice dated February 28, 1980, the Commission, on its own motion, set additional hearings in the proceeding, and by ruling dated March 7, 1980, as well as by subsequent rulings, the Administrative Law Judge specified the issues to be considered at such further hearings and affirmed that the respondent utilities' obligation to file revised line extension rules consistent with Decision No. 91328 was stayed pending further hearings and order of the Commission.

Thirteen days of additional hearing were held during which the respondent utilities, CEC, CBIA, the San Diego

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4/ Given the pendency of further hearings, these petitions for rehearing were denied without prejudice by Decision No. 91791 dated May 6, 1980.

Building Contractors Association (SDBCA), the Northern Counties Land Developers (NCLD), General Electric (G.E.), Whirlpool Corporation, Thermador/Waste King, the Department of the Navy, the California Chamber of Commerce, the California Assembly Minority Caucus, the Northern California County Supervisors Association and Regional Council of Rural Counties (County Supervisors), Farm Bureau, rural land owners, builders, developers, and other parties presented testimony and evidence. The matter was submitted on May 30, 1980, subject to the filing of concurrent briefs.

In Decision No. 91328 the Commission expressly stated that its intention in modifying the existing gas and electric extension rules was to promote conservation and to encourage the efficient use of natural gas as an interim primary fuel pending full development of renewable energy sources. The parties to the proceeding were unanimous in their commendation of the Commission for its commitment to conservation. Some contended that the Commission's proposed extension rules would not necessarily achieve the desired conservation nor promote the use of natural gas.5/ Others offered modifications to improve the proposed rules.

A number of issues were presented at hearing for further consideration by the Commission. These issues are as follows:

5/ SoCal fully supported the gas and electric extension rule proposals contained in Decision No. 91328.

1. The reasonableness of the installation of gas facilities for cooking, water and space heating as well as the installation of gas dryer outlets as a prerequisite for gas or electric conservation allowances in areas where gas is available;

2. The reasonableness of the dollar amounts and conservation point allowances adopted in Decision No. 91328;

3. Additional items for which conservation point allowances should be provided;

4. The reasonableness of crossover allowances and duplicate payment by gas and electric suppliers for conservation contingent upon the installation of gas appliances;

5. The appropriate rate and accounting treatment of costs associated with the conservation incentive payments;

6. The impact of the Commission's proposed gas and electric line extension rules upon rural development;

7. The manner in which and the extent to which line extension agreements or applications made prior to the date the Commission's new extension rules are authorized should be "grandfathered;" and

8. Affirmative proposals for establishment of refund procedures consistent with the intent of the Interim Opinion.

After reviewing the evidence received in the hearings on the Interim Opinion, Commissioner Grimes, the assigned Commissioner, issued a Proposed Report on November 13, 1980. The Proposed Report suggested several refinements to the Interim Opinion and gave all parties the opportunity to file exceptions. The exceptions filed indicated that except for the concerns of certain rural interests, the concerns of most parties had been resolved. This decision is based in part on the Proposed Report.

II. The Need for Change

The existing extension rule format for both gas and electric utilities provides free footage allowances predicated on the load the applicant for service will contract to use. The greater the load the greater the free footage allowances. The basic concept of this extension rule design was promulgated many years ago to provide that each customer pay his own pro rata share of the cost of the facilities required to serve him. The objective was to not burden other ratepayers, to encourage growth of the gas and electric utilities, and to permit utilization of the economies of scale then existing for the overall benefit of all the utility ratepayers. Today, the economies of scale have been replaced by the ever-increasing costs of the new facilities required to serve additional load. The implementation of new concepts in extension rule design is dictated.

It is obvious from the record that all parties are in agreement that the abolition of free footage allowance would increase housing costs and could impact construction activity. Estimates placed in the record of the dollar effect of such abolition of extension allowances on housing costs range from approximately $400 to $1,200 per unit. However, when consideration is given to the average cost of new homes in California and the present status of the housing market, it would appear unlikely that these increases would significantly impact housing construction. Evidence presented by the building industry is conflicting. Dire consequences are predicted from the elimination of allowances, yet it is stated that there will always be a market for each home built. In our opinion, the relative size of the increased housing costs related to line extension rules as compared to the ravages of inflation and the skyrocketing building and mortgage interest rates indicates our rules should have little effect on home sales or construction. The order that follows restructures and modifies line and service extension allowances; it does not eliminate them, so the question is somewhat academic.

It is much more difficult to assess the impact of extension rule allowance modification on the relative percentage of all-electric homes. The problem can be stated as follows: if we do not require gas stubs to be installed, will builders simply ignore them and build more all-electric homes, or will they continue to install stubs, even though requiring more capital to do so, in the hopes of appealing to customer preference for gas? The record fully supports diametrically opposite findings ranging from no impact on the proportionate amount of gas and electric served homes to the complete elimination of gas extensions for new construction.

It is generally accepted that modification of extension rule allowances to a degree that increases the developers' overall construction costs could motivate the developer to carefully weigh the relative economics of constructing all-electric homes as compared to gas and electric homes. However, several offsetting factors are noted in the record. These include public demand for the more energy-efficient gas and space heating and CEC building standards that severely restrict the use of electric resistance heating in areas served by natural gas. These factors, together with the rules we adopt today which phase down, but do not eliminate, existing allowances should result in the new rules having a negligible effect on the relative percentages of all-electric homes.

A. Electric Extensions

As with the gas utilities, the electric line and service extension rules have generally proportioned the free footage allowance to the loads the customers will contract to use. To reflect current economic conditions and eliminate the promotional aspects of currently effective extension rules, the Commission staff and respondent electric utilities propose the following free footage allowances:

Party	Line Extension	Service Extension
Commission Staff		No proposal
Residential		
Basic residential	200'	
Electrical water heating*/	100'	
Electrical space heating*/	300'	
Electrical air conditioning**/	100'	
Electrical water well pump	20'	
Electric-assisted solar heating	100'	
Nonresidential***/	None	
So. Calif. Edison Co.		No proposal
Residential	300'	
Nonresidential***/	None	

*/ Not available where gas main exists within a distance equal to 200 feet multiplied by number of customers.

**/ Only where lifeline rate discounts allowed and where energy-efficiency rates of air conditioner equal or exceed 10.

***/ No basic allowance granted. However, advances subject to refund.

Party	Line Extension	Service Extension
Pac. Gas and Elec. Co.		
Residential	$200	Complete 100' serv. lateral****/ $80 energy cons. structure if no gas
Nonresidential***/	None	
San Diego Gas & Elec. Co.		
Residential	$180	Complete 100' serv. lateral****/
Nonresidential***/	None	
Sierra Pac. Power Co.	None***/	
CP-National		No proposal
Domestic) 1,500' maximum	500'	
Other)	50'/hp 100'/kw	

4/ Utility will furnish one span of overhead service where permitted.

These proposals represent a substantial decrease from existing line extension rules which provide residential allowances from 200 to 300 feet for lights and small appliances and additional amounts for each major appliance such as 75 feet for each refrigerator, 275 feet for each storage-type water heater, between 150 and 200 feet for each electric range, 800 feet for a heat pump, and 50 to 75 feet per horsepower for air-conditioning equipment. The presently effective allowances for nonresidential applicants range from 100 to 125 feet per kilowatt (kW) of lighting load, from 50 to 75 feet per kW of cooking load, from 125 to 175 feet per horsepower of connected motor load, and 50 feet per horsepower for air-conditioning load.

The residential allowance of 300 feet proposed by Edison equals its presently existing free footage allowance for basic lights and small appliances and represents the minimum free footage allowance that Edison believes appropriate. The $200 residential allowance for PG&E represents the investment justified on a cost-allocation basis for a rate of return between the residential class rate of return and system average rate of return at rates proposed by PG&E and its then current rate increase application. The $180 allowance proposed by SDG&E represents its average investment per residential customer. Sierra's proposal conforms to presently existing, recently approved rates for its Nevada operations which form the bulk of its operations. CPN's proposed electric line extension rule is unchanged from the currently effective rule. According to CPN, this rule was modified December 17, 1976 and reflects its current position on line extensions.

In deriving its recommended free footage allowance, the record shows the Commission staff multiplied the average net revenue per kilowatt-hour (kWh) (the product of the average rate per kWh and a 10 percent assumed rate of return), the average usage, and the life of the extension and divided this product by the average cost per foot of line with the following results:

Average basic residential use	187 feet	rounded to 200 feet
Water heating lifeline allowances	185 feet	rounded to 200 feet
Space heating average lifeline	311 feet	rounded to 300 feet
Air-conditioning average use	74 feet	rounded to 100 feet

No allowances were proposed for other than the above basic uses and an electrical water well pump. Air-conditioning allowances are proposed to be applicable only in those areas where an air-conditioning lifeline allowance is given and where the energy-efficiency ratio of the air-conditioning equipment is equal to or greater than 10 on the basis that such allowances would otherwise be promotional in character. Furthermore, the staff proposed that electrical water and space heating allowances be granted only in those areas where natural gas is not available to encourage the utilization of the more energy-efficient natural gas water and space heaters.

A coalition of rural interests formed in opposition to Decision No. 91328 presented several recommendations designed to rectify the perceived negative implications of the proposed rule. Numerous parties recommended retention of a reasonable electric free footage allowance. The perception of what constitutes a "reasonable" allowance varied significantly from party to party.

CBIA proposed a uniform electric free footage allowance for subdivision developments of 75 feet per lot. PG&E recommended an allowance, applicable only in rural areas, of 300 feet or one span, whichever is longer. Testimony indicated that such an allowance can be cost-justified where nonlifeline usage is substantially in excess of lifeline usage. The county supervisors supported a free allowance of 1,600 feet which in their view would suffice to extend service to a modest home under the current rules. Several parties, including the Farm Bureau, recommended retention of the current extension allowances.

In adjudging the merits of the various recommendations, we must bear in mind the basic problem which prompted the changes proposed in D.91328. The current line extension rules are contrary to public policy today because the level of allowances is tied to increased energy usage. That approach may have been justified during the era when new increments of gas and electric supply could bring unit costs down for all customers. However, those economies no longer exist. Now, as increased demand is added to the system, unit costs go sharply up. This, along with inflation and sharply increased fuel costs, has resulted in high utility rates, with associated social dislocation. This in turn provides further urgency to our ongoing duty to reexamine at regular intervals whether there are areas in which costs may be reduced.

We believe free footage allowances for line extensions provide one such area. As they now exist, they provide a subsidy contributed by ratepayers to development. Given the current reality of today's energy supply situation, this subsidy constitutes a burden on existing ratepayers for which, as ratepayers, they receive no corresponding benefit.

While we could eliminate this burden by ordering immediate termination of free allowances, we believe it would be more equitable to all customers to shift the burden gradually, in order to provide an orderly transition to reduced support from ratepayers for new construction. A system of phasing down existing allowances will allow those who have assumed their continuation at current levels a short additional period in which to take advantage of those current levels, after which there will still be a fairly lengthy period before the next phased reduction. This should significantly reduce the impact of any new costs imposed by our adopted rules.

The system we adopt today provides for a gradual phasing down of present free footage allowances, beginning six months from the effective date of this order. In six months, one third of the present allowances will be eliminated. This allowance will remain in effect for three years. During the third year, we will evaluate the situation to determine the most appropriate course of action to follow. Our inclination at the present time is to eliminate another one third of present allowances after that three-year period, and two years following that, to evaluate whether to eliminate the final third. However, we will wait to make a final decision on how best to structure a second reduction until we have undertaken our third-year review. This review will include public hearings. We will make every effort within budgetary constraints present at the time to hold such hearings in both urban and rural locations.

The system we adopt for eliminating free allowances will work as follows:

a. Six months after the effective date of the proposed decision, new customers will be eligible for only 2/3 of what they are entitled to under the present rules. In order to remain neutral on the promotional aspects of the present rules, the entitlement will be determined based on the length of extension, with no inquiry to be made as to appliances installed. For purposes of calculation, we will assume a customer is eligible for the highest possible allowance which he or she could receive under current rules, given the length of the extension. For electric extensions for PG&E, the upper limit of the entitlement, before subtracting 1/3, will be 2500 feet, which is the maximum free footage now paid for by PG&E for electric extensions.6/ Under this rule, the maximum free allowance any customer could get in the first phase would be 1667 feet (2/3 of 2500).

Examples: An urban house requiring a 100-foot extension would have 67 feet paid for by the utility, and 33 feet paid for by the customer. Under present rules, the entire 100 feet would be paid for by the utility.

A rural house requiring a 2100 foot extension would have 1400 feet paid for by the utility and 700 feet paid for by the customer; under present rules the amount paid for by the utility would vary according to the number of appliances installed, but could, and under many circumstances probably would, qualify for as much as 2100 free feet.

b. The above reduction will remain in effect for three years. During the third year, the Commission will review the situation under operation of the new rules and decide what course of action should follow. This review will include public hearings.

6/ For utilities which determine the maximum possible free allowance on a cost rather than a footage basis, we will require them to supply us with a maximum footage on which the above calculation shall be based.

c. Unless our third-year review shows it to be inappropriate or unreasonable, we intend that after the three-year period outlined in "a" above, customers will be eligible for only 1/3 of the allowance they otherwise would have been entitled to, determined on the same basis as above. In the above examples, the urban customer would have to pay for 67 feet, and the rural customer, for 1667 feet. We will not put this second phase into effect, however, until our review is completed.

d. Further review, approximately two years after phase 2 has been in effect, will be undertaken to determine any further action.

As previously indicated, the respondent electric utilities, with the exception of CPN, propose no allowances for nonresidential loads but provide for refunds as a multiple of revenues. For the reasons noted below in our discussion of nonresidential gas refunds, we will terminate all nonresidential electric line extension refunds.

The burden we lift from existing ratepayers' shoulders is significant both in dollar terms and symbolic terms. California's utilities spent well over $100 million on gas and electric line extensions in 1981. An independent staff evaluation of likely expenditures for extensions over the next several years, while not determinative, indicates that we can expect savings from reduced utility capital expenditures in excess of $65 million in 1982 dollars annually, once the program is in place. This number will climb in future years as present allowances are further terminated. If both phases of this program go into effect as contemplated by this decision, reduced capital expenditures for the four major energy utilities should total over $470 million by the end of 1986.

The staff evaluation was done after the close of hearings in this case; thus it of course does not carry the weight of formally presented evidence. Also, it represents preliminary projections and provides us with only a rough indication of the savings involved. Nonetheless, those savings are significant ones to ratepayers. Even more significant is the fact that they reflect the end of a policy which no longer has economic or equitable value.

We will order the utilities to make rate adjustments as soon as the new rules are in place and savings can be realized. We will require those utilities with attrition allowances for 1983 to file as part of their advice letter attrition filing the changes in construction expenditures resulting from this decision. We will reflect these savings in authorizing the appropriate attrition allowances. For those utilities, namely Edison and SoCal Gas, who are currently processing general rate proceedings, we will require revised construction estimates resulting from this decision to be filed as part of those proceedings. The smaller gas and electric utilities will likewise be required to file the appropriate revised construction expenditures in their next general rate cases.

B. Gas Extensions

In D.91328 we moved to reduce ratepayer subsidies for new electric extensions, a decision we have reaffirmed today. The Interim Decision also called for reduced extension allowances for gas. While allowances for gas were significantly reduced, 75 feet of main and 40 feet of service extension allowances were to be preserved in order to help motivate builders to install gas extensions in new homes. In the hearings held prior to D.91328, the Commission staff, SDG&E and SoCal argued that without any gas extension allowances builders would seek to reduce their construction costs by putting in an electric extension only. The absence of gas extension subsidies, then, could lead to an increase in the prevalence of all-electric homes. Such homes, while having lower extension costs, would be less energy efficient and have higher life cycle energy costs. A policy decision by this Commission to eliminate gas extension allowances could thus lead to results which run counter to our broader goals of maximizing cost-effective energy efficiency.

As noted in D.91328, the record on this point was mixed. While lack of gas allowances might induce builders to build all-electric homes, consumer preferences for dual gas and electric homes would provide a strong market pressure to do otherwise. More importantly, the state building standards would require gas usage in many new homes. The gas allowances adopted in D.91328 were intended only to "further buttress" the building standards as necessary.

The state building standards promulgated pursuant to Title 24, Part 6, Article 1 of the California Administrative Code, have been revised since we issued the Interim Decision in this case. We here take official notice of those changes. The new standards, in our view, provide a better market for cost-effective gas usage in new homes.

Under the new state building standards, gas is effectively mandated in several climate zones. In such areas it is unnecessary and undesirable for the ratepayers to underwrite subsidies to promote gas usage. In other climate zones within the state, an electric heat pump can be substituted for gas heating under the building standards, so that homes may go all electric. However, such homes must still meet the same life cycle energy use "budget," so that energy use will be no higher, even on a "prime source" basis, in the all-electric case. While we would encourage future versions of the building standards to include a gas-electricity trade-off based on energy costs rather than thermal energy units, we find that the present standards promote cost-effective gas usage to a desirable extent even in climate zones where it is not fully mandated. We question the need for additional gas extension subsidies in these areas as well.

We will provide for a phasing-out of existing gas allowances similar to the system we have adopted for electric allowances. The first phase will begin six months from the effective date of this decision. From that time forward, new customers will receive only 2/3 of the maximum gas allowance to which they would have been entitled under the old rules. For purposes of calculation, we will consider 177 feet to be the maximum gas allowance available under the old rules.7/ Thus, the maximum allowance available in the first phase will be 118 feet, and in the second phase, if implemented, 59 feet.

In keeping with our commitment to the promotion of cost-effective gas usage in new homes, we will closely monitor trends in all-electric construction under the new building standards during the first phase of our extension rule reform. We will explicitly review the question of whether further reductions in gas allowances are desirable at the end of the first phase.

7/ 177 feet of free footage is now available from SoCal, SDG&E, and PG&E for a gas water heater, 70,000 Btu furnace, clothes dryer, and range.

Because of the similarity of usage patterns and loads between residential and non-residential Priority 1 customers, it is reasonable to provide similar allowances and a similar three-phase schedule for such customers. For other commercial and industrial customers we are persuaded to eliminate existing refund provisions. Clearly, the initial policy of encouraging load to reduce costs to all ratepayers has no more basis in fact. Further, consumers in these sectors must seek the most energy-efficient processes to stay competitive. Thus, we see little reason to burden the existing ratepayers with the substantial costs of providing revenue-based allowances to new consumers in these sectors.

In the hearings held subsequent to Interim Decision 91328, several parties vigorously contended that in areas where cooling is desirable and gas is available the electric heat pump should be a permissible alternative to a gas furnace for purposes of meeting space heating prerequisites for basic footage allowances and conservation incentive payments. As we have now initiated a procedure wherein gas basic footages are phased out along with electric footages, and as we are not instituting conservation incentives, this issue is rendered moot.

Decision 91328 provided for the installation of pilotless gas cooking, water and space heating facilities, and the plumbing for a gas dryer as a prerequisite for obtaining <u>any</u> free gas footage from the utility. This four-gas-use requirement proved to be very controversial during the hearings which followed D.91328. The four gas-use prerequisite was challenged as being defective on three major grounds.

First, various parties argued that the prerequisite would stifle rather than promote use of natural gas. Under the proposed rule, it was pointed out, a developer and/or builder who elected for whatever reason, to install an electric appliance in lieu of any one of the four prerequisites would lose access to all gas extension and service allowances. Since the developer and builder must provide electric service to new construction in any case, it is argued that forfeiture of eligibility for gas allowances triggered by the installation of an electric appliance might well induce the developer and builder to simply construct all-electric homes.

Secondly, testimony was introduced in the hearings indicating that builders might indeed forego the gas allowances in order to put in electric ranges. Arguments were made that the four gas use prerequisite ignored a strong consumer preference for electric cooking and was therefore deficient. A showing was made that in California as a whole, 68 percent of new homes built in 1979 were provided with electric cooking and 32 percent provided for the use of gas. Further showing was then made that consumer demand for electric cooking is not based upon price considerations but rather upon the ease of cleaning, the absence of products of combustion, and the safety associated with electric ranges.

Since the consumer preference for electric cooking is allegedly not price sensitive, the inference is drawn that monetary disincentives in the proposed rule, i.e., forfeiture of the eligibility for gas allowances, will not deter builders from providing to the consumer his or her choice of an electric range. Thus, under the proposed rule, builder concessions to consumer preferences, it is argued, will lead to less builder access to gas allowances and less builder motivation to promote natural gas usage overall.

Thirdly, it was argued during the hearings that in the case of cooking there is no reason for trying to promote gas usage on energy efficiency grounds. The gas cooking prerequisite was predicated on gas being the more energy efficient "preferred" option. GE and Thermador/Waste King presented evidence in support of the hypothesis that electric cooking is as efficient as gas cooking. Their contention was that the relative inefficiency of electric powerplant generation of energy is counter balanced by the relative end-use inefficiency of gas appliances and the effect of end-use gas combustion on heating and cooling loads in the home.

SoCal took strong issue with the contentions of GE and Thermador/Waste King and presented evidence demonstrating a substantial advantage for gas ranges in terms of energy efficiency. SoCal maintained that the GE and Thermador/Waste King calculations had significantly overstated the increase in air conditioning load arising from gas cooking.

Although the evidence concerning the relative energy efficiency of gas and electric cooking was conflicting, the contention that electric ranges do not significantly contribute to electric demand was not seriously disputed. Gas and electric cooking accounts for only 3.72 percent of the average residential energy consumption in the United States and only .83 percent of total U.S. energy use. Several technical witnesses, including representatives from GE and SoCal, agreed that the reduction of energy consumption in California from even a total elimination of electric cooking, if measurable at all, would only be in the hundredths of one percent.

Further, given the small amount of energy used in cooking, it is argued that electric ranges neither cause nor significantly contribute to annual peaking. The proposition that electric range use is not an appreciable component of peak load is validated by a consumer survey conducted by the Field Research Corporation of San Francisco. The survey, utilizing a California-wide random sample, measured the extent to which California households use electric and gas cooking appliances after 2:00 p.m. on a typical day. Seventy-five percent of the sample did not turn on their ovens at all after 2:00 p.m. Almost one-half of the samples did not turn on their electric cook top at all after 2:00 p.m. The survey indicated that the dinner hour usage is dispersed rather than concentrated in the daily peak of energy use. If any peak could be ascribed to range use, it appeared to be between the hours of 5:00 p.m. and 6:00 p.m., after the summer electric peak period occurring in various parts of the State between 2:00 p.m. and 5:00 p.m.

In sum, it is argued that it is hardly appropriate for the Commission, in the interests of energy conservation, to discourage the use of an electric cooking appliance when gas and electric ranges taken together comprise less than 1 percent of total energy use during largely off-peak periods.

As recapitulation of the evidence indicates, the wisdom of the prerequisite requirement, especially as it relates to gas cooking, was seriously challenged at the further hearings. Our review of the pertinent evidence does not convince us that the prerequisite of gas use for space and water heating would be counter-productive. However, given the conflicting nature of the evidence respecting energy efficiency of cooking ranges and given the relatively insubstantial effect of electric range use on system power demands, we are disinclined to interfere with consumer preferences for gas or electric ranges. We also find insufficient evidence respecting the energy use and efficiency of gas dryers to warrant their inclusion as a prerequisite. Accordingly, we will revise the four-gas-use prerequisite established in Decision 91328 to a two gas-use-prerequisite for space and water heating, with elimination of the gas-range and dryer stub requirement.

C. Conservation Allowances

In the course of the first set of hearings in this proceeding, various parties presented proposals for a system of conservation-oriented incentive payments which would be available to customers installing certain conservation measures in new homes. In addition to the basic extension and/or service allowances proposed by the staff and respondent utilities, additional allowances were proposed by the staff, SDG&E and Southwest for the installation of gas-assisted solar heaters capable of supplying 40 percent of a residential structure's energy requirements. PG&E proposed an additional allowance of $80 for an energy conservation structure which would be additive to its energy conservation home program, which has been in existence since 1973. While not presenting details on the record, SDG&E included in its briefs its proposed home conservation programs, with additional measures being incorporated therein. The CEC recommended that basic allowances be replaced entirely with conservation allowances designed to promote conservation measures in much the same manner that existing line and service extension rules promote load growth for gas and electric utilities.

In response to all of this testimony, D.91328 proposed the possibility of augmenting the new extension rules adopted therein with additional monetary allowances for conservation measures installed in excess of those mandated by the current building codes. The allowances were based on both PG&E's existing conservation scoring system and SDG&E's proposed home conservation scoring system, with certain adjustments incorporated into the calculations to take into account costs as well as savings of the conservation measures, as well as several other relevant factors.

During the second set of hearings in this case, further evidence concerning the conservation point system was presented. Several parties, most notably the CBIA and SDBCA, questioned the reasonableness of the dollar amounts and point allowances proposed in D.91328, arguing that they produced incentives too small to be meaningful to builders. Edison proposed that points and allowances be developed specifically for Edison, based on its avoided costs. PG&E basically supported the proposal in D.91328. The CEC did likewise, although it recommended several modifications of the point system. Consistent with the positions of the majority of the parties, the conservation allowances adopted by D.91328 did not apply to measures mandated either by the CEC's building standards or by any other local, state or federal law.

Since we first discussed the possibility of conservation incentives for items in excess of the state building standards in D.91328, the CEC has adopted new building standards. These new standards are based on two years of study and a voluminous record which includes rigorous cost effectiveness analysis. In this decision we take official notice of the new building standards and implementing regulations which were promulgated pursuant to Title 24 of the California Administrative Code and which will go into effect on July 1, 1982.

The new building standards establish "energy budgets" which new residential buildings must meet. The energy budget is gauged to correspond to the least life cycle cost point for the new home. More specifically, the budget is the energy use level that occurs when the home is built to achieve the least cost mix of upfront conservation investments and life cycle energy costs. By ensuring that homes are built according to this "least life cycle cost criterion, the new standards should promote the most efficient use of economic resources devoted to energy service-related functions in new homes across the state. The standards promise to be an effective way to overcome market imperfections, such as the under-capitalization of the value of energy saving investments in the real estate market, to ensure that homeowners have the lowest possible energy service related costs over the life of their homes.

Further increments of conservation beyond the least life cycle cost point will cost more than the incremental value of the energy they save, because such investments result in a movement away from the least cost mix of conservation investments and life cycle energy costs in the home. In effect, for such further investments, the marginal cost of conservation will exceed the marginal cost of the saved energy, and one will have moved beyond the point of marginal cost equivalency that the building standard criterion represents. As we have previously stated (D.91107, p. 152), the attainment of this least cost point of marginal energy and conservation cost equivalency is our general policy goal for all end use sectors. It would not behoove us, then, to adopt incentives for conservation investments beyond this point, above and beyond the life cycle cost minimums upon which the building standards are based. Such investments would cause less efficient allocation of energy service related resources and would, by definition, violate our "societal test" of cost-effectiveness.

We are concerned also that such incentives, to be effective, would need to be of a size which violates our "non-participant" test of cost effectiveness as well. Additional units of conservation above the standards will be valued by the homeowner according to the average cost based utility rates that he or she would have otherwise paid for the energy that this saved. The maximum incentive size which would meet the non-participant test is equal to the difference between marginal and average energy costs. If given to the homeowner, this additional incentive, coupled with the average cost rate savings, would increase the worth of the unit of energy saved up to a level equivalent to the marginal cost of energy. As noted above, however, the marginal cost of this additional increment of conservation above the standard would be greater than the marginal cost of energy. Therefore, to make this conservation investment attractive, a larger incentive would be required, one which violates the non-participant test. As stated in D.92653[8/] conservation incentive programs that violate the non-participant test may raise rather than lower the utility rates that all customers pay. We would be reluctant to authorize this level of incentives for items in new homes, as it would cause new homeowners with generally higher incomes to be subsidized while other ratepayers do not derive offsetting rate benefits.

We are finally concerned that a program of conservation incentives, if adopted for items above and beyond the present building standards, may make it more difficult to refine and increase the stringency of these standards as energy costs rise and other factors change. The existence of subsidies for non-mandated items will create a natural disincentive against further mandates. This would be unfortunate since in our view the energy performance standards represent the most effective and comprehensive mechanism for achieving state conservation goals in new homes.

8/ D. 92653 approved the first phase of PG&E's zero-interest residential weatherization program.

III. Tariff Proposals - Other

A. General

In addition to modifications to line and service extension free footage allowances, some of the parties to this proceeding proposed such related tariff provision changes as the refund provisions; the combining of electric Rule 15 - Line Extensions, Rule 15.1 - Underground Extensions Within New Residential Subdivisions, and Rule 15.2 - Underground Extensions Within New Commercial and Industrial Developments into a single rule; relocation of and additions to definitions presently in the extension rule to Rule 1 - Definitions; providing for cost-of-ownership charges for uneconomic extensions; and revising unit advance charges when costs change by 5 rather than 10 percent.

B. Electric Rules Combination

The presently effective electric line extension Rules 15-Line Extensions, 15.1-Underground Extensions Within New Residential Subdivisions, and 15.2-Underground Extensions Within New Commercial and Industrial Developments were promulgated at different times and are applicable for varying construction activities. The record clearly indicates that having three different rules with partially overlapping application creates administrative problems because of the confusion that arises concerning which provision of which rule is applicable for a specific situation. According to the testimony of one of SDG&E's witnesses, these three rules, together with the related service extension Rule 16, encompass five different philosophies for dividing the cost of the extension between the customer and the utility, and every extension will involve the application of one or more of these philosophies. These different philosophies, according to this witness, are: (a) an underground extension built exclusively in accordance with Rule 15; (b) the exclusive use of Rule 15.1 for an underground residential subdivision; (c) the exclusive use of Rule 15.2 for commercial or industrial developments; (d) underground service from an overhead source in accordance with Rule 16; and (e) underground service from an underground source in accordance with Rule 16. We are persuaded of the advantages and desirability of combining the three extension rules into one rule, that is similar in format and content to those proposed by Edison, PG&E, SDG&E, and the Commission staff and modified by us as previously and subsequently discussed.

C. Definitions

Our past decisions implementing uniform extension rules provided the utilities the option of incorporating certain specific definitions as a part of the line extension rule or including such definitions in the respective Rule 1-Definitions. In this proceeding, those respondent utilities that presently include the definitions in the line extension rule are proposing to relocate these definitions in Rule 1-Definitions. Also, a few new definitions are being proposed to reflect proposed modifications to the line and service extension rules and/or clarify rule provisions that have been difficult to administer because of lack of adequate definitions. Some definitions that have caused confusion have been deleted.

PG&E's presently effective gas and electric line extension rules contain the bulk of PG&E's definitions. PG&E proposes to relocate these definitions in its respective gas and electric Rule 1 and define the following additional terms for both gas and electric: bona fide use, commercial development, Commission, enterprise, excavating, industrial development, land project development, mobile home park, residential development, residential dwelling unit, residential subdivision, service delivery point, and trench spoil. PG&E also proposes to add the definition of distribution main to gas Rule 1 and substructures to electric Rule 1. The new definitions appear to be straightforward, easily understandable, and reasonable and PG&E will be authorized to file its proposed Rule 1-Definitions.

SDG&E similarly proposes to relocate its line extension rule definitions to Rule 1 and add the following definitions to both its gas and electric rules: base rate revenue, bona fide use, commercial development, Commission, conservation meter, customer, enterprise, house metered service, individually metered service, industrial development, mastermetered service, mobile home park, multi-family accommodation, multiple dwelling, nonresidential, residential, residential development, service delivery point, single-family dwelling unit, standby, submetered service, surface repairs, temporary service, tenant, trenching, and trench spoil. SDG&E also proposes that the definitions of appliance and distribution main be added to gas Rule 1 and the definitions of appropriate supply facility, backfill, conduit, excavating, family dwelling unit, overhead distribution system, overhead extension, overhead service, overhead source, service entrance conductors, service lateral, substructures, trench foot, underground distribution system, underground electric system, underground extension, and underground source be added to electric Rule 1. These proposed definitions also appear to be reasonable and SDG&E will be authorized to file its proposed Rule 1-Definitions.

Edison proposes to modify slightly its definition of applicant to include parties requesting it to install an electric facility and to add a definition of excavation and substructures. Edison's proposal appears to be in order and will be authorized.

The other respondent utilities propose no change to their existing definitions.

D. Refund Provisions

1. Gas

As previously discussed, the existing gas extension rules provide free footage allowances for both residential and nonresidential customers proportional to the loads the applicants will contract to install and use. The existing rules also provide refunds when a new customer connects to an extension paid for by another customer. The customer who paid for the extension is entitled to a refund equal to the difference in the new customers' free footage allowance and the length of extension, if any, required to serve them times the unit cost per foot of extension applicable at the time the original extension was installed.

Because we are continuing extension allowances, albeit in a reduced form, we see no need to depart from present refund provisions for residential customers. Such provisions should be modified to be consistent with our phase-down program where necessary. In the course of the review to be held during the third year of phase one, we will examine whether the refund provisions should undergo further modification.

2. Electric

The tariff provisions relating to line extensions for the California electric utilities are included in Rule 15 entitled "Line Extensions", Rule 15.1 entitled "Underground Extensions Within New Residential Subdivisions", and Rule 15.2 entitled "Underground Extensions Within New Commercial and Industrial Developments". Each rule has a separate and different refund provision as follows:

a. Rule 15 - Amount of free footage allowance in excess of line required for new customer multiplied by the unit cost per foot applicable at time extension was built plus refunds for appliances and loads installed in excess of load originally contracted for when installed within one year of first taking service.

b. Rule 15.1 — Total refundable advance divided by number of lots to be served refunded for each lot as it is served.

c. Rule 15.2 — Billed revenue for first 12-month billing period related to total cost as a percentage and applied to the total amount subject to refund.

The Commission staff and respondent electric utilities all combined Rules 15, 15.1, and 15.2 when submitting their proposed extension rule. The Commission staff utilized the refund provisions of Rule 15 for the computation of the residential refund, and the refund provisions of Rule 15.2 for the computation of the refund for nonresidential customers. Edison, SDG&E, and PG&E propose refund provisions comparable to their respective extension allowances by providing the equivalent of the basic residential allowance for each residential connection and refunds based on revenue for nonresidential customers. Edison and SDG&E use the first 12-month base rate revenues as a refund, and PG&E proposes 50 percent of base rate revenues for the first four years after commencing service. Edison and SDG&E also provide for the nonresidential load refund that if the base rate revenue for each of the second, third, or fourth 12-month billing periods exceeds the amount already refunded, an additional refund shall be made in the amount of that excess.

As with gas, we do not intend at present to depart from existing refund provisions for residential electric customers. However, because we are incorporating Rules 15, 15.1, and 15.2 into one rule, we shall require the respondent utilities to draw up one set of refund provisions which take into consideration the areas covered by present Rules 15, 15.1, and 15.2 and which are consistent with the phase-down program we adopt today.

3. Cost-Sharing - Electric

Decision No. 91328 eliminated refund provisions for electric line extensions. The result is that the first line extension customer bears all costs associated with a line extension regardless of how many subsequent customers should attach to that line. Many parties testified respecting the negative financial impact of the decision.

Two separate issues were raised in the hearings on this subject. The first issue involves a "refund" which applies to repayments made by the utility to an original applicant. Such refunds would apply wherever there was an unpaid advance outstanding and a new applicant connected to the extension with an excess of free footage allowance. This issue is dealt with by our above discussion.

The second issue concerns refunds or "cost-sharing" which refers to payments made by subsequent applicants to the original applicant who paid for the extension. Decision No. 91328, in terminating refunds, failed to make provision for "cost-sharing" by subsequent applicants for an extension which has been totally subsidized by the original applicant.

Because our decision today does not eliminate either gas or electric allowances, we have decided to retain the existing refund provisions, modified to reflect the phase-out of both kinds of allowances. However, the consequences of phasing out the refund provisions simultaneously with the free footage allowances are that in phase one, an initial applicant will be refunded only 2/3 of what he would previously have been refunded under the old rules, as new customers hook up to the line. He will thus be made to foot the bill for 1/3 of the extensions of other customers. Should phase two go into effect, he would have to pay for 2/3 of other customers' extensions. In order to avoid these inequities, we will require a cost-sharing procedure to be phased in concurrent with the phasing out of free allowances and refunds.

Both NCLD and Edison proposed cost-sharing mechanisms which would operate in the absence of electric extensions. While both of those proposals have merit in that context, we do not consider them readily adaptable to our phased approach. We will therefore require refunds to be computed based on the existing rules, modified as directed above. Two-thirds of this amount will be refunded to the original applicant by the utility, and the remaining 1/3, by the new customer. Procedures for accomplishing this should be addressed by the Utility Committee established by Section VI of this decision. Again, in the course of the review of our new rules during the third year of phase one, we will examine whether these procedures should undergo further modification.

4. Cost-Sharing and Refund Period

With the exception of CPN, the respondent utilities recommended that the refund period be shortened from ten to three or four years. According to the record, the basis for this recommendation was that most of the advance refunds that were generated occurred within four years of the time the utility was ready to render service and the bookkeeping required for the residue was relatively large and not justifiable. When consideration is given to the fact that most building activity that would generate refunds occurs in subdivisions or developments where early occupancy is anticipated, it is not surprising that the bulk of refunds is made within the four-year payback period proposed by most of the parties to the proceeding. Those not participating in the early refunds are, in general, located in fringe areas or are associated with projects such as mobile home parks which may be slow to fill to capacity. They are the utility customers that need and are benefited most by the ten-year payback period. We are not persuaded that cost and labor of the additional booking outweigh the benefits to these customers and continue, in effect, the ten-year period for the payback of advances for gas extensions.

The cost-sharing provisions for electric line extensions as proposed by Edison would be available for only four years. Upon review of comments on the proposed order, we are persuaded that the cost-sharing provisions we adopt today should be made available for ten years as in the gas case. This will further ameliorate the impact of the change in basic line extension rules in rural areas.

E. Service Extension Rules

1. Gas

Proposed revised gas service extension rules were submitted by PG&E, SDG&E, SoCal, and Southwest. The rules proposed by SDG&E, SoCal, and Southwest were essentially similar and contained only minor modifications to reflect previously discussed adopted service allowances. PG&E's proposed service extension rule generally parallels the above-discussed rules but includes additional provisions relating to such matters as its rights of ingress and egress from customers' premises, the prohibition of rental charges by PG&E's customers for the use of their property for the placement of meters, regulators, etc., the prohibition against applicants constructing structures or operating wells within 10 feet of PG&E's facilities, and PG&E's right to refuse to install gas pipes on structures not constituting a firm earthen mass. These additional provisions were neither detailed in the direct testimony nor subjected to cross-examination by any parties to the proceeding.

In terms of these additional provisions, while a cursory review indicates they may not be unreasonable, we will require a showing providing detailed support for each of them before accepting them for filing from PG&E and any of the other utilities wishing to utilize them. This showing should be made in the draft prepared by the Utility Committee established in Section VI below.

In terms of the basic service extension rule, we will adopt the same phasing down program for service extensions as for line extensions. Therefore, present service extension allowances will be reduced by 1/3 beginning six months from the effective date of today's decision.

2. Electric

Only SDG&E and PG&E proposed revisions for their respective electric service extension rules. SDG&E's proposal consolidates the provisions relating to underground services but does not provide any substantive changes.

PG&E initially proposed to modify its service extension rule only to the extent necessary to provide for an energy conservation allowance for residential appliances. Early in the proceeding, however, PG&E changed its proposed electric service extension rule to parallel, to the extent possible, the provisions of its proposed gas service extension rule. According to the testimony of PG&E's witness, the only substantive change between the two proposals was the elimination of the provision that if a service facility is less than 400 amperes or fewer than four customers would be served from it, the customer has the responsibility for paying for the pole riser. It is noted, however, that the newest proposal contains the same ingress and egress provisions and prohibition against the assessment of rental charges by the customer previously discussed with reference to the gas service extension rule. We note that PG&E's original proposal is not relevant in view of today's decision. Concerning its subsequent proposal, we will require the same showing as required for the gas service extension rule for any utility desiring to pursue these specific provisions.

Concerning the basic service extension rule, as with gas, we will adopt the same phasing down program for service extensions as for line extensions. I.e., service extension allowances will be reduced by 1/3 beginning six months from the effective date of this decision.

F. Unit Advance Cost

The presently effective tariffs provide that the utilities will review their costs of construction of underground line extensions annually and prepare contemplated tariff revisions when such costs have changed by more than 10 percent since the last revision of costs included in the tariffs. SDG&E, SoCal, and Southwest propose that this 10 percent factor be reduced to 5 percent. The record does not support either the necessity or desirability of such a reduction, and it will not be permitted.

IV. The Impact of the Proposed Gas and Electric Line Extension Rules Upon Rural Development

In a proceeding marked by controversy, no issue engendered more spirited participation than the potential impact of the Commission's proposed line extension rules upon rural development. The conclusion of the Interim Opinion that electric free footage allowances, except in the case of agricultural line extensions, should be abolished served to spark vocal opposition. Rural builders developers, realtors, county representatives, and individual lot owners all appeared in protest of the proposed decision.[9]

Though the testimony and presentations in opposition were numerous, they were characterized by common themes and arguments. The various grounds for opposition to abolition of electric free footage allowances can be summarized as follows:

9/ Though many letters were received in support of Decision No. 91328, the correspondence file reflects a strong and somewhat organized opposition to the proposed decision.

1. The proposed rule will render development uneconomical in acreage-sized rurual areas where natural gas is unavailable and electric usage is high;

2. The proposed rule will cause revision of many planned developments and will interfere with the local land-use planning process;

3. The proposed rule will force development closer to cities, i.e, areas to which power has already been extended, and will cause the loss of prime agricultural land surrounding such urban areas;

4. Conservation will be impeded by the rule's encouragement of inefficient local generation;

5. By making rural development uneconomical, the proposed rule causes devaluation of existing properties with a resulting decline in the county tax base; and broadly stated

6. The proposed rule discriminates against members of the rural community and ignores the utilities' historical obligation to make reasonable extensions to serve new customers.

A coalition of rural interests presented several recommendations designed to rectify the perceived negative implications of the rule proposed in Decision No. 91328. Retention of a reasonable electric free footage allowance was recommended by numerous parties. Not unexpectedly, the perception of what constitutes a "reasonable" allowance varied significantly among parties.

CBIA proposed a uniform electric free footage allowance for subdivision developments of 75 feet per lot. PG&E recommended an allowance, applicable only in rural areas, of 300 feet or one span, whichever is longer. Testimony indicated that such an allowance can be cost-justified where nonlifeline usage is substantially in excess of lifeline usage. The county supervisors supported a free allowance of 1,600 feet which would suffice to extend service to a modest home under the current rules. NCLD requested provision of a 1,700-foot allowance, an amount which it testified approaches the low end of the range of free footages obtainable under current rules by high-use, all-electric homes. Finally, several parties, including the Farm Bureau, recommended retention of the current extension allowances.

Pursuant to Decision No. 91328, 13 days of additional hearings were held last year to consider changes to the Interim Order in this proceeding. One issue designated for consideration was:

> "The impact of the Commission's proposed gas and electric line extension rules upon rural development."

Despite presentations by many witnesses in the hearings, we conclude we should not establish a special category of extension based on rural or any other location.

A. Phasing Down of Free Footage

In evaluating the merits of the various recommendations it is crucial to keep in mind the basic inequity underlying the changes proposed in Decision No. 91328. As discussed earlier, the current free footage incentives are in direct conflict with the interests of the ratepayers. They promote energy consumption at a time when we must husband scarce resources. Since the marginal costs of new energy sources are increasing without abatement, the old rules now stimulate increased use of the highest cost resources. Thus, ratepayers must subsidize new extensions which actually increase their rates. Justification for electric free footage was premised on economies of scale which produced reduced rates for consumers. With the demise of "economies of scale" as applied to energy supply, the justification for electric free footage allowances fails. This logic applies equally to all locations.

It is appropriate to return to a cost-based justification for the extension of electric service. The requests of the county supervisors and NCLD for free allowances of 1,600 to 1,700 feet have no such basis. Their recommendations merely reflect an average allowance based upon the recent historical record, irrespective of the occurrence of changed circumstances which have prompted our reanalysis of the extension rules. No cost analysis was made to determine if a 1,700-foot free extension is reasonable. At the average cost of $3.90 per foot, shown to be the current average cost at the time of the hearings, such an extension would cost $6,630 to build. Today, the average cost is even higher. In addition, capital costs, annual costs for meters, services, and transformers and the allocated cost for "upstream" distribution, transmission, and generation facilities must be considered. When all of these factors are properly taken into consideration, it becomes apparent that an allowance of 1,700 feet is not cost-justified.

While the proposal of CBIA to provide 75 feet per lot exhibits considerably more moderation, it is somewhat arbitrary in nature and also lacks cost-justification. Only PG&E's proposal reflects primary concern for the existing ratepayer and contains some evidence of cost-justification. Even at that, the record demonstrates that a 300-foot allowance is cost-justified only in circumstances where nonlifeline usage is substantially in excess of lifeline usage. Furthermore, PG&E proposes to offer the 300-foot allowance only in rural areas.

It is our belief that it would be unfair to provide a free footage allowance based upon location as opposed to class of service. We will therefore affirm our decision to reduce free allowances, although on a step-wise basis, for all electric line extensions. We will not adopt a special electric allowance for agricultural customers; the step-wise phasing down process will work the same way for all customers, including those in the agricultural class.

Our adopted rules do not affect the obligation of a utility to service new customers. The utility has an obligation to serve those members of the public who apply, subject to reasonable conditions to protect all ratepayers. Our new rules reflect our determination that the utilities' provision of line extensions to new customers not constitute an unreasonable burden on existing ratepayers.

We also state unequivocally that our decision to abolish electric free footage allowances should in no way be considered as an effort on our part to interfere with the land-use planning process of either rural or urban counties. Clearly, what is free footage to some is a higher utility bill to others. We are currently charging California ratepayers in excess of $100,000,000 a year to subsidize free footage to new development. There has, of course, been an incidental land use policy impact associated with extension allowances corresponding to electric demand. People have been able to move farther away from existing utility lines and still obtain free or low cost extensions if they added enough load to the system. Construction of more and larger energy supply facilities has also been encouraged.

The decision we reach today also appears to have an incidental land use policy impact. People may no longer be able to move so far from existing utility lines and receive a low cost extension. While this will impose new and perhaps unexpected costs on some, we believe our decision to phase down free footages over the next few years will ameliorate these potential hardships while at the same time making sufficient progress toward reduced development subsidies unjustified by the economics of energy supply.

Finally, it has been alleged by the Senate Rural Caucus that our record still lacks important evidence on the question of special allowances for rural customers. While one possible option for us is to reopen the record yet again, we respectfully point out that interested persons have had ample time to present evidence during the four years this proceeding has been pending. We fear another set of hearings would still leave us with the same dilemma -- how can we, as an agency charged with ensuring equitable treatment for all ratepayers, authorize different treatment to one group of those ratepayers based not on considerations relating to our responsibilities but on a much different set of social values, those favoring rural living. Accumulation of more precise data, even should it be forthcoming, is not going to resolve this dilemma for us. We thus will not call for further hearings at this time, but will adopt our program phasing down free footages over the next five and one half years as the most equitable way of carrying out our responsibilities to all ratepayers. Over this period of time, costs of new extensions will be gradually allocated where we believe they should be, i.e., to those customers who are directly responsible for creating them. We see no basis on which we, as a rate-setting agency, can legitimately treat rural customers differently from urban customers in this regard, and thus the phasing out will apply in the same manner to all customers.

As with the lifeline and ammonia producers legislation, the kinds of judgments necessary to grant different treatment for rural customers are more appropriately a matter for the Legislature, rather than the Commission. If, after examining our program, members of the Legislature decide they want to formulate a different approach for rural customers, we will supply them with what information and analysis we have.

B. Competitive Bidding

As a means of mitigating some of the impacts of the proposed extension rules on rural development, several parties suggested that it should be easier for a line extension applicant to contract for construction and then turn the facilities over to the utility. It is argued that an applicant should be allowed to obtain competitive bids and seek the lowest cost for construction of an extension where applicant is bearing all or most of the cost. Where an applicant can obtain construction meeting the utility's standards at lower costs than those quoted by the utility, the rules should entitle the applicant to cooperation from the utility. Provided that the utility establishes appropriate standards for construction, inspects the construction to determine its compliance with the applicable standards, and receives payment from applicant to cover the costs of inspection, we affirm our approval of a competitive bidding process for construction of extensions. Utilities which have not already done so will be directed to develop and file in their tariffs appropriate specifications and standards for the construction of line extension facilities by independent contractors.

C. Lean Extensions

Finally, it was suggested that advance collection of costs of ownership under the lean extension provision be eliminated. This requirement was conceived and instituted to protect the interest of existing ratepayers in cases where the utility invested capital for the extension of service substantially in advance of receipt of revenues from prospective gas and electric users. Under the new rules, utilities will gradually cease making these investments and the ratepayers will require less of this protection. Thus, the present practice of total advance collection of costs of ownership may be unreasonable. In order to assist us in devising a rule which is equitable to both utilities and customers, we will solicit proposals from all of the parties, to be filed within sixty days of the effective date of this order, addressing how such a rule should be structured.

D. Uneconomic Extensions

Edison, PG&E, SDG&E, SoCal, and the Commission staff propose a special condition for the line extension rule providing for a 10-year cost-of-ownership charges for uneconomic extensions. An uneconomic extension is defined as one in which the estimated total installed cost of extension facilities to be owned by the utility is in excess of five times the estimated annual revenue at the base rates of the appropriate rate schedule from permanent load served directly from the extension. The utilities' proposals make such payments optional, whereas the staff's Electric Branch proposal makes such payments mandatory and specifies a payment of three-fourths of a percent per month.

Several factors cast some doubt on the validity of a rule for uneconomic extensions under the new tariffs. Since the utility will be incurring less capital investment, one can reasonably ask why there is need to protect the ratepayers to the same degree from the financial burden of lengthy extensions which will produce minimal revenues. Under the new tariffs, the burden of the uneconomic extension will gradually be shifted to the new applicant for service. There seems little reason to add to this burden with a cost-of-ownership charge to protect the other ratepayers from investment costs they will no longer incur. On the other hand, the cost of taxes and maintenance would appear to be far higher than average on the lengthy extensions.

Clearly, a fresh approach is in order, yet the record is devoid of new proposals. The respondent utilities and our staff shall submit data on the nature and amount of the costs which will be borne by all ratepayers for extensions which would have previously been considered uneconomic. In addition, all parties are encouraged to submit specific proposals regarding the treatment of costs imposed on all ratepayers by line extensions that produce small revenues. These data and proposals shall be submitted to the Commission's Docket Office within 60 days of the effective date of this order.

V. Grandfather Provisions

During the course of this proceeding, various forms of grandfather clauses were recommended. The purpose of a grandfather clause is, of course, to cushion the impact of the transition from the status quo to a new set of circumstances and conditions. Because our new rules provide for a gradual change in the status quo in the form of a phasing down of the current free footage allowances, they themselves accomplish the primary function of a grandfather clause. Thus it is not necessary to adopt a grandfather clause as such. However, we will require that certain conditions be met in order for a customer to qualify for the appropriate allowance under each phase of our adopted new rules.

Simply stated, in order to qualify for the allowance available during each phase of the program, a customer must both have executed an agreement with the utility and be prepared to receive service before the next phase goes into effect. In other words, to take advantage of presently available allowances, a customer must have signed an agreement with the utility and be ready to receive service within 6 months of the effective date of this order, which is when the first phase-down begins. To take advantage of the allowance of the first phase, a customer must sign the agreement and be ready to receive service within the next three years, which is when phase two begins, etc. If, at the end of phase two the Commission decides to terminate the remaining allowances, a true grandfather provision may be considered.

These requirements are all reasonable and will be adopted.

VI. Implementation

In terms of implementing today's order, because the rules we adopt differ from those already addressed by the respondent utilities, we believe it advisable to order them to form a committee to prepare a draft of line extension and service extension rules implementing the principles and policies expressed in our decision. To the extent possible, the rules in this draft shall be uniform statewide. We will require this draft to be filed with the Commission's Docket Office and served on all appearances of record within sixty days of the effective date of this decision.

Parties, including the staff, shall have thirty days thereafter to file comments and suggestions with the Utility Committee. Thirty days following the submission of these comments and suggestions, the utilities shall file, by advice letter, their individual tariffs for subsequent Commission approval.

VII. Other Matters

Several motions were made during the proceeding which require resolution. Staff counsel moved to reopen the proceeding to reconsider the appropriate line extension policy for agricultural customers. Several motions were filed seeking to strike portions of exhibits tendered by SDBCA and G.E. as well as portions of the brief filed by CBIA on grounds that they contained material beyond the scope of the further proceedings in Case No. 10260. We will deny these motions as well as any other pending motions.

To the extent Decision No. 91328 conflicts with this order, the conflicting provisions of Decision No. 91328 are abrogated; to the extent Decision No. 91328 is compatible with this order, the relevant portions of Decision No. 91328 are hereby adopted and incorporated by reference by this decision.

Finally, we are not unsympathetic to the request of CBIA to defer this decision's effective date for a reasonable time to allow adaptation by affected parties. However, we also view it as essential that our new rules go into effect as soon as possible, in order to begin easing the burden on existing ratepayers. We note also that no changes to the present rules will go into effect for six months from the effective date of this order. We will, therefore, order this decision to become effective today.

Findings of Fact

1. Existing line extension rules were promulgated when the marginal costs of gas and electric utilities were declining and plentiful supplies of energy were assumed.

2. The existing rules encourage new load growth on the premise that resulting economies of scale would produce reduced rates for all ratepayers.

3. The existing rules encourage new load growth by increasing the amount of the free footage allowance for new extensions in direct proportion to the amount of new load added to the system.

4. During recent years, marginal costs of both gas and electric utilities have increased rapidly with no evidence that such increases will abate any time in the foreseeable future.

5. Plentiful and unlimited supplies of natural gas and electricity are no longer guaranteed.

6. In response to increasing marginal costs and uncertainty over future gas and electric supply, regulatory policies should be designed to: (1) reduce the rate of growth in energy consumption, (2) apportion cost of new facilities to those customers responsible for that cost.

7. Existing line extension rules which promote increased energy growth and which charge costs of new facilities to existing ratepayers are in direct conflict with these goals, which are in the public interest.

8. As increased demand is added to electric and gas utilities' systems, unit costs go sharply up.

9. Since economies of scale as applied to construction of baseload energy facilities no longer exist to produce reduced rates for ratepayers, there is no justification for provision of free extension allowances in direct proportion to demand.

10. Since there is no justification for encouraging elect use, there is no justification for provision of electrical free footage allowances.

11. A system of phasing down existing allowances will significantly reduce the impact of any new costs imposed by our adopted rules.

12. The record in this case shows that California gas and electric utilities spend in excess of $100 million annually on new gas and electric line extensions.

13. This expenditure is a subsidy provided by existing ratepayers to development, for which they receive no corresponding benefit.

14. A preliminary staff evaluation shows that utilities will experience significant reductions in capital expenditures as free allowances are phased out.

15. The gas allowances adopted in D. 91328 were intended only to "further buttress" the CEC's building standards as necessary.

16. The new CEC building standards provide a better market for cost-effective gas usage in new homes than did the prior standards, even in climate zones where gas usage is not fully mandated.

17. The new building standards eliminate the necessity of a permanent ratepayer subsidy to promote gas usage.

18. The justification for providing refunds to nonresidential customers not in Priority 1 no longer exists.

19. The issue of whether an electric heat pump is a permissible alternative to a gas furnace for purposes of meeting space heating prerequisites for basic allowances and conservation incentive payments is moot.

20. The record contains insufficient evidence on the energy use and efficiency of gas ranges and dryers to warrant their inclusion as a prerequisite for gas-free footage allowances.

21. Adoption of incentives for conservation investments beyond the least cost point of marginal energy and conservation cost equivalency, i.e., above and beyond the life cycle cost minimums upon which the CEC's building standards are based, would violate our societal test of cost effectiveness, might violate our nonparticipant test as well, and might make it more difficult to refine and increase the stringency of the CEC's standards.

22. To the extent an original applicant who advances money to a utility for extension of service is not given a refund by that utility for extensions of subsequent applicants served through the original extension, that original applicant is entitled to a refund from subsequent applicants.

23. Free footage allowances for rural customers would cause urban customers to bear additional costs associated with rural development without providing reciprocal benefits to urban customers, and would require this Commission to exercise judgments more appropriately left to the Legislature.

24. It is appropriate to approve a competitive bidding process and to consider new proposals for dealing with lean extensions and uneconomic extensions.

Conclusions of Law

1. The currently effective line and service extension rules are unreasonable because they promote energy consumption, require ratepayers to subsidize new extensions for which they no longer receive a benefit, and are contrary to state and national policy.

2. Existing line and service extension rules should be terminated and replaced with new rules for allowances that are consistent with current policies and are more equitable to the ratepayers.

3. Gas main and service extension rules as discussed in this order are reasonable.

4. Electric line and service extension rules as discussed in this order are reasonable.

5. Changes in tariff rules authorized herein are reasonable, just, and nondiscriminatory, and present tariff rules, insofar as they differ from those prescribed herein, are, beginning six months from today, unjust and unreasonable.

6. It is reasonable to further review the status of these adopted rules as provided for in this decision before phase two goes into effect.

INTERIM ORDER

IT IS ORDERED that:

1. Respondent gas and electric utilities shall jointly form a committee to prepare a draft of line extension and service extension rules to implement the principles and policies expressed in our opinion. The rules shall be uniform, to the extent possible, for all utilities. The draft rules shall be filed with the Commission's Docket Office as a compliance filing and shall be served by those filing upon all appearances of record 60 days after the effective date of this decision.

Parties, and the staff, shall have thirty days thereafter to file comments and suggestions with the Utility Committee. Thirty days thereafter, the utilities shall file, by advice letter, their individual tariffs for subsequent approval by Commission resolution.

2. Decision No. 91328 is modified to allow Pacific Gas and Electric Company, San Diego Gas & Electric Company, and Southern California Edison Company to file, by June 7, 1982, in accordance with the procedure prescribed by General Order No. 96-A, their respective proposed Rule 1 - Definitions. Such definitions shall become effective on July 7, 1982.

3. Staff and each respondent utility shall, by June 7, 1982, file with the Commission's Docket Office as a compliance filing data on the nature and amount of the costs which will be borne by all ratepayers for extensions which would have previously been considered uneconomic; copies shall be served by those filing on all parties of record. All parties are encouraged to file with our Docket Office, by June 7, 1982, specific proposals regarding the treatment of costs imposed on all ratepayers by uneconomic line extensions. These proposals shall be served on all parties of record.

4. All parties are encouraged, by June 7, 1982, to file with the Commission's Docket Office specific proposals regarding the appropriate treatment of collection of costs of ownership

under the lean extension provision, and they shall serve copies on all parties of record.

5. All parties shall have thirty days thereafter to file comments with the Commission's Docket Office on the data and proposals submitted pursuant to Ordering Paragraphs 3 and 4 above, serving copies on all parties of record.

6. Pacific Gas and Electric Company and San Diego Gas & Electric Company shall include in their 1983 advice letter attrition filing all reduced capital expenditures resulting from this decision.

7. Southern California Edison Company and Southern California Gas Company shall file a formal exhibit showing all reduced capital expenditures resulting from this decision in the course of proceedings on their current general rate applications, pursuant to order of the assigned administrative law judge.

8. The remaining gas and electric utility respondents shall make a filing similar to those called for in Ordering Paragraph 7 above as part of their next general rate cases.

This order is effective today.

Dated April 8, 1982, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
VICTOR CALVO
PRISCILLA C. GREW
Commissioners

I will file a written dissent.

Leonard M. Grimes, Jr.
Commissioner

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

Joseph E. Bodovitz, Executive Director

APPENDIX A

LIST OF APPEARANCES

Respondents: Bernard Della Santa, Attorney at Law, for Pacific Gas and Electric Company; Randall W. Childress, Attorney at Law, for San Diego Gas & Electric Company; Carol Henningson, Attorney at Law, for Southern California Edison Company; George M. Stout, Attorney at Law, for Sierra Pacific Power Company; David J. Gilmore, Attorney at Law, for Southern California Gas Company; Robert J. Coli, Attorney at Law, for Southwest Gas Corporation; and Robert H. Gruber, for CP National.

Interested Parties: Christopher Ellison, Attorney at Law, for California Energy Resources Conservation & Development Commission; Allen M. Jones, for San Diego Building Contractors Association; Charles Kinney, for Associated Building Industry; Boris H. Lakusta, Attorney at Law, for Western Mobile Home Association; Ann Murphy, Attorney at Law, for Sunol Ranch Owners Association and TURN; Brobeck, Phleger & Harrison, by Robert N. Lowry, Attorney at Law, for California Building Industry Association; Shannon Patterson, for Tehama County & County Supervisors Association of California; Ernest A. Canning, Attorney at Law, for Norris Industries, Inc.; Antone S. Bulich, Jr., Attorney at Law, for California Farm Bureau Federation; Dr. Lynn Gorodsky, for himself and Portola Park Heights Property Owners; Graham & James, by Thomas J. MacBride, Attorney at Law, and P. A. Templeton, for General Electric Company; L. Dennis Weinmeister, for Utility Planning, Inc.; B. L. Dickinson, for B. L. Dickinson, Inc.; Eileen Norman, for Electrical Industries Association; Frederick A. Tuemmler, for himself and other rural landowners; James A. Cook, for California Business Properties Association; Brownell Merrell, Jr., Attorney at Law, for Thermador/Waste King, Division of Norris Industries; Barbara Gilmore, for California Association of Realtors; Bradford E. Ellsworth, Attorney at Law, for the County of Nevada; J. I. Gillespie, for Builders Land Development Corporation; Harry E. Buckner and Eli S. Johnson, for themselves; Etta G. Herbach, Attorney at Law, for Department of the Navy; Michael O. Braun, for California Chamber of Commerce; Michael L. Madsen, for Whirlpool Corporation; Jack Schroeder, Attorney at Law, for People in Paloma Area of Calaveras County; Brobeck, Phleger & Harrison, by Gordon E. Davis, Attorney at Law, for Robert S. Strasburg and Northern Counties Land Developers; Fred F. Cooper, Attorney at Law, for Kaufman and Broad, Inc.; Robert D. Roberts, for Sierra Ski Areas Association; Robert E. Ham, for California Assembly Minority Caucus; and Randall Delaney, C. R. James, Arthur L. Spencer, C. J. Lunceford, and Kristin Clark, for themselves.

Commission Staff: Peter Fairchild, Attorney at Law.

I dissent for both procedural and substantive reasons.

In my opinion, the procedure followed in adopting the majority decision today violates fundamental principles of fairness. In D.91328, we decided to eliminate electric free footage allowances, reduce gas allowances to 75 feet, and institute a system of allowances for conservation measures. Further comments were invited on a specific, limited set of issues to help the Commission fine tune the order. Subsequent hearings were held to take further evidence on these issues. Still further comments were invited on these issues after my Proposed Report was issued in November of 1980.

Alternative line extension rules were not among the issues on which further comment was permitted. That issue was decided in D.91328 after three years of hearings and study. We specifically limited the issues that remained open in order to avoid any relitigation of the primary policy change.

Parties seeking to raise other issues were ruled out of order by the Administrative Law Judge. Had any party proposed rules like those adopted today, that party would have been ruled out of order. Yet with no notice, let alone an opportunity for any party to be heard, the Commission now adopts an entirely different approach to line extension rules. I believe this is improper and I cannot support my fellow Commissioners in their action today. I find the action today particularly worrisome given the frequency with which procedural constraints are raised as obstacles to innovative ideas.

I also have significant substantive differences with my colleagues. Today's decision continues free footage allowances, albeit at reduced levels, at the expense of ratepayers. There is hope held out that this subsidy may never be fully eliminated.

While I have no philosophical objection to ratepayer subsidies, I believe the ratepayers should receive some benefits for their efforts. The ratepayers receive no benefit from either the existing free footage allowances or from the changed allowances adopted today. I believe this type of allowance should be quickly terminated and replaced with allowances which encourage reduced demand. Conservation allowances can be structured to be cost-effective to all ratepayers. I fail to grasp the logic of rejecting cost-effective conservation allowances while continuing with allowances which produce no benefits at all to the ratepayers.

Dated April 8, 1982, at San Francisco, California.

Leonard M. Grimes, Jr.
Commissioner