EX-62

E/JE/FS/WPSC

Decision 82 09 110 SEP 22 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 10260 (Filed February 15, 1977)

ORDER GRANTING REHEARING AND MODIFICATION OF DECISION (D.) 82-04-068

Applications for rehearing of D.82-04-068 have been filed by Land Developers In The Northern California Area (Developers), California Farm Bureau Federation (Farm Bureau), Regional Council of Rural Counties (Counties) and Pacific Gas and Electric Company (PG&E). Petitions for modification or clarification of D.82-04-068 have been filed by California Energy Commission, Southern California Edison Co. (Edison), Southern California Gas Co. (SoCal Gas) and San Diego Gas & Electric Company (SDG&E). Responses to one or more of these filings have been received from the Developers, California Building Industry Association, and SoCal Gas.

By D.82-07-040, issued and effective on July 7, 1982, we suspended D.82-04-068 and the filings already made pursuant thereto until further action of this Commission.

We have carefully considered each and every allegation of error and request for modification or clarification and are of the opinion that good cause has been shown for granting rehearing on the appropriate size and form of electric line extension free footage allowances. We will also call for further hearing on the potential for cost-effective incentives within line extension allowances to encourage voluntary compliance with newly-established state building standards by builders who are "grandfathered" from mandatory compliance. We also will give interested parties the opportunity to file further comments concerning situations in which new customers should be allowed to obtain competitive bids for the construction of line extensions.

We are also of the opinion that D.82-04-068 should be modified to provide additional discussion on certain issues, findings of fact on material issues and to correct certain errors and factual omissions which have been brought to our attention.

The Utilities' Obligation to Provide Reasonable Line Extensions

The Developers have argued incorrectly in their petition for rehearing that the modifications in free footage allowances set forth in D.82-04-068 violate the utilities' obligation to serve. While noting correctly that free footage allowances traditionally have been a part of the line extension tariffs of California utilities, the Developers misconstrue the nature of the obligation to serve, the historical usage of free footage allowances, and the Commission's actions in D.82-04-068.

Utilities have an obligation to provide reasonable line extensions, which will provide would be new customers with a reasonable opportunity to receive utility service. (Russell v. Sebastian, 233 U.S. 195 (1914); Lukrawka v. Spring Valley Water Co., 169 Cal. 318 (1915)). Successive Commission orders regarding uniform line extension rules have since 1915 (D.2689, 7 C.R.C. 830) considered the costs to the utilities and existing ratepayers of providing free footages. Revisions to line extension rules have been made in part to respond to changing cost conditions. D.82-04-068 is fully consistent with this historical pattern.

D.82-04-068 posits a three-phased elimination of free footages, but orders only the Phase I requirement that new customers pay one-third of their extension costs within the line extension allowances. Only the reasonableness of this one-third

co-payment need be considered at this time. The Commission will evaluate the reasonableness of subsequent phases in hearings to be held before those phases are ordered.

The order below clarifies the analysis of reasonableness made by the Commission in D.82-04-068, including a recasting of Findings of Fact. The utilities will also be ordered to submit updated information concerning the costs of alternative line extension policies.

Appropriate Electric Free Footage Allowances

Decision 82-04-068 would scrap the existing method of calculating free footage allowances, which currently promotes energy consumption by providing larger allowances to new customers who provide greater new energy demand (established by decisions in C.5945, D.59011, 57 C.P.U.C. 346 (1959), and D.59801, 57 C.P.U.C. 571 (1960)). D.82-04-068 establishes maximum allowances of 2,500 feet for electric extensions and 177 feet for gas extensions, and requires all new customers to pay for one-third of their actual extensions within these limits. This one-third payment was to commence in six months and continue for two years, at which time further hearings were contemplated to consider a move to two-thirds payment by new customers. The free footage allowance ordered during "Phase I" would therefore amount to two-thirds of actual extension costs, up to the maximum allowances.

This order will address two issues related to the appropriate size of free footage allowances for electric line extensions.

The Farm Bureau seeks a return to the proposals in D.91328 and the Proposed Report of Commissioner Grimes, that agricultural customers be granted 700 free feet of electric line extension. No further evidence was accepted after D.91328 concerning agricultural line extensions, on the erroneous assumption the issue had been decided. In D.82-04-068, we re-evaluated the record and found no basis to establish special line extension provisions for agricultural customers, who therefore were made subject to the Phase I requirement that new customers pay one-third of their actual extension up to the maximum allowance of 2,500 feet.

In order to ensure the completeness of the record in C.10260 on this point, and as a matter of fairness, we will call for further hearing on whether any unique characteristics of "agricultural customers" may justify creation of different free footage allowances for those customers. Participants in the hearing are reminded that D.82-04-068 was issued in furtherance of the general purpose of C.10260 to establish line extension policies which treat reasonably the interests of all existing and new

customers. Rehearings will address the impacts on new agricultural customers, and on existing customers of all classes, of alternative electric free footage allowances. Participants will be given the opportunity to present arguments why the 700 foot allowances may better serve this purpose than the proposed Phase I allowance of two-thirds of actual line extension costs up to the maximum limit. These arguments should be supported by analyses of the distribution of benefits and burdens to different groups of ratepayers of alternative "agricultural" extension policies. As a threshold issue, participants should propose clear operative definitions which distinguish "agricultural" customers from other rural customers.

In order to provide an up-to-date factual basis for these arguments, the respondent utilities will be ordered to submit new information on the numbers and lengths of line extensions.

Comments will also be solicited to address the petitioning utilities' argument that 2,500 feet is not the appropriate maximum electric allowance. In D.82-04-068, the Commission determined that maximum allowances should be calculated to coincide roughly with maximum allowances available under existing line extension rules. We recognize that existing rules provide no absolute ceiling; we seek a basis for calculation comparable to the uncontested gas extension maximum of 177 feet set forth in D.82-04-068.

Respondents will be ordered to provide such comments within 21 days. Other interested parties are invited to file comments by that time and will be given 14 days to respond.

Incentives for Voluntary Conservation Investments

A major issue throughout the many stages of C.10260 has been the possibility of providing new customers with conservation incentives through the line extension tariffs. Both D.91328 and Commissioner Grimes' Proposed Report made provisions for conservation incentives. The basic thrust of those provisions was to soften the financial impacts imposed on new customers by the prospective elimination of free footage allowances, and to provide direct incentives to energy efficiency in building design.

D.91328 noted that the then-existing CEC building standards (promulgated in 1978) left room for further cost-effective conservation efforts. Appendix B proposed a set of conservation points for different measures, to be valued at $2.50 per point. The reasonableness of that point system was addressed in the hearings following D.91328.

The subsequent Proposed Report recalculated the system based on $1 per point, added a number of measures, and created provisions by which additional measures could later qualify for

conservation points. The Proposed Report emphasized (mimeo p.24) that conservation allowances would not be offered for conservation or solar devices mandated by local, state or federal law.

In the fourteen months between the issuance of the Proposed Report and D.82-04-068, the CEC adopted a much stricter set of building standards. The new standards require that new buildings be constructed to ensure minimum life cycle energy costs.

D.82-04-068 totally revises earlier policy with respect to conservation incentives, in reliance on the new building standards. By our April decisions, we did not abandon our willingness to invest ratepayer dollars to achieve energy efficiency. Rather, the Commission instead relied on the CEC's least cost mandate to ensure energy efficiency without ratepayer expenditures. Since that time, the status of the building standards has changed substantially.

In July, 1982 legislation was adopted which creates a grandfather clause exempting many proposed projects from the new CEC building standards. Section 1 of AB 1843 (Greene) adds Section 17960.5 to the Health and Safety Code:

> 179605. The [new CEC] building standards... shall not apply to the construction of new residential housing projects which received approval by an advisory agency or other appropriate local agency on or before June 15, 1982, provided application for the permits to construct single-family detached dwellings are submitted or filed on or before June 15, 1983, and the application for all other residential building permits are submitted or filed on or before December 31, 1983.
>
> For the purposes of this section, "approval" includes, but is not limited to, approval or conditional approval of a tentative subdivision or tentative parcel map or parcel map..., condominium plan or other permit for a residential housing project.

AB 1843 could thus exempt much of any new residential construction over the next two to three years, since most building permits allow a successful applicant a year in which to construct the building. A would-be builder need not make the final decision to invest money in construction until well into 1984.

Note, however, that AB 1843 did not defer the standards, which <u>are</u> still in effect. A newly-proposed unit not qualifying for the grandfather clause would be required to comply with the latest standards, even if construction begins this year.

It would appropriate to create incentives for grandfathered builders to meet the new standards voluntarily, if this can be done in a cost-effective manner. Otherwise, considerable future savings would be lost by inactivity.

Commission policy generally requires that new conservation programs be cost-effective, under the four tests originally developed for evaluation of weatherization financing programs (See e.g. D.92653 in PG&E A.59537). The tests utilize four perspectives: the participating ratepayer, the utility, society, and the non-participating ratepayer. Since the new building standards have been designed to minimize life cycle energy costs, the first three tests are met. The nonparticipant test is more difficult to apply and evaluate.

Two sets of numbers must be calculated to determine the nonparticipant benefits against which to measure the cost-effectiveness of a proposed conservation incentive program. First, actual annual energy savings (in therms, kilowatt-hours) must be calculated over the projected life of the conservation measures. Second, the value of those savings to nonparticipants over time must be estimated, by projecting the marginal-average cost gap in a given year, discounted back to the present to determine their present value of energy savings to nonparticipants.

The order below will provide an opportunity for interested parties to address the benefits of the new building standards to nonparticipants. The record in C.10260 is not yet adequate to enable the Commission to decide this issue. In

particular, the Commission will request the CEC to file written comments which would provide a factual basis for the Commission to consider the cost-effectiveness of a conservation incentive.

If the Commission decides upon a cost-effective level of conservation incentive, a means of presenting that incentive must be designed. Two basic alternatives are to present a single subsidy for voluntary full compliance with the 1982 standards, or to present some level of incentive for each cost-effective conservation investment beyond the level of the 1978 standards. The latter choice can be expected to produce more conservation, but would be considerably more complex to administer. Participants should address the practical differences between these two basic alternatives.

Finally, participants should address the question of who will verify or inspect buildings to ensure that new buildings are actually constructed so as to comply with the new standards. The utilities or local government building officials (who already must administer applications to build housing which is subject to the new standards) could perform this administrative function. Some form of builder-contractor self-certification might also be feasible.

Competitive Bidding for Extensions

Decision 82-04-068 provides for a competitive bidding process for construction of "extensions." Finding of Fact No. 24 supports this determination. New customers are to be provided the opportunity to obtain competitive bids for the construction of extensions. Utilities are to create standards to allow third party construction of extensions where applicants can obtain construction at costs lower than those quoted by the utility.

The utilities have petitioned for a clarification of this new policy which would limit its applicability to electric overhead extensions. They seek to exclude underground electric and gas extensions, arguing that the record in the proceeding refers only to overhead electric extensions.

The Commission's order was ambiguous on this point, as were the references to competitive bidding on the record. For example, the utilities claim that the proposal for competitive bidding, by Supervisor Shan Patterson of Tehama County, deals only with overhead electric extensions, and so provides no record support for underground extensions. The proposal appears in Exhibit 66, which is a letter from Patterson addressed to "County Supervisors and other interested people." Within this letter is an "Exhibit A," which refers to "line extensions," and recommends:

> Develop procedures whereby competitive bidding occurs under appropriate standards and inspection, which may result in less costly construction.

In his testimony, however, Patterson referred only to construction under General Order (G.O.) 95. G.O. 95 presents "Rules for Overhead Electric Line Construction." There was no cross-examination on this apparent limitation of his earlier proposal.

The same limitations could apply to Exhibit 65, "Direct Testimony of Clarence Unnevehr." Unnevehr, testifying on behalf of the Developers, supported the Patterson proposal. He discussed the Patterson proposal as part of a discussion of rural issues; earlier in his exhibit he had proposed to define "rural" as those areas in which overhead extensions were permitted.

The utilities also refer to the Proposed Report of Commissioner Grimes. The text discusses competitive bidding for "line extensions" at page 38, and so would tend to imply general application. Appendixes B-D contain proposed extension rules. The only reference to competitive bidding appears under "Overhead Extensions;" which would tend to indicate a narrow application.

The various petitioners argue both sides of the question of the administrative feasibility of competitive bidding procedures for underground extensions. Utilities claim that the burden of inspecting the work of third parties would be unreasonable. The Builders refer to many existing situations in which new customers or their agents construct some of the facilities ultimately turned over to utilities.

In order to determine the circumstances under which it is appropriate to allow competitive bidding to construct extensions, the order below will call for written submissions on this point by the utilities, and will allow time for comment. Participants addressing this issue should detail situations in which competitive bidding may reduce costs to ratepayers, including consideration of the cost of proposed administrative mechanisms.

The utilities also seek a modification of the requirement that the specifications and standards for third-party construction be included in the tariffs. The utilities seek instead to include only a reference to such specifications and standards, and to provide the text upon request, claiming that adding the extra volume to the tariffs would be unduly burdensome. This change is reasonable, and is ordered below.

Findings of Fact

Exception is taken by several petitioners to a number of findings of fact in D.82-04-068. Petitioners object that those findings are unsupported by the evidence in C.10260, or that they support elements of D.82-04-068 which petitioners claim violate the utilities' obligation to serve or other claimed rights of petitioners. The order below will modify a number of findings of fact, and will add language to the body of the opinion which clarifies the evidence supporting the findings, and the intent of the Commission.

Therefore, good cause appearing

IT IS ORDERED that,

1. Within 21 days of the effective date of this order, respondent utilities shall file with the Commission, and shall serve copies on all interested parties in this proceeding, the following factual material. Respondents shall describe the scope of the submissions at the prehearing conference scheduled below. Within 14 days thereafter, interested parties may comment in writing on the submissions. The Commission staff is directed to provide comments addressing all submissions.

(a) Information concerning current line extension activities, including the number, lengths and costs (per foot, and overall) of electric and gas extensions. Where possible, respondents shall designate the customer class of the new customers for whom extensions are provided. The utilities should also aggregate and present separately comparable showings of all extensions for which free footage is provided for agricultural uses under existing line extension tariffs.

(b) Projected line extension activities for each of the next three years, organized to be comparable to the information provided in (a), above. A range of estimates may be presented; assumptions shall be clearly identified.

(c) Using historical data, or that presented in (a), above, analysis of reasonable maximum electric extensions which may be used as a basis for calculating maximum free footage allowances during Phase I.

(d) A proposed definition of an "agricultural" class of customers, which the Commission could designate for the purpose of special treatment within new line extension tariffs. This submission shall be limited to factual support for an "agricultural" class; arguments concerning the appropriateness or inappropriateness of such a designation are to be reserved to the hearing ordered below.

(e) The costs and benefits to the ratepayers of using competitive bidding in the construction of gas and electric underground extensions. Analyses should include proposed guidelines or rules for implementing competitive bidding procedures, and shall include estimates of associated administrative and other costs.

2. Within 21 days of the effective date of this order, the California Energy Commission is invited to file written comments analyzing the operation of the current state building standards, and possible cost-effective conservation incentives which this Commission could provide within revised line extension tariffs to encourage voluntary compliance with the new building standards by builders whose projects are exempt from these standards. In particular, we request the following:

(i) Projected energy savings, in Btu and Kwh, estimated for buildings which meet the 1982 building standards, as compared with buildings which meet the 1978 standards;

(ii) The cost-effectiveness to nonparticipating ratepayers, as defined by this Commission, of alternative conservation incentives which would be included within revised line extension tariffs;

(iii) The eligibility for state conservation investment tax credits of investments voluntarily made to meet efficiency levels set forth in the 1982 building standards, and the degree to which tax credits would offset the cost of such investments.

If the CEC elects to file this information, interested parties may respond in writing within 21 days of receiving notice. At the latest, such notice will be provided at the prehearing conference scheduled below.

3. Rehearing of D.82-04-068 is granted, limited to receipt of evidence and argument on the issue of whether there are factors which justify establishing special line extension rules for a class of "agricultural" customers, different from free footage allowances granted to other new customers. This issue necessarily shall include proposed definitions of "agricultural" customers for the purpose of line extension policies. The Commission staff is directed to participate fully in all aspects.

A prehearing conference which will include exchange of notice concerning filing of comments described in ordering paragraphs 1 and 2, above, will be held in the Commission's Courtroom, State Building, San Francisco, beginning at 10 a.m., October 1, 1982, before Commissioner John E. Bryson and/or Administrative Law Judge Robert T. Baer. At that time, the ALJ shall schedule days for the hearing. In addition, the ALJ may set a date by which he will issue a ruling on the factual submissions described above. In any event, analysis presented in exhibits and arguments concerning contested issues at the hearing should be framed so as to allow consideration using these factual submissions.

4. The Executive Director is directed to cause notice of the rehearing to be mailed at least ten (10) days prior to such hearing.

5. D.82-04-068 is modified as follows:

(a) On page 12, immediately after the caption, a new section is inserted:

"A. The Utilities' Obligation to Serve

In California, as elsewhere, public utilities have generally been assigned a legal obligation to provide "reasonable" service to the public. This service has not been construed to be an absolute requirement to provide service to all would-be customers, without regard for the burdens which the provision of that service would impose on the utility and its ratepayers. This limited obligation to provide service has long been recognized to include line extensions.

The landmark California case on this point is Lukrawka v. Spring Valley Water Co., 169 Cal. 318 (1915). In Lukrawka, the California Supreme Court held that utilities most furnish a reasonable opportunity to receive service, and set forth a general set of criteria which have been applied through the intervening decades. The court stated:

> [T]he right of an inhabitant of the municipality or the inhabitants of a particular portion of it to compel the service to them by the water company through the extension of its system, is not an absolute and unqualified right.
>
> * * * *

> [T]here is a wide field for the play of the rule of reasonableness of demand for service and whether it does or does not exist must be determined by a court as a fact in each particular case where it is sought to compel an extension of service. Of course, the matter of expenditure to be entailed by the public service company in extending its service is not a controlling feature in determining the reasonableness of a demand for it because the water rates established as a whole between the public service corporation and the city by the public body to which that duty is committed must be sufficient to yield a fair, just, and reasonable income on the property of the company devoted to public use which would include such necessary expenditures. But additional expenditure by the company or an additional burden on the water rate payers as a whole should not be imposed for the benefit of a particular portion of the community unless a reasonable necessity for it exists. Whether it does or not is to be determined by a consideration of the facts in each particular case and, among other things, by a consideration of the duties of the company, the rights of its stockholders, the supply of water which the company may control for distribution, the facilities for making extensions to a locality beyond its present point of service, the rights of existing customers, the wants and necessities of the locality demanding it, and how far the right of the community as a whole may be affected by the demanded extension. We refer to this matter of reasonableness of demand to be considered in determining the right to require the extension of service on account of the general language used in the authorities cited in sustaining the implied obligation of a public service corporation under its charter to supply all the inhabitants of a municipality with water. While this is the obligation it undertakes, the right of the inhabitants of the municipality to have it discharged is, as we have said, not an absolute but a relative one which may be enforced only when conditions are such that there exists a reasonable demand for the fulfillment of the obligation.
>
> 169 Cal. at 332-34.

The Commission affirmed these principles in the same year, in the decision establishing the first set of uniform rules covering service extensions. In D.2689 (in C.683, dated August 12, 1915, 7 C.R.C. 830; hereinafter cited as the 1915 Uniform Rules Order) the Commission cited Lukrawka, cases from other states, and an earlier United States Supreme Court decision (Russell v. Sebastian, 233 U.S. 195 (1914)) as authority defining an obligation to provide reasonable extensions, rather than an absolute duty to provide extensions (7 C.R.C. at 858-60).

The 1915 Uniform Rules Order then quoted an earlier Commission decision, Monahan v. PG&E, 5 C.R.C. 298 (1914) requiring that:

> the electric company shall, at its own cost, make extensions to serve all persons desiring electric service in the city of San Jose and in the other incorporated cities in the San Jose district over which this Commission has jurisdiction in this respect. The rate in this case will be established on the theory that the service is community-wide, and extensions which may be unprofitable in themselves will be taken care of in the rate so established.
> (5 C.R.C. at 302, quoted at 7 C.R.C. at 861)

The 1915 Uniform Rules Order made clear that Monahan did not require utilities to provide free extensions in every case:

> Of course, there will be cases in which an extension at the utility's expense even within a municipality in which the utility has a general franchise would not be just or reasonable either to the utility or the existing consumers. Some of our California cities cover such vast areas of territory and others whose area is smaller nevertheless contain unsettled portions so far removed from the present more thickly populated districts that it can not be expected that extensions must uniformly be made at the utility's expense.
>
> (7 C.R.C. at 861)

The 1915 rules contained a provision consistent with this limitation to reasonable extensions:

> It is not feasible at this time to establish a general rule defining free limits for extensions outside of municipalities. The Commission naturally desires the utility to be as liberal as possible in the construction of extensions, but regard must also be had to the utility's financial condition and the rights of existing customers.
>
> (7 C.R.C at 863)

D.2689 adopted Rule 16:

> A water, gas, electric or telephone utility shall make such reasonable extensions in unincorporated territory at its own expense, as it can agree upon with the applicant for service; provided that in any case in which the construction of an extension at the utility's sole expense will in its opinion work an undue hardship on the utility or its existing consumers, the matter may be submitted to the Commission....
>
> (Id.)

This rather lengthy discussion demonstrates that free footages were not conceived of by the Commission, the California Supreme Court nor the United States Supreme Court as a right. Rather, these bodies allowed free footages as reasonable expenditures.

"Lean extension" provisions are the traditional means by which the new customer's interests have been circumscribed to protect existing ratepayers. Such provisions have usually established guidelines requiring that total revenue in some set number of years (usually between five and ten) equal the initial cost of the extension. New customers who could not demonstrate projected demand sufficient to meet the guidelines have been required to advance construction costs to the utility. A variety of refund provisions have required utilities to return some or all of these advances based on actual loads.

The Commission has long held that the obligation to serve is not violated under circumstances in which low actual demands lead the utility to refuse to repay the advance on a lean extension. In Bayshore Park, Inc. v. California Water Service Co., 44 C.R.C. 74 (1942), for example, complainant was a land developer whose subdivision had not filled as quickly as anticipated. Complainant financed the service extension; the utility had agreed to refund the advance if revenues in any of the first seven years

totaled one fourth of construction costs. None of the construction advance was returned, as the minimum agreed load failed to materialize. The Commission upheld this fairly harsh result as reasonable. In the Bayshore Park case, complainant therefore received no free footage, yet the Commission specifically found that the obligation to provide reasonable extensions was not breached.

The interests of new customers

New customers obviously have an interest in receiving extensions, and in paying as little as possible for those extensions. However, as Lukrawka recognizes, expenditures "should not be imposed for the benefit of a particular portion of the community unless a reasonable necessity for it exists." (169 Cal. at 333).

The record in C.10260 does not demonstrate that this necessity now exists. For example, a calculation in the record (Tr.1951-54, cross-examination of Counties witness Unnevehr) estimates that a $2500 customer payment for extensions would translate into an annual payment of $155 (assuming a 30-year loan at 12 percent interest; higher rates would obviously raise the assumed costs). At $5 per foot of extension, this represents a customer payment for 500 feet of extension, which could be the

Phase I contribution of one-third of a 1500 foot extension. Under these assumptions, the annualized payment for 833 feet (one-third of a 2500 foot extension) would be $259; this is less than $22 per month.

There is no substantial estimate in the record of the impact on rural new customers of an increase of this magnitude to their mortgages (new customers with shorter extensions would pay less). However, imposition of this added expense should not create an unreasonable burden on new customers, in light of the existing customers' interests discussed below.

The interests of the utilities

Utilities will continue to be compensated fully for their expenditures under the new free footage provisions. Cash flows may change depending on how the timing of payments by builders or new customers compares with the timing of rate recovery. The overall magnitude of the effect on cash flow should be relatively small.

The interests of existing ratepayers

The existing ratepayers have a general interest in minimizing their expenditures in support of new customers. Free footage allowances which are not justifiable on a cost-

effectiveness basis are examples of subsidies by existing customers. Lukrawka and the 1915 uniform rules order looked to "the rights of existing customers."

Estimates of this annual subsidy run as high as $100 million; the number is at least in tens of millions of dollars. A subsidy of this magnitude, imposed in times of economic stress and with little prospect of compensating levels of benefits, appears to be unreasonable. Existing ratepayers do have an interest in paying the lowest reasonable utility bills."

(b) 1). Before the first paragraph in page 12, insert the captions:

"B. Background to C.10260

2). In the first paragraph on page 12, the last three sentences, beginning with "The objective was not to burden..." are deleted. In their place, the following text is inserted, beginning with a new paragraph:

> "The present rules date from C.5945, which was opened in 1957 and decided in 1959 (D.59011, 57 C.P.U.C. 346; modified as to points not relevant to this discussion by D.59801, 57 C.P.U.C. 571 (1960)). C.5945 was directed in part to revising line extension policies in the face of major changes in cost structure. At that time, the cost changes had to do with the costs of providing the extensions themselves.

That decision notes that costs of extensions had increased two- to threefold since the 1930s, without comparable increases in rates or revenues. Thus, the 1959 free footage allowances were adopted in part to bring costs and benefits back into line.

Decision 59011 contains a number of findings and conclusions (they are combined in that decision) which are relevant to C.10260. These are:

(1) revisions in the rules and in certain of the free allowances are advisable in order to bring them into line with present-day costs;

* * * *

(3) in developing allowances there are other factors to consider than merely cost and revenue, such as value of service, competition, history, public requirements, and burden on existing customers;

* * * *

(6) extensions to provide service for individual customers should be based on the same free allowances, advances and refunds whether the ultimate individual customer is located in a subdivision, suburban or rural area;

* * * *

(18) that the increases and/or decreases in rates, charges and conditions which might result from the revision of extension rules as authorized herein are justified; that present rules insofar as they differ from those herein prescribed, are, for the future, unjust and unreasonable....

These findings and conclusions demonstrate that D.59011 established line extension policies which were suited to the economic circumstances of 1959. These policies are not suited to 1982.

The recent history of rate cases, fuel cost offset proceedings, and weatherization financing proceeding amply demonstrates that economic and cost circumstances have changed drastically in recent years. The marginal cost of new fuel supplies and capital facilities is now higher than the average cost. C.10260 has re-evaluated line extension policies in light of these changes. The balancing of interests first enunciated in Lukrawka now dictates a change in line extension policies."

(c). Make the following revisions in the text of D.82-04-068:

1). On page 2, revised the first two paragraphs to read:

"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 varying with the amount of energy consumed in the new structure.

However, greater energy demand no longer produces lower rates. The costs of providing energy to new customers have risen dramatically, with no assurances that such increases will abate in the foreseeable future. These economic realities have prompted the

Commission to re-evaluate the consumption-promoting policies of the old extension rules, and the extent to which they subsidize the costs of providing utility service. The new rules will eliminate the promotional aspects of the old rules, in favor of free footage ties only to the length of extensions. Furthermore, the new rules will ensure that all new customers pay a portion of the direct cost of their extension. The new rules will ease the direct burden on existing ratepayers, while at the same time providing a period of adjustment for those customers who will experience new and possible unexpected costs due to the operation of those rules. Specifically, the new rules provide:"

2). On page 3, first full paragraph: replace the phrase "by over $65 million in 1982 dollars" with "by tens of millions of dollars"; delete the second sentence.

3). On page 6, in the first full paragraph, delete the last two sentences, beginning with "In recognition of declining...."

4). On page 18, revise the last sentence in the first full paragraph to read "Given the current energy supply situation, this subsidy constitutes an unreasonable burden on existing ratepayers."

5). On page 21, delete all of the first paragraph except for the first and third sentences, and delete the second paragraph.

6). On page 48, delete the first paragraph in Subsection A.

7). On page 52, in the last sentence of the first full paragraph, replace "and file in their tariffs" with "and make available upon request."

(d). Replace findings of fact 1-14 and 23 with:

1. Existing line extension rules were promulgated to revise previous rules in order to bring the rules into line with then-current economic circumstances.

2. In establishing the existing line extension rules, the Commission explicitly considered cost and revenue effects, value of service, competition, history, public requirements, and the burden on then-existing ratepayers.

3. The existing rules tend to encourage new load growth by providing larger free footage allowances for new extensions which will impose larger loads on the utility system.

4. During recent years, the marginal costs of new system capacity and energy supplies have intended to increase more rapidly than the rate of inflation for both gas and electric utilities, and it is reasonable to predict that such increases will continue over the long term.

5. In response to increasing marginal costs and uncertainty over future gas and electric supply, regulatory policies should be designed to increase the efficiency with which energy is used.

6. Because costs incurred by utilities to implement existing free footage allowances are reflected in rates paid by all customers, existing customers pay most of the cost of free footage allowances and new customers therefore do not pay the full cost of these extensions.

7. Because marginal costs of new system capacity and supplies generally are higher than average costs of existing capacity and supplies, increased demand for electricity and natural gas will tend to increase unit costs.

8. Provision of free extension allowances in direct proportion to demand tends to increase energy demand, and so is inconsistent with Commission policies to encourage efficiency of energy use.

9. Existing line extension rules impose an unreasonable burden on existing ratepayers, and should be revised to bring them into line with present day costs.

10. The record in this case shows that California gas and electric utilities spend tens of millions of dollars annually on new gas and electric line extensions.

11. A significant portion of utility expenditures on gas and electric line extensions are covered by existing free footage allowances, so that utilities are compensated indirectly through rates, rather than directly by the new customers to whom the line extensions are provided.

12. If free footage allowances are eliminated, immediately or through phased reductions, significant reductions in rates can be achieved.

13. Since C.10260 was filed on February 15, 1977, the interests of new and rural customers have been represented, but it has not been demonstrated that the elimination or phased reduction of free footage allowances will produce an unreasonable burden on new or rural customers.

14. Line extension rules adopted herein which require new customers to pay 1/3 of line extension costs within the free footage allowances do not impose an unreasonable burden on new customers.

23. New provisions which provide that utilities and new customers share the costs of line extensions within free footage allowances provide reasonable and equitable assistance to both rural and urban new customers.

6. The suspension ordered by D.82-07-040 is continued until further action of this Commission.

This order is effective today.

Dated SEP 22 1982, at San Francisco, California.

I dissent. I would have granted a full rehearing.

/s/ RICHARD D. GRAVELLE
Commissioner

JOHN E. BRYSON
President
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
COMMISSIONERS

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

Joseph E. Bodovitz, Executive Director

A prehearing conference which will include exchange of notice concerning filing of comments described in ordering paragraphs 1 and 2, above, will be held in the Commission's Courtroom, State Building, San Francisco, beginning at 10 a.m., ~~September~~ Oct 1, 1982, before Commissioner John E. Bryson and/or Administrative Law Judge Robert T. Baer. At that time, the ALJ shall schedule days for the hearing. In addition, the ALJ may set a date by which he will issue a ruling on the factual submissions described above. In any event, analysis presented in exhibits and arguments concerning contested issues at the hearing should be framed so as to allow consideration using these factual submissions.

4. The Executive Director is directed to cause notice of the rehearing to be mailed at least ten (10) days prior to such hearing.

5. D.82-04-068 is modified as follows:

(a) On page 12, immediately after the caption, a new section is inserted: