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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Re Resolution E-1930 authorizing)
 PACIFIC GAS AND ELECTRIC COMPANY)
 to establish a 1981 underground)
 conversion budget. }

Application 60809
 (Filed October 6, 1981)

(Appearances listed in Interim Opinion, Decision 82-09-026)

FINAL OPINION

I. Summary

By this order we set undergrounding conversion budgets for Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E).

We adopt a new method for determining the level of PG&E's future undergrounding conversion budgets. This method was proposed by the League of California Cities (League). It calls for a cooperative effort by the utility and the League to determine an appropriate undergrounding conversion budget. If PG&E and the League are unable to agree on the level of the budget, then the Commission will intervene and shall resolve the matter.

The new method will apply only to PG&E. The other two utilities' underground conversion programs did not provoke any controversy. Consequently, we do not change the existing methods for setting the conversion budgets of Edison or SDG&E.

II. Background

The procedural background is set forth on pages 2-3 of the Interim Opinion, Decision (D.) 82-09-026 issued September 8, 1982, and will not be repeated here.

Briefs have been filed by PG&E, Edison, the Commission staff, the League, the City of Berkeley (Berkeley), and the City and County of San Francisco (CCSF). The matter was submitted on September 3, 1982, the filing date for briefs.

The issues are straightforward. We are addressing PG&E's 1981 and 1982 undergrounding conversion budgets. In addition, we are reviewing the 1982 budget proposals of Edison and SDG&E. Last, we are evaluating our budget review process to determine whether any revisions to the existing process are needed for any of the utilities.

III. PG&E

PG&E proposed underground conversion budgets of \$15.5 million for 1981 and \$18.0 million for 1982. These budget amounts were derived from a formula based upon PG&E's gross electric revenues. PG&E determines what its gross electric revenues were for the 12 months ending August 31 of the year preceding the year of allocation. From this amount, PG&E subtracts ECAC revenue, revenue from sales to other utilities, and other miscellaneous revenues. The remainder, designated "net certain revenues", is then multiplied by 2%. This product is rounded to the nearest \$500,000.

PG&E has used the above formula to calculate its underground conversion budget since the beginning of the underground conversion program. On one occasion, 1981, PG&E reduced the formula budget by \$500,000 because of cash flow problems.

PG&E submits that this "net certain revenues" formula is a reasonable way to establish PG&E's budgets for 1981, 1982, and subsequent years.

After the budget is established, PG&E allocates the funds among the cities and counties. Individual allocations are based on the number of customers served by overhead lines in each city or county.

From 1979-1981, PG&E also followed an advance policy under which cities and counties could request an advance of three times

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the current year's allocation. PG&E initiated this policy to reduce its carryover of unexpended underground conversion funds. (See D.82-09-026.)

PG&E proposes in its brief to follow a new advance policy. Under the new policy, cities and counties would be eligible for an advance of three times the current year's allocation, up to a limit of \$250,000. The \$250,000 limit would not apply to any project involving street widening and the relocation of overhead facilities.

The staff, League, CCSF, and Berkeley all reviewed PG&E's proposed underground conversion budgets and offered comments.

A. Staff

Staff offered one witness, V. R. Cassman. Cassman did not recommend a formula for calculation of the underground conversion budget for PG&E or the other utilities. In his opinion, informal staff review of utility budget proposals is preferable to the strict use of a mechanical formula.

Cassman prepared an alternate method for calculating PG&E's underground budget based on a construction cost index. Under this method, Cassman multiplied PG&E's underground conversion budget for 1970 times Handy-Whitman inflation factors for underground electric distribution plant. PG&E's 1970 budget was \$9 million. The Handy-Whitman inflation factors for the periods 1970-1981 and 1970-1982 are 2.35 and 2.54. Thus Cassman calculated a 1981 budget of \$21.15 million and a 1982 budget of \$22.86 million under his alternate method. In his opinion, this alternate method and the resulting budget amounts will maintain underground conversion activity at its historical level in 1970.

Staff states in its brief that the definition of "carryover" at page 17 of D.82-01-018 has created some confusion. Staff recommends that the definition of "net carryover" should be changed to "the difference between the utility's total allocations to date for the Rule 20A program minus the utility's actual expenses to date for Rule 20A projects." The staff's definition of carryover would

not include funds committed to projects in progress until those funds are actually spent.

Staff also recommends in its brief that PG&E's advance policy should be continued for three years at which time it may be reviewed again. Staff believes that an abrupt halt of advances to cities would be highly disruptive to the cities' budget and planning processes.

B. League

The League appeared in this proceeding as the representative of California's 431 incorporated communities. The League's witness, William R. Rugg, is chairman of the League's Utility Coordinating Committee and also is the director of Community Development for the City of San Leandro.

In preparing his testimony, Rugg conducted a survey of the cities to evaluate their interest in the underground conversion program. 78% of the respondents to the survey indicated that they have underground projects planned over the next three years which are dependent on funding from the utilities. Most of the other cities indicated that they have already overdrawn their allocations or are waiting for their allocations to build up to a sufficient level to start a major project.

The League recommends that a 1982 budget of \$28.2-\$31.2 million should be set by the Commission for PG&E. These figures were derived by multiplying PG&E's 1968 undergrounding budget of \$8 million times inflation factors of 3.6 and 3.9. The 3.6 factor is taken from the Construction Cost Index for the San Francisco area. The 3.9 factor is based upon PG&E's testimony that average undergrounding costs have increased from \$29 per foot in 1967 to \$113 per foot in 1982.

The League contends that the Commission must recognize the effect of inflation on undergrounding and adjust the undergrounding budget to ensure that the historical level of activity is maintained despite inflation.

Beyond 1982, the League suggests that the undergrounding conversion budget should be determined jointly by the League and the utility. If they are unable to agree upon a mutually satisfactory figure, then the Commission would have to schedule hearings and set a budget.

The League also recommends continuation of PG&E's advance policy. The League observes in its brief that:

"Advances have become an essential part of a viable undergrounding program. Small communities with very small annual allocations may be unable to accomplish any undergrounding projects without advances. Their small allocations are eroded by inflation as fast as they accumulate. On the other hand, larger communities with active programs will be unable to capitalize on grant funding or other advantages if they are precluded from using advances to take advantage of timely opportunities."

The League submits that if the advance policy is terminated, undergrounding will be stopped in many communities. The League urges us to maintain PG&E's "more liberal" advance policies to prevent any slowdown of undergrounding projects.

C. CCSF

CCSF joins the League in recommending a budget level which will maintain the historical level of undergrounding activity. CCSF also submits that a 1982 budget of between \$28.8 and \$31.2 million is appropriate.

CCSF also advocates retaining PG&E's past advance policy. CCSF's argument in support of an advance policy is summarized in our Interim Opinion, D.82-09-026, pp.3-5.

D. Berkeley

Berkeley proposed budgets for PG&E, Edison, and SDG&E even though Berkeley is served only by PG&E. Berkeley recommends that 2% of each utility's 1981 gross electric revenues should be used as the starting budget in 1981. In each succeeding year, Berkeley would

increase the budget amount by 1/2% until 1986 when the maximum of 4-1/2% is reached.

Under this method, the 1981 budget would be \$49.3 million. The 1982 budget would be \$61.6 million.

Berkeley also recommends that PG&E and the other utilities should be penalized for any carryovers of undergrounding funds. Berkeley proposes that each utility should pay 1/2% of the carryover to the Commission from its before-tax earnings. The Commission then would redistribute these payments to the utilities on the basis of completed miles of underground distribution lines. The intent of this penalty proposal is to create a disincentive for carryovers and an incentive for utilities to increase underground conversion in their service areas.

E. Discussion

The recommended budgets for PG&E are shown as follows:

	1981 <u>(Millions of \$s)</u>	1982 <u>(Millions of \$s)</u>
PG&E	\$15.5	\$18.0
Staff	21.15	22.86
League	-	28.2--\$31.2
CCSF	-	28.2--\$31.2
Berkeley	49.3	61.6

The different budget proposals are attributable to the different interests of the parties. PG&E emphasizes the need to mitigate rate increases and favors restrained funding under the traditional formula. Nearly all of the cities complain of delays and showdowns in PG&E's undergrounding program and urge us to increase the amount of funding.

We are persuaded that an increase in PG&E's budget and changes in its budget review process are needed.

We will set a 1981 budget of \$17.5 million and a 1982 budget of \$20.5 million for PG&E. These figures represent an increase of 13% over PG&E's proposed 1981 and 1982 budgets, when they are rounded to the nearest \$500,000. The 13% increase is based upon the amount

by which PG&E's actual undergrounding costs have exceeded estimated costs. (Tr. 91; letter of Daniel E. Gibson, dated August 30, 1982.) By including a 13% allowance for cost overruns, we expect that PG&E's budgeted undergrounding funds will more closely track actual expenditures.

We are not satisfied with any of the indexes prepared by the parties or with PG&E's traditional formula. As a last resort, we will adopt the League's suggestion and order PG&E to confer with League representatives to try to arrive at a mutually acceptable budget amount for 1983. If the parties are unable to agree on an amount, we will intervene and select a budget.

As a guideline to the League and PG&E, we believe PG&E's undergrounding budget should reflect not only the demands of cities based on the historical level of undergrounding activity but also the increasing cost of capital to PG&E and the resulting costs to the ratepayers.

IV. Edison

Edison proposes a 1982 underground conversion budget of \$13.25 million. This budget amount is the same figure proposed by Edison in 1980 and in 1981 and adopted by the Commission.

Edison recommends retaining the same budget for four reasons:

1. Because of rising electric rates, any increase in the undergrounding budget would exacerbate the hardship placed upon the company's ratepayers.
2. The sole benefit derived from the undergrounding program is esthetic improvement.
3. Undergrounding projects benefit a few local residents at the expense of all ratepayers.
4. The proposed budget of \$13.25 million is enough to meet the demand for undergrounding in Edison's service area.

Staff recommends in its brief that Edison's proposed budget of \$13.25 million for 1982 be approved.

As noted by Edison, only one municipality in Edison's service area, the City of Irvine, appeared at the hearing held in Los Angeles. Irvine's representative recommended an increased budget even though the city has not yet used all of its undergrounding allocation in 1981.

We are satisfied that Edison's proposed budget meets the demand for undergrounding funds in its service area. Therefore, we will approve Edison's proposed budget for 1983 of \$13.25 million.

Edison also advocates retaining its existing method for determining underground budgets. Edison submits its proposed budgets to the Commission staff for review and approval by the Commission. The budget amounts are not determined by use of a formula. Edison uses as a guideline 1% - 1.5% of its total revenues minus fuel expenses. The 1982 budget is .83% of its total revenues minus fuel expenses.

Staff does not recommend revision of Edison's methodology. Staff asks only that it be allowed to continue to review Edison's proposed budgets in advance.

Since there appears to be general contentment with Edison's budgeting procedure, we see no reason to alter the status quo. Edison should continue its current practice of deriving an appropriate budget and submitting it in advance to our staff and then to us for approval.

V. SDG&E

SDG&E proposes a 1982 budget of \$6.734 million. This amount is derived by a formula agreed to in franchise agreements with the two charter cities in SDG&E's service area, San Diego and Chula Vista. The formula is based on 2% of SDG&E's gross revenues minus fuel adjustment costs.

Staff recommends approval of SDG&E's 1982 budget and retention of the present review process. We will approve SDG&E's proposed

1982 budget and will not alter the current budget review process, since there is no controversy about the present method.

Findings of Fact

1. PG&E has proposed an undergrounding budget for 1981 of \$15.5 million and an undergrounding budget of \$18.0 million for 1982.

2. PG&E's actual expenditures on undergrounding projects exceed estimated costs by 13%.

3. If PG&E's proposed budgets are increased by 13%, the budgeted funds or estimated costs should closely track actual expenditures.

4. PG&E proposes to modify its past advance policy by limiting advances to \$250,000.

5. Modification of PG&E's advance policy to limit the amount of advances would disrupt and slow down some undergrounding projects planned by the cities.

6. Edison's proposed 1982 undergrounding budget will meet the demand for undergrounding funds in its service area.

7. SDG&E's proposed 1982 undergrounding budget is presented in franchise agreements with the Cities of San Diego and Chula Vista.

8. Staff filed on September 3, 1982 motions to receive in evidence PG&E's 1981 Rule 20A Report and a letter of H. T. Sipe to PG&E dated December 10, 1981.

Conclusions of Law

1. PG&E should be required to continue its past advance policy without any dollar limitation.

2. All utilities should calculate carryovers as the difference between total allocations for Rule 20A projects and actual expenditures for Rule 20A projects.

3. Since there is little or no controversy about Edison's or SDG&E's undergrounding programs, no changes are warranted.

4. Since no party has objected to staff's motions to receive additional evidence, the motions are granted.

FINAL ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) shall consult with the League of California Cities and negotiate a mutually satisfactory undergrounding conversion budget for 1983 and following years. If PG&E and the League are unable to agree on a budget, PG&E shall proceed with the proposed budget until the Commission resolves the dispute and sets a budget. PG&E shall continue to inform the staff of its budget proposals and shall continue to provide any other information pertaining to the undergrounding program requested by staff.

2. PG&E shall continue its advance policy without imposing a dollar limitation.

3. All utilities should calculate carryovers as the difference between total allocations for Rule 20A projects and actual expenditures on Rule 20A projects.

4. The following undergrounding budgets are approved:

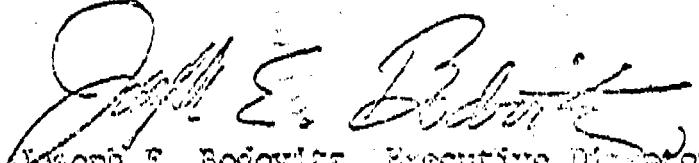
	<u>1981</u> (Millions of \$s)	<u>1982</u> (Millions of \$s)
PG&E	\$17.5	\$20.5
Edison	-	13.25
SDG&E	-	6.734

This order becomes effective 30 days from today.

Dated DEC 15 1982, San Francisco, California.

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

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


Joseph E. Bodovitz, Executive Director

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