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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Consider the Line Extension Rules of Electric and Gas Utilities.	Rulemaking 92-03-050 (Filed March 31, 1992)

O P I N I O N

Summary

The Commission modifies the existing line and service extension rules and practices for gas and electric utilities in several ways that will reduce the amounts by which ratepayers already connected to the utility systems subsidize the costs caused by new ratepayers requiring new line and service extensions. These modifications will also result in more uniform and consistent practices among the utilities.

First, we address the treatment of the costs of transformers, meters, regulators and services that are provided by the utility at no additional cost to the applicant.[1] The Commission concludes that applicants should receive such free allowances only to the extent that the revenue expected to be received from the load to be served matches the utility's investment ("revenue justifying"). Second, we adopt "distribution basing" these costs to reflect the unbundling of utility rates mandated by Assembly Bill (AB) 1890.[2] Third, we adopt a streamlining mechanism to keep the allowances current with changes adopted by the Commission in the new worlds of gas and electric regulation.

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[1] This issue was designated as Issue No. 8 in this proceeding.

[2] AB 1890 directs the Commission to review utility cost recovery plans which must "provide for identification and separation of individual rate components such as charges for energy, transmission, distribution, ..." (Public Utilities (PU) Code § 368(b).)

This order does not eliminate line extension allowances. Applicants, whether, for example, developers, residential, or agriculture, will continue to get allowances for extensions. Those parties will be getting correct economic price signals before they make investment decisions, and ratepayers will not be overpaying in those allowances for revenues that will never materialize.

Procedural Summary

On March 31, 1992, the Commission began this proceeding with an eye to uncovering "opportunities to consolidate, simplify and standardize the extension rules, reduce the administrative costs of the rules, and more appropriately assign extension costs." (Order Instituting Rulemaking (R.) 92-03-050, p. 1.)

Extensions are of two types -- main and distribution lines, which take the utility down the street (Pacific Gas and Electric Company's (PG&E) Rule 15), and services, which go from the street to the meter (PG&E's Rule 16). On December 7, 1994, in Phase 1 of this proceeding, the Commission issued a milestone decision, Decision (D.) 94-12-026, which approved changes to the utilities' main and distribution rules. One vital change was to revenue-justify the allowances provided by utilities to applicants in Rule 15, the main or distribution rules. Allowances are the investment which utilities make in extensions through payments or credits to developers.

That 1994 decision also left other key issues open to resolution in later phases of this rulemaking, including "(1) further refinement of the revenue-based allowance calculation method, and (2) applicant design and installation...." (Mimeo. at 29.)

On December 6, 1995, in a second phase decision, the Commission addressed one of these remaining issues, applicant design and installation, by establishing an applicant design test pilot program. (D.95-12-013.)

Later, on June 6, 1996, in D.96-06-031, the Commission identified eight issues which the parties were to address in the final phase of the rulemaking. In this decision, we address only Issue No. 8. The remaining issues will be addressed in separate Commission decisions.

Since Issue No. 8 was raised in the workshops held in this rulemaking proceeding, and the assigned administrative law judge ruled that evidentiary hearings on the issue should be held, The Utility Reform Network and Utility Consumers Action Network (TURN/UCAN) agreed to be the moving party for the issue.

Prepared testimony on Issue No. 8 was served by Jeff Nahigian of JBS Energy, Inc. (Exhibits 22, 23, 24 and 25), the witness for TURN/UCAN. Also, testimony was served by Steven Parker and Dewey Seeto, witnesses for PG&E (Exhibits 26 and 27). Evidentiary hearing on this issue was held on October 16, 1997. The witnesses were cross-examined by counsel for the California Building Industry Association (CBIA) and California Farm Bureau Federation (Farm Bureau). Concurrent briefs were filed by TURN/UCAN, PG&E, CBIA, Farm Bureau and Utility Design, Inc. (UDI), and this issue was submitted on October 31, 1997.

Summary of TURN/UCAN's Recommendations

Under the utilities' tariffs currently, the costs of transformers, meters, regulators and services are provided by the utility at no additional cost to the applicant. These facilities are installed by the utility and are treated like other utility-funded capital expenditures for accounting and ratemaking purposes.

TURN/UCAN argued at the workshops held in this proceeding that the utilities do not uniformly address these items in their tariffs and proposed that the tariffs be revised to standardize the treatment of this matter.

The following summarizes TURN/UCAN's proposals, and briefly describes the conditions that would be changed by those proposals.

- The cost of transformer, service and meter (TSM)[3] equipment provided by the utility to applicants should be included as costs that will be covered by allowances only to the extent that they are revenue-justified.

[3] The term "TSM" applies to electric utilities; for gas utilities the equivalent is "SMR" which stands for services, meters, and regulators. Also, services may include costs for trenches.

Under the current rules, the costs of TSM equipment are treated very differently by the utilities. The gas-only utilities (Southern California Gas Company (SoCalGas) and Southwest Gas Company (Southwest)) include the gas service costs as costs subject to the revenue-based allowance, consistent with TURN/UCAN's proposal. However, the combined utilities (PG&E and San Diego Gas & Electric Company (SDG&E)) and Southern California Edison Company (Edison) exclude entirely the costs of TSM equipment from the definition of "utility cost" that is subject to the existing allowance. In other words, the TSM equipment is provided at no cost to new ratepayers, with the costs borne by the existing utility ratepayers rather than being recovered out of future revenues.

- In order to implement the inclusion of TSM equipment in the costs subject to the line and service extension allowances, Rules 15 and 16 should be modified consistent with this change. The discussion of allowances in Rule 15 should include rather than exclude the TSM equipment as a utility cost subject to the allowance. In addition, language should be added to Rule 16 to make clear that the allowance for the TSM-related costs is discussed in Rule 15.

  Under the existing rules, allowances are discussed only in Rule 15, and the discussion there specifically excludes TSM equipment from being subject to the allowance. Thus, a minor language change is required for Rule 15, and language should be added to Rule 16 so that in the rather unlikely event that the service extension rule is read in isolation from the line extension rule, the reader is put on notice that the allowances for TSM-related costs is discussed in Rule 15.

- The "net revenues" used to set allowances under the existing rules should be limited at this time to distribution revenues, rather than revenues reflecting the full range of utility services (many of which may no longer be provided directly by the utility to its customers).

  Current allowances are calculated by a formula that relies on "net revenues" that are intended to reflect the incremental revenues associated with the costs of extending service to the applicant for new service. To this point the net revenues have reflected the full range of utility activities (including generation, transmission, distribution, and public purpose programs) and the full amount of non-energy costs included in applicable tariffs (including the uneconomic costs that will soon be separately collected in a Competition Transition Charge (CTC)). With the implementation of unbundled rates on January 1, 1998, the Commission has the opportunity to more specifically identify the revenues that do <u>not</u> support line and service extension costs, and remove those from the net revenues used to calculate the appropriate allowances. Relying on the distribution revenues would be a significant step in that direction.

- As a matter of policy, the definition of net revenues used to set allowances should be limited to the revenues associated with the costs that support the line and service extension.

  Even within the distribution rate there are costs that do not support the line and service extension. For example, "customer accounts" costs will be included in unbundled electric distribution rates beginning January 1, 1998, but reflect activities that are unrelated to the extension of service to new ratepayers. This recommendation simply would have the Commission recognize that further refinement of the distribution-based allowance is likely to be appropriate.

- A mechanism should be established to streamline any further refinement of the line and service extension allowances by "flowing through" the outcome of relevant Commission decisions without requiring continuation of this proceeding or the initiation of a separate proceeding for changing the allowances.

  In a number of proceedings presently before the Commission, and in a number of proceedings yet to come, issues will be resolved in ways that impact the calculation of "net revenues" and, by extension, the calculation of allowances. Rather than go through a separate proceeding to implement that change for purposes of the line and service extensions, the Commission should allow such changes to be made by a more expeditious and efficient process.

Position of TURN/UCAN

According to TURN/UCAN, adoption of their proposals will more completely assign the costs of line and service extensions to those entities that are causing the costs to be incurred.

TURN/UCAN point out that the Commission has long embraced the principle of cost-based ratemaking. In Edison's most recent General Rate Case Phase 2 decision, the Commission reiterated "our primary goal of ratemaking, namely, is to achieve rates which reflect the costs that the customer imposes on the system." (D.96-04-050, p. 20.) According to TURN/UCAN, if the costs of connecting new ratepayers to the utility system are borne in the rates paid by other customers in an amount exceeding the future revenues from the new ratepayer that will support those costs, this primary goal of the Commission is thwarted.

TURN/UCAN argue that the days have long since passed when the Commission embraced utility practices that were clearly in the nature of promoting load growth.

Decades prior, it was not unusual for utilities to actively encourage additional sales of gas and electricity, without regard for the end use. The Commission generally sanctioned this practice at the time as being in the best interests of ratepayers. TURN/UCAN believe that providing TSM equipment at no cost to the applicant, as is currently done by Edison, SDG&E and PG&E, is perhaps the most glaring holdover from these previous practices.

TURN/UCAN point out that in the original Order Instituting Rulemaking, the Commission stated its desire to, among other things, more appropriately assign extension costs.[4] (OIR 92-03-050, p. 1.) And in the decision adopting the current extension rules, the Commission embraced the changes proposed at that time as a "step in the right direction" toward revenue-based allowances. (D.94-12-026, p. 11. fn. 10.) TURN/UCAN assert that their recommendations are a further and more substantial step in that same direction.

Also, TURN/UCAN point out that their proposals are consistent with the general policy direction represented by the Commission's efforts to introduce competition to the provision of utility services. For example, the rate unbundling mandated by AB 1890 and implemented by the Commission in D.97-08-056 provides an opportunity to more precisely define the revenues that support line and service extension costs and therefore should be included in calculating the applicable allowance. According to TURN/UCAN, it would be counter-productive for the Commission to unbundle rates for all other purposes, but continue to rely on rates that are largely bundled for line and service extension purposes. Similarly, the Commission's decision to introduce competition in the provision of "revenue cycle services" will be far less meaningful unless corresponding changes are made to the line and service extension rules. Once competition is introduced for these services, the traditional utility role in meter installations and ownership will be fundamentally

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[4] The stated goals also included standardizing the extension rules. TURN/UCAN's recommendations represent a significant step in that direction.

different. Therefore, TURN/UCAN believe that under these circumstances, the practice of allowing electric utilities to provide a free meter to a new customer under the service extension rule must end. Since a new customer that obtains a meter from the utility's competitor will need to pay for that meter, TURN/UCAN submit that the electric utilities should not have the competitive advantage of providing a consumption meter at ratepayer expense, while non-utility competitors have to collect those costs from competitive market rates.

Position of PG&E

PG&E supports the TURN/UCAN package of proposals to refine service and extension allowances by distribution-basing and revenue-justifying them. According to PG&E, those proposals complete the revenue justification and reduction of ratepayer subsidies to applicants which the Commission began in the main and distribution extension rules adopted in D. 94-12-026. Revenue justification will match the utilities' investment (allowances) with the revenue expected to be received from the load to be served by the extension. PG&E also strongly urges the Commission to adopt these proposals before December 31, 1997 so they may be effective as soon as possible but no later than July 1, 1998.

PG&E points out that presently, three California utilities are distribution-basing and revenue-justifying allowances along the lines proposed by TURN/UCAN: Southwest, SoCalGas and SDG&E for non-residential electric customers. PG&E, which presently does not distribution-base or revenue-justify allowances, endorses TURN/UCAN's proposal.

PG&E argues that no PU Code § 783 analysis is necessary to distribution-base allowances because § 783 itself and the current rules provide for periodic adjustments to allowances as rate and related cases change the numbers used in the formula.[5] PG&E

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[5] The utilities are authorized by statute (§ 783) and under their existing Commission - approved rules to make periodic adjustments in their line extension allowances. Furthermore, PG&E's Rule 15 and its equivalents for other utilities allow the utilities to periodically revise their allowances whenever the factors of the allowance formula change by more than 5%. In PG&E's

Footnote continued on next page

points out that the utilities have on several occasions used the periodic provisions of their rules, including as recently as April 1997, when Edison revised its allowances from approximately $2,000 to $3,000.

However, PG&E states that if the Commission determines that a § 783 analysis is necessary to distribution-base allowances, the record in this proceeding, including the studies, testimony and cross-examination of witnesses Nahigian, Seeto and Parker, thoroughly support TURN/UCAN's proposals.

PG&E also endorses as equitable the revenue-basing of the distribution allowances to reduce ratepayer subsidies to applicants. PG&E believes that the record in this proceeding supports a § 783 analysis for a decision in favor of TURN/UCAN's proposals for distribution-basing and revenue-justifying allowances.

Also, PG&E supports TURN/UCAN's proposal for a mechanism to keep the extension rules current with changes in the new worlds of gas and electric utility regulation.

Position of CBIA

CBIA agrees that from a substantive or policy perspective, it may well make good sense to revise the existing line extension rules to include the cost of TSM equipment provided to line extension applicants as costs that must be revenue-justified.

And with regard to TURN/UCAN's proposal to use only distribution revenues in the "net revenues" used to set allowances once utility services are unbundled as of January 1, 1998, CBIA agrees that once again this proposal may make sense.

CBIA points out that it is undisputed, however, that adoption of these proposals will cause a reduction in the amount of line extension allowances made available to

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case, Rule 15H.2. (and the corresponding paragraphs of the other utilities' gas and electric extension rules) provides as follows:

"PG&E will periodically review the factors it uses to determine its residential allowances, non-refundable discount option percentage rate, Unit Cost, and Cost-of-Service Factor stated in this rule. If such review results in a change in more than five percent (5%), PG&E will submit a tariff revision proposal to the Commission for review and approval. (Emphasis added.)

applicants for service and will have economic impacts. And since the TURN/UCAN's proposal would change the terms and conditions under which allowances for line extensions are calculated today, CBIA submits that the Commission must make specified written findings as required by § 783. According to CBIA, the § 783 analysis proffered in support of TURN/UCAN's proposal is deficient on its face and inadequate to allow the Commission to make the factual findings that are required before the Commission can issue an order changing the existing line extension rules.

Therefore, in light of the substantial legal obstacles to undertaking what otherwise might be good policy, CBIA suggests that the Commission should give further consideration to TURN/UCAN's proposal in order to determine whether its implementation should be deferred until the end of the rate freeze period or phased-in gradually over the rate freeze period to minimize the impacts of such a major change to the existing line extension rules.

CBIA argues that for each of the affected classes of applicants specified in § 783– agriculture, residential housing, mobile home parks, rural customers, urban customers, and commercial/industrial development – TURN/UCAN has one simple answer: the losses of those who will see higher costs for line extensions under TURN/UCAN's proposal are outweighed by the benefits to all customers. According to CBIA, for each affected customer class, TURN/UCAN does not identify, much less quantify, the higher costs that will be experienced by individual applicants or the impact it will have upon their ability to pursue housing development. Similarly, CBIA contends there is no quantification of the benefits that all customers will purportedly reap as a result of adoption of TURN/UCAN's proposal.

Further, CBIA argues that there is another substantial legal barrier to the Commission's adoption of the TURN/UCAN proposal. Section 368 of the PU Code, as enacted by AB 1890, states, among other things, that:

> "these rate levels for each customer class, rate schedule, contract, or tariff option shall remain in effect until the earlier of March 31, 2002, or the date on which the commission-authorized costs for utility-generated assets and obligations have been fully recovered."

CBIA contends that since a rate freeze has been imposed upon electric utilities by the Legislature, existing subsidies have been frozen in place until the earlier of April, 2002 or the date on which the utility has fully recovered its stranded investment costs. And since the rate freeze extends to rate schedules, contracts, or tariff options, and the amount and calculation of allowances that are available under existing line extension rules are clearly set forth as part of the utility's rate schedules, contracts, or tariff options, the line extension allowances are now frozen in place as a consequence of AB 1890.

Also, CBIA argues that AB 1890 provides further reasons why it is inappropriate to reduce allowances now by revising the line extension rules to allow inclusion only of distribution revenues in the calculation of allowances. Even if it is supposed that the calculation of allowances based upon revenues from a utility's bundled functions somehow provides a subsidy to applicants that should be phased out, the rate freeze as required by AB 1890 will prevent that benefit from flowing to utility ratepayers. If the utility reduces its costs during the rate freeze period by reducing line extension allowances, the reduction of costs will simply increase the utility's ability to recover the costs of its stranded investment (headroom). According to CBIA, utility shareholders, not the ratepayers as claimed by TURN/UCAN, benefit. However, CBIA acknowledges that marginal benefit might accrue to ratepayers as a consequence of reduced utility costs during the rate freeze period if the utility is able to recover all of its stranded investment costs before March 31, 2002 and advance the end of the rate freeze.

Lastly, with regard to TURN/UCAN's proposal for automatically revising the line extension rules, CBIA argues that, again, the proposed streamlining mechanism runs afoul of § 783. CBIA contends that TURN/UCAN are asking the Commission to adopt a mechanism that not only incorporates findings and conclusions from other Commission proceedings but also those from other agencies (e.g., the FERC) in a manner that would result in automatic changes in the existing line extension rules. CBIA submits that if TURN/UCAN wants to set up procedures for implementing automatic revisions of the extension rules, they must first define the mechanism upon

which they wish to rely, how it will work, and the economic effect that adoption of such a mechanism will have upon the customer classes referenced in § 783.

Position of Farm Bureau

Although Farm Bureau is concerned about all of the TURN/UCAN proposals, Farm Bureau believes that the proposal to base line extension allowances solely on distribution revenues has significant negative consequences for agricultural customer applicants, particularly in regard to installation of irrigation pumps.

Farm Bureau argues that not only do the TURN/UCAN proposals violate the mandates of AB 1890 and circumvent the requirements of § 783, but the effect of adopting their proposals would impose significant financial hardship on agricultural customer applicants, while providing no benefit to the utilities' ratepayers during the rate freeze imposed by AB 1890. Farm Bureau submits that there are no legal or equitable reasons for adopting the TURN/UCAN proposals at this time. Farm Bureau believes that implementation of the TURN/UCAN proposals must wait until: (1) the conclusion of the rate freeze; (2) the completion of an analysis of the costs and benefits of the proposals that complies with the requirements of § 783; and (3) the consideration of mitigation measures necessary to soften the resulting severe impacts on agricultural line extension applicants.

The Farm Bureau disagrees with TURN/UCAN's assertion that their proposal involves a simple ministerial change that does not require a § 783 analysis. Farm Bureau points out that § 783(b)(1) requires that evidence be provided concerning "[t]he economic effect of the line and service extension terms and conditions upon agriculture, residential housing, mobile home parks, rural customers, urban customers, employment, and commercial and industrial building and development." Section 783(b)(5) similarly requires information about "[t]he effect of the line and service extension regulations, and any modifications to them, on existing ratepayers." However, according to Farm Bureau, the only evidence TURN/UCAN provided was that, on a general basis only, the adoption of all TURN/UCAN's proposals would negatively impact line extension applicants, but that TURN/UCAN believes those

impacts are more than offset by benefits to all ratepayers. Farm Bureau contends that TURN/UCAN has not provided any specifics about their supposed § 783 findings, in particular, the actual dollars that would be saved by adopting all their proposals (other than the general comment that rate base would be reduced) or the rate impacts for line extension applicants. Farm Bureau points out that the implementation of distribution revenue-only allowances would impose on agricultural line extension applicants new costs in excess of $5,000 to $10,000 (presuming they took advantage of all available discounts) for a line extension the cost of which is currently fully covered by the present allowances. (Exhibits 28 and 29.)

Further, Farm Bureau states that neither PG&E nor TURN/UCAN's witnesses provided any information as to the actual dollar impact on all ratepayers of maintaining the current line extension allowances for agricultural customers or quantified the savings expected to accrue to all ratepayers by using distribution revenue-based allowances for agricultural applicants, other than to state the effects were very small.

Farm Bureau finds it even more troubling that during the rate freeze imposed by AB 1890, none of the benefits of adopting distribution revenue-based allowances would go to ratepayers other than to possibly shorten the length of the rate freeze, to the extent it might end earlier than March 31, 2002. Hence, Farm Bureau argues that TURN/UCAN's assumptions, for example, that all classes of ratepayers would benefit from the adoption of distribution revenue-based allowances is invalid while the rate freeze is in effect.

According to Farm Bureau, the rational response, therefore, is to reject TURN/UCAN's proposal at this time. Farm Bureau suggests that when the rate freeze ends this issue can be addressed anew, with consideration of the need to find ways to soften the resulting significant impacts on agricultural customers (e.g., by phasing in the allowance reductions over time via a cap on allowable annual allowance decreases in a fashion similar to the method often employed by the Commission to mitigate the impacts of significant rate increases).

Lastly, Farm Bureau opposes the TURN/UCAN proposal that the Commission streamline the process of incorporating future changes to Rules 15 and 16 to avoid the

need for § 783 analyses. Farm Bureau contends that this proposal violates the requirements of § 783 and the due process rights of line extension applicants. Farm Bureau believes that neither sound reasoning nor valid policy supports the adoption of a streamlining mechanism, as proposed by TURN/UCAN, for altering line extension rules. Farm Bureau believes that more fundamentally, there is good reason to provide a procedural avenue for parties to alert the Commission that the proposed changes to line extension rules or allowances require a § 783 analysis. According to Farm Bureau, basic due process considerations alone demand such a process be provided.

Position of UDI

UDI states that the original TURN/UCAN proposal was to have applicants advance the cost of TSM equipment subject to refund, and then increase the Revenue Based Allowances in order to reimburse applicants for the outlay. UDI agreed to this proposal, so long as applicants: (a) advanced the costs even when the utility supplied the TSM equipment; and (b) did not advance or supply meters.

However, UDI opposes the current TURN/UCAN proposal. UDI argues that TURN/UCAN now proposes not to reimburse applicants for TSM equipment. Instead, they want applicants to pay for TSM equipment at a cost of $600 to $800 per residential unit. UDI asserts that making applicants pay for TSM equipment, without refunds, is not only inappropriate but will directly increase the cost of housing in California. UDI contends that ratepayer savings is unlikely under this new scheme. According to UDI, only the utilities' shareholders will benefit from this proposal.

UDI believes that its original proposal is better. According to UDI, for fair competition to be implemented in the line extension market, the utilities must be prohibited from giving away free transformers and services. UDI requests that the Commission implement its proposal and increase the Revenue Based Allowances accordingly.

UDI also objects to the proposal to distribution-base allowances thereby removing the transmission and generation components from the Revenue Based Allowances formula. According to UDI, this issue was never part of the competition

issues in this proceeding. UDI believes that the issue is complex and requests that workshops and evidentiary hearings be scheduled. UDI argues that the TURN/UCAN proposal is premature, and given the pending rate freeze, there is no urgency for the Commission to address the matter.

Discussion

We address below each of the TURN/UCAN recommendations and the arguments of CBIA, Farm Bureau, and UDI in opposition.

First, we will address the TURN/UCAN proposal to revenue-justify service rules by including the cost of TSM as costs to the developer, but subject to allowances.

None of the utilities oppose, and PG&E supports, TURN/UCAN's proposal. We agree with PG&E that the TURN/UCAN proposal completes the work the Commission began in D.94-12-026. In that decision, the Commission revenue-based the utilities' main and distribution extension rules, e.g., Rule 15. As the Commission noted, revenue-based allowances "are based on the expected supporting revenues from the ratepayer to be served by the extension," and as such "they provide an equitable arrangement between the applicant and ratepayer, as well as between various classes of applicants." (Id., mimeo. at 2, n.2.) TURN/UCAN now propose to revenue-justify the other portion of line extensions: services, e.g., Rule 16.

This adjustment will benefit ratepayers and promote economic efficiency. Ratepayers will benefit because presently the utilities provide free equipment, such as TSM, to applicants regardless of the expected revenue. This equipment can have a value between $600 and $800 in a typical residential subdivision development. If the value of this free equipment is included in the cost to the applicant, then the applicant will only receive an allowance to the extent its revenue justifies an allowance. In other words, the ratepayers' subsidy would be reduced to match the expected revenue.

Because the costs of any project are so site-specific, for example, distance from the main to the meter, or the type and amount of customer load, it is difficult to predict the precise amount of ratepayer benefit in TURN/UCAN's proposal. PG&E witness Parker's testimony, however, indicates that there is a utility savings of approximately

$24,800 for the typical subdivision ($124,016 - $99,176). Assuming for the sake of illustration that 550 subdivisions per year are done in PG&E's territory, the TURN/UCAN proposal would avoid PG&E's rate base from increasing by $15 million annually, and avoid PG&E's revenue requirement from growing by $3 million each year.

Further, as pointed out by PG&E, a number of ratepayers in California already see this rate benefit to the extent their utilities now distribution-base and revenue-justify their allowances, e.g., Southwest, SoCalGas and SDG&E (partially). We see no reason why the ratepayers of PG&E should not have the same benefit.

The Commission recognized the benefits of revenue justification in D.94-12-026:

> "That portion of the capital cost absorbed by utilities has resulted in larger rate base and created upward pressure on rates. The impact of having the utilities absorb all of the difference in cost further increases rate base investment and increases rates for ratepayers who do not benefit from the new extensions. The proposed rule provisions recognize this impact and use revenue-based allowances for equitable allocation of these costs and uniform treatment of applicants." (Id. at p. 11, n.10.)

Turning to the arguments of CBIA and Farm Bureau, we do not find the argument that ratepayers will not realize an immediate benefit during the AB 1890 rate freeze is a sufficient reason to defer adopting the TURN/UCAN TSM recommendation in order to continue a subsidy which is no longer justified.

As stated by PG&E's witness, the utility's rate base is expected to increase by $15 million annually as a result of providing free TSM equipment. Although rates are for the time being frozen, there will be ongoing growth in rate base and when the rate freeze ends, the cumulative impact will be felt by all ratepayers.

Furthermore, we are not persuaded by the argument that AB 1890 precludes changes to line extension allowances during the mandated rate freeze. Allowances are payments from the utility to developers for utility infrastructure. They are not rate schedules, contracts, or tariff options. Nor do they shift costs among customer classes, rate schedules, and contracts. The allowances determine the amount of money put up by the applicant that the utility will refund or will not refund. Once the extension is in

place, and the customer is taking utility service through the new facilities, he or she will pay rates according to the existing rate schedules and tariff options. It is those rates that are frozen under § 368(a).

Second, we will address the TURN/UCAN proposal to use only distribution-based revenues for calculating allowances, rather than the revenues reflecting the full range of utility services in "net revenue" used to set allowances.

Contrary to the belief of CBIA and Farm Bureau, the Commission's revenue unbundling decision intends for this rulemaking proceeding to address distribution-based allowances. In the Revenue Unbundling decision, D.97-08-056, the Commission disaggregated the utilities' electric rates into specific components, e.g., generation, transmission, and distribution. It said of its electric industry restructuring decisions, "The order identified the need to disaggregate electric utility rates by 'unbundling' generation, transmission and distribution for all direct access customers. This proceeding is the Commission's forum to accomplish such unbundling." (Id., at 2.) The Commission also in the Revenue Unbundling decision deferred questions on the effect of its unbundling decision on allowances to this rulemaking. "We agree that we do not have adequate information here to undertake any changes to the line extension rules or the way rates are designed to accommodate rule changes. We will defer and revisit the issue as it affects revenue requirements in the utilities' PBR and general rate cases, if necessary." (Id. at 18.) That decision requires the unbundling of line extension allowances to be addressed in this proceeding. It was not, as argued by CBIA and Farm Bureau, the Commission's intention in D.97-08-056 to preclude a periodic adjustment of allowances or preclude further review of line extension allowances for unbundling. And as PG&E points out, D.97-08-056 provides the unbundled number which can be ministerially inserted into the formula in Rule 15 to distribution-base the allowances. Also, see the Direct Access Implementation decision, D.97-10-087, mimeo. p. 64.

Also, CBIA argues that the TURN/UCAN proposal for distribution-basing allowances utilizes the periodic review provision of the line extension rules to make, what is in CBIA's opinion, a major revision to those rules without complying with § 783. While CBIA correctly notes that the periodic review provision of the line

extension rules covers numerical changes in components used to calculate line extension allowances that vary over time, CBIA incorrectly states that "the Commission is being asked to change the basic way the allowances themselves are calculated." This is not true. The Commission is simply being asked to change one of the "factors" used in the allowance calculation formula. That factor is "Net Revenue." Therefore, distribution-basing the allowances appears to be the type of change the Commission had in mind in excluding periodic review of allowances from § 783. Nevertheless, as discussed below, we will include written findings on the issue of distribution-basing allowances.

Turning to the merits of TURN/UCAN's distribution-based allowance proposal, we believe it will promote a greater societal benefit in that by matching costs with cost causers, it promotes economic efficiency. As PG&E witness Seeto stated: "If you give them a correct price signal, they can make a more correct decision from an economic efficiency point of view." In fact the very principle at work in TURN/UCAN's proposal of economically efficient markets was enthusiastically embraced by the Commission in its Revenue Unbundling decision:

> "Unbundling utility rates and services is one of the primary means by which efficient markets may develop for utility products and services. That is, to the extent that prices reflect the cost of associated products and services, sellers will offer the most efficient quantity and variety of these products and services. Buyers will then be able to make purchasing decisions that best serve their interest." (D.97-08-056 at 8.)

Under TURN/UCAN's proposal, applicants will be more efficient and informed as they "make purchasing decisions" for service extensions.

Third, we will address the TURN/UCAN proposal to establish a mechanism to allow relevant Commission decisions from other proceedings to flow through to the calculations of line and service extension allowances without additional Commission proceedings.

Currently, the utilities' rules authorize periodic changes to their allowances. The line extension rules explicitly define an "allowance" as:

"Allowance = Net Revenue divided by Cost-of-Service Factor."
See e.g., PG&E's electric Rule 15C.2.c and the corresponding paragraphs of the utilities' gas and electric extension rules.

"Net Revenue" is defined as the portion of the total rate that supports extension costs. For example, PG&E's Rule 15I. defines "net revenue" as "that portion of the total rate that supports PG&E's extension costs and excludes such things as fuel costs and other energy adjustment costs that do not support the extension costs. This rate is listed in PG&E's Preliminary Statement Part I – Rate Schedule Summary." In other words, the net revenue which is to be inserted in the Rule 15 formula for allowances can be taken from the utilities' rate schedules; in PG&E's case, Preliminary Statement Part I.

Furthermore, PG&E's Rule 15 and its equivalents for other utilities allow the utilities to periodically revise their allowances whenever the factors of the allowance formula change by more than five percent. In PG&E's case, Rule 15H.2 (and the corresponding paragraphs of the other utilities' gas and electric extension rules) provides as follows:

> "PG&E will periodically review the factors it uses to determine its residential allowances, non-refundable discount option percentage rate, Unit Cost, and Cost-of-Service Factor stated in this rule. If such review results in a change in more than five percent (5%), PG&E will submit a tariff revision proposal to the Commission for review and approval." (Emphasis added).

Moreover, there is a long history of the Commission approving the very type of periodic allowance revisions which the utilities are advocating here. An exact case in point is Edison which recently revised its Rule 15 residential allowance -- the precise type of revision the Joint Utility Respondents are seeking -- by A.L. 1150-E filed February 15, 1996, approved by letter dated April 18, 1997. (See also, e.g., PG&E changes to cost of ownership factor for gas and electric, A.L. 1434-E and 1769-G filed May 4, 1993, approved Resl. E-3338, October 30, 1993; PG&E cost of ownership, A.L. 1960-G and 1587-E filed June 26, 1996, approved by letter dated August 14, 1996; and SDG&E's revision to Income Tax Component of Contribution and effect on extension rules' unit costs, A.L. 832-E filed December 9, 1991 and effective the same day.)

It is critical to note that no § 783 analyses were required for any of these changes. This practice makes abundant common sense and is supported by the language of § 783. Section 783(a) provides that an analysis must be done for extension rule changes, "[e]xcept for periodic review provisions of existing rules. . . ." (Emphasis added.)

PG&E witness Parker in his testimony (Exhibit 27) explains more fully how PG&E would use existing Commission decisions -- specifically the Revenue Unbundling decision for electric rates, and the Gas Accord decision for gas rates -- to update the variables in its allowance formula. TURN/UCAN witness Nahigian at p. 5 of his testimony (Exhibit 25) explains the procedure for the other utilities.

In short, we agree with PG&E that the utilities are authorized by statute (§ 783) and under their existing Commission – approved rules to make periodic adjustments in their line extension allowances to include changes for distribution-based rates.

The Commission intends, and has long intended, in a number of ways that the utilities be able to revise their allowances on a periodic basis when the variables in the allowance formula change. In D.94-12-026, the Commission approved the provisions of the utilities' extension rules which, among other things, allow periodic adjustments. (See Ordering Paragraph No. 1.) In this case, the variables are changing because of the Commission's disaggregation of electric rates, and the utilities, accordingly, are able to revise their allowances by the formula to distribution-base their rates without any additional Commission proceedings. Therefore, we agree with TURN/UCAN that where the Commission has issued a decision that impacts the calculation of "net revenues," rather than require the utilities to initiate separate proceedings to flow-through such Commission-ordered changes to line and service extension allowances, the utilities should be allowed to make such changes where it is a matter of inserting numbers into the already approved formula. Similarly, changes to the utility costs to which the allowances will apply should be allowed where a Commission decision impacts the equipment covered by the allowances (such as the possibility that certain customer equipment will no longer be provided free to new utility customers when revenue cycle services are subject to competition.

Next we address the recommendation of UDI that the utilities be required to provide TSM equipment and increase baseline allowances accordingly. First, we believe that UDI has not accurately stated the TURN/UCAN recommendation. The recommendation is that TSM equipment be provided by the utilities at applicant expense and the cost will be covered by allowances only to the extent that they are revenue justified. Second, we believe that UDI's alternative proposal to provide TSM equipment and to increase allowances accordingly, is counter to our goals to more appropriately assign costs (OIR 92-03-050, p. 1.)

Accordingly, UDI's recommendation is not adopted.

There is Sufficient Evidence in the Record for the Commission to Make any Necessary § 783 Findings

Contrary to the assertions of CBIA and Farm Bureau, the record in this proceeding has ample evidence addressing the equities of TURN/UCAN's proposal, and the criteria of § 783.[6] Also, as pointed out by PG&E, as a legal matter, AB 1890 and the Commission's restructuring decisions provide the necessary basis for § 783 findings.

California led the nation when it restructured the electric industry with AB 1890. The public policies which underlay the statewide changes for the good of California's citizens support changes in the utilities' practices to conform to the changes of AB 1890. For example, PU Code § 330(b) acknowledges as a starting point:

> "That people, businesses, and institutions of California spend nearly twenty-three billion dollars ($23,000,000,000) annually on electricity, so that reductions in the price in electricity would significantly benefit the economy of the State and its residents."

To accomplish the goals of benefiting the economy of the state, the Legislature in PU Code § 303(k) began the disaggregating of electric service as follows:

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[6] See PG&E opening brief Attachment 1, "Sample Record Support For § 783 Analysis For Distribution Basing and Revenue Justifying Allowances," to demonstrate record support for each criterion of § 783, and Attachment 2, "Suggested § 783 Analysis," to demonstrate § 783 findings which abundantly support this Commission's acceptance of TURN/UCAN's proposals.

> "In order to achieve meaningful wholesale and retail competition in the electric generation market, it is essential to do all of the following: (1) Separate monopoly utility transmission functions from competitive generation functions, through development of independent third-party control of transmission access and pricing. (2) Permit all customers to choose from among competing suppliers of electric power. (3) Provide customers and suppliers with open, nondiscriminatory, and comparable access to transmission and distribution services."
>
> More, specifically, the Legislature in PU Code § 368(b) provided that:
>
> "The cost recovery plan shall provide for identification and separation of individual rate components such as charges for energy, transmission, distribution, public benefit programs, and recovery of uneconomic costs ... No cost shifting among customer classes, rate schedules, a contract or tariff options as a result from the separation required by this paragraph." (Emphasis added).

To put it another way, the Legislature has identified the public benefits it sees from disaggregating electric rates and services. These benefits, and the Legislature's specific mandate to the Commission in the form of law, provide the basis for meeting the § 783 requirements.

The Commission in speaking of its restructuring orders in its Revenue Unbundling Decision, D.97-08-056, stated, at page 2, that its previous orders "identified the need to disaggregate electric utility rates by 'unbundling' generation, transmission and distribution for all direct access customers. This proceeding is the Commission's forum to accomplish such unbundling." It also stated the integral nexus between rate unbundling and restructuring: "this process of 'unbundling' utility rates is integral to the Commission's implementation of electric restructuring." (Id. at 2.)

The Commission further embraced the unbundling goal and showed how it met public policy needs: "Unbundling promotes competition by providing customers with options for individual services and sending customers price signals which would permit them to make reasoned choices about their competitive options. We have accomplished unbundling the various utility functions with certain more specific criteria guiding our assessment." (Emphasis added.) (Id. at 7.)

The "more specific criteria" referred to by the Commission include (1) unbundling as being consistent with the spirit and intent of AB 1890, and (2) that the public benefit is served when costs associated with one function are not allocated another function.

Regarding unbundling as being consistent with AB 1980, the Commission stated:

> "More specifically, the statute [AB1890] directs the Commission to review utility costs recovery plans which must 'provide for identification and separation of individual rate components such as charges for energy, transmission, distribution, public benefit programs, and recovery of uneconomic costs.'" (Id. at 7.)

And:

> "... AB1890 prevents discriminatory ratesetting by providing that 'the separation of rate components required by this subdivision shall be used to ensure that customers of the electrical corporation who become eligible to purchase electricity from suppliers other than the electrical corporation pay the same unbundled component charges, other than energy, a bundled service customer pays.'" (Id. at 7.)

Unbundling is consistent with the spirit and the letter of AB 1890 and other relevant law.

The second criteria adopted by the Commission was that the proper allocation of costs benefits the public:

> "Unbundling utility rates and services is one of the primary means by which efficient markets may develop for utility products and services. That is, to the extent that prices reflect the costs of associated products and services, sellers will offer the most efficient quantity and variety of these products and services. Buyers will then be able to make purchasing decisions that best serve their interest." (Id. at 8.)

We believe that TURN/UCAN's line extension proposals serve the same public policy of giving clear price signals and allocating costs to those responsible for them. (See Exhibits 25 and 26, the testimony of witnesses Nahigian and Seeto.)

We next address the arguments of CBIA and Farm Bureau that the § 783 analysis submitted by TURN/UCAN is not adequate.

It is important to recognize that the issue is not whether the draft § 783 analysis presented by TURN/UCAN is adequate. Section 783 directs the Commission (rather than the parties) to make written findings on certain issues in order to adopt our proposals. TURN/UCAN have met that their burden here. PG&E submitted testimony that further substantiated the points made in TURN/UCAN's testimony.

Section 783 is not a barrier to reasonable changes to the line and service extension rules. Section 783 merely requires findings; it does not impose a strict evidentiary burden on the Commission as it considers changes to the existing rules. The Commission clearly has the authority to adopt changes to the line and service extension rules (and, indeed, to any tariffs) if it determines that such changes better serve the general interest of California, or are consistent with other decisions of the Commission or Legislature. Under some circumstances, such as the implementation of the Commission's unbundling decision, a § 783 analysis may not be required at all. Even where it undisputedly applies, § 783's requirement of "findings" must not be confused with "findings based on factual evidence that establishes a contention beyond a reasonable doubt."

As described above, there is substantial, unrebutted evidence in support of TURN/UCAN's recommendations, and that evidence clearly provides sufficient basis for the Commission to make the requisite § 783 findings.

One of the questions presented in this proceeding in regard to the distribution-basing proposal is whether § 783 applies to "ministerial" changes that represent changes not to the extension rules themselves, but rather to the factors used in the formula set out in those rules for calculating the allowances. The clearest example of such a change is the shift from "net revenues" that reflect the total rate except for fuel and other energy adjustment costs, to "net revenues" that include only the distribution rates once rate unbundling has been achieved. TURN/UCAN described how the distribution rates serve as a far better proxy for use in calculating the extension allowance that would be "supported" by future revenues. (Ex. 23, pp. 18-20.) No party has presented any evidence or argument establishing that the utility's extension costs are supported by any of the revenues other than those reflected in the distribution rate.

And as of January 1, 1998, the utilities that do not presently use distribution revenues to calculate their extension allowances will have a separate distribution rate that may be used for that purpose.

Contrary to the assertions of CBIA and Farm Bureau, changes of this nature as in the distribution-basing proposal are not changes in the "terms and conditions for the extension of services" referred to in § 783 as requiring the findings described therein. Rather, distribution-basing the allowances would seem to be the type of change the Commission had in mind when it provided for periodic or ministerial adjustments to the allowances under the rules adopted in D.94-12-026. However, since the record exists to perform the § 783 analysis, we will err on the side of caution and make the necessary findings in support of the move to distribution-based allowances.

If the ministerial approach is taken, the distribution-based allowances could be in place January 1, 1998. However, where § 783 applies, implementation will be delayed to July 1, 1998 at the earliest.[7] On the other hand, the Commission could also decide not to implement distribution-based allowances until July 1, 1998, thus allowing the public more time to prepare for the change. Since such a delay will be required in any event for implementation of the TURN/UCAN proposal on TSM equipment, we conclude that it would achieve greater administrative efficiency to implement both changes simultaneously on July 1, 1998.

In the event that a § 783 analysis was required, PG&E provided detailed calculations of the actual impact that the adoption of the TURN/UCAN-recommended changes would have on line and service extension allowances in practice. The testimony of PG&E witness Parker described his study of the impacts of moving to a revenue-justified, distribution-based allowance. (Ex. 27.) In other words, he considered precisely the scenario that would result if the Commission were to adopt

[7] Section 783(d) provides: "Any new order or decision issued pursuant to an investigation or proceeding conducted pursuant to subdivision (b) shall become effective on July 1 of the year which follows the year when the new order or decision is adopted by the commission, so as to ensure that the public has at least six months to consider the new order or decision."

TURN/UCAN's recommendations. This study updated the results of the earlier study that supported the § 783 analysis adopted by the Commission in D.94-12-026. The six scenarios considered by Parker covered a wide range of potential developments, from a single residential development through condominiums and strip malls. He concluded that the adoption of revenue-justified, distribution-based allowances for extension and service rules would increase the cost of a new home by approximately $800, or 0.4% of the median home price in California; that for residential developments the only change for developers would be the timing of their recovery of their refundable advances; and that in all cases the increase of the initial up-front cash payment would be accompanied by a reduction in the revenue requirement borne by the general body of ratepayers. (Ex. 27, p. 3.) As PG&E witness Seeto noted, this testimony from Parker serves to demonstrate that the adoption of the TURN/UCAN recommendation would reduce the cross-subsidies built into the current line and service extension tariffs. (Ex. 26, p. 2.)

The evidentiary record contains ample unrebutted testimony and other evidence supporting each of TURN/UCAN's recommendations. The TURN/UCAN § 783 analysis that was introduced into evidence contains sufficient findings to implement those recommendations consistent with the statute. In light of the strong evidentiary record in support of the TURN/UCAN recommendations, we conclude that the Commission should adopt TURN/UCAN's proposed § 783 analysis.

Findings Required by Section 783

The Commission, based on the record in this proceeding, adopts the PU Code § 783 analysis offered by TURN/UCAN as set forth below:

SECTION 783(b)(1): The economic effect of the line and service extension terms and conditions upon agriculture, residential housing, mobile home parks, rural customers, urban customers, employment, and commercial and industrial building and development.

Overall: The effect of TURN/UCAN's proposal to revenue-base all extension equipment and to calculate the allowances based only on the unbundled distribution rate costs will be a reduction in line and service extension allowances to applicants. The primary economic effect is the more appropriate assignment of the costs of line and service extensions, as the party responsible for the costs being incurred (the applicant) will bear a greater share of those costs. The costs borne by the general body of existing

customers for the utility making the line or service extension will be reduced, thus reducing the subsidy of extensions that occurs today.

To the extent that this change is reflected in each utility's authorized base revenue requirement, it will serve to reduce base rates. For the gas operations of PG&E and SDG&E, this should serve to reduce overall rates. (The gas-only utilities already have distribution-based allowances that cover the equivalent of TSM equipment.) For Edison and the electric operations of PG&E and SDG&E, a reduction in base rates will serve to increase the "head room" available under AB 1890 and the Commission-approved cost recovery plans for recovery of uneconomic generation costs, thereby enhancing the possibility that the rate freeze will end prior to April 1, 2002. In both cases, the reduction in base rates will have the economic effect of benefiting all consumers of the utilities subject to this rulemaking.

The economic effect for those applicants who will bear higher extension costs under the TURN/UCAN proposal is partially mitigated by the proposal to combine the allowance provisions of Rules 15 and 16 (or their equivalents) so that any amount by which the line extension allowance exceeds the incurred line extension costs can be applied to the costs of the service extension, and vice versa.

Agriculture:[8] The costs of line and service extensions are likely to increase for the small number of agricultural customers that undertake a new line and/or service extension, as they will be required to pay more (but still not all) of the costs caused by that extension. However, the base rates paid by all customers (including agricultural customers) may be reduced due to the reduction in line and service extension allowances. In light of the more accurate assignment of costs to the parties who cause those costs to be incurred, as well as the consistency with the general policy in support of unbundling rates and services, the benefits to all customers are found to outweigh the economic impact upon the agricultural customers who might incur additional line or service extension costs.

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[8] See Exhibit 25. Plus Witness Seeto statement that "the agricultural customer has control over decision whether or not to put in any hookup or not; and if you give them a correct price signal, they can make a more correct decision from an economic efficiency point-of-view." (Transcript at 261.) Moreover, Mr. Parker observed in his testimony that the number of agricultural customers who would be affected by the proposed changes is relatively slight: "but one thing that I can say is that we probably are running relatively few electric line extensions in relationship to all the line extensions that we are doing; and so as far as a class, the impact cannot be all that much when compared to all of the line extensions that we are doing." (Transcript at 264-265.)

Residential Housing:[9] The costs of line and service extensions are likely to increase for developers of residential housing that undertake a new line and/or service extension, as they will be required to pay more (but still not all) of the costs caused by that extension. However, in the current housing market such cost increases are more than offset by the general upward pressure on housing prices. Furthermore, the base rates paid by all customers (including the residential customers that ultimately occupy the new residential housing) may be reduced due to the reduction in line and service extension allowances. In light of the more accurate assignment of costs to the parties who cause those costs to be incurred, as well as the consistency with the general policy in support of unbundling rates and services, the benefits to all customers are found to outweigh the economic impact upon the developers and purchasers of residential housing who might incur additional line or service extension costs.

Mobile home Parks:[10] The costs of line and service extensions are likely to increase for mobile home park owners or residents customers that undertake a new line and/or service extension, as they will be required to pay more (but still not all) of the costs caused by that extension. However, the base rates paid by all customers (including mobile home park owners and residents) may be reduced due to the reduction in line and service extension allowances. In light of the more accurate assignment of costs to the parties who cause those costs to be incurred, as well as the consistency with the general policy in support of unbundling rates and services, the benefits to all customers are found to outweigh the economic impact upon the mobile home park owners and residents who might incur additional line or service extension costs.

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[9] See Exhibit 25. Plus, Witness Parker's direct testimony that: (1) A decrease in the applicable allowance, for example from $2000 to $1288 for residential extensions. This approximate $800 difference might increase the Californian median home price of $190,280 (as reported) by the California Association of Realtors in its 1998 Economic Forecast by 0.4%. (2) For residential developments the only real change is that it may likely take developers a little longer to get all their refundable advances back. (3) An increase of the initial up front cash payment by the applicant, but an accompanying reduction in the revenue requirement paid by ratepayers.

In addition, the housing market in California, but particularly Northern California, is today "high growth," (Transcript at 198, Mr. Medeiros.) and if subsidies are to be reduced, the high demand in the housing industry will minimize adverse impacts.

[10] See Exhibit 25. Plus, Witness Seeto's testimony, that "this desirable outcome [economic efficiency] happens in the residential class, among mobile park homes, private cultural customers, among commercial and industrial customers, and for government and municipal projects in the future, and has desirable overall effects on the economy as a whole. Existing customers in general will be better off under the proposed line extension rules because they will no longer have to subsidize new customers." (Exhibit 26, at 3.)

Rural Customers:[11] The costs of line and service extensions are likely to increase for rural customers that undertake a new line and/or service extension, as they will be required to pay more (but still not all) of the costs caused by that extension. However, the base rates paid by all customers (including rural customers) may be reduced due to the reduction in line and service extension allowances. In light of the more accurate assignment of costs to the parties who cause those costs to be incurred, as well as the consistency with the general policy in support of unbundling rates and services, the benefits to all customers are found to outweigh the economic impact upon the rural customers who might incur additional line or service extension costs.

Urban Customers:[12] The costs of line and service extensions are likely to increase for urban customers that undertake a new line and/or service extension, as they will be required to pay more (but still not all) of the costs caused by that extension. However, the base rates paid by all customers (including urban customers) may be reduced due to the reduction in line and service extension allowances. In light of the more accurate assignment of costs to the parties who cause those costs to be incurred, as well as the consistency with the general policy in support of unbundling rates and services, the benefits to all customers are found to outweigh the economic impact upon the urban customers who might incur additional line or service extension costs.

Employment:[13] No effect.

Commercial/Industrial Development:[14] The costs of line and service extensions are likely to increase for developers of commercial or industrial facilities that undertake a

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[11] See Exhibit 25. Plus the general comments of Witness Seeto. Id., at 3.

[12] See Exhibit 25. Plus the testimony of Witness Seeto, that "this desirable outcome [economic efficiency] happens in the residential class, among mobile park homes, private cultural customers, among commercial and industrial customers, and for government and municipal projects in the future, and has desirable overall effects on the economy as a whole. Existing customers in general will be better off under the proposed line extension rules because they will no longer have to subsidize new customers." (Exhibit 26, at 3.)

[13] See Exhibit 25. Plus the testimony of Witness Seeto, that "this desirable outcome [economic efficiency] happens in the residential class, among mobile park homes, private cultural customers, among commercial and industrial customers, and for government and municipal projects in the future, and has desirable overall effects on the economy as a whole. Existing customers in general will be better off under the proposed line extension rules because they will no longer have to subsidize new customers." (Exhibit 26, at 3.)

[14] See Exhibit 25. Plus Witness Seeto's direct testimony, at 4-5 "Improving the price signal to new [commercial and industrial] customers hookups will mean that there will be a lessening of cross-subsidy by old existing customers to new customers. This lowers the cost of doing

Footnote continued on next page

new line and/or service extension, as they will be required to pay more (but still not all) of the costs caused by that extension. However, the base rates paid by all customers (including commercial and industrial customers) may be reduced due to the reduction in line and service extension allowances. Furthermore, SDG&E's nonresidential allowances for electric line extensions have been distribution-based since 1994, with no apparent impact on the commercial/industrial development within that utility's service territory. In light of the more accurate assignment of costs to the parties who cause those costs to be incurred, as well as the consistency with the general policy in support of unbundling rates and services, the benefits to all customers are found to outweigh the economic impact upon the developers of commercial or industrial facilities who might incur additional line or service extension costs.

Section 783(b)(2):[15] The effect of requiring new or existing customer applying for an extension to an electrical or gas corporation to provide transmission and distribution facilities for other customers who will apply to receive line and service extensions in the future.

No effect on transmission facilities, as those facilities are not subject to the existing or proposed rules. Furthermore, with the development of the ISO in the restructuring proceeding, there is even less of a nexus between the line and service extension rules and the provision of transmission facilities.

For distribution facilities, there is no change to the current rules in terms of the provisions of refunds where there has been a series of extensions. The Section 783 analysis adopted in D.94-12-026 found that the current rules caused, at worst, no effect and in many cases provided significant positive impacts. D.94-12-026, Appendix B, pp. 87-88.

Section 783(b)(3):[16] The effect of requiring a new or existing customer applying for an extension to an electrical or gas corporation to be responsible for the distribution of, reinforcements of, relocations of, or additions to that gas or electrical corporation.

No effect as compared to current rules.

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business for existing commercial and industrial customers, and some of these savings will be passed on to consumers. In addition, lowering business costs to old customers will encourage them to expand economic activity and thus promote employment. As for the sometimes higher costs to new business customers, the higher charge to them is a more correct price signal that promotes societal economic efficiency."

[15] See Exhibit 25. Plus Witness Seeto's testimony.

[16] See Exhibit 25. "No affect as compared to current rules."

Section 783(b)(4):[11] The economic effect of the terms and conditions upon projects, including redevelopment projects, funded or sponsored by cities, counties, or districts.

The costs of line and service extensions are likely to increase for projects funded or sponsored by cities, counties or districts, as those entities will be required to pay more (but still not all) of the costs caused by that extension. However, the base rates paid by all customers (including cities, counties or districts as utility customers themselves) may be reduced due to the reduction in line and service extension allowances. Furthermore, the costs of line and/or service extensions required for such projects are more appropriately borne by the city, county or district funding or sponsoring the project, rather than by the general body of utility ratepayers. In light of the more accurate assignment of costs to the parties who cause those costs to be incurred, as well as the consistency with the general policy in support of unbundling rates and services, the benefits to all customers are found to outweigh the economic impact upon the urban customers who might incur additional line or service extension costs.

Section 783(b)(5):[12] The effect of the line and service extension regulations, and any modifications to them on existing ratepayers.

The proposed rule will reduce rates to existing ratepayers by reducing the amount of subsidies to applicants who have insufficient revenues to support the cost of a line or service extension. The total amount of reduction is substantially larger than the reduction achieved through the adoption of the rule changes in D.94-12-026. Therefore the benefits from the changes proposed here will be larger both initially, and over time, than the benefits discussed in the § 783 analysis attached to that decision. Appendix B, p. 89.

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[11] See Exhibit 25. Plus Witness Seeto's testimony: "While it is true that the new proposed line extension policy will increase the cost of some public or municipal projects, the proposed policy's alignment of charges closer to true cost will provide a more accurate price signal reflecting the true cost of scarce resources to society. These more correct price signals in turn give public officials more accurate price information and thus allow them to make more economical efficient decisions in considering alternative public projects to pursue."

[12] See Exhibit 25.

Section 783(b)(6):[19] ***The effect of the line and service extension regulations, and any modifications to them, on the consumption and conservation of energy.***

No change from the effect identified in D.94-12-026, Appendix B, p. 90.

Section 783(b)(7):[20] **The extent to which there is cost-justification for a special line and service extension allowance for agriculture.**

There are no special allowances for agricultural loads in the existing or proposed rules. The proposed rules are structured to generally treat all applicants in the same manner.

Line and Service Extension Allowances are not "Rates" that would be Subject to the Rate Freeze Provisions of AB 1890

TURN/UCAN note that the term "rates" is not defined in AB 1890. However, some clarification of what the Legislature had in mind with its reference to rates in § 368(a) is found in the following subsection:

> "The cost recovery plan shall provide for identification and separation of individual rate components such as charges for energy, transmission, distribution, public benefit programs, and recovery of uneconomic costs." Section 368(b). (Emphasis added.)

Thus, TURN/UCAN argue that it is reasonable to conclude that the "rates" referred to in § 368(a) are made up of the "rate components" described in § 368(b). TURN/UCAN contends that line and service extension allowance have no such components, and therefore should be deemed sufficiently different from the "rates" described in § 368(a) that the rate freeze does not extend to the allowances.

TURN/UCAN point out that this position finds further support elsewhere in the PU Code. Section 210 of the Code defines "rates" as including "rates, fares, tolls, rentals, and charges, unless the context indicates otherwise." (Emphasis added.)] On

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[19] See Exhibit 25. "No change from the effect identified in D.94-12-026, Appendix B, p. 90."

[20] See Exhibit 25. "There are no special allowances for agricultural loads in the existing or proposed rules. The proposed rules are structured to generally treat all applicants in the same manner."

its face, the allowance for line and service extension costs does not appear to constitute a rate, fare, toll, rental or charge, since those terms connote payments to the utility, and allowances represent amounts that would not be paid by the applicant to the utility. According to TURN/UCAN, even if one were to assume that line and service extensions involve "charges," the context within which the term is used in § 368 certainly indicates that these charges are not "rates" for purposes of AB 1890.

TURN/UCAN suggest that the Commission should also look to the distinction drawn in § 453(a), a statute that appears in the Public Utilities Code Chapter entitled "Rates." There the Legislature used the phrase "rates, charges, service, facilities." TURN/UCAN submit that applicant costs associated with line and service extensions fall more neatly into all of the above except for rates.

TURN/UCAN argues that moreover, the Commission must interpret "rates" as used in § 368 in a manner that is consistent with the overall purpose and intent of AB 1890. TURN/UCAN believe that extending it to include line and service extension costs and allowances would serve as precedent for the undoing of AB 1890. For example, in the process of implementing direct access the Commission will face a host of new charges that did not exist on June 10, 1996. If the freeze extends beyond rate schedules to reach line and service extension costs and charges, TURN/UCAN queries how could the Commission avoid rejecting any and all of these direct access charges? And how could utilities collect FERC-authorized ISO charges, when such charges did not exist as of June 10, 1996?

Finally, TURN/UCAN argue that if the Commission is going to have the rate freeze extend to anything that even appears to be a "rate" under the broadest interpretation of that term, it would then be obliged to provide residential and small commercial customers a reduction of no less than 10% off of everything. TURN/UCAN submit that this will require the Commission to undertake a review of any and all changes that have occurred since June 10, 1996 that may have resulted in higher costs being borne by utility ratepayers, even if it did not change the rates reflected on the applicable rate schedules. One such example has arisen in this proceeding, as Edison's increase of its residential standard allowance from approximately $2,000 per line

extension to more than $3,000 per extension occurred in an advice filing submitted in December, 1996.[21]

We agree with TURN/UCAN that these outcomes demonstrate the illogic of extending the rate freeze to line and service extension allowances. We conclude that there is no basis for deciding that AB 1890 prohibits to any degree the adoption or implementation of TURN/UCAN's proposals in this proceeding. Accordingly, we decline to adopt the rate freeze arguments of CBIA and Farm Bureau.

Section 311 Comments

The Administrative Law Judge's proposed decision on this matter was filed with the Commission's Docket Office and mailed to the parties on November 21, 1997. The parties agreed to a shorter comment period (Rule 77.2) and waived the 30-day requirement between issuance of the proposed decision and the Commission's decision (§ 311(d)). Opening comments were filed on December 5, 1997, by TURN and UCAN, PG&E, Joint Utilities, CBIA, Farm Bureau, and UDI. Reply comments were filed on December 12, 1997 by TURN/UCAN, Joint Utilities, Farm Bureau, and PG&E. We have carefully considered the comments and to the extent that the comments require discussion or changes to the proposed decision, the discussion or changes have been incorporated into this order.

Findings of Fact

1. TURN/UCAN propose to: (1) revenue justify service rules by including the cost of TSM equipment, as costs to the developer, but subject to allowances, (2) use only distribution-based revenues for calculating allowances rather than revenues reflecting the full range of utility services in "net revenue" used to set allowances, and (3) establish a mechanism to allow relevant Commission decisions from other proceedings

[21] Edison's fixed residential allowance was increased through advice letter filing (Advice No. 1206-E, December 16, 1996). (Ex. 23, p. 15.)

to flow through to the calculations of line and service extension allowances without additional Commission proceedings.

2. Adoption of TURN/UCAN's proposals will more completely assign the costs of line and service extensions to those entities that are causing the costs to be incurred, consistent with Commission policy.

3. The provision of TSM equipment at no cost to the applicant is a holdover from the general promotional practices adopted in decades past, a policy that the Commission has long since abandoned.

4. There is sufficient evidentiary support for the TURN/UCAN proposal to revenue-justify the costs associated with TSM equipment.

5. There is sufficient evidentiary support for the proposal to use only distribution-based revenues to calculate line and service extension allowances.

6. A streamlining mechanism as proposed by TURN/UCAN may be adopted by the Commission since periodic adjustments to the factors used in calculating allowances are (a) permitted by the utilities' rules; (b) which rules have been approved by the Commission in D.94-12-026; and (c) which periodic changes are approved by § 783 - "Except for periodic review provisions..."

7. A streamlining mechanism is consistent with current Commission approved procedures whereby the utilities adjust line extension allowances. For example, the utility's rate is a variable in the utility's tariff formula for calculating allowances, and (2) changes in utilities' rates are included within the periodic adjustment provisions of their extension rules for allowances, and (3) the rate is an identifiable variable in the numerator of the allowance formula as "net revenue", which the rule defines as that portion of the total rate that supports the utility's extension costs.

8. Substantial and detailed evidence, including quantification from witnesses Nahigian, Parker, and Seeto, exists in the record to support the TURN/UCAN recommendations and § 783 analysis. For example, PG&E witness Parker summarized some of the effects:

- A decrease in the applicable allowance, for example, from $2,000 to $1,288 for residential extensions. This approximate $800 difference might increase the

California median home price to $190,280 (as reported by the California Association of Realtor's in its 1998 Economic Forecast) by 0.4%.

- For residential developments the only real change is that it may likely take developers a little longer to get all their refundable advances back.

- An increase of the initial upfront cash payment by the applicant, but an accompanying reduction in the revenue requirement paid by ratepayers.

9. The § 783 analysis drafted by TURN/UCAN contains findings that are supported by the evidentiary record in this proceeding, and should be adopted.

10. Ratepayers benefit from reduced line and service extension allowances during the rate freeze period, in that the associated rate base reductions increase the likelihood that the rate freeze will end prior to December 31, 2001, and will lead to lower post-freeze rates, even if the freeze runs for its maximum duration.

11. The Commission in D.97-08-056 deferred to the findings of this proceeding the consideration of line extension allowance rules.

12. In the context of AB 1890, line and service extension allowances are not rates, terms or conditions for utility service to end use customers. Allowances are payments from the utility to developers for utility infrastructure. They presently include subsidies from ratepayers to applicants. TURN/UCAN's TSM proposal reduces those subsidies by better matching the allowance to expected revenue.

13. Line or service extension allowances do not serve to collect the subject utility's revenue requirement, but rather are set to determine an allocation of the line and service extension costs between the new customer and the existing body of ratepayers.

Conclusions of Law

1. The TURN/UCAN proposals should be adopted.

2. Sufficient evidence exists in the record supporting TURN/UCAN's proposals.

3. TURN/UCAN's analysis and the overall record in the proceeding is sufficient to meet the requirements of PU Code § 783.

4. The cost of TSM equipment provided by the utility to applicants should be included as costs that will be covered by allowances only to the extent that they are revenue-justified.

5. In order to implement the inclusion of TSM equipment in the costs subject to the line and service extension allowances, Rules 15 and 16[22] should be modified consistent with this change. The discussion of allowances in Rule 15 should include rather than exclude the TSM equipment as a utility cost subject to the allowance. In addition, language should be added to Rule 16 to make clear that the allowance for the TSM-related costs is discussed in Rule 15.

6. The "net revenues" used to set allowances under the existing rules should be limited at this time to distribution revenues, rather than revenues reflecting the full range of utility services (many of which may no longer be provided directly by the utility to its customers).

7. As a matter of law the utilities are authorized to periodically revise the components in their allowance formula based on changes in those components, including rate changes.

8. Line extension allowances should continue to be given. As a matter of policy, the definition of net revenues used to set allowances should be limited to the revenues associated with the costs that support the line and service extension.

9. A mechanism should be established that would serve to streamline any further refinement of the line and service extension allowances by flowing through the outcome of relevant Commission decisions without requiring continuation of this proceeding or the initiation of a separate proceeding for changing the allowances.

10. The Commission's Advice Letter procedure is an appropriate vehicle for implementing such flow-through changes. When filing such Advice Letters the utilities should serve copies on the parties that actively participated in this proceeding,

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[22] For SoCalGas the equivalent rules are Rules 20 and 21, respectively.

including TURN, UCAN, CBIA, Farm Bureau, and UDI. This procedure provides parties with the opportunity to review the utility's proposed change to the allowance and provides the opportunity to protest such filings, if necessary.

11. AB 1890 does not preclude distribution basing line extension allowances. In fact, if allowances are not distribution based a significant inequity would occur. The utility would pay an allowance based on an aggregated rate, but it would only receive revenues from the customer based on the lower, disaggregated distribution rate.

12. The AB 1890 rate freeze does not apply to allowances for line or service extensions because the associated costs are clearly not considered rates within the context of AB 1890.

O R D E R

IT IS ORDERED that:

1. The proposals of Utility Reform Network (TURN) and Utility Consumers Action Network (UCAN), as discussed in this decision, are adopted to: (1) revenue-justify service rules by including the cost of transformers, services and meter equipment (TSM) as costs to the developer, but subject to allowances, (2) use only distribution-based revenues for calculating allowances, rather the revenues reflecting the full range of utility services in "net revenue" used to set allowances, and (3) establish a mechanism to allow relevant Commission decisions from other proceedings to flow through to the calculations of line and service extension allowances without additional Commission proceedings.

2. To mitigate any adverse impact on applicants, these proposals shall become effective on July 1, 1998. The utilities shall file revised tariff rules to reflect the adopted TURN/UCAN recommendations where appropriate. Such tariff filings shall be made at least 30 days prior to July 1, 1998.

3. An applicant for a line or service extension shall be treated under the old rules if prior to the effective date of the new rules it had (1) completed written application for service in accordance with the utilities' rules, including those for application for service, e.g., in PG&E's case, Rules 1, 3, 15 and 16; and (2) received a building permit or has a

plan approved by the appropriate jurisdiction; and (3) if within one year from the effective date of the new rules it pays all monies due to the utility and is ready for service.

4. For special cases of customers who have signed agreements under the old rules but have not proceeded, they shall have one year from the effective date of the new rules to complete steps 2 and 3.

5. The Commission adopts the Public Utilities Code § 783 analysis offered by TURN/UCAN as set forth in this decision.

6. This proceeding remains open to address the remaining issues set forth in Decision 96-06-031.

This order is effective today.

Dated December 16, 1997, at San Francisco, California.

P. GREGORY CONLON
President
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
RICHARD A. BILAS
Commissioners

I will file a concurring opinion.

/s/ JESSIE J. KNIGHT, JR.
Commissioner

R. 92-03-050
D. 97-12-098

Commissioner Jessie J. Knight, Jr., Concurring:

This decision highlights the fact that competition is coming to the provision of distribution services. The Commission will eventually have to review its entire line extension policy in light of the changing competitiveness in all aspects of the electric utility industry. It may be that there is no reason why the local utility distribution companies should be the only ones to construct and own line extensions. With the proper balance of responsibilities and opportunities, one could easily see a world where customers may build, own, and maintain their own distribution systems. This is particularly possible for industrial and commercial customers, an industrial park is a good example. In my mind, it is appropriate to allow a customer to build own and maintain distribution plant that is wholly on the customers property.

There is much precedent for this now. Already, we allow the meter which is part of the distribution plant, to be provided by someone other than the utility. In high-rise buildings and in master meter mobile home parks, the distribution facilities are owned and operated by someone other than the utility. The Commission should revisit outdated tariff restrictions that mandate the specific location of meters so that a customer can install a meter at the property line and be responsible for the distribution of the power within the property, including the distribution of power to various tenants. This is analogous to the shared tenant service policies that existed in telecommunications.

Should the Commission open this market, it would not result in any duplicative facilities, because we are talking about new incremental line extensions and I believe service, reliability and safety issues can be worked out accordingly.

Dated December 16, 1997 in San Francisco, California.

/s/ Jessie J. Knight, Jr.
Jessie J. Knight, Jr.
Commissioner

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