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MAIL DATE
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Decision 98-03-039 March 12, 1998

ORIGINAL

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	R.92-03-050 (Filed March 31, 1992)

ORDER DENYING HEARING AND CLARIFYING D.97-12-098

I. SUMMARY

In D.97-12-098, the Commission approved modifications of the line and service extension rules. The decision adjusts the rules consistent with new legislation establishing a restructured electric industry.

The Commission adjusted the computation of the "allowance" provided by a utility to a customer who receives a line and service extension. This allowance helps the customer offset his costs. The Commission ordered the adjustment to accord with unbundled utility services and the reality that many customers will soon be opting for direct access for their power supply. Specifically, the Commission determined that the allowances received by those who obtain a line and service extension will now be based only on the anticipated revenue to be received by the utility for distribution service. The allowances will no longer be based on anticipated bundled revenues which have in the past included payments to the utility for generation, transmission, and distribution services. In a restructured utilities industry, the local public utility may no longer be called upon to provide to every customer any service other than distribution

service, and therefore may not receive from every customer revenues other than those attributable to distribution services. Therefore, by basing the allowances for line and service extension costs on the utility's anticipated receipt of revenues for distribution service only, the Commission has properly and fairly balanced and allocated costs, subsidies, and revenues.

On January 20, 1998, the California Building Industry Association (CBIA) filed an application seeking rehearing of the Commission's decision. CBIA contends that our decision does not satisfy the requirements of Section 783 of the California Public Utilities Code. In particular, CBIA argues that we did not make sufficiently specific findings under Section 783(b) with respect to the economic impact of modifying the calculation of allowances. CBIA also contends we have unlawfully established an automatic procedure to keep the formula used to determine the allowances in accord with relevant Commission decisions as they are issued.

The California Farm Bureau Federation filed comments in support of CBIA's application. The utilities involved filed a joint response to the application, as did The Utility Reform Network (TURN) and the Utility Consumers Action Network (UCAN).

Based on our review of the issues and arguments raised by CBIA, and the comments made in support of and in opposition to the application for rehearing, we are denying rehearing. Legal error has not been established. We will, however, clarify the procedure for updating the factors used in the allowance formula by requiring an advice letter filing.

II. DISCUSSION

A. Allowances Based on Revenues Received for Distribution Service

CBIA first contends that the Commission was incorrect in describing the modification of the allowance calculation as an allowable periodic adjustment under Section 783(a). (Application, pp. 4-5, referencing D.97-12-098, at pp. 18-19.) CBIA argues that the order is a major modification of the line extension rules and, therefore, the abbreviated procedure allowed by Section 783(a) for periodic adjustments does not apply. Instead, according to CBIA, a full economic impact analysis as set forth in Section 783(b) is required. In explaining its position, however, CBIA acknowledges the necessity of the calculation change we have authorized. Correctly defining the allowance formula to be "Allowance = Net Revenue divided by Cost-of-Service Factor," CBIA states:

> "The determination to revise the definition of 'Net Revenue' to exclude revenues associated with two of the three functions previously included in the calculation is certainly not a routine or periodic change in the line extension allowance rule. It is a unique, one-time revision that reflects the major restructuring of the state's electric industry which is currently in progress." (App. Rhg., p. 5; emphasis added.)

CBIA recognizes that our decision aligns the line extension allowances with unbundled utility service whereby a customer may opt to receive only distribution service from the public utility. CBIA also appears to be aware that the impetus for our order, the unbundling of utility services and the option of customer direct access, derives from the restructuring legislation of Assembly Bill (AB) 1890, codified in Sections 330 et seq. of the California Public Utilities Code.

CBIA, therefore, may be correct to point out that the change we have made is not conventionally a periodic one, such as may have been envisioned when the provisions of Section 783 were enacted in 1983. But in faulting the economic analysis presented in D. 97-12-098, CBIA fails to explain precisely the elements of an economic analysis it believes are necessary and sufficient in the context of the industry and ratemaking changes mandated in 1996 by AB 1890. The Commission has determined that the allowance modification ordered must necessarily be made in light of unbundled utility services and direct access options, a determination with which CBIA appears to agree.

We also noted in our decision that the utilities providing natural gas service are already basing line extension allowances on distribution revenues. Southwest Gas Corporation, Southern California Gas Company, and San Diego Gas and Electric Company calculate the natural gas line extension allowances on distribution revenues. (D.97-12-098, mimeo, pp. 7, 15.) There is no reason, and CBIA has not clearly presented any, for maintaining a different and anachronistic method of calculating allowances for electric line extensions.

In any event, although the Commission stated that the allowance modification could be implemented under Section 783(a) as a periodic revision to the rules, the Commission nonetheless provided in D.97-12-098 the material findings on economic impacts required to comply with Section 783(b) as well. The extent of the economic analysis made is appropriately and necessarily consistent with the overriding imperatives of electric restructuring mandates.

For each of the customer classes, we found that by calculating only anticipated distribution revenues in the allowance formula, we would more equitably assign the extension costs to the party causing the costs. The adjusted allowance provided by the utility to the party obtaining the line extension will likely be lower than it would be if calculated with a factor for bundled revenues.

However, because an allowance based on distribution revenues results in adding lower costs to the utility's rate base, the remaining ratepayers will have the benefit of lower base rates. We stated the principal economic impact to be as follows:

> "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 ... customers who might incur additional line or service extension costs." [1]

Although CBIA may complain that our analysis does not provide more extensive quantification of economic impacts, CBIA cannot demonstrate legal error. Section 783 does not specify the exact nature of the economic analysis required. In the past, when utility rates were bundled, an analysis under Section 783(b) could have required other information and data. What is material in the analysis to be made today is a demonstration of the resulting equitable allocation of costs associated with the restructured utility industry and the changes in the revenues the utilities can count on and those for which they must compete.

In short, the Commission has complied with Section 783(b) in a manner consistent with the Commission's mandate to implement AB 1890. We see no statutory requirement in Section 783 to indulge in analyses that are useless or unnecessary.

B. Mechanism To Adjust Allowances In The Future

CBIA also contends in its application that the Commission improperly adopted a streamlining mechanism to permit future changes in the line extension

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[1] This economic finding was made for each of the customer classes enumerated in Section 783. See D.97-12-098, mimeo, pp. 26-29."

allowances. We will clarify our decision on that matter by specifying an advice letter filing is required as part of the process.

In D.97-12-098, at pp. 17-19, we approved the TURN/UCAN proposal to flow through into the calculation of line and service extension allowances the relevant effects of Commission decisions, as those decisions are issued. This procedure extends the adjustments now provided for in tariff rules. PG&E's tariff Rule 15, for example, provides for a periodic review of the factors used in the line extension allowance formula when the subject change will modify the allowance by more than five percent. We will now allow the allowance formula to be updated when a Commission decision affects a factor in the formula, such as the customer rate for distribution service, whether or not the allowance is modified by more than five percent. A modification of the distribution rate impacts the net revenue computed in the formula: Allowance = Net Revenue divided by Cost-of-Service factor.

Therefore, pursuant to the authority vested in us by Article XII, Section 2 of the California Constitution and Section 701 of the California Public Utilities Code, we reaffirm that when the Commission issues a decision that impacts factors in the formula for line and service extension allowances, the utilities should apply that decision to a recalculation of the allowances without initiating or requesting a separate ratemaking or rulemaking proceeding.

CBIA has failed to identify anything in Section 783 which prohibits this tariff order or which overrides our constitutional and statutory authority for adopting the procedure. We will clarify, however, that as with prior periodic changes which were permitted, the formula updating we authorized in D. 97-12-098 must be made in advice letter filings by the affected utilities.

III. CONCLUSION

CBIA has failed to substantiate legal error in our decision. However, we will clarify our decision to require advice letter filings as part of the streamlined procedure for adjusting the line and service extension allowances to reflect relevant Commission decisions.

IT IS THEREFORE ORDERED;

1. Ordering Paragraph 1 of D.97-12-098 shall be modified, in subsection (3) to provide for the filing of an advice letter to implement the new mechanism for efficiently recalculating the line and service extension allowances as described herein and in D .97-12-098. Ordering Paragraph 1, as modified, shall read:

> "1. The proposals of Utility Reform Network (TURN) and Utility Consumers Action Network (UCAN), as discussed in this decision, are adopted to:
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> (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) authorize relevant Commission decisions from other proceedings to flow-through into the formula for calculating line and service extension allowances with any resulting changes in the allowances filed with the Commission by an advice letter."

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2. D.97-12-098 being so modified, rehearing is denied.

This order is effective today.

Dated March 12, 1998, at San Francisco, California.

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