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Decision 99-06-079 June 24, 1999

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)

OPINION

Summary

This decision addresses proposed changes to the Line Extension Rules of the gas and electric utilities. These rules govern the extension of gas and electric service to new customers.

The Commission: (1) adopts a proposal to delete Option 1, the "unit cost option" from the utilities' Line Extension Rules; (2) rejects a proposal to change the contract and cash advance provisions of Tariff Rules 15 and 16; (3) rejects a proposal to require the utilities to collect an advance payment to cover engineering and coordinating services; (4) adopts a proposal to require the utilities to provide one construction inspection at no charge for applicant-installed extensions; and (5) rejects a proposal to change the timing of collection by the utilities of the Income Tax Component of Contribution (ITCC).

The adopted changes are intended to level the competitive playing field and promote competition in line extension construction services provided by the utilities and independent contractors. Pursuant to Pub. Util. Code § 783(d), the elimination of Option 1 will not become effective until July 1, 2000. Applicants who choose the applicant-installed option will be allowed the first inspection of each portion of their projects at no charge to the applicant effective the date of this order.

Procedural Summary

Several workshops were held at which various issues related to the utilities' Tariff Rules 15 and 16 were discussed. The issues discussed herein were identified as Issues No. 3, 4, 5, 6 and 7.[1]

On October 15, 1997, an evidentiary hearing on Issue No. 3 was held. Concurrent briefs were filed by the California Building Industry Association (CBIA), the Joint Utilities,[2] and Utility Design, Inc. (UDI). The remaining issues were submitted for decision based on the written pleadings submitted by the parties.[3] Briefs were filed by the Joint Utilities, Power Plus and UDI.

In addition to the exhibits received into evidence during the evidentiary hearing, the record in this phase of the proceeding includes: Exhibit 30 - Corollary brief of UDI dated January 20, 1997; Exhibit 31 - Response of Joint Utilities dated May 2, 1997; Exhibit 32 - Prepared testimony of UDI dated August 11, 1997; Exhibit 33 - Reply testimony of Joint Utilities dated August 28, 1997; Exhibit 34 - Testimony of Power Plus dated December 12, 1996; and Exhibit 35 - Response of Joint Utilities regarding proposed changes to the timing of ITCC collection, dated January 14, 1997.

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[1] See Workshop Report dated September 10, 1996. Issues No. 3, 4, 5 and 6 were raised by UDI. Issue No. 7 was raised by Power Plus.

[2] Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas and Electric Company, Southwest Gas Corporation, Southern California Edison Company, Sierra Pacific Power Company, and PacifiCorp.

[3] See Administrative Law Judge's (ALJ) rulings dated February 25, and July 25, 1998; and, transcript of July 11, 1997, prehearing conference, TRP 415.

Background

Prior to 1983, the utility was solely responsible for engineering and construction of all line extensions.[4]

In 1983, the Legislature passed amendments to Pub. Util. Code § 783 which required the utilities to implement a change in the line extension rules to allow applicants to construct their line extensions using a contractor of their choice.

In 1985, the Commission amended the Line Extension Rules (Tariff Rule 15) to provide applicants for line extensions with two options.[5] Under Option 1, the utility provides an estimate based on the utility's system average or unit cost per foot of line extension, and the utility installs the line extension. Under Option 2, the utility provides a site-specific estimate which the applicant can use to "shop" for a lower bid from an independent contractor. The applicant has a choice of installation by the utility or an independent contractor. At the outset, prior to receiving the utility's estimate for a line extension, the applicant must make an irrevocable selection of either Option 1 or Option 2.

Depending upon selection by the applicant of Option 1 or Option 2, the utility prepares an estimate based on unit cost or site-specific cost. The estimate is used to calculate the advance required by the utility from the applicant. The advance must be paid prior to commencement of construction. After the customer takes service, the advance is partially or fully refunded according to the tariff rules which provide certain allowances.

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[4] See D.59011 (1959) 57 CPUC 346.

[5] See D.85-08-043, 18 CPUC2d 533; also see Pub. Util. Code § 738(f).

The issues discussed below concern the alleged anticompetitive aspects of the Line Extension Rules which purportedly favor construction by the utility over the independent contractor.

Proposal to Delete Option 1, the "Unit Cost Option" From the Utilities' Line Extension Rules[6]

UDI urges the Commission to eliminate unit cost estimates (Option 1) in favor of site-specific estimates (Option 2). According to UDI, elimination of unit costs is necessary for fair competition in the line extension market. UDI contends that this change will:

- remove below-market unit costs, a major impediment to competition that has been subsidized by both ratepayers and other applicants. Market forces should determine the price for utility installations.

- allow applicants the opportunity to make more informed decisions on who installs their facilities. Currently, applicants are forced to base their irrevocable selection of Option 1 or Option 2 primarily upon unit cost. With site-specific estimates, applicants will be able to determine whether time and money can be saved by using an independent contractor.

- simplify the process of purchasing utility installations. Once unit costs are eliminated, applicants can seek bids for their utility installations just like any other aspect of their project.

The Joint Utilities provided the testimony of three employees responsible for administering the line extension rules. They testified in support of UDI's recommendation that unit costs be eliminated.

The Joint Utilities contend that since 1985 the utilities have been administering incompatible methods for pricing line extensions: the traditional

[6] This issue was identified as Issue No. 3 in this proceeding.

tariff driven system-average cost or unit cost method (Option 1) and a competitive bid method requiring a site-specific estimate (Option 2).

The Joint Utilities argue that two of the more significant problems associated with administering these incompatible methods include the irrevocable option selection requirement and "cherry-picking" by applicants. In this context cherry-picking means that the applicant may select the unit-cost option when it is less than the site-specific estimate. According to the Joint Utilities, the irrevocable selection requirement was approved as a necessary administrative procedure by the Commission upon the implementation of Option 2 (D.85-08-043). This procedure, designed specifically to prevent cherry picking by applicants, prohibits applicants from electing a unit cost option for a job, which could be lower than the cost of a site-specific job, after comparing the site-specific estimate from the utility and bids from independent contractors. The Joint Utilities contend that experienced applicants are aware of the rough difference between a unit cost estimate and a site-specific estimate prior to making the irrevocable selection decision. Therefore, based on that experience, they select the unit cost option when it is less, thus defeating the purpose of the irrevocable selection option and engaging in cherry-picking by using the rule designed to prevent it. The Joint Utilities point out that the resulting revenue shortfall, caused by an applicant selecting the unit cost option when the site-specific cost is higher, must be borne by the ratepayers.

Also, according to the Joint Utilities:

- Tracking, updating, and publishing unit costs is administratively burdensome;

- Unit costs currently pertain to a very small segment of line extension projects;

- Site-specific estimates are more accurate on a project-by-project basis, and are already used for most major line extension projects.

The Joint Utilities argue that administering these two methods is confusing and costly for both the applicant and the utility. According to the Joint Utilities, at the time of making the irrevocable option selection, some applicants fail to understand that the unit cost estimate does not necessarily represent the total job cost. Unit cost estimates exclude components such as ITCC, any necessary relocations/rearrangements, excess service charges, and contractor costs for work the applicant is required to perform. Conversely, site-specific project estimates are typically more detailed and include the above-mentioned components. Thus, according to the Joint Utilities, site-specific project estimates better equip applicants to correctly predict and plan for overall project costs.

The Joint Utilities contend that there is little practical reason to retain the unit cost option. According to the Joint Utilities, unit cost is an artifact of a bygone regulatory era since many, if not most, builders prefer Option 2, the competitive option or site-specific method for pricing line extensions, as it gives them greater control over their jobs and provides cost savings.[7]

Lastly, the Joint Utilities argue that the Commission will level the competitive playing field if the unit cost option for line extensions is eliminated, thereby making all line extension construction competitive.

CBIA argues against UDI's proposal to eliminate Option 1. CBIA contends that the unit costs provided by Option 1 serve a variety of important purposes for applicants for line extensions, including predictability, certainty, and utility

[7] See testimony of Paul Medeiros, an executive of Kaufman & Broad, one of the largest home builders in California.

accountability. CBIA points out that the process by which unit costs are established for each utility and incorporated in their line extension tariffs is a visible and public one, subject to Commission review and approval. These tariffs assist builders and developers in estimating project costs for purposes of obtaining financing. CBIA also argues that unit costs are a readily accessible and easily understood mechanism whereby an applicant for service can proceed with a project without fear that he might be subject to excessive or overreaching charges by a utility.

Discussion

We agree with the Joint Utilities that eliminating Option 1 will simplify administration of the line extension tariffs by avoiding: (1) the need to determine whether a project qualifies for unit cost treatment pursuant to the "two times unit cost" rule;[8] (2) misunderstandings between the applicant and utility regarding the binding nature of the irrevocable option selection; and (3) applicant confusion because the unit cost estimate is not all-inclusive. In contrast, Option 2 is less controversial since: (1) all estimates are site-specific, (2) the applicant has the ability to shop the utility's bid and compare prices with independent contractors, and (3) the irrevocable option selection requirement is eliminated.

In 1985, when the Commission implemented Option 2, we may have had some reservations about eliminating Option 1 - the utility installed option. Up to that time, the utilities had a monopoly over all line extension construction and independent contractors may have had little experience with that work, particularly since all construction had to be in accordance with utility

[8] For example, see PG&E Tariff Rule 15.D.2, which specifics that an applicant is only entitled to unit costs under Option 1 if PG&E's site-specific cost estimate is less than twice PG&E's unit cost.

specifications. However, independent contractors have since gained experience in this area of construction, and applicants for line extensions have a choice between a utility installed project or an independent contractor installed project. Independent contractors are available and the utility is not "the only game in town." Therefore, concerns that may have existed in 1985, no longer exist.

We are not persuaded by CBIA's argument that Option 1 is needed for predictability and certainty of line extension costs, and to ensure utility accountability. We believe that the site-specific estimates provided by the utility and by independent contractors under Option 2 adequately answer those needs. Additionally, independent contractor estimates serve as a check on the reasonableness of the utility's estimate.

We believe that elimination of Option 1 will remove the opportunity for cherry-picking by knowledgeable applicants in situations where unit costs provide a clear advantage over site specific estimates. When that occurs, those costs are ultimately borne by all ratepayers.

Also, since under Option 1, construction can only be undertaken by the utility, private contractors are automatically excluded from those projects. This is contrary to the Commission's policy of encouraging fair competition in all areas of utility services. Accordingly, we conclude that Option 1 should be eliminated to make line extension construction fully competitive.

Pub. Util. Code § 783(b)

When the Commission issues an order concerning new or amended terms and conditions for line extension rules, we must make written findings on the issues as set forth in § 783(b).

The Joint Utilities provided a § 783(b) analysis on the effect of eliminating Option 1. The Joint Utilities found no negative impact to residential, commercial, agricultural or industrial classes from implementation of site-specific costs.

According to the Joint Utilities' analysis, the switch from unit costs to site-specific costs represents a zero sum gain because:

> "A unit cost represents a systemwide average of total Job Class costs. Thus, whether you use the class unit cost or class site specific costs to determine a class total value, you always end up with the same total."

The Joint Utilities conclude that since unit costs are derived from the average of all site-specific costs, whether you use unit cost or all the site-specific costs of a certain job class for a § 783(b) analysis, the effect on the total class is the same:

> "Although there may be an impact (higher or lower costs) on an individual basis, switching from unit costs to site specific costs will have no impact on the total job class costs and thus no financial § 783 class impact." (Exhibit 13.)

We note that § 783(b) does not specify the exact nature of the economic analysis required. The analyses adopted by the Commission in the past have reflected bundled rates.[9] However, with the implementation of competition in utility distribution services, the analysis should demonstrate that the Commission complied with § 783(b) in a manner consistent with the Commission's mandate to implement Assembly Bill (AB) 1890.

To supplement the analysis offered by the Joint Utilities, we will make the written findings required by § 783(b), in the sequence the subsections appear in the statute.

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[9] See D.94-12-026, rehearing denied by D.96-09-099. Also, see D.97-12-098, rehearing denied by D.98-03-039.

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

Under the present rules, the few applicants who choose Option 1 are being subsidized by the ratepayers. The proposed rule change eliminates the subsidy to such applicants, and increases competition in the construction of line extension, to the benefit of all future applicants.

We find that in light of the more accurate assignment of line extension costs to applicants pursuant to the Commission policy of unbundling rates and services consistent with AB 1890, the benefits of eliminating Option 1 outweigh the detriments to the individual applicants who might unfairly benefit from Option 1 at the expense of all ratepayers.

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

This provision protects the initial customers on a new extension from paying in advance for facilities shared with later customers, who would benefit from the line extension without paying for it. We find that the elimination of Option 1 does not change the existing provision with respect to treatment of costs and refunds for a series of extensions.

Section 783(b)(3): The effect of requiring new or existing customers 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.

Under the existing rule, the applicant pays only the extension costs, in excess of the free-footage allowance, of the facilities necessary to extend service to the applicant, or the pro-rata share of the cost of a facility with more than one applicant. Capital outlays for system reinforcements, relocations, and additions that are not customer-specific are rate-based, and expenses associated with these facilities are part of the cost of service common to existing and new customers. In other words, applicants for an extension are not charged directly with any extension costs other than those necessary to extend service to them.

We find that with regard to § 783(b)(3), elimination of Option 1 has no effect and current practice will continue unchanged.

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

Local governments are also ratepayers and fund a number of projects. As ratepayers, local governments and governmental agencies will benefit from lower operating costs through reduced subsidies to new projects. The base rates paid by all customers (including cities, counties or districts as utility customers themselves) may be reduced due to the more accurate allocation of costs to the parties that cause them.

We find that 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 Commission's general policy in support of unbundling rates and services, the benefits to all customers outweigh any economic impact upon such projects which might incur additional line or service extension costs.

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

Elimination of Option 1 will reduce the burden on existing ratepayers since extension costs ultimately become part of the overall cost of service to existing customers. Existing customers would have slightly lower rates if all new customers paid adequate advances for their extensions.

We find that elimination of Option 1 will reduce rates to existing ratepayers by reducing the amount of subsidies to line extension applicants who elect the unit cost option when their site-specific cost exceeds the unit cost estimate.

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

We find that because the effect of the existing line extension rules on consumption and conservation is insignificant, the effect of the eliminating Option 1 is negligible.

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

We find that since there are no special allowances for agricultural loads in the existing or proposed rules, the elimination of Option 1 will affect all applicants in the same manner

Proposal to Change the Contract and Cash Advance Provisions of Tariff Rules 15 and 16[10]

UDI argues that the absence of a mandatory written agreement between the utility and the applicant prior to initiation of line extension design and construction work creates an unfair incentive for applicants to chose the utility-

[10] This issue was identified as Issue No. 4 in this proceeding.

installed option.[11] UDI recommends that the tariff rules be changed to make it mandatory for the utilities to execute written agreements with all applicants prior to commencing design and construction of line extension projects. Currently, the utilities' tariffs provide that a written agreement related to a line extension "may" be required between the utility and the applicant.

Discussion

While many of UDI's concerns have been addressed with the elimination of Option 1 above, we are not persuaded that it would be in the public interest to impose a mandatory written contract requirement on the utilities prior to commencement of any line extension construction. As UDI acknowledges, the utilities get the paperwork completed eventually, and the testimony of the utilities' is that in all but a few cases, applicants must enter into written contracts before work can begin. We believe that applicants and the utilities should have the flexibility to deal with special situations just the same as any independent contractor. Furthermore, the tariffs specify the allowances and all necessary terms and conditions for a line extension. Therefore, the need for a written contract with the utility is less critical than it would be when dealing with a non-utility entity. Accordingly, we reject UDI's proposal.

Proposal to Require the Utilities to Collect an Advance Payment to Cover Engineering and Coordinating Services.[12]

UDI proposes that the tariff rules be modified to require applicants to either pay a cash advance to the utility to prepare the facilities design, or provide the utility with a design prepared by an outside designer. UDI contends that the

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[11] Under Option 2, the applicant has a choice of a utility-installed or an applicant-installed line extension.

[12] This issue was identified as Issue No. 5 in this proceeding.

utilities should be prohibited from offering free composite drawing, engineering, and coordinating services to avoid creating an unfair incentive for applicants to choose the utility-installed option.

UDI argues that the elimination of Option 1 (unit costs) will not resolve the issue since the utility's Option 2 site-specific estimate will only identify the utility's estimated cost of engineering and coordinating services in the utility's contract. According to UDI, unless an advance is collected by the utility to cover its engineering and coordinating fees, the costs are no more than numbers on a piece of paper. Therefore, UDI contends that when applicants are not obligated to pay, they will choose the "free alternative."

The Joint Utilities oppose this proposal contending that it is anticompetitive and unfair to the Joint Utilities. According to the Joint Utilities, UDI's proposal would penalize the utilities because it would impose a requirement of a mandatory deposit on the utilities but independent contractors would be free to provide the same services to applicants without requiring an advance deposit.

Further, the Joint Utilities argue that the utilities do not provide "free" services to applicants. The costs of all services offered to applicants are included in the utilities' overall costs and are therefore not properly considered "free." When warranted, the utilities do require applicants to pay a deposit against the total project costs if a project is considered speculative.

We believe that a truly competitive environment requires fair and equal application of the rules. All contractors, including the utilities, should be free to exercise their business judgment to determine when to require an advance fee for preliminary services, and the amount of any such deposit. UDI has presented no compelling reasons for requiring the utilities to charge a mandatory advance fee. Accordingly, we reject UDI's proposal.

Proposal to Require the Utilities to Provide One Construction Inspection at No Charge for Applicant-installed Extensions[13]

According to UDI, nonrefundable construction inspection service charges for applicant-installed line extensions create an unfair incentive for applicants to choose the utility-installed option. UDI proposes that no charge be made for the first inspection. UDI agrees that the applicant should pay a nonrefundable amount to the utility for the cost of any additional inspections.

The Joint Utilities oppose UDI's proposal. The Joint Utilities state that the costs associated with inspection and supervision are contained within the job costs and are included in the refundable amount for both utility-installed and applicant-installed projects. In utility-installed projects, the inspections are typically conducted by the on-site utility working foreman who is trained and qualified in the specific construction standards. As a consequence, no additional separate charge is added to a utility-installed job, according to the Joint Utilities.

Our concern is that an applicant who chooses applicant-installation is required to pay additional inspection charges that the applicant who chooses utility-installation would not pay. This does not provide a level playing field. Therefore, we will adopt UDI's recommendation that applicant-installed projects be allowed one inspection at no charge for each section of trench; additional inspections of previously inspected sections of trench would be charged to the applicant. As pointed out by CBIA, one free inspection puts the competitor on an equal basis with the utility.

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[13] This issue was identified as Issue No. 6 in this proceeding.

Proposal to Change the Timing of Collection by the Utilities of the Income Tax Component of Contribution (ITCC)[14]

Power Plus proposes that the timing of collection of ITCC be deferred on Option 2 (competitive bidding) projects installed by third-party contractors until the applicant installed facilities are deeded over to the utility.

Under the current tariffs, the applicant contributes or advances, before the start of construction, all refundable and non-refundable amounts *including* ITCC. The appropriate amount of ITCC is collected by the utility in advance of construction, regardless of whether installation is undertaken by the utility or the applicant's contractor.

Power Plus states that when an applicant chooses an outside contractor to install the line extension, the applicant is installing its own material in its own trench and conduit, which will be deeded to the utility at some undetermined future date. Therefore, according to Power Plus, it is not fair for the utility to collect the ITCC months in advance of the contribution being made.

Power Plus acknowledges that the reason for collecting ITCC in advance is to protect the ratepayers from a developer's speculation until revenue to the utility is generated to offset the investment cost. Power Plus contends that, however, under the applicant-installed option, the utility has no capital outlay and no contribution to offset the cost. Therefore, there is no risk to the utility until the facilities are deeded over and the refund process begins. Also, Power Plus points out that if, for any reason, a development is not completed, the ownership of all the material will remain with the applicant. The trench and conduit, if installed, will remain the property of the applicant. According to

[14] This issue was identified as Issue No. 7 in this proceeding.

Power Plus, since nothing will be deeded to the utility, there is no contribution and, therefore, no corresponding tax obligation.

The Joint Utilities, in opposing the proposal, argue that the current collection schedule for ITCC accomplishes two key objectives. It complies with the mandates of D.87-09-026, 25 CPUC2d 299, in Investigation 86-11-019, the Commission's investigation that established procedures for collecting taxes on contributions in aid of construction. Equally important, the current procedure is a simple mechanism which ensures and maintains a level competitive playing field by collecting ITCC up front, under all scenarios, with no exceptions. Thus, according to the Joint Utilities, it creates no direct incentive for the applicant to choose one construction option over the other.

Further, the Joint Utilities argue that adoption of the proposed change in the timing of collection of ITCC would adversely impact the utilities' ability to provide a quality, competitive product. First, selective deferral of ITCC would award a major marketing advantage to non-utility contractors because they would not be required at the outset of the project to make a significant cash outlay to cover the ITCC. Consequently, the current level competitive playing field would be upset. Second, deferral of ITCC imposes additional administrative burdens on the utilities to bill and collect ITCC separately. Third, deferral may create potential delays in connecting utility service to the facilities due to the time lag of paying the deferred taxes – a consequence which would adversely affect developers as well as utilities.

Finally, the Joint Utilities argue that deferral of ITCC may well place the utilities' ratepayers and shareholders at a substantial financial risk, due to the utilities' obligation to serve which arises out of the regulatory compact. If ITCC were to be deferred on a project, and the applicant, for whatever reason, failed to finish a partially completed project and refused to pay the tax, the utility may be

faced with an obligation to serve the retail customers dependent upon the unfinished line extension. In such an instance, the utility would have no option but to complete construction and pay all costs, including the ITCC. Thus, the utility's ratepayers and/or shareholders may ultimately bear the burden of paying the taxes which, Power Plus admits, may constitute a liability of hundreds of thousands of dollars. For that reason, the current mechanism which collects ITCC from the applicant in advance of construction ensures that the person who caused the tax, the applicant, retains responsibility for paying the tax, as the Commission intended. (See D.87-09-026, 25 CPUC2d 299, 303.)

We conclude that the burden of the ITCC tax should be squarely placed on the applicants not the ratepayers. We believe that, in accordance with current tariff rules, ITCC should be collected up front and the burden should not be imposed on the utilities to bill and collect ITCC separately. Accordingly, we reject Power Plus' proposal.

Comments on the Draft Decision

The draft decision of the Administrative Law Judge in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed June 8, 1999, by the Joint Utilities, and reply comments were filed by CBIA, the Joint Utilities, Pacific Utility Installation, Inc., and UDI. We have reviewed the comments and made changes to the draft decision where appropriate.

Findings of Fact

1. Under current tariff rules, all line extensions must be accomplished under Option 1 or Option 2.

2. Under Option 1, construction of line extensions can only be undertaken by the utility.

3. Option 1 provides knowledgeable applicants with an opportunity for gaming the system at the expense of all ratepayers.

4. With the elimination of Option 1, all construction of line extensions would be accomplished under Option 2, which allows competitive bidding.

5. Under Option 2, the utility is required to provide a site-specific estimate which the applicant can use to shop for a lower bid from an independent contractor.

6. Option 2 provides the applicant with a choice of construction by the utility or a private contractor.

7. Option 1 has outlived its purpose and should be eliminated

8. Pursuant to the analysis required by § 783(b), although there may be an impact (higher or lower costs) on an individual applicant, elimination of Option 1 will have no impact on total job costs for any class. Thus, there is no change to the costs for any class. The elimination of Option 1 does not change the existing provisions for costs or refunds to existing or new customers and the benefits to all customers outweigh any impact on individual customers.

9. Regarding § 783(b)(1), in light of the more accurate assignment of line extension costs to applicants pursuant to the Commission policy of unbundling rates and services consistent with AB 1890, the benefits of eliminating Option 1 outweigh the detriments to the individual applicants who might unfairly benefit from Option 1 at the expense of all ratepayers.

10. Regarding § 783(b)(2), the elimination of Option 1 does not change the existing provision with respect to treatment of costs and refunds for a series of extensions.

11. Regarding § 783(b)(3), the elimination of Option 1 has no effect and current practice will continue unchanged.

12. Regarding § 783(b)(4), 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 Commission's general policy in support of unbundling rates and services, the benefits to all customers from the elimination of Option 1 outweigh any economic impact upon such projects which might incur additional line or service extension costs.

13. Regarding § 783(b)(5), the elimination of Option 1 will reduce rates to existing ratepayers by reducing the amount of subsidies to line extension applicants who elect the unit cost option when their site-specific cost exceeds the unit cost estimate.

14. Regarding § 783(b)(6), since the effect of the existing line extension rules on consumption and conservation is insignificant, the effect of eliminating Option 1 is negligible in these areas.

15. Regarding § 783(b)(7), since there are no special allowances for agricultural loads in the existing or proposed rules, the elimination of Option 1 will affect all applicants in the same manner.

16. There could be situations where it would be in the interest of the applicant for the utility to commence construction prior to executing a written agreement and the tariff rules provide flexibility for the utilities to decide whether a written agreement with the applicant is required prior to commencing construction.

17. Imposing a mandatory deposit requirement on the utilities prior to commencing engineering and coordinating services, would give the independent contractors an unfair advantage since they would not have such a requirement.

18. The tariff rules do not require the applicant to provide a mandatory deposit to cover engineering and coordinating fees prior to the utilities commencing such work.

19. An applicant who chooses applicant-installation is required to pay additional inspection charges that the applicant who chooses utility-installation would not pay.

20. The current tariff rules require independent contractors to furnish ITCC prior to commencement of construction of a line extension project.

21. Deferred collection of ITCC would provide independent contractors an unfair advantage over utility construction services, and would subject ratepayers to the added risk of paying for ITCC in situations where the developer has reneged on the payment.

Conclusions of Law

1. Pursuant to AB 1890, the Commission's mandate is to encourage competition for utility services.

2. The availability of Option 1 inhibits fair competition between utility construction services and private contractors.

3. Option 1, coupled with the irrevocable option selection requirement, is anticompetitive on its face to the extent that under this option private contractors are excluded from bidding and the utility is the sole provider for the line extension construction service.

4. Option 2 provides a level competitive playing field and makes line extension construction fully competitive.

5. It is not reasonable to require the utilities to obtain a mandatory deposit from the applicant prior to commencing engineering and coordination services.

6. To ensure a level competitive playing field, the applicant who chooses applicant-installation should be allowed one inspection of each section of trench at no charge.

7. It is reasonable for the utilities to collect ITCC from independent contractors prior to commencement of construction of a line extension project.

8. This order should be effective today to allow the changes related to inspection charges to be implemented immediately.

O R D E R

IT IS ORDERED that:

1. The Line Extension Rules of Pacific Gas and Electric Company, Southern California Gas Company, San Diego Gas & Electric Company, Southwest Gas Corporation, Southern California Edison Company, Sierra Pacific Power Company, and PacifiCorp. (Joint Utilities) shall be modified to reflect the deletion of Option 1, along with the irrevocable option selection requirement.

2. Pursuant to Pub. Util. Code § 783(d), the elimination of Option 1 shall not become effective until July 1, 2000.

3. The Joint Utilities shall file proposed tariff rule changes deleting Option 1 no later than January 31, 2000.

4. An applicant for a line extension may chose Option 1 under the old rules if prior to July 1, 2000, the applicant has: (1) completed written application for service in accordance with the utility's rules; (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.

5. Applicants who choose the applicant-installed option shall be allowed the first inspection of each section of trench of their projects at no charge to the applicant, effective the date of this order. The utilities shall file the necessary tariff rule changes.

6. This proceeding shall remain open to address other issues as set forth in the Revenue Cycle Services Decision 98-09-070.

This order is effective today.

Dated June 24, 1999, at San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
Commissioners

I abstain.

/s/ CARL W. WOOD
Commissioner