

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3162
November 22, 1989

R E S O L U T I O N

RESOLUTION E-3162, PACIFIC GAS & ELECTRIC COMPANY AUTHORIZED TO ENTER INTO AN AGREEMENT WITH LAKE CALIFORNIA PROPERTY OWNERS ASSOCIATION AND THE COUNTY OF TEHAMA FOR THE INSTALLATION OF UNDERGROUND ELECTRICAL FACILITIES IN TEHAMA COUNTY.

BY ADVICE LETTER 1253-E, FILED JUNE 20, 1989.

SUMMARY

1. By Advice Letter 1253-E, filed June 20, 1989, Pacific Gas and Electric Company (PG&E) requests authorization to enter into a negotiated agreement, dated May 22, 1989, with Lake California Property Owners Association, Inc. (POA) and the County of Tehama (County). The agreement is for installation of underground electrical facilities for Tract 1006.
2. This resolution approves PG&E's request.

BACKGROUND

1. The Lake California subdivision, hereafter referred to as Lake California, consists of approximately 2500 lots on several tracts in Tehama County. The lots were originally offered for sale in 1970, when the subdivision was known as River Lakes Ranch.
2. Due to fiscal insolvency of the original developer, a contract for the installation of the underground electric facilities in Tract 1006 of Lake California was not signed. However the Department of Real Estate had authorized the sale of Lake California lots, and some of the lots in Tract 1006 were sold. Since 1970, agreements for service within Lake California have been the subject of litigation and protracted negotiations.
3. The subject of this filing is a recently negotiated agreement (Agreement) for the installation of underground electric facilities within a portion of Lake California, designated as Tract 1006. The Agreement is a deviation from PG&E's presently filed extension rules (Rules 15.1 and 20). POA and the County of Tehama are the parties which negotiated the Agreement with PG&E.

4. Typically, under PG&E's Rules 15.1 and 20, a development of this type would be served under a contract with a developer. The developer would be required to advance the full cost of the facilities, with a provision for refunds as development occurs. A cost-of-ownership charge would also be made.

5. The amount of the advance would be \$1,385,000, which is the estimated cost to install underground electrical facilities throughout Tract 1006. The one time cost-of-ownership charge would be \$837,000, which is the present value of the fund to cover operation & maintenance, taxes, etc., for a period of 10 years.

6. Under the Agreement, FOA will pay, in advance, a non-refundable sum of \$350,000 to PG&E. In return, PG&E is to construct an underground electric distribution system in Tract 1006. The estimated cost of this initial construction is \$650,000. PG&E will thereafter install additional facilities, as needed, to serve customers as they apply for service. If all of the available lots in Tract 1006 are sold and developed, the additional facilities to serve all of the anticipated load are estimated to cost approximately \$735,000, for a total of \$1,385,000.

NOTICE

1. Public notification of this filing has been made by publication in the Commission's calendar and by mailing copies of the advice letter to other utilities, governmental agencies and to all interested parties who requested such notification.

2. To conserve mailing costs, PG&E did not mail copies of the agreement to all parties, but a copy of the agreement was available upon written request.

PROTESTS

1. No protests have been received.

DISCUSSION

COMPARISON WITH STANDARD PRACTICE

1. The Commission Advisory and Compliance Division (CACD) has analyzed the proposed deviation. Part of the analysis included an evaluation to determine if the deviation adversely affected other ratepayers in comparison with PG&E's typical extensions.

2. An analysis of the financial effect of the deviation and of an installation under the utility's filed extension rules was requested from and provided by PG&E. At the same time, CACD also

conducted a financial impact analysis using slightly different parameters.

3. For ease of comparison, the PG&E deviation request is characterized as the "Cash" option. The alternative of service under the utility's line extension rules is characterized as the "Service" option. A comparison of the PG&E and the CACD analyses is shown in the following table:

Table I
Comparison Of Options
Present Value of Utility (and ratepayers) Liability
(\$ millions)

	<u>Cash</u>	<u>Service</u>
PG&E ¹	0.9	1.0
CACD ²	1.0	0.6

4. The relative benefit of this requested deviation depends on the amount of growth in the area. A potential financial risk to the utility (and the ratepayers) of \$400,000 exists if the potential revenue from the development of Tract 1006 is not sufficient to offset the cost of construction and the cost of ownership.

LEGAL PROBLEMS

5. Regardless of any potential financial risk, however, no developer is willing to advance the full cost of the installation, including cost-of-ownership. After years of negotiation, PG&E has been unable to secure such a commitment from any party.

6. PG&E has been enjoined, as a result of litigation, by both the Property Owners Association (POA) and the County of Tehama (County) to provide service to Tract 1006. In 1982, a settlement was reached between PG&E and both POA and County, which settled a portion of Tehama County Superior Court Action No. 19372.

1. PG&E's analysis assumes that all 600 lots within Tract 1006 will be developed and applications for service received from all lots.
2. CACD's analysis, based on PG&E's alternate scenario, assumes approximately 40% development over the next 10 to 20 years. However, random development throughout the tract would require approximately 90% development of the system in order to serve 40% of the potential customer growth.

7. By the terms of this settlement agreement, PG&E was obligated to provide electric service to "qualified lot owners", those qualified owners being those who had purchased lots in certain units prior to the expiration of certain subdivision public reports.

8. The 1982 agreement was never fully implemented and filed with the CPUC by PG&E because the utility believed that construction within the Lake California subdivision was dependent upon finding of a new developer to complete the project.

9. Since 1982, several disputes have arisen with respect to the implementation of this agreement. The parties have now resolved these disputes by agreeing to cancel and supersede the 1982 agreement and substitute in its place the agreement filed with Advice Letter 1253-E. Failure to implement this agreement will leave PG&E at risk for future litigation in conjunction with the 1982 agreement.

ASSIGN RISK TO SHAREHOLDERS

10. CACD does not believe that PG&E's other ratepayers should assume a fiscal risk from this installation if development is inadequate to recover the full cost of the project.

11. Informal contacts with PG&E, however, indicate that PG&E vigorously opposes risk assignment to the shareholders.

RECOMMENDATIONS

12. CACD has reviewed this filing and believes that the proposed agreement, as submitted by Advice Letter 1253-E, will provide underground electrical service to Tract 1006 under provisions mutually acceptable to all parties to this agreement.

13. Except for the advance provision, the terms of this agreement are consistent with PG&E's established policy for line extensions and are the same as those in similar agreements filed and approved by the CPUC.

14. PG&E alleges that this filing will not increase any rate or charge, conflict with other schedules or rules, nor cause the withdrawal of service. CACD concurs, with the caveat that there is a possible cost to other ratepayers should the tract fail to develop sufficiently.

15. CACD recommends that PG&E be ordered to assume risks if revenue from the development are insufficient to recover PG&E's investment.

FINDINGS

1. The agreement provides electrical facilities to Tract 1006 in Tehama County under provisions mutually acceptable to all parties directly concerned.
2. PG&E should be allowed to deviate from its extension rules and retain the deposit provided by the POA.
3. This agreement reduces the financial burden on the utility. However, in the event that the real estate tract does not develop sufficiently to cover the entire cost of construction plus the cost of ownership, any revenue shortfall should not be a burden on all ratepayers.
4. The balance of the provisions of the agreement are consistent with PG&E's established policy for line extensions and are the same as other extension agreements previously approved by this Commission.
5. The proposed agreement, as presented by PG&E in Advice Letter 1253-E, should be approved with restrictions indicated in Paragraph 3 above.

THEREFORE IT IS ORDERED that:

1. Pacific Gas & Electric Company is authorized under the provisions of Section X.A. of General Order 96-A and under Section 532 of the Public Utilities Code to enter into the agreement with Lake California Property Owners Association and the County of Tehama to provide electrical service to Tract 1006 in Tehama County, as filed by Advice Letter 1253-E. Such electric service shall be built underground in accordance with Pacific Gas & Electric Company's Electric Tariff Rule 15.1.
2. In the event that future applications for service and resulting revenue do not develop sufficiently to fully offset the cost of construction and the cost of ownership, the financial burden created by this revenue shortfall shall not be the responsibility of all ratepayers. Pacific Gas and Electric Company shall not place into rate base any capital investments for this project which exceed capital contributions and advances on construction.

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3. Within thirty (30) days after the effective date of this resolution, Pacific Gas and Electric is instructed to file a supplement to Advice Letter 1253-E, signifying acceptance of the "No Risk To Ratepayers" restriction imposed by this resolution. Such advice letter supplement shall become effective upon date of filing.
4. The effective date of the Commission authorization to implement this agreement shall be the effective date of the above-mentioned advice letter supplement.
5. Within sixty (60) days after the effective date of this resolution, Pacific Gas & Electric Company shall file revised tariff sheets to revise the List of Contracts and Deviations in its filed electric tariffs to include the above agreement.
6. Advice Letter 1253-E, the subsequent supplemental advice letter filing and the accompanying agreement shall all be marked to show that they were approved for filing by Resolution E-3162.
7. This Resolution is effective today.

I hereby certify that this resolution was adopted by the California Public Utilities Commission at its regular meeting on November 22, 1989. The following Commissioners approved it:

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. CHANIAN
PATRICIA M. ECKERT
Commissioners

Wesley Franklin

Acting Executive Director