

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3224
April 10, 1991

R E S O L U T I O N

RESOLUTION E-3224. PACIFIC GAS AND ELECTRIC COMPANY
REQUEST FOR AUTHORIZATION OF AN UNECONOMIC EXTENSION
OF ELECTRIC SERVICE TO A SINGLE FAMILY RESIDENCE LOCATED
NEAR BLACK BUTTE ROAD IN TEHAMA COUNTY.

BY ADVICE LETTER 1333-E, FILED JANUARY 9, 1991.

SUMMARY

1. By Advice Letter 1333-E, filed January 9, 1991, Pacific Gas and Electric Company (PG&E) requests authorization of an Exceptional Case Uneconomic Facilities Agreement (Agreement) with Don Bryant under the Exceptional Cases provision of the utility's tariff Rule 15 - Electric Line Extensions (Rule 15). Under the Agreement, PG&E would extend an overhead electric line to serve Bryant's single family residence located near Black Butte Road in Tehama County. In return, Bryant would pay \$48,700 to PG&E.

2. This Resolution denies PG&E's request.

BACKGROUND

1. Typically, service is extended to new individual customers under Rule 15 which obligates the utility to extend service to new customers up to specified distances related to the customer's appliances, at the utility's expense. The sum of the specified distances for each customer is commonly referred to as the "Free Footage Allowance" of the utility's extension obligation. If the customer requires an extension beyond the "Free Footage Allowance", the utility is authorized to charge the customer for the excess footage. The charge is derived from the utility's average cost per foot for other extensions and is refundable if additional load (with additional "Free Footage Allowance") comes on line during the ten year period after the extension is built.

2. Rule 15 also has an "Exceptional Cases" provision for unusual circumstances (Rule 15.E.7). The text of that provision is as follows:

EXCEPTIONAL CASES

In unusual circumstances, when the application of these rules appears impractical or unjust to either party, ... the Utility or the applicant shall refer the matter to the Public Utilities Commission for special ruling or for the approval of special conditions which may be mutually agreed upon, prior to commencing construction.

3. Extending service to Bryant requires the installation of 5,950 feet of 12kV overhead electric distribution line and associated equipment. Bryant will use electric appliances (See Appendix A) that entitle him to approximately 1,660 feet of free footage allowance. Under the extension rule, Bryant would have to make a refundable advance of \$43,115 to PG&E for the installation of 4,290 feet beyond the Free Length.

4. PG&E's current internal practice considers all extensions to be "Exceptional Cases" if the investment required to serve exceeds the supported capital costs. Based on its interpretation of the Exceptional Case provision, PG&E has negotiated the Agreement which is the subject of this Advice Letter.

5. PG&E anticipates that Bryant will use 1,492 kilowatt hours per month. The estimated base annual revenue from this level of usage is \$1,180. PG&E uses a cost-to-revenue ratio of 4.79 to 1 as an economic basis for determining the justifiable capital investment. On this basis, the supported capital costs or investment to serve Bryant would be limited to \$5,651. PG&E estimates that this extension will cost \$26,745 to build, not including Contributions In Aid of Construction tax (CIAC tax) and Cost-of-Ownership charge.

6. As an Exceptional Case, Bryant would be charged \$48,700. The charge includes the unsupported cost of the extension, CIAC tax on the unsupported cost, and a Cost-of-Ownership Charge (CO). The unsupported cost is \$21,094 (\$26,745 - \$5,651). The CIAC tax on the unsupported cost is \$5,906. Finally, the CO is \$21,700. The sum of these is \$48,700 (Appendix A). PG&E does not allow any "Free Footage Allowance" when it deems the project to be uneconomic and, hence, an Exceptional Case.

NOTICE

1. Public notification of this filing has been made by placing it on the Commission Calendar of January 11, 1991, and by mailing copies of the filing to other utilities, governmental agencies and to all interested parties who requested such notification.

PROTESTS

1. No one protested Advice Letter 1333-E.

DISCUSSION

1. The Bryant line extension incurs more costs than PG&E recovers in rates. For this reason, PG&E seeks Commission authorization for the Agreement under the "Exceptional Cases" provision of its Line Extension Rule. The Commission Advisory and Compliance Division (CACD) disagrees with PG&E's position that economics alone constitutes an exceptional case. Typical exceptional cases include extensions to remote mountain top sites, where there is no likelihood of additional customers coming on line and where the length of the extension is substantially in excess of that which PG&E would install at its expense; or to speculative subdivisions. Such exceptional cases involve extensions of substantially greater length than can be accommodated under Rule 15 B.1 or involve unquantifiable risk. Bryant's situation is neither substantially excessive nor speculative. As a potential customer, he needs an extension beyond the Free Length, and is willing to pay more than the unit cost for such an extension.
2. As a monopoly, PG&E is required to extend service to new customers in its service area. Historically, PG&E has extended service in three categories: "Economic Extensions", "Uneconomic Extensions", and "Exceptional Cases". The vast majority have been Economic Extensions where the revenues from the customers served by the extension equalled or exceeded the costs associated with the extension. PG&E also made Uneconomic Extensions to customers when the revenues were not sufficient to cover the costs associated with the extension because the utility's tariffs obligated the utility to extend service. The last group of customers were the "Exceptional Case" customers. The Exceptional Case customers were those for whom the extension to serve was substantially excessive or speculative. These three types of extensions now comprise the utility's distribution system and customer base.
3. Under PG&E's new practice, the second category of customers, those who would have been served under the standard provisions of the extension rule, but who were not economic, would be eliminated. They would be required to accept service under the "Exceptional Cases" provision and to pay PG&E's continuing costs of ownership for the portion of their extension not supported by revenues. Thus, PG&E's future extensions would all recover the utility's cost of ownership or more. This would contribute to earnings at or above the present level, all other things being held constant.

4. PG&E is attempting to change the mix of its customer base. By accepting only profitable extensions, rather than a mix of profitable and unprofitable ones, PG&E is endeavoring to improve its earnings at the expense of new customers, who, in the past, would have been served in the second category. The advice letter procedure is not suited for this piecemeal method of revising utility practices that implement tariffs that control how a utility serves customers and potential customers.

5. In 1983 the Legislature enacted Section 783 of the Public Utilities Code, instructing the Commission to enforce the line extension rules as they existed in 1982. The only exception was for a periodic review of the unit cost for extensions beyond the "Free Footage Allowance" and to provide for installations by an applicant's qualified contractor. Any revision to the extension rules was to be predicated upon detailed studies and extended time for legislative review subsequent to any Commission action.

6. The cost to Bryant under the Agreement would be \$48,700, while the cost under the standard provisions of Rule 15 would be \$43,115, a difference of \$5,585. CACD recommends that PG&E be instructed to provide the extension under the standard provisions of Rule 15.

7. The Agreement was reached by consent of both parties. Because Bryant is required to pay cost of ownership charges on the unsupported portion of the extension, service to Bryant is provided under disadvantageous terms, when compared to other applicants for line extensions.

8. If additional customers are served from this line, Bryant may receive refunds under the provisions of the extension rules and PG&E would obtain additional revenues.

9. CACD's recommendation still requires Bryant to pay a reasonable amount for the excess footage. Although willing to pay, Bryant was not an "equal" partner in deriving the cost and should be afforded the standard terms of PG&E's tariffs to the extent practicable.

FINDINGS

1. The Agreement would provide service to Bryant under terms that are unfair to Bryant as an applicant for service.
2. The Agreement deviates from the expected application and intention of the utility's line extension rule.
3. The utility has attempted to establish an internal practice of considering all extensions to be "Exceptional Cases" if the investment required to serve exceeds its measure of the supported capital costs.
4. By using the "Exceptional Cases" provision, PG&E would charge Bryant \$48,700. The charge includes the unsupported cost of the extension, the Contributions in Aid of Construction tax on the unsupported cost, and a Cost-of-Ownership Charge.
5. A standard Rule 15 extension would cost Bryant only \$43,115, a difference of \$5,585.
6. Bryant's situation is neither substantially excessive in length nor speculative. An extension beyond the Free Length is not, by itself, an unusual circumstance. State policy was established by Public Utilities Code Section 783, mandating the "Free Footage Allowance" to be granted to extend service, and an "economic" test is not sufficient to contravene that policy.
7. CACD recommends that PG&E be instructed to provide the extension under the standard provisions of its Rule 15.

THEREFORE, IT IS ORDERED that:

1. Pacific Gas & Electric Company's Advice Letter 1333-E is rejected.
2. Pacific Gas & Electric Company shall promptly render service to Don Bryant in accordance with the standard terms and provisions of Rule 15 - Electric Line Extensions, and not as an Exceptional Case.
3. Pacific Gas & Electric Company shall report to the Commission Advisory and Compliance Division within 60 days of the final disposition of the extension to Don Bryant.
4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on April 10, 1991. The following Commissioners approved it:



Neal J. Shulman
Executive Director

PATRICIA M. ECKERT
President
G. MITCHELL WILK
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

APPENDIX A
Domestic Service Free Footage Allowances

Two Methods

1. Standard Application of Rule 15

For lighting and appliances, each customer...	300 feet
For each electric refrigerator customer.....	75 feet
For each 30 gallon or larger storage type electric water heater customer.....	275 feet
For each electric clothes dryer customer.....	40 feet
For motors of 1 hp or more, per hp connected 50' per hp @ 2 hp	100 feet
For each home freezer customer.....	50 feet
For each automatic dishwasher customer.....	20 feet
For each heat pump customer.....	800 feet

Total free footage.....	1,660 feet
Total extension length.....	5,950 feet
Excess footage length.....	4,290 feet
Advance required @ \$10.05 per foot	\$43,115

2. PG&E Economic Calculation

Customer Revenue	\$1,180
Multiplier	4.79
Economic Construction	\$5,651
Construction Costs Actual\$26,745
LESS Economic Factor5,561
"Unsupported Cost"\$21,094
PLUS "Cost of Ownership"21,700
PLUS Tax Effect of Contribution5,906
Advance Required\$48,700