

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3259
March 31, 1992

R E S O L U T I O N

RESOLUTION E-3259. PACIFIC GAS AND ELECTRIC COMPANY
REQUEST FOR AUTHORIZATION TO ACQUIRE AN UNECONOMIC
ELECTRIC LINE EXTENSION FROM COLLIS MAHAN.

BY ADVICE LETTER 1329-E, FILED DECEMBER 18, 1990.

SUMMARY

1. By Advice Letter 1329-E, filed December 18, 1990, Pacific Gas and Electric Company (PG&E) requests authorization of a Bill of Sale and Purchase Agreement - Uneconomic Electric Facilities (Agreement) with Collis Mahan (Mahan). PG&E would acquire Mahan's 6,350 foot private overhead electric system which is located near Garberville, Humboldt County. Mahan would pay PG&E \$10,785.
2. After the advice letter was filed, PG&E refined its acquisition policy for private systems. The utility now estimates the cost to serve under either its tariff line extension rules or as an exceptional case to the line extension rules. It uses interim criteria for evaluating exceptional cases developed cooperatively by PG&E and the Commission Advisory and Compliance Division (CACD). It then credits the estimated value of the private system against the cost to serve.
3. This Resolution authorizes PG&E to enter into an amended Agreement that reflects PG&E's acquisition policy. The Agreement, as amended, reduces Mahan's payment from \$10,785 to \$6,617.

BACKGROUND

1. In 1976, Mahan elected to build a private electric line extension of approximately 8,500 feet, to serve several lots near Garberville. In 1982, PG&E purchased 2,209 feet of this line to directly serve several additional customers. The remaining 6,350 foot system is the subject of the Agreement. The system serves four customers (Customers). The Customers are metered by PG&E and have a combined total load of approximately 36,000 Kwh per year. PG&E no longer extends service to private lines where multiple customers would receive metered service.

2. Mahan has asked PG&E to purchase the 6,350 foot system because he has sold his interest in the property served and wishes to relieve himself of the ongoing obligations associated with ownership of this private line.

3. PG&E negotiated the Agreement with Mahan before it established the interim criteria and policy for acquisition of private systems. Under the terms of the Agreement, Mahan would pay \$10,785 to PG&E. This amount would be refunded if more customers with additional revenue to support the cost of the extension are attached to the system.

NOTICE

1. Public notification of this filing has been made by placing it on the Commission calendar for December 28, 1990 and by mailing copies of the filing to other utilities, governmental agencies and to all interested parties who requested such notification.

2. Workpapers supporting this filing were not mailed to any of the above parties but PG&E indicated in the filing that workpapers were available upon request.

PROTESTS

1. No one has protested this Advice Letter filing.

DISCUSSION

2. **EXCEPTIONAL CASES:** When PG&E seeks Commission authorization of agreements under the Exceptional Cases section (Section E.7) of its Rule 15, it uses the following provision:

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.

2. **PG&E'S ADVICE LETTER:** PG&E has used the Exceptional Cases provision when extending service to customers under conditions which the utility considered uneconomic. When PG&E encounters such Exceptional Cases, it has developed a formula by which an applicant for service pays for a line extension. After negotiating an agreement, PG&E submits the agreement to the Commission for authorization, as provided for under the Commission's General Order 96A - RULES GOVERNING THE FILING AND POSTING OF RATES, RULES, AND CONTRACTS RELATING TO RATES, APPLICABLE TO GAS, ELECTRIC, TELECOMMUNICATIONS, WATER, SEWER

SYSTEM, PIPELINE, AND HEAT UTILITIES. Section X of G.O. 96A requires utilities to submit non-standard contracts to the Commission for approval.

3. Under the Agreement negotiated with Mahan, PG&E would apply the economic formula to acquire Mahan's private electric overhead system. PG&E contends that the anticipated revenue from this line is less than the annual costs that the utility would incur to own and maintain this line. PG&E argues further that the Agreement with Mahan would ensure that PG&E's other ratepayers are not burdened by the purchase of this line.

4. Mahan's payment of \$10,785 is based on three items; (1) the net unsupported refundable contribution (Contribution), (2) the Contributions In Aid of Construction tax (CIAC tax) on the Contribution, and (3) a single payment reflecting annual cost-of-ownership charges on the Contribution in perpetuity. The following 4 paragraphs develop the basis of PG&E's proposed charge to Mahan. The information is also presented in abbreviated, tabular form in Appendix A:

5. The Customers on Mahan's system have a combined estimated annual load of 36,000 kwh. At current rates under Rate Schedule E-1, this load would produce an annual revenue of \$2,613. In PG&E's opinion, this revenue is sufficient to justify a capital investment of \$12,515. PG&E states that it currently has an investment of \$4,900 in the system to cover the cost of meters, transformers, and other utility owned appurtenances on the system. This would leave \$7,615 that PG&E could spend to acquire the remainder of Mahan's system. The appraised value of Mahan's facilities is \$21,674. The difference between the appraised value and what PG&E claims it has left to invest, \$7,615, is the Contribution or \$14,059.

6. The CIAC tax is required to offset federal and state taxes on contributions. This would be 28% of the Contribution or \$3,937. The sum of Contribution and CIAC tax is \$17,996.

7. The one time cost-of-ownership charge is \$14,463. This is PG&E's estimate of the present value of its costs, in perpetuity, to own, operate and maintain the portion of facilities not supported by base revenues. The charge is the product of the Contribution (\$14,059) times the annual cost-of-ownership rate for contributed capital (11.28%) times the present value factor at PG&E's current authorized rate of return in perpetuity (9.12).

8. The total amount subject to refund would be the sum of the Contribution, the CIAC tax, and the cost-of-ownership or \$32,459. The amount required by PG&E from Mahan to assume ownership of the system is the total amount (\$32,459) less the amount available for purchase (\$7,615) less the Contribution (\$14,059) or \$10,785. If more customers are eventually served from this line, the charges will be recalculated and refunds would be made to Mahan, if appropriate.

9. **POLICY DEFINITION:** Since Advice Letter 1329-E was filed, PG&E has defined a two part policy to deal with the acquisition of private systems. PG&E serves a number of such systems and anticipates acquisition inquiries as system owners encounter increases in insurance costs or other problems. To respond to Mahan and other inquires, the utility would first estimate the cost to serve the private system customers under its line extension rules or as an exceptional case to the line extension rules as if there were no private system. Next, the estimated value of the private system would be credited against the cost to extend service. A preliminary determination of the exceptional nature of the extension would be made under interim criteria developed by PG&E in concert with CACD.

10. When PG&E submits an advice letter for Exceptional Case treatment, it would apply and incorporate the following interim criteria and guidelines:

- A. The extension is beyond the applicant's free footage allowance; and
- B. The construction of the proposed extension departs from utility "optimal" construction conditions as described in NOTE 1 and has one or more of the following characteristics:
 - The extension is speculative in nature; or
 - The extension involves unusual service requirements or has unusual local site characteristics; or
 - The extension is in an isolated location; or
 - The connected load is small, intermittent or nonexistent (e.g. sprinkler controls); and
- C. The total estimated cost of the job is greater than \$10,000; and
- D. PG&E has provided the applicant with the greater of either
 - a revenue based allowance or
 - a free footage allowance equivalent to \$10,000.
- E. For exceptional cases meeting the criteria listed above, charges to the applicant would include the associated Cost-Of Ownership and CIAC tax on the difference between the job cost and the allowance in "D."

NOTE 1: For evaluation purposes, "optimal" construction conditions are represented by an extension on level terrain, adjacent to an existing road, unobstructed by trees or other structures, and where standard construction equipment (e.g. augers, trenching equipment, etc.) could be used. This "optimal" condition would be less difficult than "average" construction conditions, and utility management would be responsible for exercising restraint when determining that a proposed extension departed from the "optimal" conditions sufficiently to justify Exceptional Case application.

11. APPLICATION TO MAHAN: Mahan's 6,350 foot system serves four customers with a combined entitlement of approximately 3,535 feet of free length if it were a new line under Rule 15. The extension exceeds the free footage allowance by 2,815 feet. The characteristics of the area are not optimal but there are no unusual characteristics. Therefore, the four customers would be required to provide an advance of \$28,219 (2,815 feet times the Rule 15 unit cost of \$10.05) for installations beyond the free length. This advance is offset by the appraised value of Mahan's system, \$21,674, which covers replacement costs new less depreciation. This value, when deducted from the proposed advance of \$28,291, leaves a balance of \$6,617 that PG&E requires in order to prevent this line extension acquisition from becoming a burden on the other ratepayers. This residue is less than \$10,000, the threshold amount required in both C. and D. above.

12. CACD POSITION: Mahan's electric line 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.

13. CACD would require PG&E to obtain this system based on the standard tariff provisions. Therefore CACD recommends that PG&E take possession of the electric facilities described in the Agreement and that Mahan's payment obligation to PG&E be reduced to \$6,617. Any payment already made by Mahan in excess of \$6,617 would be refunded to Mahan together with all appropriate interest.

FINDINGS

1. The Agreement, as filed, requires PG&E to acquire Mahan's electric distribution system under terms that deviate from the utility's line extension rule.

2. By using the "Exceptional Cases" provision, PG&E would charge Mahan \$10,785. 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.

3. A standard Rule 15 extension would require the four customers presently served from Mahan's system to advance to PG&E the amount of \$28,291. The replacement cost new less depreciation of Mahan's existing system is estimated to be \$21,674.

4. PG&E's economic test is not sufficient to contravene State policy established by Public Utilities Code Section 783. An extension beyond the Free Length is not, by itself, an unusual circumstance.

5. Under its acquisition policy, developed after the Mahan Advice Letter was filed, PG&E requires only the difference between the Advance for Excess Footage (\$28,291) and the Replacement Cost New Less Depreciation (\$21,674), which is a total of \$6,617, in order to prevent this line acquisition from becoming a burden on other ratepayers.
6. PG&E's filed Agreement or an amended agreement will allow PG&E to assume ownership of Mahan's system, and continue service to the four existing customers on Mahan's system.
7. Any payment already made by Mahan to PG&E, in excess of \$6,617, should be subject to refund along with all appropriate interest.
8. This application of the tariff rule should be considered for this case only and in no way sets a precedent or a blanket endorsement by the Commission for any future line extension or acquisition. All such future events will be considered on a case by case basis.

THEREFORE, IT IS ORDERED that:

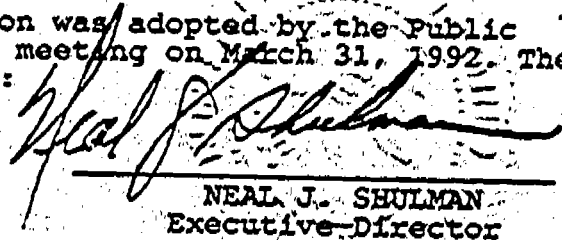
1. On or before the thirtieth (30th) day after the effective date of this Resolution, Pacific Gas and Electric Company shall take possession of the overhead electrical distribution system offered by Collis Mahan.
2. Collis Mahan's payment obligation to Pacific Gas and Electric Company is reduced to \$6,617. At the time that PG&E takes possession of Mahan's property, in accordance with Ordering Paragraph 1 above, PG&E shall refund to Mahan any payment previously made by Mahan in excess of \$6,617. Such refund shall also include all appropriate interest in accordance with the utility's filed tariff schedules.
3. Advice Letter 1329-E and the accompanying Uneconomic Extension Agreement shall be amended to include the new provisions and conditions of payment as directed by this Resolution. Upon receipt of the amended Agreement by the Commission, such amended Advice Letter and Agreement shall all be marked to show that they were accepted for filing by Resolution E-3259 of the California Public Utilities Commission.
4. This order applies only to the Agreement filed by PG&E Advice Letter 1329-E and does not set a precedent nor constitute a blanket endorsement of the methodology used herein for the use in other line extensions and/or acquisitions.

March 31, 1992

5. Pacific Gas and Electric Company shall revise its List of Contracts and Deviations to include the Agreement listed above and shall file such revised tariff sheets with the Commission within sixty (60) days of the effective date of this Resolution.

6. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 31, 1992. The following Commissioners approved it:


NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
JOHN B. CHANLAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

APPENDIX A

Domestic Service Free Footage Allowances

1. Standard Application of Rule 15

Total extension length.....	6,350 feet
Total free footage for four customers.....	3,535 feet
Excess footage length.....	2,815 feet
Advance required @ \$10.05 per foot	\$28,291
Replacement Cost New Less Depreciation.....	<u>21,674</u>
Advance Required From Mahan.....	\$6,617