

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND  
COMPLIANCE DIVISION  
Energy Branch

RESOLUTION E-3406  
March 22, 1995

R E S O L U T I O N

RESOLUTION E-3406. REQUEST OF PACIFIC GAS AND ELECTRIC COMPANY (PG&E) FOR APPROVAL TO ACQUIRE AN UNECONOMIC ELECTRIC LINE EXTENSION FROM THE CALIFORNIA DEPARTMENT OF FORESTRY AND FIRE PROTECTION.

BY ADVICE LETTER 1482-E, FILED ON OCTOBER 25, 1994.

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SUMMARY

1. Pacific Gas and Electric Company (PG&E) seeks revision of its Electric tariff schedules applicable to its Electric Department in connection with the proposed acquisition of 14,000 linear feet of electric overhead distribution facilities (Facilities) of the California Department of Forestry and Fire Protection (Department) according to electric Rule 15 - Electric Line Extension, Section E-7, Special Condition - Exceptional Cases. The proposed Bill of Sale and Purchase Agreement (Agreement) between PG&E and the Department, dated July 25, 1994, will enable PG&E to purchase the Department's Facilities located at the Oakridge Lookout in the area of Annapolis in Sonoma County. Since this acquisition is uneconomic, the Department has agreed to pay PG&E its unsupported capital contribution costs, a cost of ownership payment, and applicable taxes, a total of \$28,535, so that the acquisition investment would not place an unfair economic burden on PG&E's customers.
2. PG&E proposes to add the Agreement to its List of Contracts and Deviations.
3. No protests to Advice Letter 1482-E were received by Commission Advisory and Compliance Division (CACD).
4. This Resolution grants PG&E's request because it substantially complies with Rule 15.E-7's provision and the criteria jointly established by CACD and PG&E for Exceptional Cases.

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BACKGROUND

1. On July 25, 1994, PG&E and the Department signed an Exceptional Case Facilities Bill of Sale and Purchase Agreement (Agreement) to enable PG&E to acquire Department's Facilities, located at Oakridge Lookout in the area of Annapolis in Sonoma County. By Advice Letter 1482-E, PG&E requests Commission approval of the Agreement as required under the provision of electric Rule 15, Section E-7.
2. PG&E states that it was asked by the Department to acquire its 14,000 foot electric distribution facilities. However, PG&E's economic analysis "indicates that the estimated incremental Base Annual Revenue to be derived from the operation of the System would not support PG&E's capital investment and would therefore place an unfair burden on PG&E's other customers." The Department has agreed to pay PG&E its unsupported capital contribution costs, a cost of ownership payment, and applicable taxes, a total of \$28,535. This Agreement is similar to other exceptional line extension agreements that have been approved by the Commission. It contains provisions to ensure that the unsupported capital contribution of the Facilities and the ongoing cost of ownership are not transferred to other ratepayers. Provisions for refunds if more customers are connected to the Facilities are also included.
3. The Facilities were reportedly built in 1963 and 1992. According to PG&E, the Facilities' reproduction cost new (\$74,160) less accumulated depreciation (\$28,610) is \$45,550. The Facilities currently serve three customers with estimated annual load of 23,557 kilowatt hours (kWh) and annual base revenues of \$1,675.
4. PG&E seeks Commission approval for a non-standard contract and tariff deviation under Rule 15, using Special Condition E-7 - Exceptional Cases, to support its request as it usually does in such cases. Section E-7 states:

In unusual circumstances, when the application of these rules appears to be impractical or unjust to either party, or in the case of the extension of lines of a higher voltage, PG&E or the applicant shall refer the matter to the Public Utilities Commission for special ruling or for approval of special conditions which may be mutually agreed upon, prior to commencing construction.
5. The application of the above provision is based on criteria jointly established by CACD and PG&E. CACD has been applying these criteria since 1992 to PG&E's advice letter filings under the provision of Exceptional Cases for new and acquired line extensions. Resolution E-3391 (R-E3391), dated September 15, 1994, stated that these criteria were formally established for PG&E by R-E3341, dated October 20, 1993. These criteria have been reviewed in view of PG&E's request. PG&E

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believes that the proposed Agreement with the Department meets all the applicable criteria.

6. PG&E states that the 14,000 feet exceeds the applicable free footage allowance under electric Rule 15B, Overhead Extension to Individual Applicants for Service, by 13,375 feet and that the Facilities are located in a remote area of Sonoma County, in wooded and hilly terrain, where additional service requests are unlikely. PG&E proposed to pay the Department \$45,500 for the Facilities, an amount greater than the monetary threshold (\$10,000) established for an exceptional case under Rule 15.E-7. PG&E also states that it has provided the Department with a base revenue allowance of \$10,000 in calculating unsupported refundable contribution. CACD has verified all of the above and found it to be in compliance with the criteria for an exceptional case.

#### NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and by mailing copies to interested parties specified by General Order 96A.

#### PROTESTS

1. CACD has received no protests to Advice Letter 1482-E.

#### DISCUSSION

1. Without the Agreement the acquisition of Department's Facilities would be uneconomical. Payment and refund provisions in the Agreement make the purchase economical. These provisions ensure that the unsupported capital of the Facilities and any ongoing cost of ownership are not transferred to other ratepayers. The basis for the payment by the Department to PG&E is as follows.

2. The factors affecting the Department's payment to PG&E are the sum of (1) the net unsupported refundable contribution (Contribution), (2) the Contribution In Aid of Construction Tax (CIAC gross up) on the Contribution, and (3) a single payment reflecting annual cost-of-ownership charges on the Contribution in perpetuity, less (4) the appraised value of the Facilities. Each factor is discussed below.

3. The refundable Contribution is the amount by which the Facilities' appraised value of \$45,550 exceeds PG&E's net supported capital investment costs of \$9,300 (\$10,000-\$700) or \$36,250. PG&E defines the "Supported Capital Investment Cost" as the maximum capital investment which is supported by the estimated base annual revenue derived by PG&E from the energy supplied from the Facilities to the existing customers or \$10,000, whichever is greater. With the estimated annual load of 23,557 kWh, at current rates under Rate Schedules A-1 and A-6, the annual revenue base is \$1,675, and PG&E has estimated that the annual revenue base does not support the investment. PG&E agrees to make refunds on the basis of permanent added loads and

new extensions to and from the Facilities and to review the Contribution balance annually for refund purposes.

4. The CIAC gross up is a refundable amount charged by PG&E to offset rate impacts of federal and state taxes on contributions. PG&E charges the Department 34% of \$36,250 or \$12,325. The Agreement provides that refunds will be based on additional permanent load connected to the Facilities per the Agreement's procedures.

5. The cost-of-ownership charge is a one time charge based on PG&E's estimate of the present value of its costs, in perpetuity to own, operate, and maintain a portion of facilities not supported by base revenues. The \$25,510 charge to the Department is the product of the Contribution \$36,250 times the annualized cost-of ownership rate for customer financed contributed capital (6.48%), times the present value factor of PG&E's current authorized rate of return in perpetuity (10.86). PG&E refers to this one time payment as a "Cost of Ownership Annuity" fund. The fund will be adjusted annually by interest on unused balance of the annuity fund and current year's cost-of-ownership charges. Refunds will be made based on the adjusted balance.

6. PG&E appraised Department's Facilities using reproduction cost new less depreciation method (RCNLD) at \$45,550.

7. Based on the above results, PG&E determines the payment to be made by the Department as the sum of 1 to 3 less 4 as enumerated below:

1. Unsupported Refundable Contribution.....	\$36,250
2. Contribution In Aid of Construction Gross Up....	12,235
3. One time Cost of Ownership Charges .....	25,510
Subtotal	74,085
4. Less Facilities' Appraised Value	45,550
Net Payment	\$28,535

If the acquisition were treated under the line extension rules, it would cost the Department \$95,155 (This represents the excess footage of 13,375 by \$10.52, the current unit cost beyond the free length, less the appraised value of the facilities.)

8. CACD has reviewed the terms and conditions of the Agreement including its exhibits which will be in operation for ten years. The above approach used by PG&E to determine the payment due from the Department of Forestry and Fire Protection with its provisions for refunds, is just and reasonable. This method should prevent other ratepayers from subsidizing the acquisition. CACD recommends approval of this Agreement for this case only and without in any way setting a precedent. All future line extensions and/or acquisition should be considered on a case-by-case basis.

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FINDINGS

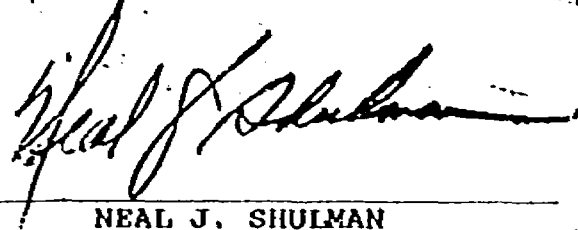
1. PG&E requests approval of its Exceptional Case Facilities Agreement with the Department of Forestry and Fire Protection (Department) executed on July 25, 1994, by Advice Letter 1482-E in accordance with electric Rule 15.E-7.
2. Electric Rule 15.E-7 substantially relates to a new line extension but PG&E has used this provision to acquire exiting private line extensions with the approval of the Commission.
3. The PG&E's proposed acquisition satisfies the criteria established in 1992 by CACD and PG&E under PG&E's Tariff Rule 15.E-7.
4. Revenues from existing customers are estimated at \$1,675 per year, and are not sufficient to compensate PG&E for its proposed investment of \$45,550.
5. PG&E has used the "Exceptional Cases" provision and proposed to charge the Department \$28,535 for the acquisition. This includes unsupported capital cost of the extension, the CIAC gross up, and a cost-of-ownership charge. These charges are refundable within ten years if revenues increase above the estimate because of permanent added loads and new extensions to the Facilities.
6. The proposed Agreement between PG&E and the Department will not cause an increase in rates, withdrawal of service, or create more restrictive service conditions other than what the Agreement has required.
7. The proposed Agreement between PG&E and The Department is just and reasonable to both parties and other PG&E ratepayers.

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THEREFORE, IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E) is authorized to acquire by Agreement the State of California Department of Forestry and Fire Protection's (Department) electric overhead distribution facilities located at Oakridge Lookout in the area of Annapolis in Sonoma County as specified on the map attached to Advice Letter 1482-E.
2. PG&E shall file a supplemental advice letter to modify Rule 15.E-7 to include acquisition of existing private line extensions. This advice letter will be marked to show that it has been approved for filing by Resolution E-3406. CACD will determine if the filing is in compliance with this resolution.
3. PG&E shall revise its List of Contracts and Deviations to include this new Agreement with the Department and shall file such revised tariff sheets with the Commission within 30 days of the effective date of this Resolution and be marked accordingly.
4. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 22, 1995. The following Commissioners approved it:



NEAL J. SHULMAN  
Executive Director

DANIEL Wm. FESSLEP  
President  
P. GREGORY CONLON  
JESSIE J. KNIGHT, JR.  
Commissioners