

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION G-2950  
December 18, 1991

**R E S O L U T I O N**

RESOLUTION G-2950. PACIFIC GAS AND ELECTRIC COMPANY  
REQUEST FOR AUTHORIZATION TO EXTEND GAS SERVICE TO  
OAKVIEW ESTATES IN AUBURN UNDER THE EXCEPTIONAL CASE  
PROVISION OF THE UTILITY'S LINE EXTENSION RULE.

BY ADVICE LETTER 1635-G, FILED ON FEBRUARY 22, 1991.

**SUMMARY**

1. By Advice Letter 1635-G, filed February 22, 1991, Pacific Gas and Electric Company (PG&E) requests authorization of an Exceptional Case Uneconomic Facilities Agreement (Agreement) with L. John Propp (Applicant) to install gas distribution facilities for the Oakview Estates residential subdivision (Oakview) located in Auburn, Placer County. In PG&E's opinion, Oakview is a speculative venture because the lots within the subdivision may be sold individually without guaranteed construction of residences. The Agreement would require Applicant to advance the extension cost, plus a contribution in aid of construction tax, and a cost of ownership charge. Under the Agreement, PG&E would install its gas facilities prior to individual applications for service, and Applicant would pay \$98,026 to PG&E.
2. The Commission Advisory and Compliance Division (CACD) has reviewed PG&E's proposal and recommends amendments to reflect residences now under construction, current cost of ownership charges, and the elimination of excess facilities required by PG&E. With these changes, Applicant would pay \$59,050 to PG&E.
3. This Resolution authorizes PG&E to enter into the Agreement, as amended.

BACKGROUND

1. The Agreement provides that the Applicant will pay PG&E all capital costs, applicable taxes, engineering and inspection fees, and cost of ownership charges. This payment will be reduced by a credit to the Applicant for gas trenching and backfilling. Applicant has paid \$98,025.92 to PG&E, which is the sum of above charges, less a credit of \$25,847 for trenching. The \$98,025.92 is subject to refund under the Agreement when customers with revenue to support the cost of the extension are attached to the system.

2. The trench work has been completed and gas distribution mains and stubs for services are in place. The subdivision consists of 32 lots. Two homes have been constructed and a third is partially complete. PG&E will not pressurize the underground lines without Commission authorization.

3. PG&E seeks Commission authorization of the Agreement under the Exceptional Cases section (Section E.7) of its Gas Extension Rule (Tariff Rule 15). 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.

NOTICE

1. Public notification of this filing has been made by placing it on the Commission calendar for February 27, 1991 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

1. **APPLICANT.** In informal discussions with CACD personnel, PG&E has averred that the Applicant believes that the feature of installed gas facilities will make the lots more attractive for sale.
2. **PG&E.** PG&E believes that this agreement qualifies as an "Exceptional Case" under the provisions of Section E.7. of PG&E's Electric Tariff Rule 15 because the residential subdivision is a speculative venture with no immediate source of revenue.
3. Applicant's payment of \$98,026 is based on the following items:
  - a. Construction costs of \$49,086,
  - b. CIAC tax of \$13,744 on the construction cost
  - c. A single payment of \$59,628.89 to recover annual cost-of-ownership (COE) charges on the Contribution in perpetuity. The COE is the product of the \$49,086 construction costs, times an annual cost-of-ownership rate for contributed capital of 13.32%, times the present value factor of PG&E's current authorized rate of return in perpetuity of 9.12.
  - d. A credit to Applicant of \$25,847 for gas trenching and backfilling less non-refundable engineering and inspection fees of \$1,414.03.
4. **CACD.** CACD recognizes that Oakview is speculative, but there are three immediately anticipated customers. CACD therefore recommends amendments to PG&E's contract to reflect residences now under construction, current cost of ownership charges, and the elimination of excess facilities required by PG&E. With these changes, Applicant would pay \$59,050 to PG&E (See Appendix A for the development of this calculation). Further, CACD notes that PG&E's Agreement deviates from the Utility's extension rule by using revenue to cost criteria for refunding. This practice is the subject of ongoing concern by the Commission and therefore ought not to be considered precedent setting in any way.
5. Under PG&E's Rule 15, individual applicants for service are entitled to extensions of specified footage by the utility based on specific appliances and heat ratings of the space heating equipment to be installed. This "Free Footage" allowance should be applied to decrease the cost of the charges to Applicant. CACD estimates that the free footage allowance is 586 feet or the equivalent of \$5,549.

6. In addition to the facilities constructed to serve Oakview, PG&E would charge Applicant for a 396 foot extension of gas main in the Auburn - Folsom Road extending beyond Southridge Drive. This extension is not necessary to serve Oakview. PG&E has indicated that the estimated cost of this extension is \$6,527. CACD is of the opinion that the cost of this portion of the extension should be borne by PG&E, not the Applicant.

7. PG&E computed Applicant's COE payment as \$59,629, based on a 13.32% rate for customer-financed (contributed) capital. This rate was in effect on the date that the Agreement was signed. However, PG&E filed to reduce this rate to 9.96% on the very next day and the new rate became effective just five days after that. It is CACD's contention that the new effective rate should be used to compute the cost of ownership charges. The recalculated COE is \$33,581 for a total refundable contribution by Applicant of \$80,953, which reduces Applicant's net payment to PG&E to \$59,050. This constitutes an overpayment by Applicant to PG&E of \$38,976.

8. CACD recommends to the Commission that Applicant's payment obligation to PG&E be reduced by \$38,976 and that PG&E be ordered to refund this amount, plus interest, to Applicant and to make refunds in accordance with its standard tariff provisions.

#### FINDINGS

1. The Agreement covers PG&E's installation of gas main facilities prior to receiving any applications for service.

2. Such construction constitutes a speculative venture and should be considered an "Exceptional Case" under the provisions of Section E.7 of PG&E's Electric Tariff Rule 15.

3. PG&E's Agreement, submitted by Advice Letter 1635-G, does not reflect residences now under construction within Oakview, would charge for excess facilities not required to serve Oakview, and uses outdated cost of ownership charges.

4. Using the "Exceptional Cases" provision, PG&E has collected \$98,026 from the Applicant. This payment obligation has been recalculated by CACD to \$59,050. This charge reflects the free footage allowances for residences under construction in Oakview; deletion of charges for excess facilities; and recalculated construction costs, Contributions in Aid of Construction taxes, and Cost-of-Ownership charges.

5. Payment of the \$59,050 by Applicant should prevent PG&E's cost of construction and ownership of these facilities from becoming a burden on other ratepayers. The payment by Applicant is subject to refund under the standard tariff provisions when additional applications for service occur.

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6. Applicant is entitled to a refund from PG&E in the amount of \$38,976 plus interest at the rate applicable to other deposits from PG&E.

7. Acceptance of this Agreement, as amended by CACD, is for this specific case only and in no way sets a precedent nor constitutes an endorsement of PG&E's practices concerning Uneconomic Line Extensions. All future "Exceptional Case" agreements must be considered by the Commission on a case-by-case basis.

**THEREFORE, IT IS ORDERED that:**

1. On or before the tenth day (10) following the effective date of this Resolution, PG&E shall file a revised Advice Letter 1635-G and accompanying Uneconomic Extension Agreement with Oakview Estates to include the revised payment by Applicant and refund provisions as authorized by this Resolution. Upon receipt of the amended Agreement by the Commission, such revised Advice Letter and Agreement shall all be marked to show that they were accepted for filing by Resolution G-2950 of the California Public Utilities Commission.

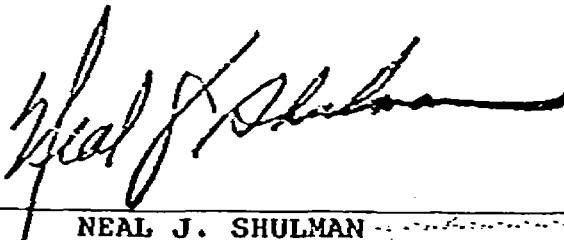
2. Within thirty (30) days after the effective date of this Resolution, PG&E shall make a refund payment in the amount of \$38,976 plus interest, to Mr. L. John Propp, on behalf of Oakview Estates.

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

4. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 1991. The following Commissioners approved it:

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



NEAL J. SHULMAN  
Executive Director

## PAYMENT BY APPLICANT - UNECONOMIC LINE EXTENSION

## APPLICANT'S REFUNDABLE CONTRIBUTION

|                             |              |
|-----------------------------|--------------|
| Total Construction Costs    | \$49,086     |
| Less cost of excess line    |              |
| 396 feet @ \$16.48 per foot | <u>6,527</u> |
| Subtotal                    | \$42,559     |

|                                |                |
|--------------------------------|----------------|
| Less free footage allowance of |                |
| 586* feet @ \$9.47 per foot    | <u>\$5,549</u> |
| Subtotal                       | \$37,010       |

## TAX COMPONENT OF CONTRIBUTION

|                      |                 |
|----------------------|-----------------|
| \$37,010 times 28% = | <u>\$10,363</u> |
| Total Contribution   | \$47,372        |

## COST OF OWNERSHIP PAYMENT

|   |          |
|---|----------|
| Contribution times present value factor |          |
| times current authorized rate of return |          |
| \$37,010 X 9.11 X 9.96% =               | \$33,581 |

## TOTAL PAYMENT SUBJECT TO REFUND

|                                 |               |
|---------------------------------|---------------|
| Contribution plus tax component | \$47,372      |
| Cost of Ownership               | <u>33,581</u> |
| Subtotal                        | \$80,953      |

## LESS NET CREDIT\*\*

|                                  |                 |
|----------------------------------|-----------------|
| TOTAL PAYMENT DUE FROM APPLICANT | <u>\$21,903</u> |
|                                  | \$59,050        |

## PREVIOUS PAYMENT MADE

|  |                 |
|--|-----------------|
|  | <u>\$98,026</u> |
|--|-----------------|

AMOUNT TO BE REFUNDED BY PG&E

|  |          |
|--|----------|
|  | \$38,976 |
|--|----------|

## \*Free Footage Allowance Calculation

|          | House 1    | House 2    | House 3    | All<br>Units |
|----------|------------|------------|------------|--------------|
| Sp Ht    |            |            |            |              |
| 1000 Btu | 120        | 95         | 95         |              |
| feet     | 62         | 52         | 52         |              |
| Range    | 50         | 50         | 50         |              |
| Wtr Htr  | 80         | 80         | 80         |              |
| Dryer    | <u>10</u>  | <u>10</u>  | <u>10</u>  |              |
| Totals   | <u>202</u> | <u>192</u> | <u>192</u> | 586          |

## \*\* Net Credit

|                                    |          |
|------------------------------------|----------|
| Total trenching costs of Applicant | \$25,847 |
| Total trench footage               | 4,046    |
| Unit trenching cost                | \$6.39   |

Cost of excess trench: 396 feet @ \$6.39 = \$2,530  
Trenching costs of Applicant to be credited  
\$25,847 less \$2,530 = \$23,317

|   |              |
|---|--------------|
| Applicable trenching costs of Applicant | \$23,317     |
| LESS Nonrefundable Eng'g & Insp. Fees   | <u>1,414</u> |
| Total                                   | \$21,903     |