

ORIGINAL

900710236

EX-5

L/IRA:ddb+

FILED
PUBLIC UTILITIES COMMISSION

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

JUL 6 1990

Order Instituting Rulemaking on the Commission's own motion to revise General Order 103 and Water Tariff Rules 15 and 16.

SAN FRANCISCO OFFICE
NO. R 90 07 004

ORIGINAL

ORDER INSTITUTING RULEMAKING

This Order Instituting Rulemaking (OIR) is being issued to consider revising General Order (G.O.) 103 and Water Tariff Rules 15 and 16 regarding main extensions and service connections. G.O. 103 and Tariff Rules 15 and 16 allow customer advances and contributions for main extensions and other identifiable facilities but prohibit service connection fees. Despite having the provisions of advances and contributions, some water utilities may face difficulty in raising funds to finance main extensions and other facilities to serve new customers. In our Decision 90-02-020 in Southern California Water Company's general rate increase application (A.88-05-021) we have authorized that utility, on an experimental basis, to charge a connection fee to new customers in its Desert District until we review the matter further and issue a decision in this OIR.

We have noted that since the adoption of the main extension rules 30 years ago, some water utilities may face new challenges and operating environments. In addition, recent changes in the tax laws have made customer advances and contributions in aid of construction less desirable since both are now taxed as income. Some utilities are in a situation where the cost of adding a new customer exceeds the marginal revenue received. We have commented, based on the record in A.88-05-021, that authorization of connection fees could be an appropriate source of revenue to help utilities finance the additional plant needed to serve new customers. But we have not made a final decision since such authorization would be a major deviation from G.O. 103 and the main extension rules. Allowing connection fees

would be a departure from the traditional role of utility stockholders in that they would not be raising the capital to finance the provision of service. There may also be opposition to the imposition of connection fees by parties who would pay the charges. It may be that connection fees would be appropriate, if at all, only for water utilities fitting a specified financial profile.

An OIR proceeding is the correct forum to make a decision on the revisions of the existing G.O. and main extension rules. This OIR lists questions which are fundamental to our considering whether to revise existing rules. Once we have received comments, we will assess them and, if we think changes to existing rules are in order, publish any proposed changes to General Order 103 and Tariff Rules 15 and 16. The proposed rules will be served on all regulated water utilities, and on others who comment on today's order, and they will be afforded an opportunity to comment before we make a final decision on whether to adopt them.

Following are questions which we want water utilities and others to address:

- o Are there financing problems facing any of the different classes of water utilities in connection with extending service to new customers?
- o How is Tariff Rule 15 presently being used by utilities in raising the needed funds for main extension and how effective is it in providing financing assistance to different classes of utilities?
- o Should the contribution portion of Tariff Rule 15 be revised? In what way?
- o What are the income tax repercussions and problems with advances, contributions, connection fees, facilities fees and other such charges?
- o What are the policy implications of utilities' customers providing financing for investor-owned utilities?
- o What other changes should be made to General Order 103 and Tariff Rules 15 and 16 with respect to implementing proposals on connection fees and revisions to main extension rules.



IT IS HEREBY ORDERED that:

1. A rulemaking proceeding on the Commission's own motion is instituted to solicit comments and recommendations on revisions to the Commission's General Order 103 and water utility Tariff Rules 15 and 16 with respect to main extensions and service connections.

2. All water utilities subject to the Commission's jurisdiction are made respondents in this proceeding. All respondents and interested parties are invited to provide input to the questions listed above and, generally, on the subject of this proceeding.

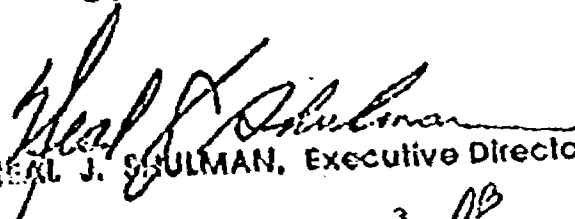
3. An original and twelve copies of all comments and recommendations shall be filed as a pleading with the Commission's Docket Office within 60 days of the issuance of this order. Two additional copies shall be mailed directly to the Water Utilities Branch of the Commission Advisory and Compliance Division. The Commission will provide the parties who filed responses with a list of all responding parties. Each responding party shall serve its comments on other parties upon request. Parties needing assistance on understanding the procedure for filing comments may contact the Commission's Public Advisor's Los Angeles Office at (213) 620-3725.

4. The Executive Director is directed to mail a copy of this order to all regulated water utilities and to other potentially interested parties listed in Appendix A.

This order is effective today.

Dated JUL 6 1990, at San Francisco, California.

**I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY**


NEAL J. SULMAN, Executive Director

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

R. _____

L/IRA:ddb*

APPENDIX A

California Water Association
Sharun B. Carlson, Executive Secretary
12510 Fallcreek Lane
Cerritos, CA 90701

National Association of Water Companies
1725 "K" Street N.W., Suite 1212
Washington, D.C. 20006

California Building Industry Association
1107 Ninth Street, Suite 1060
Sacramento, CA 95814
Attention: Robert Raymer

Toward Utility Rate Normalization
Karen Miller
625 Polk Street, Suite 403
San Francisco, CA 94102

Consumer Action
Ken McEldowney
116 New Montgomery Street, Suite 223
San Francisco, CA 94105

League of California Cities
Don Benninghoven, Executive Director
1400 "K" Street, Suite 400
Sacramento, CA 95814

County Supervisors Association of
California
Karen Keene, Legislative Representative
1100 "K" Street, Suite 101
Sacramento, CA 95814

END OF APPENDIX A