

APR 2 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the
 Commission's own motion to consider
 the line extension rules of electric
 and gas utilities.

ORIGINAL

R.92-03-050

ORDER INSTITUTING RULEMAKING

This Order Instituting Rulemaking (OIR) is issued to consider the line extension rules (extension rules) of the gas and electric utilities and revisions to such rules. These rules are contained in the utilities' tariffs and define how utilities extend lines and services to new customers.

Public Utilities (PU) Code Section 783 imposes certain requirements governing any Commission investigation or proceeding regarding the terms and conditions of extension rules. For example, amendments to the extension rules must be supported by specific findings (§783(b)). The Commission to request the assistance of appropriate state agencies and departments in conducting any such investigation (§783(c)). Statutory time delays govern the effective date of any new order or decision (§783(d)). Section 783 is reproduced in Appendix C to this order.

In 1957, the Commission initiated an investigation, Case (C.) 5945, into the propriety and reasonableness of the extension rules. The reasons given at that time were "The rapid growth of the state's population during the last decade, coupled with the change in economic conditions...". These reasons required "a fundamental appraisal" of the extension rules. Thirty five years have passed since this change in the rules was initiated. The economic conditions of the 1990's, California's population, and the present regulatory climate dictate yet another look at the extension rules. This Rulemaking may uncover opportunities to consolidate, simplify and standardize the extension rules, reduce the administrative costs of the rules, and more appropriately assign extension costs.

Summary of Order

This OIR requires respondent utilities, and allows interested parties, to participate in a comprehensive review of the existing extension rules, review underlying data and policy decisions, and then propose comprehensive revisions to the existing tariffs. The Commission anticipates the extensive use of workshops by the Commission Advisory and Compliance Division (CACD) to expedite the hearing process and facilitate settlement to the fullest extent possible. Any revisions would become effective as early as July 1, 1993.

I. BACKGROUND

Two prime concepts define the extension rules. The first is the public policy decision that utilities generally have an obligation to make extensions to serve new customers. The second is an escape clause from unreasonable obligations. The extent of the obligation to serve is presently tied to the FREE FOOTAGE ALLOWANCE and the escape clause is called the EXCEPTIONAL CASES provision.

1. HISTORY

On August 12, 1915, the California Railroad Commission (our predecessor) issued Decision (D.) 2689 in C.683, directing respondent electric and gas utilities to adopt certain rules. One rule, Rule 15, delineated the utility's obligation to extend service to new customers and a hardship escape clause:

A water, gas, electric or telephone utility which operates under a general franchise authorizing the occupancy of all the streets of a municipality shall make, at its own expense, such street extensions as may be necessary to serve applicants; provided, that in any case in which the construction of an extension at the utility's sole cost will in its opinion work an undue hardship upon the utility or its existing consumers, the matter may be submitted to the Commission as

provided by section 36 of the Public Utilities Act, unless satisfactorily adjusted by an informal application to the Commission. (7 CRC 830, 862.)

With refinements, this rule exists in utilities' tariffs today. The refinements include changes to the hardship escape clause, a free footage allowance based upon specific appliances, and the electric utility industry changeover from overhead to underground distribution systems.

EXCEPTIONAL CASES. The hardship escape clause is now contained in the Exceptional Cases provision of the extension rules. The following example is taken from Section E.7. (Exceptional Cases) of Pacific Gas and Electric Company's (PG&E) tariffs:

In unusual circumstances, when the application of these rules appears 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 the approval of special conditions which may be mutually agreed upon, prior to commencing construction.

FREE FOOTAGE ALLOWANCE. Various appliances are listed in each utility's Rule 15 and a free footage allowance is associated with each appliance. The desirability of each appliance and the load it generates were apparently factors considered by the Commission when allowances were set. The sum of the estimated allowances that each applicant for service (Applicant) is entitled to is termed the Free Footage Allowance (Allowance) in utility tariffs. An Applicant is entitled to a free extension from the utility if the extension does not exceed the estimated Allowance. Applicants desiring extensions beyond their Allowance must pay an advance to the utility equal to the product of the excess footage beyond the Allowance times the utility's system average cost per foot. The Allowance made it possible to apply the rule broadly throughout the utilities' service areas and to eliminate franchise

area restrictions. Appendix D excerpts typical Rule 15 provisions.

OVERHEAD AND UNDERGROUND EXTENSIONS. Originally, only overhead construction was used for electric distribution facilities. In 1960, the Commission added Section D to Rule 15 to cover underground extensions (D.59011). Rule 15.1, covering Underground Extensions Within New Residential Subdivisions and Residential Developments, was established by D.76394 in 1969. Excerpts of typical Rule 15.1 provisions are attached as Appendix E. Rule 15.2, covering Underground Extensions Within New Commercial and Industrial Developments, was established by D.78294 in 1971.

There are several major differences between the overhead rule 15 and the underground rules 15.1 and 15.2. First, the developer is responsible for digging the trench (trenching), backfilling it after the conduit is laid, deeding the improvement to the utility, and paying the Contributions in Aid of Construction Tax (the Tax Reform Act of 1986 made contributions in aid of construction taxable income to the utilities). Second, the developer is required to pay to the utility the estimated cost of the extension, based upon specified unit costs. Finally, the utility incrementally refunds a developer's advance based upon the number of customers taking service. This refundable free footage allowance is set for various types of residential construction. For example, the allowance for a subdivision of detached single family residences is 125 feet per residence.

TYPICAL APPLICATIONS, AND MOST COMPLAINTS.

Residential subdivisions under Rule 15.1 constitute most of the utilities' new extension activity. Most complaints come from individual applicants for service, who would be served under Rule 15.

2. THE EXTENSION OBLIGATION

D.2689 cites legislation giving the Commission discretion to establish limits on line extensions:

The duty of gas and electric utilities to render service at their cost was heretofore limited by section 629 of the Civil Code of California to a distance of 100 feet from any main, or direct or primary wire, of the utility. However, this section has been repealed by section 86 of the revised Public Utilities Act, effective August 8, 1915. It is a reasonable inference that the purpose of the repeal of this section was to leave this Commission free to prescribe reasonable rules and regulations, even though the result might be the construction of extensions at the utility's sole cost, even beyond 100 feet. (7 CRC 830, 862.)

In a 1915 case involving PG&E and several applicants for service, the Commission wanted it

...distinctly understood that this Commission does not consider it necessary or possible that each service extension shall be uniformly profitable or that there be no unprofitable extensions. Inasmuch as rates for electric service are made for average conditions, it must be perfectly obvious that, if the rates for a given class of service are as a whole remunerative, these rates must provide for both the business which is more profitable and that which is less profitable than the average. The extremes in either direction undoubtedly include business which is so profitable as almost to warrant a special classification at lower rates and business which is temporarily, at least, an actual burden upon other consumers of the same class. In view of these facts it will be evident that, if all unprofitable business is to be eliminated, the rates which may have been reasonable theretofore must be reduced to compensate for the reduced cost of service. (6 CRC 47, 49.)

In D.2689, the Commission said this to utilities having reservations about accepting new customers:

The Commission's attention has recently been drawn to a number of cases in which utilities which have a monopoly in certain territory have refused to make extensions in

cases in which they would have made them had there been competition and under circumstances under which they actually do make extensions in other territory in which competition exists. If this attitude persists, it will become the matter of very serious consideration from the Commission. If a utility adopts such a policy in any part of the territory served by it, it must expect this fact to be taken into consideration if another utility of like kind asks authority to enter the territory under consideration or any other portion of the territory served by the existing utility. (7 CRC 830, 863.)

3. UNIFORMITY AND OTHER FACTORS IN EXTENSION RULES

In 1957, the Commission initiated an investigation, C.5945, into the propriety and reasonableness of the extension rules. The Commission said: "The rapid growth of the state's population during the last decade, coupled with the change in economic conditions, requires a fundamental appraisal of those rules. It appears to the Commission that there may be a need for the development of uniform principles in such rules." (C.5945, Mimeo p. 1.) Respondent utilities were required to file information on:

1. The lengths of free footage allowances of gas main and service or electric line extensions deemed appropriate for different types or combinations of appliances or usages, based on cost studies of the justifiable investment in such extensions, assuming average load conditions and present rates.
2. The actual systemwide average unit costs for gas main and service or electric line extensions for the year 1956.
3. Recommendations as to tariff provisions relating to refunds under gas main and service or electric line extension rules.
4. Such other information as the respondent utilities deem pertinent to this investigation.

The Commission, in D.59011, indicated that there were other factors to consider when determining extension rule allowances besides cost and revenue. Cited factors were value of service,

competition, history, public requirements, and burden on existing customers. The decision then ordered the respondent utilities to file uniform tariff extension rules. (57 CPUC 346, 368.)

4. UNDERGROUND ELECTRIC EXTENSIONS

In 1971, the Commission issued D.78924 in C.8993, to revise line extension rules for commercial and industrial developments and individuals. The Commission made the following Findings and Conclusions:

1. The present rules for extension of underground electric and telephone lines to serve individuals and to serve commercial and industrial developments require the applicant for the extension to contribute to the utility essentially all of the difference in cost between the underground extension and an equivalent overhead extension.
2. The present rules for extension of underground electric and telephone lines to serve new residential subdivisions require the applicant for the extension to provide trenching and backfilling for electric lines but require the utilities to absorb essentially all other additional costs of undergrounding.
3. (Omitted)
4. It is reasonable to modify the present rules for extension of electric lines to serve individuals and to serve commercial and industrial developments so that, on the average, the utilities will absorb a portion of the extra costs of underground as compared to overhead extensions. (71 CPUC 803, 813.)

The Commission also said:

It is recognized, however, that we are in the relatively early stages of transition from essentially overhead to essentially underground electric and telephone lines. As new residential extensions are installed underground and existing overhead lines are replaced by underground facilities, present rules for such installations result in a progressively larger utility investment in the

extra cost of undergrounding. Under these circumstances, it is not inappropriate to liberalize somewhat the rules for commercial, industrial and individual underground extensions. As conversions of existing overhead lines to underground progresses over the years, it may eventually become reasonable for the utilities to absorb all of the cost differential relating to subsequent extensions. (71 CPUC 803, 808.)

5. ELIMINATING ALLOWANCES - CASE 10260.

INVESTIGATION OPENED. On February 15, 1977, the Commission opened an investigation, (C.10260), into the allowances, rules, practices, and procedures concerning free footage for new connections. The proceeding was instituted to consider whether existing free footage allowances for extension of electric and gas service should be modified or abolished. D.82-12-094, issued December 15, 1982, finalized earlier decisions, terminated suspension of the rules adopted in D.82-04-068, as amended, and established the date of June 1, 1983 for the filing of utility tariffs that would reduce and ultimately eliminate free footage allowances. The rationale of the Commission (D.82-04-069, 8 CPUC 2d 588, 599, 624) was that the current rules were contrary to public policy because the level of allowances was tied to increased energy use. With regard to extensions to rural customers, the Commission said, "Free footage allowances for rural customers would cause urban customers to bear additional costs associated with rural development without providing reciprocal benefits to urban customers, and would require this Commission to exercise judgements more appropriately left to the Legislature." (Finding 23, 8 CPUC 2d at 623.)

LEGISLATION. Senate Bill 48 (SB 48 - Vuich), an urgency measure enacted in 1983, directed the Commission to continue to enforce the extension rules in effect on January 1, 1982, except for amendments to permit applicants for service to install

extensions. Utilities were allowed to update their unit costs. In all other aspects the Commission was not to investigate amending the extension rules or issue any orders or decisions which amend the rules, without an investigation or proceeding conducted pursuant to subdivision (b) of Section 783 (See Appendix C). The Commission subsequently concluded C.10260 by D.84-04-047 and rescinded all prior orders in that proceeding.

II. SCOPE AND SCHEDULE OF THIS PROCEEDING

SCOPE. This Rulemaking will consider potential extension rule revisions. There appear to be similarities in this Rulemaking with the causes and issues in C.5945: population growth, changed economic conditions, and the need for a comprehensive review of the extension rules. In addition, years have passed since the Commission expressed the opinion in C.8993 that progress in the conversion of existing overhead electric lines to underground may eventually make it reasonable for the utilities to absorb all of the cost differential relating to subsequent extensions.

We will order all respondent utilities to file information (the Extension Report) on the following items 1 through 5, and electric utilities also on item 6:

1. Extension proposals, based on cost of service studies of the justifiable investment in extensions, assuming average load conditions and present rates.
2. Extension proposals that reflect value of service, competition, history, public requirements, and burden on existing customers.

3. Actual system wide average unit costs for gas and electric line and service extensions, by year, for the five years 1987 through 1991.
4. Complete pro forma tariff provisions.
5. Other pertinent information.
6. (For electric utilities only.) The proportion of overhead and underground facilities on their systems, including the plant amounts, miles of distribution lines, and number of customers. The impacts and reasonableness of changing the extension rules to provide that utilities absorb all of the difference in cost between overhead and underground facilities.

Proposals will also be accepted from interested parties.

REQUIRED ANALYSES. For any proposed change in the extension rules, interested parties may, and respondent utilities shall, include an analysis of the seven items specified by Section 783(b)(1) through (7). (See Appendix C.)

SCHEDULE. In accordance with the provisions of Section 783(d), any new order or decision issued pursuant to an investigation or proceeding conducted pursuant to Section 783(b) shall become effective on July 1 of the calendar year which follows the year when the new order or decision is adopted by the Commission, so as to ensure that the public has at least six months to consider the new order or decision.

IT IS ORDERED that:

1. A Rulemaking on the Commission's own motion is hereby instituted to consider the line extension rules of the gas and electric utilities under Commission jurisdiction.
2. Gas and electric utilities listed in Appendix A are named respondents in this proceeding.
3. The Rulemaking shall be served on respondent utilities, all potentially interested parties, and the state agencies specified in Public Utilities Code Section 783. The Public Advisor shall encourage participation by other intervenors not listed.
4. Interested parties shall have until April 15, 1992 to notify the Commission and respondent utilities of their desire to participate in this Rulemaking. Notification to the Commission shall be made by letter addressed to:

California Public Utilities Commission
Energy Branch, Commission Advisory and Compliance Division
505 Van Ness Avenue, Room 3102
SAN FRANCISCO CA 94102-3298

5. Thereafter, the Assigned Administrative Law Judge (ALJ) shall issue a ruling setting forth the service list to be used in this proceeding. The list shall consist of respondents, interested parties who have notified the Commission of their desire to participate in this proceeding, the state agencies listed in Section 783, and the Energy Branch of the Commission Advisory and Compliance Division (CACD).

6. Respondent utilities shall file their Extension Reports on May 8, 1992.

7. After reviewing the Extension Reports, the Assigned ALJ shall issue a ruling specifying the appropriate scope of comments on the Extension Reports and other issues in this Rulemaking; a statement of additional information, if any, required from respondent utilities; and a statement of issues to be addressed in phases, if necessary.

8. Parties may file comments in accordance with the Assigned ALJ's ruling by June 22, 1992.

9. After receipt of comments, the Assigned ALJ shall issue a further ruling specifying the scope of workshops. In addition, the Assigned ALJ may issue further requests for supplemental information necessary for the conduct of workshops.

10. CACD shall hold workshops in accordance with the Assigned ALJ's rulings and submit a workshop report to the Assigned ALJ and all interested parties indicating viable options for Commission action.

11. Interested parties may file comments on the CACD workshop report within fifteen (15) days of its issuance.

12. After reviewing the CACD workshop report and comments on the report, the Assigned ALJ shall propose a draft Rule for the Commission's consideration. The Assigned ALJ's proposal shall be circulated in accordance with the provisions of Rules 77 through 77.5 of the Commission's Rules of Practice and Procedure (Rules).

13. The filings authorized by Ordering Paragraphs 6, 8, and 11 shall comply with Rules 1, 2, 3, 3.5, 4, 4.5, and 7 and shall be served on all parties on the service list described in Ordering Paragraph 5 and subsequent revisions.

14. The Executive Director shall mail a copy of this order to respondents and other entities listed in Appendices A and B.

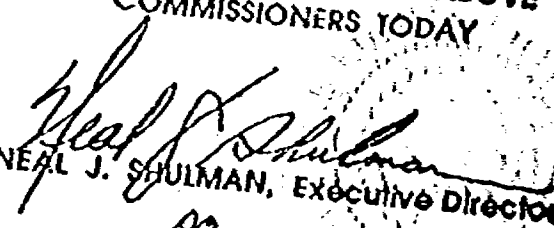
This order is effective today

Dated March 31, 1992, at San Francisco, California.

DANIEL Wm. FESSLER
President

JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SHULMAN, Executive Director

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(End of Appendix A)

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Note: Any state agency or department which is requested by the commission to provide assistance shall provide the assistance within the agency's or department's existing budget.

Appendix B
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Appendix B
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(End of Appendix B)

783. (a) The commission shall continue to enforce the rules governing the extension of service by gas and electrical corporations to new residential, commercial, agricultural, and industrial customers in effect on January 1, 1982, except that the commission shall amend the existing rules to permit applicants for service to install extensions in accordance with subdivision (f). Except for periodic review provisions of existing rules, and amendments to permit installations by an applicant's contractor, the commission shall not investigate amending these rules or issue any orders or decisions which amend these rules, unless the investigation or proceeding for the issuance of the order or decision is conducted pursuant to subdivision (b).

(b) Whenever the commission institutes an investigation into the terms and conditions for the extension of services provided by gas and electrical corporations to new or existing customers, or considers issuing an order or decision amending those terms or conditions, the commission shall make written findings on all of the following issues:

(1) The economic effect of the line and service extension terms and conditions upon agriculture, residential housing, mobilehome parks, rural customers, urban customers, employment, and commercial and industrial building and development.

(2) The effect of requiring new and existing customers applying for an extension to an electrical or gas corporation to provide transmission or distribution facilities for other customers who will apply to receive line and service extensions in the future.

(3) The effect of requiring a new or existing customer applying for an extension to an electrical corporation to be responsible for the distribution of, reinforcements of, relocations of, or additions to that gas and electrical corporation.

(4) The economic effect of the terms and conditions upon projects, including redevelopment projects, funded or sponsored by cities, counties, or districts.

(5) The effect of the line and service extension regulations, and any modification to them, on existing ratepayers.

(6) The effect of the line and service extension regulations, and any modifications to them, on the consumption and conservation of energy.

(7) The extent to which there is cost-justification for a special line and service extension for agriculture.

(c) The commission shall request the assistance of appropriate state agencies and departments in conducting any investigation or proceeding pursuant to subdivision (b), including, but not limited to, the Business, Transportation and Housing Agency, the Department of Food and Agriculture, the Department of Consumer Affairs, the Department of Real Estate, the Department of Housing and Community Development, and the Department of Economic and Business Development.

(d) Any new order or decision issued pursuant to an investigation or proceeding conducted pursuant to subdivision (b) shall become effective on July 1 of the year which follows the

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year when the new order or decision is adopted by the commission, so as to ensure that the public has at least six months to consider the new order or decision.

(e) The commission shall conduct any investigation or proceeding pursuant to subdivision (b) within the commission's existing budget, and any state agency or department which is requested by the commission to provide assistance pursuant to subdivision (c) shall also provide the assistance within the agency's or department's existing budget.

(f) An electrical or gas corporation shall permit any new or existing customer who applies for an extension of service from that corporation to install a gas or electric extension in accordance with with the regulations of the commission and any applicable specifications of the electrical or gas corporation.
(Added by Stats. 1983, Ch 1229, Sec. 2 Effective September 30, 1983)

July 31, 1990

(End of Appendix C)

Rule 15 - Electric Line Extensions (Excerpts)

Extensions of distribution lines of standard voltages (22 kv or less) necessary to furnish permanent electric service to applicants will be made by PG&E in accordance with the following provisions:

A. GENERAL

PG&E will construct, own, operate and maintain lines only along public streets, roads and highways which PG&E has the legal right to occupy, and on public lands and private property across which rights-of-way satisfactory to PG&E may be obtained without cost or condemnation by PG&E.

B. OVERHEAD EXTENSIONS TO INDIVIDUAL APPLICANTS FOR SERVICE

1. FREE FOOTAGE ALLOWANCE

Overhead line extensions will be made by PG&E at its own expense provided the length of line required does not exceed the free length as determined from the following allowances.

a. RESIDENTIAL USE

For lighting and appliances, each customer	300	feet
For each electric refrigerator customer	75	feet
For each electric range customer	150	feet
For each 30 gallon or larger storage type electric water heater customer	275	feet
For each electric clothes dryer customer	40	feet
For permanently installed heating equipment of at least 1.5 kw, per kw.....	30	feet
For motors of 1 hp or more, per hp connected	50	feet
For each home freezer customer	50	feet
For each automatic dishwasher customer	20	feet
For each domestic water system of 1 hp or less	30	feet
For each heat pump customer	800	feet
For air conditioning load, room or central unit, per hp connected	50	feet

3. EXTENSIONS BEYOND THE FREE LENGTH

a. ADVANCES

1) Overhead line extensions of greater length than the free extension will be made provided the applicant for service advances to PG&E \$10.05 for each foot of line in excess of the free length. If the applicant exercises the competitive bidding option available under Section 8.3.b., PG&E will determine the estimated unit cost per foot for the job-specific installation. All extensions will be owned, operated and maintained by PG&E.

(End of Appendix D)

Rule 15.1 - Underground Extensions within New Residential
Subdivision and Residential Developments (Excerpts)

Extension of underground distribution lines at available standard voltages necessary to furnish permanent electric service within a new single-family and/or multi-family residential subdivision of five or more lots (subdivision) and in a new residential development consisting of five or more dwelling units in two or more buildings located on a single parcel of land (development) will be made by PG&E in advance of receipt of applications for service in accordance with the following provisions:

B. INSTALLATION:

1. The developer of the subdivision or development will perform all necessary trenching and backfilling, including furnishing of any imported backfill material required, and will furnish, install and deed to PG&E any necessary distribution and feeder conduit required.

C. ADVANCES BY DEVELOPER

1. The developer shall pay to PG&E, before the start of construction, the estimated cost (exclusive of transformers, meters and services) of the underground extension within the subdivision or development, such payment to be determined as follows:
 - a. For subdivisions, the product of \$15.03 per foot times the total footage of property fronting on streets within the subdivisions.
 - b. For developments, the product of \$30.12 per foot times the total footage of distribution lines within the development.
2. If the total footage determined in Section C.1.a or b above does not exceed the limits listed below, the entire amount computed in Section C.1.a or b above shall be a refundable advance.
 - a. For subdivisions, the sum of 125 feet times the total number of single-family and/or multi-family lots plus 25 feet times the number of separately metered dwelling units in excess of two in each multi-family building.
 - b. For developments, the product of 75 feet times the number of dwelling units.
3. If the total footage determined in Section C.1.a or b above exceeds the limits set forth in C.2.a or b above, then (a) \$9.32 per foot in subdivisions, or (b) \$18.37 per foot in developments for all such excess footage shall be nonrefundable and the balance shall be a refundable advance.

(End of Appendix E)