

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY & COMPLIANCE DIVISION
Water Utilities BranchRESOLUTION NO. W-3683
September 2, 1992RESOLUTION(RES. W-3683), CALIFORNIA UTILITIES SERVICE (CUS).
ORDER AUTHORIZING A MAIN EXTENSION RULE.BY ADVICE LETTER NO. 12, FILED MAY 28, 1992.SUMMARY

CUS, a regulated sewer utility, has requested authority to add a main extension rule, similar to the main extension rule that exists for water utilities, to its authorized tariffs. This Resolution grants the request.

BACKGROUND

CUS, by Advice Letter No. 12 filed on May 28, 1992, requested authority to establish and add its proposed tariff Rule No. 15 - Main Extension Rule to its authorized tariffs. The filing also included proposed standard contract forms: Form A - Installation Of Sewer Lateral Or Sewer Main Extension To Serve New Individual Customer, and Form E - Sewer Main Extensions And/Or Special Sewer Facilities. CUS serves about 1,000 customers in Monterey County.

DISCUSSION

Each regulated electric, gas and water utility has a line/main extension rule in its Commission authorized tariffs. These rules delineate the respective responsibilities of the utility and those who wish to have the utility extend its facilities to provide them with service.

Companies providing sewer service to the public were brought under Commission regulation in 1972 at which time there were about twenty offering service to the public. This number has steadily declined as these utilities have been converted to public ownership. Today there are ten sewer utilities under Commission regulation.

Because there are only a few sewer utilities, the Commission has not initiated rule-making proceedings to develop and issue standard tariffs. Each utility has submitted tariffs as it has deemed necessary for its operation. These tariffs in turn have been approved on a utility-by-utility basis. Most have been patterned in so far as possible after the the Commission's standard tariffs for water utilities except for main extensions.

Only a few sewer utilities have a main extension rule. For those that do, the rule is brief; requiring only that all main extensions are to be conveyed to the utility as Contributions-in-Aid-of-Construction.

The rule proposed by CUS is comprehensive and patterned after the water utility Rule No. 15 - Main Extensions. The Water Utilities Branch (Branch) and CUS worked at length on the proposed rule to ensure that the interests of both the utility and its customers were properly reflected. Both the Branch and CUS agree that the rule in Attachment A is the acceptable result of that effort. The Branch has reviewed the form and content of associated proposed standard contracts Form A and Form E, has found them acceptable, and recommends that these forms as well as the attached tariff Rule No. 15 - Sewer Main Extension Rule be approved by the Commission.

NOTICE

The Utility notified the Local Agency Formation Commission (LAFCO), Monterey County, the Monterey County Regional Water Pollution Control Board, the Builders Exchange, and a nearby sewer utility. Since this rule is primarily of importance to builders and developers, individual customer notification is considered unnecessary. No protests or comments have been received by the Commission.

FINDINGS

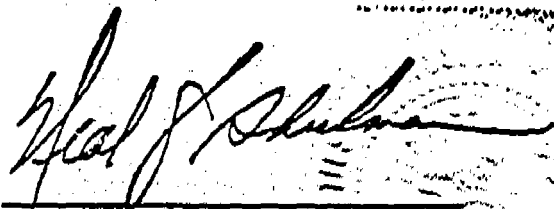
1. The Commission has not established a standard main extension tariff rule for sewer utilities under its regulation.
2. CUS's proposed tariff Rule No. 15 - Sewer Main Extensions, as attached to this resolution should be approved for inclusion in CUS's authorized tariffs.

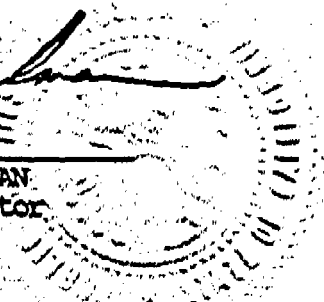
IT IS ORDERED that:

1. California Utilities Service is authorized to establish a tariff Rule No. 15 - Sewer Main Extensions, as attached to this resolution as Attachment A. The effective date of the rule shall be five (5) days from the date of this resolution.
2. This resolution is effective today.

I certify that this resolution was adopted by the Public Utilities Commission at its regular meeting on September 2, 1992. The following Commissioners approved it:

DANIEL Wm. FESSLER
President
JOHN B. OHEANIAN
NORMAN D. SHUMWAY
Commissioners


NEAL J. SHULMAN
Executive Director



Commissioner Patricia M. Eckert, being necessarily absent, did not participate.

Rule No. 15

SEWER MAIN EXTENSION RULE

1. General Provisions

- a. All extensions of sewer mains from the utility's existing sewer collection or transmission system to serve new customers shall be made under the provisions of this rule unless specific authority is first obtained from the Commission to deviate therefrom.
- b. A sewer main extension contract shall be executed between the Utility and an Applicant for a sewer main extension before any construction work is commenced.
- c. All sewer main extension contracts shall provide for title to the completed sewer main extension to be transferred by Applicant to Utility without compensation. Such sewer facilities shall become the sole property of the utility. The cost of the sewer main extension shall be recorded by Utility as a contribution-in-aid-of-construction. No refunds will be made to Applicant other than as provided for in Section 5 of this rule.
- d. Utility shall have no obligation to accept title and ownership of any sewer facilities from applicant, or to provide sewer service through any sewer facilities not constructed by Utility, except those facilities constructed by a Utility Approved Contractor under supervision and inspection by Utility, using the size, type and quality of materials specified by Utility.
- e. In case of disagreement or dispute regarding the interpretation of any provision of this rule, or in circumstances where the Application of this rule appears unreasonable to either party, the Utility or Applicant may refer the matter to the Commission for determination. Any main extension contracts entered into under this rule are subject to such revisions as the Commission may order.

2. Definitions

- a. Actual Cost of Construction is Utility's initial estimate of the cost of constructing the sewer main extension, plus or minus any differences between the initial estimate and the actual cost of the completed project.
- b. Applicant, for the purposes of this rule, is any person or corporation entering into, or seeking to enter into a sewer main extension contract with Utility.
- c. Contributions are non-refundable payments to Utility in the form of cash, services, or property, usually reflecting the cost of sewer plant.

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- d. Inclusion Fee. An inclusion fee is an amount paid by an Applicant for sewer service reflecting an estimated pro rata share of the cost of sewage treatment plant.
- e. Individual Customer, is an individual requesting installation of a sewer main or lateral to serve a single lot, as distinguished from a subdivision or group of lots.
- f. Sewer Lateral, for the purposes of this rule, is the piping extending from a customer's property line to the point of connection to a sewer collection main.
- g. Sewer Main Extension, includes all in-tract sewage collection facilities such as mains, laterals, manholes, clean outs, etc. and transmission mains not larger than 8-inch used to transport sewage from a collection system to a treatment plant, i.e. excluding special sewer facilities and sewage treatment plant. A sewer main extension may also include the sewer main from an Individual Customer's service lateral to a point where the Individual Customer's main connects with a main serving other customers, including manholes and clean outs if required.
- h. Special Sewer Facilities are any sewer facilities other than the sewage treatment plant and the in-tract sewage collection system. Ordinarily, such special sewer facilities potentially may serve more than one development. Special sewer facilities include lift stations and transmission mains larger than 8-inch mains used to transport sewage from a collection system to the treatment plant.
- i. Tax Factor is a percentage added to contributed plant to cover federal and state income taxes on such contributions. Both the contributed plant and provision for income taxes on the contributed plant are subject to income taxes. A tax factor is calculated by applying the utility's highest incremental tax rates to the total contribution to make an initial tax calculation. The incremental tax rates are then applied to the initial tax calculation to calculate the additional taxes due on the amount of the initial tax calculation. The amount of initial tax calculation and the amount of the additional tax calculations are added together to produce a tax factor.
- j. Utility, for the purposes of this rule, is California Utilities Service, Inc.

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k. Utility Approved Contractor, is a contractor who, in the opinion of the utility, possesses the requisite licenses, experience, financial stability, and other desirable qualification to install sewer plant, and has been included by Utility on its list of qualified bidders. The list of Utility Approved Contractors may include the Applicant, if, in the opinion of Utility, Applicant is fully qualified to install sewer plant.

3. Estimates, Plans, and Specifications

- a. The Utility shall be responsible for the design of the sewer main extension, and the size, type, quality of materials and their location shall be specified by the Utility. Actual construction work shall be performed by the Utility or by a Utility Approved Contractor. Utility will provide a materials list and job specifications to each qualified bidder upon request. No substitution of designated materials or changes in specifications may be made without written Utility approval.
- b. Upon request by a potential Applicant for a sewer main extension, the Utility shall prepare for Applicant, without charge, a preliminary sketch and rough estimate of the installed cost of the requested sewer main extension. However, if more than one hour of time is required to prepare preliminary sketches and cost estimates, Utility may require reimbursement for the actual cost incurred.
- c. An Applicant for a sewer main extension who desires detailed plans, specifications, and cost estimates shall be referred to the utility's consulting engineers who will prepare such plans and specifications at Applicant's request and at Applicant's cost. If the sewer main extension is to include oversizing of facilities, appropriate details shall be set forth in the plans, specifications, and cost estimates.
- d. If requested by Applicant and approved by Utility, Applicant's engineer may prepare the sewer system plans, using Utility's specifications. Applicant must pay to have such plans reviewed by Utility's consulting engineers and for any plan revisions that may be required.
- e. When detailed plans, specifications, and cost estimates are requested, the Applicant for a main extension shall furnish a map to a suitable scale showing the street and lot layouts and, when requested by the Utility, contours or other indication of the relative elevation of the various parts of the area to be developed.

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3. e. If changes are made subsequent to the presentation of this map by the Applicant, and these changes result in additional expense for revising plans, specifications, and cost estimates, this additional expense shall be borne by Applicant.

4. Sewer Main Construction

a. An Applicant for a sewer main extension may either:

(1) Request that Utility install the sewer main extension at its actual cost of construction,

or

(2) Request that its sewer main extension be installed on a competitive bid basis, in which case the Utility may include itself as one of the competitive bidders.

b. An Applicant must select one of the two construction methods listed above. It cannot first request Utility to provide a firm estimate of construction costs that will later be adjusted to the actual cost of construction, and subsequently elect to use a competitive bid procedure instead.

c. If Applicant contracts with Utility to install the sewer main extension at Utility's actual cost of construction, Applicant shall be responsible for paying any excess of actual construction costs over the Utility's initial estimated cost of construction. If actual construction costs are less than the amount advanced by Applicant in accordance with paragraph 4.h., the difference shall be refunded to Applicant. An Applicant who enters into a main extension contract in accordance with paragraph 4.a. (1) shall be provided with a statement of actual construction costs showing in reasonable detail the costs for labor, materials, and overheads. Said statement shall be submitted within sixty days after the actual construction costs of the installation have been ascertained by the Utility.

Any difference between the actual construction costs and the amount advanced in accordance with paragraph 4.h. shall be payable within thirty days of date of submission of statement of actual construction cost. Utility's actual construction costs may include normal construction overheads and material handling charge, but shall not include an additional charge for construction inspection as provided for in Section 4.k. of this rule.

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- d. If Applicant requests that its sewer main extension be installed on a competitive bid basis, Utility shall provide Applicant with a list of five or more Utility Approved Contractors whom Applicant can invite to bid on its project. If the Applicant itself holds the requisite licenses and, in the sole opinion of the Utility, is otherwise qualified, it may be included as one of the Utility Approved Contractors.

Any licensed sewer contractor may apply to be included on the list of Utility Approved Contractors. All applications will be reviewed by Utility's consulting engineers upon payment of an application review fee. If an application is not approved, the consulting engineer's application review fee will be paid by Utility instead of by Contractor.

Applicant's contract with the successful bidder must provide that the Utility be given a breakdown of the installed cost of the sewer main extension, including unit costs and total footage of each size of pipe.

- e. Competitive bids shall be deposited with the Utility's Consulting Engineer or his or her designee and shall be opened by the Engineer in the presence of the bidders and Applicant, if present.
- f. If the Utility, itself, installs sewer plant as a Utility Approved Contractor on a competitive bid basis, any profit or loss on the project shall be recorded by Utility as non-utility income or expense.
- g. The Utility will administer all construction contracts except for installation of sewer mains for which Applicant is the Utility Approved Contractor.
- h. If Utility is to perform the construction work on an actual cost basis, Applicant shall advance to Utility the estimated cost of construction 30 days before work is to be commenced.
- i. If work is to be performed on a competitive bid basis, Applicant shall advance to Utility the amount of the successful bid 15 days before work is to be commenced.

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4. j. All sums advanced to Utility by Applicant for sewer plant construction shall be deposited by Utility in a separate bank account, segregated from other Utility funds. These funds may be disbursed by the Utility to contractors and/or material suppliers in progress payments. Applicants will be notified as progress payments are made.
- k. For construction work to be performed on a competitive bid basis, Applicant also shall deposit with Utility an amount equal to 10% of the contract amount, to be used by Utility for inspection and supervision of the work, and for overhead costs incurred by Utility in connection with the work. Any sums not used for these purposes shall be immediately refunded to Applicant on completion of the work. A full accounting shall be provided to Applicant. If the Utility, itself, is performing the work on a competitive bid basis, this paragraph shall not apply.
- l. When an extension must comply with an ordinance, regulation, or specification of a public authority, the cost of said compliance shall be included in the cost of the facilities.
- m. The Utility may, but will not be required to, make extensions under this rule in easements or rights-of-way where final grades have not been established, or where street grades have not been brought to those established by public authority. If extensions are made when grades have not been established and there is a reasonable probability that the existing grade will be changed, the Utility shall require that the Applicant or Applicants for the main extension deposit, at the time of execution of the main extension agreement, the estimated net cost of relocating, raising, or lowering facilities upon establishment of final grades.

Adjustment of any difference between the amount so deposited and the actual cost of relocating, raising, or lowering facilities shall be made within thirty days after the Utility has ascertained such actual cost. The net deposit representing actual cost is not subject to refund. The entire deposit related to the proposed relocation, raising, or lowering shall be refunded when such displacements are determined by proper authority to be not required.
- n. The Utility will not be required to make extensions where the easements, rights-of-way of streets are not kept free from other interfering construction or street work during installation of said sewer system. Applicant agrees to use its best efforts to assist

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- 4.n. Utility to obtain any and all permits, franchises, or other governmental authorizations which may be required for the installation of the facilities. Applicant will provide any easements or rights-of-way required for the installation.
- o. Where the property of an Applicant is located adjacent to a right-of-way exceeding 70 feet in width, for a street, highway, or other public purpose, regardless of the width of the traveled way or pavement; or on a freeway, waterway, or railroad right-of-way, the Utility may elect to install a main extension on the same side thereof as the property of the Applicant, and the construction costs in such case shall be based upon such an extension.

5. Service to Individual Customers

- a. A new Individual Customer to be served from an existing sewer main will contribute the cost of installing a sewer lateral, plus the cost of connecting the sewer lateral to the sewer main. The new Individual Customer also will be responsible for payment of an inclusion fee plus related income taxes on the contributions.
- b. A sewer main extension to serve a new Individual Customer will be made under the same terms and conditions as for other Applicants for sewer service, except if, during a ten-year period immediately following the installation of the new individual sewer main extension, other Applicants are connected directly to the individual sewer main extension. Under such circumstances each subsequent Applicant will be required to pay the cost of 100 feet of the initial Applicant's sewer main extension, plus applicable income taxes. Such payments by subsequent Applicants will be refunded by Utility to the customer who initially paid for the individual sewer main extension, except that no initial Applicant shall recover more than his total contribution for the sewer main extension.

In addition to paying the cost of 100 feet of the initial Applicant's sewer main extension, a subsequent Applicant also will contribute the cost of the sewer lateral in accordance with Section 5.a. and pay an inclusion fee in accordance with Section 7, plus related income taxes.

6. Special Sewer Facilities

An Applicant will be required to contribute to Utility the cost of any lift stations, transmission mains or other special sewer facilities needed to transport sewage from its subdivision to the treatment plant. Manholes and cleanouts will be considered a part of the related

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6. transmission main. Only transmission mains larger than 8-inch will be classified as special sewer facilities. Applicant's total contribution for special sewer facilities, including income taxes, will be divided by the number of lots in Applicant's subdivision to calculate a special sewer facilities contribution per lot. If, during a ten-year period following completion of said special sewer facilities, such special facilities are used to serve another Applicant or Applicants, other than individual Customers, such subsequent Applicant or Applicants shall pay to the Utility a pro rata share of the cost of such special sewer facilities (including income taxes). The payments by subsequent Applicants will be refunded by Utility to the initial Applicant. The pro rata share to be paid to the initial Applicant shall be calculated by multiplying the special sewer facilities contribution per lot times the number of lots of the subsequent Applicant for which sewer service will be available. No other criteria will be used in calculating the pro rata share of special sewer facilities. Only the initial Applicant shall be entitled to any refunds. A subsequent Applicant shall not pay more for special facilities to the initial Applicant than it would otherwise have cost to construct separate special sewer facilities to serve the subsequent Applicant's subdivision. Under no circumstances shall the amount refunded to the initial Applicant exceed the original cost of the special sewer facilities.

If the Utility requires that transmission mains with a larger capacity than would otherwise be needed be installed, such mains shall be classified as special sewer facilities subject to refund as provided for above.

7. Inclusion Fee

Each Applicant for a sewer main extension, in addition to paying the cost of the extension plus any special sewer facilities that may be needed, also is required to pay an inclusion fee of \$4,000 per sewer connection as a pro rata share of the estimated cost of sewage treatment plant construction.

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8. INCOME TAX COMPONENT OF CONTRIBUTIONS PROVISION

- a. Contributions-in-Aid-of-Construction shall include, but are not limited to, cash, services, facilities, labor, property, and income taxes thereon provided by a person or agency to the utility. The value of non-cash contributions shall be based on the utility's estimates. Contributions shall consist of two components for the purpose of recording transactions as follows:
 - (1) Income Tax Component (ITC), and
 - (2) The Balance of the Contribution.
- b. The ITC shall be calculated by multiplying the balance of the contribution by the tax factor of 67.1%.
- c. The tax factor is established by using Method 2 set forth in D.87-09-026, in I.86-11-019.
- d. The formula to compute Method 2 includes a Federal Corporate Tax Rate of 34% and State Tax Rate of 9.3%.
- e. The ITC tax factor has been derived from the corporate rate and it will remain in effect until the utility's net taxable income changes to the extent that the gross-up rate would increase or decrease by five percentage points or more. When and if that occurs, the utility will file an advice letter showing the new rates and cancel out this sheet.
- f. If a utility collects a gross-up calculated by using an incremental tax rate that is more than its incremental rate, as determined on a rate-making basis, the difference between what was and what should have been collected should be refunded to the contributor.