

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY  
AND COMPLIANCE DIVISION  
Energy Branch

RESOLUTION E-3230  
June 5, 1991

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

RESOLUTION E-3230 - PACIFIC GAS AND ELECTRIC COMPANY  
REQUEST FOR AUTHORIZATION FOR AN EXCEPTIONAL CASE  
AGREEMENT WITH PONDEROSA HOMES CONCERNING THE  
ACQUISITION OF APPLICANT INSTALLED UNDERGROUND  
ELECTRIC FACILITIES.

BY ADVICE LETTER 1346-E, FILED MARCH 12, 1991.

**SUMMARY**

1. By Advice Letter 1346-E, filed March 12, 1991, Pacific Gas and Electric Company (PG&E) requests authorization of an Exceptional Case Uneconomic Facilities Agreement - Applicant Installed (Agreement) with Ponderosa Homes (Applicant). PG&E would acquire Applicant's underground electric facilities, upon completion of construction and will connect such facilities to PG&E's distribution system in Antioch, Contra Costa County. Applicant will pay PG&E \$91,886.
2. This Resolution authorizes PG&E to enter into the Agreement, as amended by this Resolution.

**BACKGROUND**

1. The Agreement provides for an Applicant installed underground electric line extension to a school site in the Deerfield Unit 6 Subdivision located on Country Hills Drive in Antioch.
2. As part of the Applicant's contract with the local school district, the site must have a permanent connection to PG&E's distribution system, prior to the start of construction. The Applicant expects to begin construction on the site within the next 12 months.
3. 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 there are currently no buildings on the site and thus this becomes a speculative venture with no immediate source of revenue.

4. PG&E has negotiated the Agreement with the Applicant. Under the terms of the Agreement, Applicant is to pay \$91,886.35 to PG&E to cover cost-of-ownership and CIAC taxes based on the total cost of construction. This amount is subject to refund, under the provisions of PG&E's Electric Tariff Rule 15 when customers with revenue to support the cost of the extension are attached to the system.

#### NOTICE

1. Public notification of this filing has been made by placing it on the Commission calendar for March 15, 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. Under the terms of the Agreement, Applicant will furnish all materials and labor necessary to complete construction of the facilities and will obtain all construction permits and insurance required for the construction to be completed by Applicant. PG&E's responsibilities under the Agreement will be to provide inspection service to verify Applicant's performance in accordance with PG&E's standards; connect the applicant installed facilities to PG&E's energized distribution system; and to be prepared to provide electric service to additional customers when they become available.

2. PG&E contends that without revenue to support the cost of ownership of this line, the extension is a speculative venture and ownership costs and CIAC taxes must be offset by contribution from the Applicant in order for PG&E to own and maintain this line. PG&E argues further that the Agreement with Applicant would ensure that PG&E's other ratepayers are not burdened by the acquisition of this line.

3. PG&E seeks Commission authorization of the Agreement under the Exceptional Cases section (Section E.7) of its Electric Line 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.

4. PG&E has used the Exceptional Cases provision when extending service to customers under conditions which the utility considered uneconomic. When PG&E encounters such Exceptional Cases, it has developed a formula under which an applicant for service pays for a line extension. After negotiating an agreement, PG&E submits the agreement to the Commission for authorization, as provided for by the Commission's General Order 96A - RULES GOVERNING THE FILING AND POSTING OF RATES, RULES, AND CONTRACTS RELATING TO RATES, APPLICABLE TO GAS, ELECTRIC, TELECOMMUNICATIONS, WATER, SEWER SYSTEM, PIPELINE, AND HEAT UTILITIES. Section X of G.O. 96A require utilities to submit non-standard contracts to the Commission for approval.

5. Under the Agreement negotiated with Applicant, PG&E would apply its Exceptional Cases formula to the acquisition of applicant installed facilities.

6. Applicant's payment of \$91,886 is based on two items; (1) the Contributions In Aid of Construction tax (CIAC tax) on the total construction cost of the facilities (estimated at \$70,210), and (2) a single payment reflecting annual cost-of-ownership charges on the Contribution in perpetuity. The following 4 paragraphs develop the basis of PG&E's proposed charge to Applicant. The information is also presented in abbreviated, tabular form in Appendix A.

7. At present, ownership of these facilities constitutes a speculative venture as there are no base revenues to support ownership.

8. The CIAC tax is required to offset Federal and State taxes on Contributions (total cost of construction). This would be 28% of the Contribution (\$70,210) or \$19,659.

9. The one time cost-of-ownership charge is calculated to be \$72,228. This is PG&E's estimate of the present value of its costs, in perpetuity, to own, operate and maintain the portion of facilities not supported by base revenues. The charge is the product of the Contribution (\$70,210) times an annual cost-of-ownership rate for contributed capital (11.28%) times the present value factor at PG&E's current authorized rate of return in perpetuity (9.12).

10. The total amount subject to refund would be the sum of the CIAC tax and the cost-of-ownership or \$91,886. This is the amount required by PG&E from Applicant to assume ownership of the system. When customers are eventually served from this line, the charges will be recalculated and refunds would be made to Applicant under the provisions of PG&E's electric tariff rules.

11. The Commission Advisory and Compliance Division (CACD) has, on occasion, disagreed with PG&E when only economics were considered when acquiring a system. However, in this specific case, CACD recognizes that the line extension does constitute a speculative venture since currently there are no customers available to support ownership. The possibility of any customers coming on line is at least 12 to 24 months in the future, if not longer. Under these circumstances, CACD recommends acceptance of this agreement. This recommendation is for this one case only and in no way constitutes an endorsement of PG&E's current practices concerning uneconomic line extensions and acquisitions.

12. CACD does have a concern about the rate used by PG&E to compute the Cost-of-Ownership charge. PG&E incorrectly used an out-dated rate. CACD notes that PG&E computes Applicant's one time cost-of-ownership payment as \$72,228. As indicated above, this is based on an 11.28% rate for customer-financed (contributed) capital. This rate was reduced to 8.16% prior to the signing of this Agreement and PG&E's calculations are apparently in error. PG&E has been notified of the error and is expected to make a supplemental filing to reflect the correct figure. Absent such filing, the amount has been recalculated by CACD. The recalculated amount is \$52,248 which constitutes a difference of almost \$20,000 in Applicant's payment to PG&E.

13. The corrected total payment now due by the Applicant is \$71,907 which CACD recommends to the Commission.

14. CACD remains opposed to PG&E's current practice considering all line extensions and/or acquisitions as exceptional cases strictly on an economic standpoint. However, this specific case is a speculative venture and CACD agrees with PG&E that it should be considered under Section E.7 of PG&E's Electric Tariff Rule 15. CACD therefore recommends approval of the Agreement between PG&E and Ponderosa Homes after it has been amended to correct the error noted above.

#### FINDINGS

1. The Agreement covers PG&E's acquisition of an applicant installed underground electric facilities prior to receiving any applications for service.
2. Such acquisition 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. The Cost of Ownership percentage used by PG&E in its calculations is in error. This percentage was reduced from 11.28% to 8.16% earlier this year. Under the correct percentage, Applicant's Cost-of-Ownership payment to PG&E is \$52,249, a reduction of \$19,978 from PG&E's initial calculations.
4. Using the "Exceptional Cases" provision, PG&E would charge the Applicant \$91,886. This charge has been recalculated by CACD and is \$71,907. This charge includes the Contributions in Aid of Construction tax on the total cost of construction and a Cost-of-Ownership Charge.
5. Payment of this contribution by Applicant will prevent PG&E's cost of ownership of these facilities from becoming a burden on other ratepayers.
6. The payment by the Applicant is subject to refund under the provision of PG&E's Electric Tariff Rules as customers for service become available.
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:**

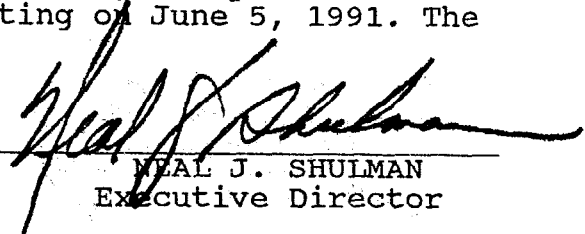
1. On or before the fifth day (5) following the effective date of this Resolution PG&E shall file a revised Advice Letter 1346-E and accompanying Uneconomic Extension Agreement to include the revised payment by Applicant as noted in this Resolution. Upon receipt of the amended Agreement by the Commission, such revised Advice Letter and Agreement shall all be marked to show that they were accepted for filing by Resolution E-3230 of the California Public Utilities Commission.

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

3. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 5, 1991. The following Commissioners approved it:

**PATRICIA M. ECKERT**  
President  
**G. MITCHELL WILK**  
**JOHN B. OHANIAN**  
**DANIEL Wm. FESSLER**  
**NORMAN D. SHUMWAY**  
Commissioners

  
NEAL J. SHULMAN  
Executive Director

APPENDIX A

PAYMENT BY APPLICANT - UNECONOMIC LINE EXTENSION

PG&E Economic Calculation

PG&E'S AMOUNT AVAILABLE FOR PURCHASE

Customer Revenue	\$ - 0 -
Multiplier	4.79
Supported cost of Construction	\$ - 0 -
Less current investment	<u>\$ - 0 -</u>
Amount available for purchase	\$ - 0 -

APPLICANT'S REFUNDABLE CONTRIBUTION

Total Construction Costs	\$70,210
LESS PG&E amount available for purchase	<u>\$ - 0 -</u>
Unsupported Capital Contribution	\$70,210

CIAC TAX PAYMENT

CIAC Tax (Contribution X 28%)	\$19,659
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COST OF OWNERSHIP PAYMENT

Contribution X 9.12 X 8.16%	<u>\$52,249</u>
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TOTAL PAYMENT	----- \$71,907
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