

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3260
March 31, 1992

R E S O L U T I O N

RESOLUTION E-3260. PACIFIC GAS AND ELECTRIC COMPANY
REQUEST FOR AUTHORIZATION TO ACQUIRE AN UNECONOMIC
ELECTRIC LINE EXTENSION FROM MARILYN CREER.

BY ADVICE LETTER 1344-E, FILED FEBRUARY 26, 1991.

SUMMARY

1. By Advice Letter 1344-E, filed February 26, 1991, Pacific Gas and Electric Company (PG&E) requests authorization of a Bill of Sale and Purchase Agreement - Uneconomic Electric Facilities (Agreement) with Ms. Marilyn Creer (Creer). PG&E would acquire Creer's overhead electric system which is located near Gilroy, Santa Clara County. Creer has already paid PG&E \$16,128.
2. A companion Resolution, E-3259, relates how PG&E refined its acquisition policy for private systems. The utility now estimates the cost to serve under either its tariff line extension rules or as an exceptional case to the line extension rules. It uses interim criteria for evaluating exceptional cases developed cooperatively by PG&E and the Commission Advisory and Compliance Division (CACD). It then credits the estimated value of the private system against the cost to serve.
3. This Resolution authorizes PG&E to enter into the Agreement because the Creer system satisfies the criteria for Exceptional Case treatment, provided that PG&E amends the refund provision to reflect PG&E's Line Extension Rule (Rule 15).

BACKGROUND

1. In 1984, Creer elected to build a 6,920 foot electric line extension to provide residential electric service to a location on Canada Road, east of Highway 152, near Gilroy, rather than pay the uneconomic line extension charges for PG&E ownership under the provisions of Section E.7 of Rule 15. The line currently serves one residence with a total load of approximately 9,000 kilowatt hours (kwh) per year.
2. Creer asked PG&E to purchase this line and relieve her of the ongoing obligations associated with ownership of this private line. PG&E then negotiated the Agreement with Creer. Under the

terms of the Agreement, Creer paid PG&E \$16,128 and PG&E agreed to acquire Creer's system, subject to Commission authorization.

NOTICE

1. Public notification of this filing has been made by placing it on the Commission calendar for March 1, 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. **EXCEPTIONAL CASES:** When PG&E seeks Commission authorization of agreements under the Exceptional Cases section (Section E.7) of its Rule 15, it uses the following provision:

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.

2. **PG&E's ADVICE LETTER:** 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.
3. Under the Agreement, PG&E would apply its formula to acquire Creer's property. PG&E contends that the anticipated revenue from the line is less than the annual ownership and maintenance costs. PG&E argues further that the Agreement with Creer would ensure that PG&E's other ratepayers are not burdened by the purchase of this line.

4. Creer's payment of \$16,128 was based on four items; the sum of (1) the net unsupported refundable contribution (Contribution), (2) the Contribution In Aid of Construction tax (CIAC tax) on the Contribution, and (3) a single payment reflecting annual cost-of-ownership charges on the Contribution in perpetuity, less (4) the value of Creer's system. The following paragraphs develop the basis of PG&E's proposed charge to Creer.

5. Contribution. The appraised value of Creer's system is \$23,266. The estimated annual load of 9,000 kwh, at current rates under Rate Schedule E-1, produces an annual revenue of approximately \$750. In PG&E's opinion, this revenue is sufficient to justify a capital investment of \$3,593. PG&E states that it has a current investment of \$3,514 in the the system for meters, transformers and other appurtenances. This leaves \$79 to spend on the acquisition of Creer's system. An additional credit of \$6,124 was to come from Pacific Telephone Company for joint use of the Creer system. The value of Creer's system, less PG&E's acquisition fund of \$79 and the telephone company credit would be the Contribution, \$17,063.

6. CIAC tax. The CIAC tax is required to offset federal and state taxes on contributions. This would be 28% of the Contribution, \$4,778.

7. Cost-of-ownership charge. The one time cost-of-ownership charge is \$17,553. This was 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 (\$17,063) times the 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).

8. System value. PG&E has appraised Creer's system and determined its reproduction cost new less depreciation (RCNLD) to be \$23,266.

9. Payment determination. Creer's payment was determined based upon the foregoing elements as follows:

1.	Net unsupported refundable contribution (Contribution).....	\$17,063
2.	Contribution In Aid of Construction tax (CIAC tax).....	4,778
3.	Single payment reflecting annual cost-of-ownership charges on the Contribution in perpetuity.....	17,553
	Subtotal of charges	\$39,394
4.	Less System value.....	-23,266
	Payment by Creer.....	16,128

10. SUBSEQUENT EVENTS: Three things happened after the Agreement was signed and Creer made the payment. First, the

telephone company withdrew its joint pole offer. The loss of this \$6,124 credit would increase the Contribution to \$23,308, the CIAC tax to \$6,526, and the cost-of-ownership to \$23,978. Under the formula, Creer's payment would rise to \$30,546.

11. Second, minor discrepancies were found in PG&E's computations. PG&E's annual cost-of-ownership percentage rate and present worth factor were out of date. PG&E's calculation of the cost-of-ownership charge was based on an 11.28% rate for customer-financed (contributed) capital. This rate was in effect when PG&E negotiated the Agreement. In January, 1991, this rate was reduced to 8.16%. A change in the utility's rate of return reduced the present worth factor from 9.12 to 9.11. PG&E was notified of this fact and the payment amount recalculated. The recalculated payment amount, without telephone company participation, would be \$23,895.

1.	Net unsupported refundable contribution (Contribution).....	\$23,308
2.	Contribution In Aid of Construction tax (CIAC tax).....	6,526
3.	Single payment reflecting annual cost-of-ownership charges on the Contribution in perpetuity.....	17,327
	Subtotal of charges	\$47,161
4.	Less System value.....	-23,266
	Payment by Creer.....	\$23,895

12. Third item - POLICY DEFINITION: Since Advice Letter 1344-E was filed, PG&E has defined a two part policy to deal with the acquisition of private systems. PG&E serves a number of such systems and anticipates acquisition inquiries as system owners encounter increases in insurance costs or other problems. To respond to Creer and other inquiries, the utility would first estimate the cost to serve the private system customers under its line extension rules or as an exceptional case to the line extension rules as if there were no private system. Next, the estimated value of the private system would be credited against the cost to extend service. A preliminary determination of the exceptional nature of the extension would be made under interim criteria developed by PG&E in concert with CACD.

10. When PG&E submits an advice letter for Exceptional Case treatment, it would apply and incorporate the following interim criteria and guidelines:

- a. The extension is beyond the applicant's free footage allowance; and
- b. The construction of the proposed extension departs from utility "optimal" construction conditions as described in NOTE 1 and has one or more of the following characteristics:
The extension is speculative in nature; or

- The extension involves unusual service requirements or has unusual local site characteristics; or
The extension is in an isolated location; or
The connected load is small, intermittent or nonexistent (e.g sprinkler controls); and
- c. The total estimated cost of the job is greater than \$10,000; and
 - d. PG&E has provided the applicant with the greater of either
a revenue based allowance or
a free footage allowance equivalent to \$10,000.
 - e. For exceptional cases meeting the criteria listed above, charges to the applicant would include the associated Cost-Of Ownership and CIAC tax on the difference between the job cost and the allowance in d.

NOTE 1: For evaluation purposes, "optimal" construction conditions are represented by an extension on level terrain, adjacent to an existing road, unobstructed by trees or other structures, and where standard construction equipment (e.g. augers, trenching equipment, etc.) could be used. This "optimal" condition would be less difficult than "average" construction conditions, and utility management would be responsible for exercising restraint when determining that a proposed extension departed from the "optimal" conditions sufficiently to justify Exceptional Case application.

13. APPLYING THE POLICY: Creer's 6,920 foot system serves one customer with an entitlement of approximately 710 feet of free length if it were a new line under Rule 15. The extension exceeds the free footage allowance by 6,210 feet. The characteristics of the area are not optimal and the route of the system traverses open land away from existing roads. Therefore, the one customer would be required to provide an advance of \$62,410 (6,210 feet times the Rule 15 unit cost of \$10.05 for installations beyond the free length). This advance would be offset by the value of Creer's system, \$23,266. This value, when deducted from the proposed advance of \$62,410, leaves a balance of \$39,144 that PG&E would require if the acquisition of this system were treated as a line extension under the extension rules. This residue exceeds \$10,000, the threshold amount required in both c. and d. above.

12. The total amount subject to refund would be the sum of the Contribution, the CIAC tax, and the cost-of-ownership or \$47,179. The amount required by PG&E from Creer to assume ownership of the system is the total amount (\$47,179) less the appraised value of the system (replacement cost new less depreciation or \$23,266). This equals a total revised payment of \$23,913 required by PG&E. Since Creer has already made a payment of \$16,128, PG&E would have to renegotiate with Creer for an additional \$7,785.

12. CACD POSITION: Under the interim evaluation criteria, Creer's electric line is excessive in length to serve one customer and would appropriately be served under the Exceptional Case provision of the line extension rule. Based on changes that have occurred since the Agreement was negotiated, Creer's payment would increase from \$16,128 to \$23,895. Because so much time has passed since the Agreement was negotiated, CACD believes that it would be inappropriate for the utility to attempt to secure additional money from Creer.

13. In one respect, however, the Agreement should be modified. PG&E would make refunds to Creer if additional customers are added to the system, based upon its revenue formula. This deviates from the utility's line extension rule, and no justification has been provided for this departure from the Extension rule. CACD therefore recommends that the Agreement be renegotiated to the extent that any refunds should be subject to the utility's line extension rules in the event that additional customers are served from this line.

14. CACD also recommends that acceptance of this agreement should be for this one case only and in no way should set a precedent or indicate an endorsement by the Commission of PG&E's practices. All future line extensions and/or acquisitions should be considered on a case-by-case basis.

FINDINGS

1. The Agreement, as filed, requires PG&E to acquire Creer's electric distribution system under terms that deviate from the utility's line extension rule.

2. Under its acquisition policy, developed after Advice Letters 1329-E and 1344-E were filed, PG&E would require only the difference between the Advance for Excess Footage and the Replacement Cost New Less Depreciation in order to prevent this line acquisition from becoming a burden on other ratepayers, provided that the system to be acquired did not exceed the interim extension criteria. This extension is over a mile in length, serves only one residential customer, and exceeds the interim criteria. These circumstances justify Exceptional Case treatment.

3. By using the "Exceptional Cases" provision, PG&E has charged Creer \$16,128. The charge includes the unsupported cost of the extension, the Contributions in Aid of Construction tax on the unsupported cost, and a Cost-of-Ownership Charge. Creer has already paid this contribution to PG&E in accordance with the provisions of the Agreement.

4. Subsequent events have revised the calculations since PG&E negotiated the Agreement. The cost-of-ownership percentage has been reduced and the withdrawal of the telephone company from the joint pole agreement increases the required contribution. In the

interest of good faith, both events should be discounted for the purpose of this Agreement and the initial contribution of \$16,128 should be accepted by PG&E as the appropriate amount for the acquisition of Creer's system.

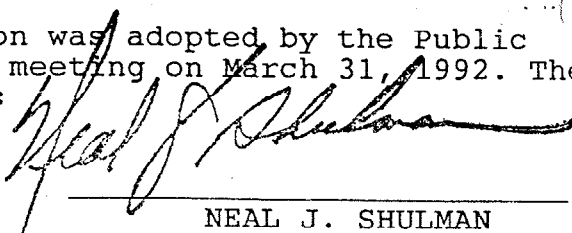
5. The Agreement would allow PG&E to assume ownership of Creer's system and to continue service to the current customer. After the acquisition, utility service would also be available in the event that other customers build in the area. Refunds to Creer should be based upon the refund provisions of PG&E's line extension rule.

6. Acceptance of this agreement is for this one case only and in no way sets a precedent or represents an endorsement by the Commission of PG&E's current practices in dealing with line extensions and/or acquisitions. All such future cases shall be determined on a case-by-case basis.

THEREFORE, IT IS ORDERED that:

1. On or before the thirtieth (30th) day after the effective date of this Resolution, Pacific Gas and Electric Company shall take possession of the overhead electrical distribution system offered by Ms. Marilyn Creer, under the terms and conditions of this Resolution.
2. Pacific Gas and Electric Company shall negotiate an amended contract that will provide for refunds in accordance with the provisions of its line extension rules. Within sixty (60) days of the effective date of this Resolution, PG&E shall file a supplemental advice letter and accompanying Bill of Sale and Purchase Agreement - Uneconomic Electric Facilities. Once filed, the supplemental advice letter shall be marked to show that it was accepted for filing by Resolution E-3260 of the California Public Utilities Commission.
3. Pacific Gas and Electric Company shall revise its List of Contracts and Deviations to include the Agreement listed 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 March 31, 1992. The following Commissioners approved it:


NEAL J. SHULMAN
Executive Director

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