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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION
I.D.# 3265
RESOLUTION G-3364
March 16, 2004

R E S O L U T I O N

**Resolution G- 3364. Pacific Gas and Electric (PG&E) by Advice letter 2458-G-B/2379-E-B on January 22, 2004, Southern California Edison (SCE) by Advice letter 1705-E on December 24, 2003, San Diego Gas and Electric (SDG&E) by Advice letter 1496-E-A/1377-G-A on December 22, 2003, Southern California Gas (SoCal Gas) by Advice letter 3260-A on December 22, 2003, and Southwest Gas by Advice letter 686-B on December 23, 2003, request incorporating Commission Decision 03-03-032 into their electric and gas line extension tariff rules.
Approved with modifications.**

SUMMARY

This Resolution is about transparency when contractors (hired by Applicants) compete with utilities for line extension work. Decisions in the Line Extension proceeding (now closed¹) already require the recommendations adopted in this resolution, except for assuring uniform accountability. This resolution balances the interests of the three parties: ratepayers, Utilities (Pacific Gas and Electric, Southern California Edison, San Diego Gas and Electric, Southern California Gas and Southwest Gas), and Applicants/contractors. By this Resolution each investor-owned gas and electric utility named above (Utility) must file two public Forms and use the Forms approved by the Commission, one to start each line extension project and a second Form upon completion. On the first form the Utility must show the Applicant the Utility bid for the refundable work. The Applicant must return the form, showing the refundable portion of its contractor's bid, regardless of Applicant's choice (Utility or contractor). Only the lower amount goes into ratebase.

¹ D. 03-09-054

Specifically, utilities must amend their filed forms for verification of Applicant Contract Anticipated Costs to show the Utility's Estimated Refundable Costs prior to Applicant's selection of Utility or Applicant-installation of Line and/or Service Extensions.

The second filed form is for the detailed accounting of the Applicant's refundable and non-refundable costs for either Utility or Applicant Installation of Line and Service Extensions.

BACKGROUND

Gas and electric utility customers, ranging from individuals to subdivision developers, may apply for extended distribution mains or conductors and services up to the service entrance, generally under the terms of Tariff Rule 15, Distribution Extensions or Rule 16, Service Extensions, of their serving Utility. Under the Commission's policy of competitive bidding² Applicants may choose a contractor other than the Utility for extension and service work, such as trenching and placing conduit³, provided that the utility makes the final connection and sets the meter. Timely project completion and competitive cost are issues for the Applicant, while safe and durable installation quality, low or no risk cost recovery, and employment of utility construction crews are issues for the Utilities.

In Rulemaking R. 92-03-050 the Commission issued many decisions over the years dealing with Electric and Gas Line and Service Extension Rules and specifically with the Applicant Installation Option (Competitive bidding) delineated in Electric and Gas Rules 15 and 16 (Rules 20 and 21 for SoCal Gas).

²Adopted per D. 85-08-043.

³ Where certified by the utility, Applicant's contractor may install the piping or wiring itself.

In Decision (D)03-03-032, the Commission directed the Utilities to revise their tariffs in regard to Applicant Installation of Line Extensions to:

- 1) Allow the cost of inspections to be covered by the line extension allowances,
- 2) Require Utilities to book to rate base the lower of the Utilities' estimated installed cost (bid amount) or the Applicant's Contract Anticipated Cost, and
- 3) Credit to the Utilities' plant-in-service accounts those inspection payments made by Applicants for Applicant installed projects, currently held in the Applicant Installation Trench Inspection Memorandum Accounts (AITIMA), thus reducing rate base by those amounts.

On April 18, 2003, Utility Services Group (USG) filed a Petition to Rehear D.03-03-032.

On August 21, 2003 in D.03-08-078 the Commission denied USG's Petition, but modified D.03-03-032 to require the verified statement of Applicants refundable costs prior to the utility issuing any refunds for this work.

On April 2, 2003 Pacific Gas & Electric Company (PG&E) filed a petition for clarification of D.03-03-032.

Finally, the CPUC issued D.03-09-054 ordering the utilities to file Advice Letters as follows with regards to Applicant Installed Line Extensions:

- 1) The Utility should book to rate base the "lower of" the Utility's estimated cost or the Applicant's Contract Anticipated Costs.
- 2) The costs submitted by the Applicant should apply to only the refundable portion of the Applicant's Contract Anticipated Costs.
- 3) The Applicant's Contract Anticipated Costs shall be submitted to the Utility prior to the Utility preparing the line extension contract, on a form provided by such Utility.
- 4) For the purpose of calculating refunds, inspection costs should be fixed at the outset and not be subject to reconciliation on completion of the project.

NOTICE

Notice of ALs 2458-G-B/2379-E-B, 1705-E, 1496-E-A/1377-G-A, 3260-A, and 686-B was made by publication in the Commission's Daily Calendar. PG&E, SCE, SDG&E, SoCal Gas and Southwest Gas state that copies of the Advice Letters were mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

On January 12, 2004, the California Building Industry Association (CBIA) protested SDG&E's and SoCal Gas' advice letters.

On January 20, 2004, SDG&E and SoCal Gas responded to the protest, proposing an alternate change of Rule 15 (Rule 20 for SoCal Gas) in Section G.1.c.

In a teleconference with Energy Division staff on January 22, 2004, all utilities supported and agreed to revise their Section G.1.c accordingly.

By letter of January 30, 2004, CBIA accepted the utilities' alternate language, but required that PG&E also change their General Terms and Conditions form #79-1003, Section B.3 accordingly. CBIA indicates that PG&E had agreed to those requirements.

On February 9, 2004 the Energy Division received a reply from SCE to CBIA's January 30, 2004 letter. SCE confirms their agreement with the alternate language of SDG&E and SoCal Gas' response of January 20, 2004.

Therefore CBIA's protest is moot.

DISCUSSION

Energy Division has reviewed the essentially identical filings by the named Utilities, including the form "Applicant's Statement of Cost for Applicant Installation Project" by SDG&E (and equivalent forms by all other Utilities) and PG&E's "Cost Summary" forms. The other Utilities have not filed such a cost summary to account for the Applicant's cost,

allowances and refundable amounts for either Utility or Applicant installation.

Energy Division staff recommends the following filed information to protect the ratepayers under the new rules for Applicant installation from excessive costs placed into the ratebase, and to provide transparency and accountability to the ratepayers and Applicants in accordance with Rules 15 and 16 (Rules 20 and 21 for SoCal Gas):

- 1) The Utility's Estimated Refundable Cost on SDG&E's newly filed "Applicant's Statement of Cost for Applicant Installation Project" form #1496-E-A (and on equivalent forms of all other named Utilities).
- 2) A new cost accounting form by all named Utilities, similar to PG&E's filed "Cost Summary" form #79-1004.

Utility's Estimated Refundable Cost

This section discusses the contents of the first Form mentioned in the Summary above.

D.03-03-032 requires that the lower of the Utility's estimated (refundable) cost (bid amount) or Applicant contract anticipated cost for the refundable portion of the line extension cost is booked to ratebase and thus collected from the ratepayers. D.03-03-032 changed this provision from the Utility's estimated cost being booked to ratebase, even if the Applicant performed the work at a lower cost.

Posting the Utility's estimated cost, prior to the Applicant's election of Installer of the refundable portion of the line extension, provides auditable assurance that the lower of the two costs is actually used for refunds and the ratebase, levels the playing field and makes the bidding truly competitive. The Utility's estimated cost could be shown to the Applicant on the form where it verifies its Applicant Contract Anticipated Costs and before it chooses Utility or Applicant-installation.

Applicants often choose Applicant-installation because of scheduling and therefore may be willing to pay higher cost than the Utility estimate. They often advise Utilities of their scheduling priority over cost, leaving room for higher than necessary Utility estimates, but still marginally lower than the Applicant's contract anticipated cost. If the Utility's estimated cost is not publicly recorded before the Applicants selection, it could increase the ratebase unnecessarily.

The Utilities acknowledge that they prepare their estimated cost before the Applicant makes a selection as to the installer of the Line Extension. Decision D.99-06-079, Finding of Fact #5 states, that "Under Option 2, the Utility is required to provide a site-specific estimate which the applicant can use to shop for lower bid from an independent contractor." Option 2 is the competitive bidding option.

SCE's form 14-189, Rule 15 Distribution Line Extensions, Rule 16 Service Extensions Installation Option Letter of Authorization, reads: "Under Choice (1), the Applicant requests SCE to provide an estimated installed project-specific cost and that Applicant's intent is to competitively bid the project..... Under this Choice, the Applicant may select either SCE or a Qualified Contractor/Subcontractor to perform the Installation..."

In a related, but separate AL-1734-E, which is pending resolution of this issue, SCE proposes to amend their form 14-189 with a third choice for A Qualified Contractor/Subcontractor to install a new distribution and/or service extension without requesting bids under Choice (1).

Cost Summary form

This section discusses the second Form mentioned in the Summary above.

Rule 15, Section F.1.i requires that "Utility shall perform all Utility's project accounting and cost estimating."

The cost responsibilities for Line and Service Extension under Rules 15 and 16 (20 and 21, respectively, for SoCal Gas) are complex and require careful consideration of all the rules and components involved. While PG&E has

a filed form delineating the detailed cost components and formulas, SCE provides a similar unfiled form to its Applicants upon completion of the project. Such a form is invaluable in understanding the amounts subject or not subject to refund, taxes, allowances and discounts and thus justifying the amounts being charged to ratebase, depending on electric or gas and residential versus non-residential service. Therefore, Utilities with more than ten applicant installations per year should file with the CPUC a detailed accounting form, showing to the Applicant all its costs for Utility or Applicant installed Line and/or Service Extension, referencing the Rule sections, consistent terminology with the rules and line item formulas for the amounts.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

Comments were filed by _____ on _____.

FINDINGS

1. CPUC ordered the Utilities to file individually an Advice Letter to revise the Applicant Installation Options of the Line Extension Rules.
2. The Utilities filed changes to Section G of the Line Extension Rules and a new form, APPLICANT-INSTALLATION COST VERIFICATION (or similarly titled), requesting Applicant's Contract Anticipated Costs, subject to refund. The Utility's estimated installed cost subject to refund should show on this form, providing comparison as to the lower of the cost booked to ratebase and providing assurance that the Utility estimate is provided to the Applicant before it chooses the installer.

3. D.99-06-079, Finding of Facts #5 states that the Utility provides a site-specific estimate, which the Applicant can use to shop for a competitive estimate.
4. There is no assurance of detailed accounting to the Applicant and for audits to justify amounts being booked to ratebase. Utilities with more than ten Applicant installations per year should provide a filed form to the Applicant with a detailed accounting of the refundable and non-refundable Utility or Applicant installed line and service extension costs using terminology and references consistent with Rules 15 and 16 (20 and 21 for SoCal Gas) and line item formulae.

THEREFORE IT IS ORDERED THAT:

1. Advice letters PG&E 2458-G-B/2379-E-B, SCE 1705-E, SDG&E 1496-E-A/1377-G-A, SoCal Gas 3260-A, Southwest Gas 686-B are approved with the following modifications:
 - a. Utilities shall show on the APPLICANT-INSTALLATION COST VERIFICATION (or similarly titled) form their estimated installed cost for line and/or service extension subject to refund, prior to the Applicant choosing the installer.
 - b. Utilities with more than ten Applicant installations per year, shall provide a filed form to the Applicant with a detailed accounting of the refundable and non-refundable Utility or Applicant installed line and service extension costs using terminology and references consistent with Rules 15 and 16 (20 and 21 for SoCal Gas) and line item formulae.
 - c. Utilities shall change their Rules 15 (20 for SoCal Gas), Section G, as agreed upon by CBIA letter of January 30, 2004.
 - d. PG&E shall change its General Terms and Conditions form #79-1003 as agreed upon by CBIA letter of January 30, 2004.
2. Utilities shall file supplemental advice letters within 20 days, incorporating the changes in Ordering Paragraph #1. The advice

letters shall be effective on July 1, 2004, subject to Energy Division review.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on March 16, 2004 the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director