DECISION MEMORANDUM

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FROM:BRAD PURDY

DATE:DECEMBER 31, 1996

RE:CASE NO. UPL-E-96-4; APPLICATION OF UTAH POWER & LIGHT COMPANY FOR APPROVAL OF REVISIONS TO ITS LINE EXTENSION TARIFF

On August 16, 1996, PacifiCorp dba Utah Power & Light Company (Utah Power), filed an Application for approval of revisions to its Tariff No. 28, Rules 2 and 12 and Schedule 300, providing for charges for the construction of distribution line installation or operations, commonly referred to as the “line extension policy.”  Utah Power proposes to shift more of the cost of new service and distribution line installations or alterations from the system revenue requirement (i.e., the overall body of ratepayers) to the new customer requesting the connection.  The Company contends that the current policy provides for allowances that are not economically justified and that it provides subsidies to some customers at the expense of others.  The two primary changes being proposed by Utah Power to its line extension policy are a reduction in allowances provided by the Company and the implementation of a contract tracking charge on a two-year trial basis.

On December 10, 1996, the Commission conducted a formal hearing on Utah Power’s Application.  The only parties to participate in this case are Utah Power and the Commission Staff.

Utah Power

The Company states that its primary objectives in revising its line extension policy are to [1] reduce the extension allowances to a level that new customers’ revenues will support, [2] reduce the types of minimum billings and standardize their calculation, [3] standardize line extension policies within the states where the Company provides service, and [4] propose a two-year pilot project to track all new line extension contracts to determine how many additional customers attach to each new extension.

According to Utah Power’s calculations, the cost of a transformer, meter and service for the average residential line extension is $1,432.  This is in accord with the Company’s studies indicating an appropriate level of spending would be $1,405 for a typical residential customer.  The current policy includes up to 300 feet of distribution facilities in addition to the transformer, meter and service.  Based on the current allowance, the average residential extension cost is approximately $1,838, which the Company contends is well in excess of what the appropriate level of spending should be.  Consequently, the Company proposes an allowance of 1 times the estimated annual revenue for non-residential customers.  The Company’s studies indicate that an appropriate allowance is about one year’s revenue.  The Company’s present policy allows non-residential customers the greater of 3 times the estimated annual revenue, or transformer, meter and service plus 300 times the average cost per foot of the extension, whichever is greater.

The Company proposes to supply the transformer, meter and service for developers of residential subdivisions.  This matches the allowance of individual residential customers.  The developer will be responsible for the primary and secondary backbone system making power available to each lot.  This proposed allowance omits the footage allowance the Company presently provides.

In addition, Utah Power proposes a “contract minimum billing,” which is a method of ensuring that the revenues from the new customer cover the fixed costs of the new line extension.  The contract minimum billing equals the facility charges (the fixed costs of a line extension calculated as percentages of the cost of the line extension) plus 80% of the customer’s monthly bill, or the customer’s monthly bill, whichever is greater.  This proposal treats all of the fixed costs the same and uses one calculation.  The current minimum billing, by contrast, requires a two-part calculation to cover the fixed costs on the extension; one for the allowance portion and one for the customer advance portion.  The Company states that it has similar policies in California, Oregon and Washington.

Utah Power is also proposing the 25% refund method for extensions to individual residences and small non-residential customers.  This policy recovers the entire cost of the line extension from the customer making the request.  Each of the next three customers who connect to the line extension within a five-year period shall reimburse the customer who financed the line extension 25% each.  The current policy, by contrast, is based on the estimated load and shared line length of the customers who subsequently connect to the line extension.  The Company contends that the current policy is confusing to the customers and more difficult and costly to administer.

Utah Power is proposing a pilot project to track all line extension costs for two years.  The purpose of the pilot is to collect information.  During the two-year study period, all line extension projects will be followed regardless of the number of types of refunds and the Company will make an annual audit of all the new line extension contracts.  With the collected information, the Company will then evaluate the effect of changes in the policy as compared to the current policy.  Finally, the Company has proposed a contract administration charge.  Under this proposal, when a customer pays an extension of that advance, he/she will be given two options: (1) pay the contract tracking charge in which case the Company will set up a refundable account, track the extension for the contract term and provide for refunds if additional customers attach to the extension, and (2) pay the advance as nonrefundable and not pay the tracking charge.  In this case, there will be no follow-up or further administration by the Company and there will be no refunds.  Utah Power states that the purpose of the charge is to allocate costs to those customers who cause them.  If the customer deems it unlikely that there will be additional customers who will provide refunds, the customer may waive the charge and the Company will avoid the expense of following the account.

Commission Staff

Staff presented the testimony of Rick Sterling who recommended a number of changes to the Company’s line extension proposal.  Sterling supports Utah Power’s request to generally shift more of the cost of line extensions to those who request them.  He also recommends that the cost of new terminal facilities and line extensions needed to serve new customers, to the extent those costs exceed the investment per customer that existing rates will support, be paid by the customers who cause those costs to be incurred.  Consequently, Sterling proposes that the Company reduce its share of investment in new distribution and terminal facilities by recovering from customers through line extension charges, actual connection costs not currently recovered through rates.  This will eliminate the subsidies provided to new customers at the expense of existing customers.  Sterling recommends that the Company’s investment in facilities for each new customer be equal to the embedded costs of the same facilities used to calculate base rates and that costs in excess of those embedded costs be borne by the customers requesting the line extension through a one-time capital contribution.  For residential customers, Sterling calculates that an investment of $1,078 would be revenue neutral.  This is relatively close to the cost of terminal facilities for residential customers.  Consequently, Sterling recommends free terminal facilities be provided by the Company for residential customers  and that no allowance be offered toward line extension costs.  The Company recommends the same for residential customers, Sterling notes.

For all other customer classes except industrial (Schedules 8 and 9), Sterling recommends an allowance be offered toward the cost of terminal facilities and line extensions.  His recommended allowance is $90 per kilowatt of estimated load.  He recommends that allowances be estimated on a case-by-case basis for all industrial customers.  Sterling notes that the Company, by contrast, proposes an allowance for all non-residential customers of 1 times annual revenue.

Sterling recommends that the Commission allow Utah Power to implement a pilot program to permit customers to waive their right to future vested interest refunds.  Contrary to the Company’s proposal, however, he recommends that customers who wish to retain their right to a refund not be required to pay any fee and that customers who waive their right to a refund receive a contract administration refund.  In addition, he recommends that the Company’s proposed 25% refund methodology be rejected in favor of the shared length and load ratio method currently in place.  Under this methodology, refunds are collected over a five-year period from customers based on their respective load and shared line length.  Staff argues that this methodology is more fair because it more accurately imposes costs on those who cause their incurrence.  In addition, the Company has experience administering this methodology which the Company will continue to use for customers larger than 1000 kilowatts.  Finally, Sterling recommends that the Commission accept the Company’s proposed method for determining contract minimum billings.

Commission Decision

Does the Commission wish to approve the proposed changes to Utah Power’s line extension policy, as modified by the Company and Staff?

Does the Commission wish to approve the Company’s proposal to convert to a 25% method for line extension refunds or should the current policy on which refunds are based on the estimated load and shared line length of subsequent customers, favored by Staff, be retained.

Brad Purdy

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