

MAINE STATE LEGISLATURE

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**Report on Line Extension Policies to the Utilities and Energy Committee
Submitted by the Maine Public Utilities Commission**

Legislative Background

On January 1, 2000, the Maine Public Utilities Commission (Commission) approved Central Maine Power Company's (CMP) proposed revisions to its single-phase line extension policy.¹ The revised policy requires that all customers receiving a line extension pay the actual cost of that extension, that customers pay the amount owed to CMP before CMP installs the extension, and that a portion of an extension no longer be constructed at no charge to the customer. During the second session of the 119th Legislature, LD 2656 was introduced, which would have reinstated CMP's line extension policy as it existed before January 1, 2000. The Legislature did not pass LD 2656. Instead, the Utilities and Energy Committee, by letter, requested the Commission to:

examine the various issues raised by the bill, including whether it would be appropriate for there to be a uniform line extension policy applicable across all T&D territories, what financing options are available or should be available for customers obligated to pay for line extensions, whether financing arrangements through utility billing may be appropriate, and any other issues which the commission may identify that would be useful to this committee in considering line extension policy.

In this report, we respond to the Committee's request. We have focused on the single-phase line extension policies encountered by residential customers because it is those policies that were the focus of the Committee's concern. During the coming session, we will be happy to discuss our findings with the Committee and to provide any additional information the Committee may require.

State Line Extension Policies

All utilities have policies that govern the construction, maintenance and ownership of lines or mains connecting a customer to the utility's territory-wide grid. Since they are governed by a Commission rule, water utilities' policies tend to be consistent. Natural gas utilities' policies set forth only broad parameters and are similar but not identical. By comparison, electric utilities' policies encompass all aspects of line extension activities, but are dissimilar in many respects.

Although customers might become aware of all these varying policies, for various reasons their primary focus is usually on the differences between the electric and

¹Residential and most small business customers receive service through single-phase lines. Some large customers' electrical needs require three-phase service.

telephone policies. First, someone building a new house requires both electric and telephone services and the services share the same line extension. Second, in some locations the telephone utility sets the poles, while in other locations the electric utility performs this function.² In the process of determining who should construct the line, many homeowners learn of both companies' prices for the same service. Third, the cost charged by Verizon to construct a line extension is significantly less than the cost charged by an electric utility. Finally, contractors operating across the state necessarily become familiar with the differences among the utilities, particularly the differences between telephone and electric utility policies.

When taken together, these factors have caused dissatisfaction among some customers and contractors. If a contractor or its customer is aware that the cost of a line extension would be significantly less expensive if built by another utility, dissatisfaction is likely to result.

Line extension policies also include features not directly related to price. For example, they determine the circumstances under which non-utility persons may build or own a line, the terms under which homeowners may pay for the extension over time, and the procedures developers must follow when building a housing subdivision. These provisions also vary among utilities.

Finally, most line extension policies are complex and detailed because they cover a variety of circumstances. Circumstances include the line's length, location on or off a public way, and ownership by one or many customers. Policies are generally grandfathered for customers who built an extension under an earlier version of the policy. Policies are approved by the Commission.

Because we have experienced minimal dissatisfaction with water or gas extension policies, and because recent public attention has been on electric and telephone policies, this report will address the policies of Maine's largest electric and telephone utilities, i.e., those of Bangor Hydro-Electric Company (BHE), Central Maine Power Company (CMP), Maine Public Service Company (MPS) and to a lesser extent, Verizon. The focus will be on single-phase policies, since they apply to residential homeowners and most small businesses.

Summary of Line Extension Policy Provisions

A comparison of the policies discussed in this report is set forth in the following tables. Typical prices for extensions of various lengths are contained in Table 1 and the key features of the policies are contained in Table 2, attached to the end of this report. It is important to note that any policy that charges the full cost for some portion of the line extension will vary widely from customer to customer. For example, although Table 1 displays \$6,200 as an average cost for a 1000 foot extension in CMP's territory,

²The areas where the telephone and electric utilities set new poles is established by agreement between the utilities.

individual customers' costs range from \$800 to \$11,000. Ledge and tree trimming account for a large portion of the cost differences.

Full copies of the policies are contained in utilities' Terms and Conditions and may be obtained from the Commission.

Consistency Among Line Extension Policies

Table 2 shows that no two policies are identical. To a large extent, inconsistency has developed as a matter of historical accident. As a policy matter, consistent statewide line extension procedures would minimize confusion, as well as claims of unequal treatment.

However, differences sometimes have a reasonable basis. For example, a rural utility that wishes to encourage customer growth might offer a portion of the extension at no cost and place minimal constraints on developers.³ A utility with relatively stable costs might offer a portion of the extension at no cost as a customer service, whereas a utility with rising costs might charge full cost. Rates will likely be different because utilities' underlying costs are different.

On the other hand, differences can be confusing for contractors working throughout the state, who must base their cost estimates on differing policies. This confusion is magnified by the complexity of each policy. In addition, inconsistency naturally leads to dissatisfaction by a customer who happens to be aware that his or her policy is more costly than some other in the state.

While any disparity in treatment may be viewed as unfair or needlessly complex, the size of the difference between policies of Verizon and an electric utility serving the same customer is likely to magnify any concern. For a 3000 foot extension, for example, Verizon would charge \$140, while the electric utility might charge in excess of \$10,000 for the same extension. Because the customer has no choice concerning which utility will do the installation, differences of this magnitude are likely to be criticized.

Recommendation

In its letter, the Committee asked the Commission to examine "whether it would be appropriate for there to be a uniform line extension policy applicable across all T&D territories." Our recommendation is that consistent policies be adopted for electric and telephone utilities. However, the provisions should be consistent at a broad level, allowing each utility to develop details that fit its customers' needs. Our preference is to address each utility's policy individually. The legislature may wish to establish broad parameters that all policies should meet. We summarize parameters for consideration in the following paragraphs.

³Indeed, Maine Public Service Company testified to that point at the Committee hearing during the 119th Session

When considering an appropriate line extension policy, the major policy decision is whether the price to each customer is fully cost-based or whether some or all costs are socialized among all ratepayers. A fully cost-based approach avoids subsidies and encourages each homebuilder to make economically efficient decisions. Accordingly, as economic regulators, we favor a fully cost-based approach whenever possible. An alternative approach allows some customers to receive a service they desire at a lower price or with more convenience. The price would be lower in instances when the cost of constructing the extension is borne by other ratepayers. Convenience would be enhanced if customers are able to develop cost estimates more quickly and easily or if their options for payment are simple and convenient.

Broad policy parameters might also address other issues. We list examples below. Because we do not have the benefit of a full record, these should be viewed as preliminary and illustrative.

- **First 2000 feet** – The utility might be required to charge a price that closely matches its actual cost. Whether to allow the price to be a specified amount per foot should be considered. Whether some portion of service can be free should be considered.
- **Beyond 2000'** – The utility might be required to charge actual cost for longer extensions.
- **Payment over time** – Whether the utility must allow some customers to pay over time might be considered.
- **Construction** – Whether the utility must allow non-utility persons to erect line extensions, subject to appropriate construction and safety standards, might be considered.
- **Ownership** – Whether the utility must allow non-utility persons to own line extensions, and how to ensure reliability and carry out maintenance and restoration, might be considered.
- **Multiple customers** – The cost to additional customers served by a line extension might be considered.
- **Low income support** – Provision might be made to aid low-income customers who must pay for line extensions.
- **Education** – Provision might be made to inform homeowners, realtors, builders, and lending institutions of the line extension requirements.

A utility that changes to a fully cost-based policy might experience an increase in revenues. For those utilities operating under an alternative rate plan,⁴ these increased revenues likely will not flow to ratepayers in the short term. Policy makers might consider requiring that the increased revenues be used in some other way to reduce ratepayer costs.

Payment Arrangements

In its letter, the Committee asked us to examine the financing options that are available or should be available for customers and whether financing arrangements through utility billing is appropriate. We have contacted banks, credit unions, and mobile home financing organizations. In addition, we have investigated the contacts received by our own Consumer Affairs Division (CAD). Finally, we have re-visited comments made in CMP's recent line extension proceeding. Our research led to the six findings outlined below.

Some of these findings are unique to CMP, because they stem from the difficulty of paying the full cost of a line extension before the utility will begin construction. We do not know the extent to which the findings derived from our CAD contacts represent widespread homeowner experience. During 2000, CMP completed almost 1400 single-phase line extensions under its new policy and began 1000 more. 88 customers, or 3% of those receiving extensions, contacted our CAD about overall cost or the inability to pay over time.

First, lending institutions do provide loans for line extensions. Lending institutions do not include the cost of the line extension, on a dollar-for-dollar basis, in the value of the house when determining the mortgage amount. However, they issue loans for line extensions, as they do for many other "secondary" homebuilding costs such as water, sewer, architects' fees, and driveways. There is a common perception that lending institutions loan up to 80% of the value of the house and that customers must pay for line extensions (and water, sewer, etc) through other means. However, lending institutions universally claim that they finance well above 80% of the house value and routinely provide loans for these secondary homebuilding costs. The institution considers the overall ability of the homeowner to repay the loan, so the full amount of the loan varies among homeowners.

Second, some customers state that, when their mortgage is added to their own personal financial resources, they cannot cover the cost of their electrical line extension. This recurring problem appears to be at odds with the comments we received from the lending institutions. One likely reason for the discrepancy is lack of knowledge on the part of homebuilders, contractors, and lending institutions, regarding the need to include the line extension cost when estimating the cost of the home. If the line extension cost is not included in the upfront estimate, the homeowner will be surprised when later confronted with its cost. If the homeowner's ability to afford the home is marginal, this

⁴Currently Verizon and CMP are operating under alternative rate plans. BHE is likely to develop a plan during 2001.

additional cost may be too burdensome to absorb through either the loan or personal means. However, in this instance it is not the cost of the line extension *per se* that is unaffordable, but the cost of the entire home package. Because the line extension was the "last-in" item and was unanticipated, it is perceived to be the cost that makes the home unaffordable.

Third, mobile home owners sometimes find it more difficult to obtain a loan adequate to pay for their entire homebuilding expenses because of the relationship between the value of their home and the cost of the line extension. A used mobile home has far less value than a newly constructed home, giving the owner very little equity with which to secure a loan. In this instance, the cost of the line extension is a significantly higher portion of the overall cost of the home and is more likely to be an insurmountable expense for customers with marginal financial means beyond the value of their home.

Fourth, many homeowners, especially those with marginal ability to pay, want to pay their home building expenses over time. As lending institutions have stated, a homeowner may pay for the line extension over time through a mortgage or related loan. However, for the homeowner who has not received a sufficient loan, either because of lack of knowledge or lack of sufficient equity, paying the utility over time sometimes becomes the only way of affording the line extension. In instances when a lending institution will not loan a homeowner sufficient funds to cover the full cost of the home package, allowing that homeowner to "borrow" from the utility shifts the risk of non-payment to remaining ratepayers.

Fifth, a homeowner who pays the utility over time pays more for the line extension than she or he would pay to a lending institution because a utility's carrying cost is higher than the interest on a bank loan. A utility is not, by policy or intent, a lending institution. If it carries out that role, it does so as a customer service. We have always allowed the utility to recover its full revenue requirements from this function and as a policy matter would continue to do so. Thus, while allowing a homeowner to pay the utility over time might make the home affordable, it is a more costly solution for a homeowner with the ability to borrow the money from a lending institution. We took this into account when we approved CMP's current policy, which does not give the customer the option of paying CMP over time.

Finally, some homeowners experience problems associated with timing. When estimating the cost of a new home, the only way for a homeowner in CMP's territory to determine the precise cost of the line extension is for CMP to visit the building site and develop a cost estimate unique to the layout of that site.⁵ In some cases, CMP will not make this site visit until certain portions of the site, such as an access road or driveway, are complete. Thus, a homeowner cannot estimate the full cost of building the home,

⁵CMP will provide rough, non-binding estimates without a visit. We do not know the extent to which homeowners are aware of this fact. In addition, some line extensions in other utilities' territories require a similar site-specific estimate.

determine if she or he can afford it, and secure loans, until after she or he has spent money which is unrecoverable if the project is abandoned.

An additional timing complaint in CMP's territory is that CMP's site visit and subsequent site-specific cost estimate may take a number of weeks. This time lag appears excessive to some customers and has purportedly caused some mobile home purchases to be lost. A similar time lag will occur in any utility's territory when the line is long or site conditions are such that the homeowner must pay actual costs.

Some homeowners face the added problem of not being able to receive their mortgages until the house lot has access to features including water and electricity. The homeowner thus does not have access to finances needed to build these secondary features until after he must pay for them.

Should policy makers wish to address these problems, some solutions to consider are:

- **require better education** – If homeowners included line extension costs in their upfront financial planning, they would be more likely to secure loans adequate to cover the expense and to make efficient financial decisions regarding their home building. Knowledgeable lending institutions, realtors and contractors would help educate homeowners.
- **require utilities to estimate costs in a more timely manner** – If a utility's policy allowed the homeowner to learn the likely cost of the line extension during upfront financial planning, homeowners would be more likely to secure loans adequate to cover the expense and to make efficient financial decisions regarding their home building.
- **require utilities to allow customers to pay over time** – If homeowners could pay utilities over time in instances when adequate loans are unavailable, some homeowners might find it easier to cover the full expense of home building. Two primary risks arise from this provision. First, homeowners who could receive a less costly loan from a lending institution might not do so. Second, some homeowners will not fully repay the utility for their line extension, shifting those costs to remaining ratepayers.

Conclusion

We recognize that the differences among line extension policies, and the particular burdens some of those policies may create, have created dissatisfaction in some areas of Maine. We welcome the opportunity to share the information we have been able to gather on these policies, and look forward to providing to the Committee any additional information it may require.

Table 1
Examples of Cost to Customer
Under Each Utility's Line Extension Policy

<p>Meant to give a general understanding of levels and variability of price. Prices could be significantly higher in the event of ledge and/or tree work. Prices will differ significantly from customer to customer when actual costs are paid.</p>
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<u>Length of Line Extension</u>	<u>CMP Old Policy</u>	<u>CMP New Policy</u>	<u>BHE</u>	<u>MPS</u>	<u>Verizon</u>
200 feet from distribution line TOTAL	\$0.00	\$1,800.00	\$12.80 per month for 10 years \$1,500.00	\$0.00	\$0.00
1000 feet from distribution line ideal construction conditions public way TOTAL	\$77.00 per month for 5 years \$4,620.00 plus maintenance(1.45%/mo) \$4,700.00	\$6,200.00	\$64.00 per month for 10 years \$7,700.00	\$56.70 per month for 5 years \$3,402.00 plus maintenance (1.21%/mo) \$3,900.00	\$0.00
3000 feet from distribution line ideal construction conditions public way TOTAL	\$187.00 per month for 5 years \$11,220.00 plus maintenance(1.45%/mo) \$11,400.00 plus actual cost for last 1000 feet w/maint ** \$16,000.00	\$13,900.00	\$128.00 per month for 10 years \$15,400.00 plus actual cost for last 1000 feet \$17,400.00	\$137.70 per month for 5 years \$8,262.00 plus maintenance (1.21%/mo) \$9,500.00 plus 1000*avg cost per foot w/maint. ** \$13,100.00	\$70/pole aprox 2 poles \$140.00

** Maintenance charges not included, when calculated it would increase the price

Table 2 – Comparison of Line Extension Provisions of Largest Electric and Telephone Utilities

Provision	BHE	Old CMP Policy	New CMP Policy	MPS	Verizon
Cost to Customer	<p>For up to 2,000' 6.4c/ft plus 1.63% times the per-foot cost for trim and ledge. Per month for 10yrs.</p> <p>Customers can elect to make a Contribution (pay up-front). Per-foot cost is \$3.90 without ledge or trim work. Ledge adds another \$1.74 per-foot and trim adds \$1.75 per-foot for a total of \$9.83 per-foot.</p> <p>Beyond 2,000 feet, the customer pays a per-foot up-front contribution for the number of feet in excess of 2,000.</p>	<p>First 300' free. 11c/ft/mo for 5 yrs Actual cost beyond 2,000' on a public way and 1,000 feet on a private way. High cost conditions, such as ledge and trimming are factored in for these extensions, but not for those under 2,000' on a public way and 1,000' on a private way. The customer also pays a monthly maintenance charge.</p>	<p>Estimated Actual cost</p>	<p>First 300' free. 8.1 c/ft/mo for 5 yrs. For up to 2,000' on the public way and 1,000' on a private way and 2,000' on a public/private way, the customer pays monthly charges for the first 2,000' or 1,000', which ever applies.</p> <p>Beyond 2,000' on public ways and 1,000' on private ways, the customer pays an up-front Contribution equal to the average cost per foot of the extension times the number of feet in excess of 2,000' on a public way and 1,000' on a private way.</p> <p>The customer also pays a monthly maintenance charge equal to 1/12 of 14.5% to the amount of contribution.</p>	<p>Private Way: First two poles free, \$70 per pole after that, plus Trim and any Special Construction Charges. Public Way: ½ mile free, then \$70 per pole plus trim and Special construction charges. Special Construction: Actual Cost, 100% upfront.</p>
If actual cost, based on estimate or final cost?	<p>Estimated actual costs over 2,000'. Trued up to actual when work is completed. Adders for ledge and trim.</p>	<p>Estimated actual costs over 2,000' on a public way and 1,000' on a private way. Trued up to actual when work is completed.</p>	<p>Charge is based on estimate of actual cost. <u>No true up</u> when the job is completed.</p>	<p>Estimated actual costs over 2,000' on public way and 1,000' on a private way. Trued up to actual when work is completed.</p>	<p>When Actual Cost, based on estimate. Trued up to actual when work is completed.</p>

Table 2 – Comparison of Line Extension Provisions of Largest Electric and Telephone Utilities

Provision	BHE	Old CMP Policy	New CMP Policy	MPS	Verizon
Customer Cost vs. Actual Cost on Average	Close to actual for the first 2,000' and actual after 2,000'	Below actual for first 2,000 feet on a public way and 1,000 feet on a private way, and actual after	Close to actual cost	Below actual for the first 2,000' on a public way and 1,000' on a private way and actual after	Significantly below cost when not Special Construction
Customer Pay over Time?	Yes, the customer pays monthly installments over 10 years, which include an O&M charge	Yes, the customer pays monthly installments over 5 years. For footage over 2,000' on a public way and 1,000' on a private way, the customer pays actual costs up front. An O&M charge, which is a % of the Contribution over 2,000 or 1,000' is paid on a monthly basis. O&M is included in monthly installment payments.	No	Yes, the customer pays monthly installments over 5 years, which include an O&M charge	Residential customers for private property construction pay 40%, rest over 3 years
Low-Income Aid	No	No	Yes, maximum \$2800	No	Native American Federal Assistance
2 nd Person In	For line extensions constructed under the Standard Plan, monthly charges and Contribution are reapportioned among the customers served by the line based on length of each person's portion of extension.	Full cost shared by all customers if the average footage for the initial customer is decreased OR Additional cost paid by new customer(s) if the average footage is increased	\$1 per foot with a minimum of \$500	Full cost shared by all customers if the average footage for the initial customer is decreased OR Additional cost paid by new customer(s) if the average footage is increased	The new customer contributes if the length of the line is still beyond the allowed distance once the 2 nd customer connects.

Table 2 – Comparison of Line Extension Provisions of Largest Electric and Telephone Utilities

Provision	BHE	Old CMP Policy	New CMP Policy	MPS	Verizon
Developers	<p>Pay full cost up front. Payment not reimbursed. Pay O&M.</p> <p>The developer must pay an upfront Contribution equal to the average cost of overhead distribution facilities, times the number of feet of the extension (pay actual costs if not standard construction), as well as the full cost of the net present value of federal and state income tax effect of the contribution in aid of construction. The developer can have a private line extension constructed in the development and turn it over the BHE upon its completion.</p>	<p>Pay full cost up front.</p> <p>The developer was credited 300' per customer until the end of 5 years, then 2,000 feet per customer after 5 years. The developer could hire a private contractor to build the line and turn the line over to CMP. CMP would inspect the line prior to taking the line over.</p>	<p>Pay full cost up front.</p> <p>CMP must build any line extension in a development. The developer could receive a DIP (Development Incentive Payment) for each customer that connects to the line or they could elect not to take the DIP. No O&M charges.</p>	<p>Pays less than full cost up front. An advance Contribution of the original cost of the line less 300' of distance allowed for each customer taking service at the time the extension is built. The developer also pays a monthly O & M charge equal to 1/12 of 14.5% of the contribution. Refunds of the contribution are made annually, based on 300' for each new customer connecting during the prior year until the total contribution is refunded. The monthly maintenance charge is also adjusted accordingly. (MPS allows private contractors to build line extensions in developments, which are then turned over to MPS.)</p>	<p>Verizon may construct the whole line as a community service, if there are a sufficient number of customers. (Depends on number of people going in and the time frame)</p>
Customer Can Own Extension?	<p>Yes, Private line only (Only one customer on line.) To construct the line the customer must have a PE stamp certifying the design & construction.</p>	<p>Yes, Private Line only (Only one customer on line.)</p>	<p>Yes, Private Line only. (Only one customer on line.) The customer must have a PE stamp certifying the design & construction.</p>	<p>Yes, Private Line only (Only one customer on line.)</p>	<p>No</p>