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Decision No. _____

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of
Los Angeles Gas and Electric Corpora-
tion, Southern California Edison Com-
pany and Southern California Gas Com-
pany for revision of Rule 2 of the
service rules of the Commission as
established in Case No. 683, Vol. 8,
Opinions and Orders of the Railroad
Commission of California, Page 372.)

APPLICATION
NO. 2996

Paul Overton for Los Angeles Gas
and Electric Corporation.
E. E. Trowbridge and Harry J. Bauer
for
Southern California Edison Company.
A. E. Peat for Southern California
Gas Company.

LOVELAND, Commissioner.

O P I N I O N

Los Angeles Gas and Electric Corporation, Southern
California Edison Company and Southern California Gas Com-
pany request that the Commission allow applicants to require
in certain instances deposits in excess of \$2.50 for the
guarantee of bills for residence and domestic gas and elec-
tric service.

Rule No. 2, referring to service charges for metered service and established by Decision No. 2879, Case 683, Vol. 8 Opinions and Orders of the Railroad Commission of California, page 372, is as follows:

"If an applicant for metered or measured service makes a cash deposit to insure payment for service to be delivered, the amount of the deposit shall be such as may be specified in the utility's rules, but in no event in excess of twice the average periodic bill of consumers of his class; provided, that the deposit for domestic or residence monthly service of water, gas, electric and telephone utilities shall not exceed \$2.50, except that where the average of the monthly bills of those consumers of any class of domestic or residence service who make deposits is in excess of \$2.00, such consumers may be called upon to make deposits of uniform amount not exceeding twice such average."

Applicants contend that under this rule as interpreted by the Commission they are not permitted to require deposits exceeding \$2.50 to insure payment of bills in case of residence and domestic service; that there are a large number of consumers making cash deposits whose average monthly bills exceed \$2.50 and as a result, applicants are not protected in the collection of their bills; that owing to a large percentage of transitory population in the territory served, they have a considerable number of consumers who take service for a few months during the winter and whose bills exceed \$2.50; that the City Council of the City of Los Angeles in December 1911 passed an ordinance permitting the water, gas and electric utilities in the city to require deposits in excess of \$2.50, varying in amount based on the number of rooms in the house, and that if applicants are not permitted to re-

quire deposits in excess of \$2.50 to insure payment of bills they will lose large sums through uncollectible bills.

Following the issuance by the Commission of Decision No. 2879 referred to above, applicants filed with the Commission rules governing deposits as set forth below and which were accepted by the Commission for filing, no approval being given. The rule filed governing deposits for electric service was:

"If cash deposit is made the following classifications based upon rules of the Railroad Commission of the State of California are effective:

Residences or dwellings of 6 rooms or less	...	\$2.50
" " " " 7 or 8 rooms	...	4.00
" " " " 9 or 10 "	...	5.00

All other classes of consumers to deposit an amount of not more than twice the periodic bill."

The rule filed governing deposits for gas service was:

"If cash deposit is made the following classifications based upon rules of the Railroad Commission of California are effective:

Residences or dwellings of 5 rooms or less	...	\$2.50
" " " " 6 or 7 rooms	...	4.00
" " " " 8 or 9 rooms	...	5.00

All other classes of consumers to deposit an amount not exceeding twice the average periodic bill."

Applicants state that these rules were made after an analysis of the bills of consumers and with the understanding on the part of the companies that they were complying with the order of the Commission which they interpreted as permitting them to classify their consumers in accordance with the number of rooms in the houses served.

The rules as filed were continued in effect by the utilities for some time until it was noted that the practice of the utilities was not in accordance with a strict interpretation of the order as made by the Commission, whereupon applicants were requested to change their rule to comply with the Commission's interpretation of its decision or if they desired a change in the order they were notified to make application to the Commission for such change. After considerable informal negotiations in the matter applicants filed corrected rules and regulations and an application for a revision of Rule No. 2 in so far as they were affected.

At the hearing in this application petitioners contended that under Rule No. 2 quoted above and the Opinion preceding the order fixing said rule, they had the right to require a maximum deposit for residence and domestic service in excess of \$2.50, and that the Commission clearly recognized the justice of the contention made by applicants in their petition for a rehearing in the original Case 683, when, in its order on rehearing, the Commission expressly stated that with reference to some utilities or some classes of residence and domestic service a deposit of \$2.50 might not be sufficient, and in the revised rule added

"Except that where the average of the monthly bills of those consumers of any class of residence or domestic service who make deposits is in excess of \$2.00, such consumers may be called upon to make deposits of uniform amounts not exceeding twice such average."

From a consideration of the language of the original opinion in Case 683, Decision No. 2689, and the dis-

cussion of contentions of applicants for rehearing in regard to Rule No. 2, Decision No. 2879, it is apparent to me that the utilities might be justified in interpreting the order as they did, especially in view of the request made by said petitioners. However, from a careful consideration of the Opinion I must conclude that such an interpretation was erroneous. The Opinion upon rehearing consistently refers to class of domestic or residence service and not to classification of consumers. It was apparently intended to cover those cases where the utilities' average residence or domestic service bills exceeded \$2.00 or where, for a certain class of residence or domestic service which include other than electric lighting or domestic gas service, the average bills exceeded the sum of \$2.00 per month. I must conclude, therefore, that under the final order in Case 683 applicants would not be permitted to require deposits in excess of \$2.50 for residence or domestic service where the average bills for that class of service were less than \$2.00.

Petitioners also contend that the deposit of \$2.50 was, under the rule, the minimum deposit to be required. This contention is erroneous. That amount was fixed as the maximum deposit for the average, and if a larger deposit is justified for the larger consumers, a smaller deposit should be required of the smaller consumer.

The questions to be determined in this application are:- whether the conditions existing upon applicants' systems justify a change in the present order by the requiring of deposits for service in excess of \$2.50, and if so, whether the amount of such deposits should be determined on the basis of the number of rooms in a consumer's residence,

and if so, what amounts should be required.

The Los Angeles Gas and Electric Corporation submitted evidence showing the average bills for the year 1916 of gas consumers occupying houses of five or less rooms, of six and seven rooms, and eight and nine rooms. In compiling these data applicant stated that consumers from whom deposits were required were taken from the ledgers with no aim of selection and the average bills per consumer were determined for the entire year. The result reported by this company is as follows:

	<u>Average Monthly Bill</u>
Houses of 5 rooms or less	\$1.58
" " 6 and 7 rooms	2.08
" " 8 and 9 rooms	3.25

It does not appear that the above figures exemplify the average conditions as the average of 90 per cent of the bills of the consumers of that company is about \$1.20 - considerably less than the average reported for 5 rooms or less. A large number of the company's smaller consumers are in apartments, flats and small houses of 2 to 4 rooms, and it would appear only fair to these smaller consumers to reduce their deposit if the uniform deposit of \$2.50 is not adhered to.

Southern California Gas Company submitted an exhibit showing the average bills for the month of March 1917 for several districts where the number of rooms in the houses was fairly definitely known, from which it appears that the average bills for the month of March for cottages and flats of 5 to 7 rooms served by them varied from \$1.37 to \$1.75; that where the number of rooms per house approximated ten,

bills averaged in excess of \$4.00. Southern California Gas Company also submitted a statement of the number of accounts of residence or domestic service where deposits were held, to which were applied the deposits during the month of March 1917 on account of disconnects of service and removal of consumers to addresses unknown to the company. There were 48 of such accounts during that month for which \$132.00 was held as deposits and from which the total bills due amounted to \$205.55. Only 7 of the 48 accounts carried deposits in excess of \$2.50. Seventeen of the closing accounts were less than the deposit held, the remainder being more or less in excess of the deposit. In case the credits due consumers on the balance of deposits were all called for and none of the bad debts collected, the company would lose from closing bills during that month \$90.01 as compared with difference between total deposits and closing bills of \$73.55. On this company's system approximately 75% of deposits required were for \$2.50, 17 1/2% for \$4.00 and the remainder \$5.00 or over. A considerably larger percentage of deposits over \$2.50 occurred on the Los Angeles Gas and Electric Corporation's gas system.

Evidence relative to electric bills was submitted by Southern California Edison Company. A report covering a study of deposits and bad debts for domestic service was submitted after the hearing and by stipulation considered in evidence.

An analysis of this report shows, from the consumers considered, that the average of the bills for residence and domestic electric service for houses of 4, 5 and 6 rooms was \$1.19 per month; average of houses of 7 and 8 rooms \$1.90; of 9 and 10 rooms \$2.94 per month.

The profit and loss statement submitted showed, for the 6 months ending June 30, 1917, that there were 94 deposits of \$2.50 or \$235.00 applied to closing or delinquent bills exceeding \$2.50, amounting to \$456.47. The report does not show the exact number of deposits applied which exceeded the bill due. Apparently, however, about one-half of all deposits applied are in full, the remainder only in part. Only 4 deposits of \$4.00 were applied to closing bills amounting to \$23.56 and two of \$5.00 to cover closing bills of \$26.61. Some reduction in this total loss would have resulted if no bills were allowed to run more than two months.

Further data shows that during the 4 months of January to April 1917 approximately 27 $\frac{1}{2}$ % of the total consumers connected during that period were required to make deposits. The company, under its past and proposed rule, would require \$2.50 deposit from 91 $\frac{1}{2}$ %; \$4.00 deposit from 4 $\frac{1}{2}$ %; \$5.00 deposits from 2-3/5%, and deposits of larger amounts from 1-2/5% of the total deposit makers.

There appears to be a fairly definite relation between the number of rooms per house and the average monthly bill for gas or electric service although there is a very wide variation in the individual bills. The average monthly bills for gas service for 5 room houses or less vary from 32¢ per month to \$6.00 and for 8 and 9 rooms from 54¢ to \$15.59. It is apparent, therefore, that any uniform deposit, based on the number of rooms per house, to give complete protection against uncollectible bills would be over-burdensome to the majority of consumers as it would practically have to equal twice the maximum bill.

The utility must expect a certain amount of loss from consumers making deposits. It is practically and economically impossible to prevent all loss from uncollectible bills. The Commission's previous decision held this to be true in concluding that the deposit should not exceed \$2.50 unless the average bills exceeded \$2.00.

The aim in determining the amount of a deposit should be to minimize the burden on consumers making deposits, resulting from the requiring of deposits, commensurate with minimizing the burden on all consumers due to increase of rates to take care of losses caused by uncollectible bills.

The rules as proposed by the applicants would increase deposits above that fixed by the Commission's previous decision for about 30% of the gas and 10% of the electric consumers who make deposits, or not to exceed $7\frac{1}{2}\%$ of the total domestic gas consumers and 3% of the electric. The saving would be comparatively small.

The determination of deposits based upon the number of rooms per house, if followed to conclusion, should work not only to an increase for large houses but also to a reduction for small houses. Consumers whose bills are 35¢ to 50¢ per month for gas or 65¢ to \$1.00 for electricity should hardly be required to make a \$2.50 deposit to guarantee bills. It is impossible to make each consumer deposit an amount commensurate with his bills.

I believe, under the conditions existing, that if the amount of deposits is to be based upon the number of rooms per house, which basis appears to be fairly

reasonable, that the rule proposed by applicants should be changed, and I recommend the following:

DEPOSITS FOR RESIDENCE AND DOMESTIC
GAS OR ELECTRIC SERVICE

Applicants for residence and domestic gas or electric service who are required to make cash deposits to guarantee the payment of bills shall make deposits in accordance with the following classifications:

Residences, flats, apartments or dwellings
of 4 active rooms or less.....

Temporary seasonal occupancy - \$2.00
Permanent occupancy - \$1.50

Residences or dwellings of 5,6 and 7 active
rooms.....\$2.50
Residences or dwellings of 8 or more active
rooms.....\$5.00

In determining the number of "active rooms",
cellars, halls, bathrooms, pantries or porches
will not be considered as active.

I recommend the following form of Order:

O R D E R

Los Angeles Gas and Electric Corporation, Southern California Edison Company and Southern California Gas Company having applied for permission to modify Rule No. 2 as previously established in Case 683, Decision 2879 (Opinions and Orders of the Railroad Commission of the State of California, Vol. 8, Page 372), so that they may require deposits in excess of \$2.50 to guarantee payment of bills for residences and domestic service, and a hearing having been held and the matter being submitted and now ready for decision, and it appearing that said utilities should be granted authority to modify said rule as herein set forth,

IT IS HEREBY ORDERED that Los Angeles Gas and Electric Corporation, Southern California Edison Company and

Southern California Gas Company be and the same are hereby granted permission to establish and put in effect a rule differing from said Rule No. 2 as established in this Commission's Decision No. 2879 (Opinions and Orders of the Railroad Commission of the State of California, Vol. 8, Page 372), to the extent indicated in the opinion which precedes this order and not otherwise.

Provided, that said modified rule be filed with the Railroad Commission on or before November 1, 1917.

The foregoing opinion and order are hereby approved and ordered filed as the opinion and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 5th day of October, 1917.

Max Thelen

H. D. Leonard

Wm. Gordon

Edwin O. Edgerton

Frank R. Berlin

Commissioners.