

ORIGINAL

Decision No. 48224

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of George D. Pollock,)
doing business as the EAST MONTEREY)
WATER SERVICE, for an increase in) Application No. 33465
rates for water service and revision) (Amended)
of the rule and regulation governing)
the extension of water mains.)

George D. Pollock in propria persona; James H. Watson, for Seaside Council, interested party;
George F. Tinkler, for the Commission staff.

O P I N I O N

By the above-entitled application, filed June 5, 1952, George D. Pollock (East Monterey Water Service) seeks an order of this Commission authorizing increases in rates for water service and a reduction in the free footage allowance for main extensions in and about the community of Seaside, Monterey County. The application was amended on November 13, 1952, by a further request that a fire hydrant charge of \$3.50 per month per hydrant be established.

A public hearing in the matter was held before Examiner Emerson on November 13, 1952 at Monterey and was submitted for decision upon receipt of Exhibit No. 4 on December 2, 1952.

Rates, Present and Proposed

Applicant has estimated that the percentage-wise increase requested would average 30%. A comparison of typical billings is as follows:

Flat Rates

<u>Classification</u>	<u>Charge per Month</u>	
	<u>Present Rates</u>	<u>Requested Rates</u>
Five-room residence	\$1.50	\$1.94
Restaurant, minimum	1.50	1.95
per seat10	.13
Soda fountains, bars	1.25	1.62
Doctor's office	1.00	1.30
Retail store, market	1.25	1.62
Single chair, barber shop	1.00	1.30
Each fire hydrant		3.50

Meter Rates, 5/8 x 3/4-inch Meter

<u>Quantity</u>	<u>Monthly Bill</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
0-500 cubic feet	\$ 1.50	\$ 2.00
1,500 cubic feet	3.50	4.50
2,000 cubic feet	4.50	5.60
5,000 cubic feet	10.50	12.20
10,000 cubic feet	18.00	22.20

Applicant's present rates have been unchanged since 1940 when they were filed by the system's prior owner.

Summary of Presentations

The tabulations below are summaries of the presentations respecting results of operations as made by applicant and the Commission staff. Certain of the items leading to the end results here tabulated are not comparable and, therefore, are discussed in succeeding paragraphs.

<u>Year 1951, Present Rates</u>	<u>Recorded</u>	<u>Adjusted</u>	
		<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$34,427.69	\$ 44,177	\$ 42,747
Operating Expenses	29,829.11	39,852	42,177
Net Revenue	4,598.58	4,325	570
Rate Base		196,249	185,120
Rate of Return		2.2%	0.31%

<u>Estimated Year 1952</u>	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	\$ 49,070	\$ 50,285	\$ 63,520	\$ 65,540
Operating Expenses	46,502	47,062	50,069	51,000
Net Revenue	2,568	3,223	13,451	14,540
Rate Base	221,959	193,768	221,959	193,768
Rate of Return	1.2%	1.66%	6.1%	7.50%

Applicant's Operations

Applicant alleges that operation of this water system was undertaken by him as a hobby when the system served about 145 consumers. In March of 1940 the engineering staff of the Commission appraised the system at \$6,532. The system has experienced considerable growth, particularly in the postwar years, primarily occasioned by its location adjacent to Fort Ord Military Reservation and its proximity to the United States Naval Post-Graduate School. As of December 31, 1951, recorded fixed capital had reached a total of \$153,605.14 and the system was serving approximately 1,310 metered connections and 220 flat rate consumers. The system now requires practically all of applicant's time and, during certain construction periods, as many as seven employees.

Applicant has testified that expansion has been so rapid that all efforts have been directed to making extensions and improvements to the physical system and that proper accounting or adherence to the system of accounts prescribed by this Commission has been foregone. The record in this proceeding clearly indicates faulty bookkeeping entries in some items of capital, revenues and operating expenses. It is equally clear that applicant's accounting, not conforming with the provisions of the uniform classification of accounts, has resulted in annual reports that are inaccurate and unreliable in some respects.

Rate Base

In evidence in this proceeding are five rate bases for the year 1952, one prepared by applicant's consulting engineer and four prepared by the Commission staff. All are on a depreciated basis using the remaining life method of computing depreciation. They differ, however, in several respects.

Applicant's rate base of \$221,959 was developed from an inventory and appraisal of properties made as of September 30, 1952, to which were added items for materials and supplies and working cash, and from which the average recorded depreciation reserve of \$21,835 was deducted. Applicant's witness stated that depreciation, as represented by the book reserve, was considerably under accrued. Included in fixed capital was an arbitrary assignment of \$1,000 for assumed organization costs and \$17,921.64 as overheads, neither of which is shown by the evidence as having been incurred. Applicant's inventory was priced at unit cost indices taken from a trade journal which presents averages of costs in the principal cities of the United States. In general, it appears that resulting totals are higher than those experienced by utilities operating in the same general area as applicant.

The first two rate bases presented by the staff, at the hearing in the matter, represent different approaches to the determination of what may constitute a reasonable base. One, a rate base of \$185,477, uses recorded fixed capital and estimated average book depreciation reserve of \$22,130. The other was developed from the identical inventory used by applicant but with items priced at locally experienced unit costs. In arriving at this rate base an assumed organization expense, assumed overheads and the average book reserve were used and a resulting rate base of \$208,450 was obtained. The staff witness, as had applicant's witness, also testified that the depreciation reserve was substantially under accrued.

Because of the influence of the factor of depreciation reserve upon the reasonable rate base on which applicant is entitled to earn a return, the Commission staff made a theoretical reserve requirement study. Such study and its effect was late-filed

as Exhibit No. 4 in this proceeding and the entire matter was considered submitted on its receipt. Said exhibit presents two further rate bases, one, of \$185,844, again being predicated on recorded fixed capital and the corrected average book depreciation reserve of \$21,762, and the other, of \$193,766, on the staff appraisal and the reserve requirement. The latter is the one shown in the summary of presentations, above tabulated. The study indicates that whereas the book reserve at the end of 1952 would be \$25,536 the comparable theoretical reserve should total \$40,563. It is apparent that applicant's past reserve accumulation has been deficient. However, ratepayers have enjoyed lower rates due to such deficiency. The theory of remaining life depreciation contemplates that existing book reserve be used and that any excess or deficiency be spread equitably over the remaining life of the plant. We are of the opinion that in this proceeding such method is to the future best interest of ratepayers and utility alike.

In view of all of the evidence, we are of the opinion that a rate base predicated on recorded fixed capital and book depreciation reserve, rather than upon either of the appraisals above mentioned, is most equitable. We adopt, therefore, and find to be reasonable a depreciated rate base of \$185,844 for this utility for the average year 1952.

Revenues

Applicant's recording of operating revenues apparently has suffered from the same bookkeeping inattention as have the other items heretofore mentioned. Applicant's consultant and the staff, therefore, reconstructed revenue accounts from available data and respectively estimated gross revenues of \$49,070 and \$50,285 under present rates for the year 1952. We shall adopt \$50,000 as a reasonable estimate of such revenues. Under the

rates which applicant requests be authorized, the respective estimates are \$63,520 and \$65,540. We shall adopt as reasonable a sum of \$65,000 at such rates.

Expenses

Operating expenses for the year 1952, before provision for taxes and depreciation were estimated by applicant to total \$35,560 under present rates and \$35,663 under the requested rates. Comparable figures developed by the staff are \$36,240 and \$36,250, respectively. These estimates for 1952 are about \$13,000 above those recorded by applicant during the year 1951. A portion of such increase results from servicing a greater number of consumers and increased pumping costs arising from both increased production and increased electric rates. The two major items, however, are a provision for a salary for applicant, who heretofore has received no personal salary for his efforts, and a provision for proper bookkeeping and other accounting services. In view of the record in this proceeding, we shall adopt the sum of \$36,700 as representing the reasonable operating expense needs of this utility, before taxes and depreciation, for the year 1952. By so doing we are including an annual allowance of \$6,000 for the owner's salary and an allowance of \$500 to cover the initial cost of installing an adequate accounting system, together with an allowance of \$100 per month to cover the cost of engaging a qualified accountant, on a part-time basis, to keep such system in proper order. Such sums are additional to those now being charged for posting and other routine clerical accounting work. The order herein will require applicant to initiate and maintain the system for which these specific allowances are made. In the event he does not do so within the time limits specified in the order, we will consider reopening this proceeding for the purpose of rescinding the authorization for a rate increase.

In consonance with our previously expressed opinion regarding the remaining life method of depreciation accounting, we adopt the sum of \$7,600 as representing the 1952 depreciation accrual by such method.

In view of the evidence we adopt as reasonable estimates of tax expenses, including taxes on income, the sum of \$3,320 under present rates and \$7,200 under applicant's proposed rates for the year 1952.

Rate of Return

Summarizing the above-adopted revenues and expenses and relating them to the rate base hereinabove found to be reasonable indicates rates of return as follows:

	<u>Present Rates</u>	<u>Requested Rates</u>
Operating Revenues	\$ 50,000	\$ 65,000
Operating Expenses	47,670	51,500
Net Revenues	2,330	13,500
Rate Base (Depreciated)	185,844	185,844
Rate of Return	1.25%	7.26%

It is apparent that applicant is not now earning a reasonable return and is in need of increased revenues. The rates which applicant has requested, however, would produce a rate of return which, in this instance, would be excessive. We shall authorize rates which, on the basis of the level of business in 1952, should produce gross revenues of \$61,590, which after allowance for total expenses of \$49,970, will produce a rate of return of 6.25% on the rate base hereinabove found to be reasonable. We find such rate of return to be reasonable for this utility in this instance.

Authorized Rates

The rates hereinafter authorized will increase applicant's gross revenues by approximately \$11,600 on an annual basis and will increase the average metered customer's bill by about 8%. Typical billings under the authorized rates will be as follows:

Flat Rates

<u>Classification</u>	<u>Charge per Month</u>
Five-room residence with toilet and bath#	\$1.95
Restaurant, minimum*	1.95
per seat	.13
Soda fountains, bars (minimum)*	1.60
Retail store, market (minimum)*	1.60
Single chair barbershop (minimum)*	1.25
Doctor's office (minimum)*	1.25
Each fire hydrant	3.00

Additional charges for more rooms, toilets and baths, and for irrigated areas in excess of 500 square feet.

* Additional charges for extra facilities.

Meter Rates, 5/8 x 3/4-inch Meter

<u>Quantity</u>	<u>Monthly Bill</u>
0-500 cubic feet	\$ 1.80
1,500 cubic feet	4.30
2,000 cubic feet	5.30
5,000 cubic feet	11.30
10,000 cubic feet	19.80

Applicant presented evidence which clearly indicates that the presently effective main extension rule is too liberal on this particular system and that it results in making extensions which are not compensatory. Applicant's request to reduce the free-footage distance from 150 feet to 100 feet will be authorized. Methods of refunds of advances made for construction within subdivisions will also be authorized as requested.

Customer Participation

The executive secretary of the Seaside Council, representing a group of civic organizations, and five other consumers testified as to certain service matters and, in the main, complained of poor pressure or inadequate water flow, and inability to obtain a response to their complaints when directed to the utility office. Spot checks of pressure at the residences of complainants were made by applicant and, at the time of checks, indicated adequate pressure. In view of the inconclusive nature of the evidence regarding the satisfying of those service complaints, applicant will be required to obtain recording charts of pressure at various specified locations on his system and to submit such charts to this Commission.

O R D E R

George D. Pollock (East Monterey Water Service) having applied to this Commission for an order authorizing increases in rates and charges for water service rendered in Seaside and vicinity, Monterey County, a public hearing thereon having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates and charges, in so far as they differ therefrom, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the provisions of General Order No. 96, the schedules of rates and main extension rule set forth in Exhibit A attached to this order and, after not less

than five (5) days' notice to the Commission and to the public, to make said rates and rule effective for service rendered on and after March 1, 1953.

IT IS HEREBY FURTHER ORDERED that applicant shall, on or before May 31, 1953, install a complete set of accounting records providing for maintenance of the accounts, as appropriate, in conformity with the Uniform Classification of Accounts for Water Corporations prescribed by this Commission and shall supplement such records with a work order system which will account for additions and retirements of plant items; further, applicant is directed to have such records posted, by the above date, so as to include therein all transactions to and including December 31, 1952; further, in connection with the foregoing, applicant shall submit a report, on or before June 30, 1953, setting forth the steps taken to comply with the above requirements, including a statement as to the name and address of the individual or firm engaged to install the accounting system and the name of the person engaged to maintain the data and records thereafter.

IT IS HEREBY FURTHER ORDERED as follows:

1. Within sixty (60) days from and after the effective date of this order applicant shall file in quadruplicate with this Commission, in conformity with General Order No. 96, rules governing customer relations revised to reflect present-day operating practices, together with current forms that are normally used in connection with customer service.
2. Effective as of January 1, 1953, applicant shall base future accruals to the reserve for depreciation upon a spreading of the original cost of the plant, less estimated net salvage and depreciation reserve, over the estimated remaining life of the property; further, applicant shall review such accruals when major changes in plant composition occur and for each plant account at intervals of not more than five (5) years. Results of these reviews shall be submitted to this Commission.

3. Applicant shall obtain recording pressure gauge charts and submit copies to this Commission on or before August 1, 1953 of the pressure available at the following listed locations during twenty-four (24) hour periods commencing on the dates indicated:

<u>Location</u>	<u>Date</u>
North side of Miramonte between Waring and Luzern	April 25 and May 16, 1953
Easterly end of Alta Vista	April 26 and May 17, 1953
North side of Military, east of Cross	May 2, June 6 and July 5, 1953
Easterly end of Easement between Broadway and Palm Railroad, between First and Second	May 3 and June 7, 1953
Easterly end of the main on Wanda	May 23, 1953
South side of Short	May 24, 1953
East side of Highland, about 100 ft. north of Pine	June 20, 1953
	June 27, 1953

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at Los Angeles, California, this 2nd day of February, 1953.

[Signature]
President.

Justus F. Craven

Harold Hala

[Signature]
Commissioners.

John E. Mitchell

EXHIBIT A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all domestic, commercial and industrial metered water service.

TERRITORY

In the unincorporated community of Seaside and vicinity, Monterey County.

RATES

Quantity Rates:		Per Meter Per Month
First	500 cu.ft. or less.....	\$1.80
Next	1,000 cu.ft., per 100 cu.ft.....	.25
Next	3,500 cu.ft., per 100 cu.ft.....	.20
Next	5,300 cu.ft., per 100 cu.ft.....	.17
Over	10,000 cu.ft., per 100 cu.ft.....	.14
Minimum Charge:		
For	5/8 x 3/4-inch meter.....	\$1.80
For	3/4-inch meter.....	2.50
For	1-inch meter.....	4.00
For	1 1/2-inch meter.....	7.00
For	2-inch meter.....	10.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the Quantity Rates.

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Schedule No. 2

FLAT RATE SERVICE

APPLICABILITY

Applicable to all domestic and commercial water service rendered on a flat rate basis.

TERRITORY

In the unincorporated community of Seaside and vicinity, Monterey County.

RATES

	<u>Per Connection Per Month</u>
1. For each residence: Five rooms or less, not to exceed 500 sq.ft. of irrigated surface.....	\$1.35
Additional for each bathtub or shower.....	.30
Additional for each flush toilet.....	.30
Additional for each room in excess of five....	.13
2. Sprinkling or irrigation of lawns, shrubbery, gardens, for surface in excess of 500 sq.ft. payable during the six-month period April to September, inclusive, per 100 sq.ft.....	.05
3. Restaurants and cafes: 13 cents per unit of seating capacity, minimum charge.....	1.95
4. Ice cream parlors, soda fountains, bars, pool halls.....	1.60
5. Barbershop or beauty parlor for a single chair or operator.....	1.25
Additional for each chair or operator.....	.25

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Schedule No. 2

FLAT RATE SERVICE
(Continued)

<u>RATES (Continued)</u>	<u>Per Connection</u> <u>Per Month</u>
6. Doctors', dentists' or other professional offices, not exceeding two rooms with water service.....	\$1.25
Additional for each room with water service.....	.50
7. Retail markets, stores, shops or other business establishments not otherwise listed.....	1.60
8. Additional for each private flush toilet, tub or shower in items 3 to 7, inclusive.....	.30
9. Additional for each public flush toilet in items 3 to 7, inclusive.....	.60

SPECIAL CONDITIONS

1. Service to classifications other than those enumerated above will be furnished only under Schedule No. 1, General Metered Service.

2. A meter may be installed at the option of either the utility or the consumer, in which event service thereafter will be rendered only at meter rates.

Schedule No. 3

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to fire hydrants of county fire districts or other political subdivisions of the state attached to the utility's distribution mains for fire protection purposes.

TERRITORY

In the unincorporated community of Seaside and vicinity, Monterey County.

RATES

	<u>Per Month</u>
For each public fire hydrant.....	\$3.00

SPECIAL CONDITIONS

1. The above monthly rate includes use of water for fire fighting and for no other purpose. Quantities of water delivered through fire hydrants for any other purpose will be estimated or measured and charges therefor will be made at the General Metered Service rates.
2. The company will supply only such water at such pressure as may be available from time to time as a result of its normal operation of the system.
3. The customer shall indemnify the company and save it harmless against any and all claims arising out of service under this schedule and shall further agree to make no claim against the company for any loss or damage resulting from service hereunder.

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Rule and Regulation No. 15

MAIN EXTENSIONS

A. General or Ordinary Extensions

In applications for ordinary extension of mains, other than to serve subdivisions, tracts or organized service districts, the utility will extend its water distribution mains to new consumers at its own expense when the required total length of main extension from the nearest existing distribution main is not in excess of 100 feet per service connection. If the total length of main extension is in excess of 100 feet per service connection applied for, the applicant or applicants for such service will be required to advance that portion of the reasonable estimated cost of such extension over and above the estimated reasonable cost of 100 feet of the main extension per service connection, exclusive of cost of service connections and meters and of any costs of increasing the size or capacity of the utility's existing mains or any other facilities used or necessary for supplying the proposed extension; provided, however, that in no case will the above estimate be based upon the cost of a main in excess of four inches in diameter. The money so advanced will be refunded without interest in payments equal to the reasonable actual cost of 100 feet of the main extension in place, to be made within 90 days after installation of each additional regular and bona fide service connection attached to the extension for which deposit has been made. No refunds will be made after a period of ten years after the date of completion of the main extension and the total refund shall not exceed the original deposit.

In addition to refunds made on the basis of additional service connections attached directly to the extension for which a deposit has been made as provided in the preceding paragraph, refunds also will be made to the depositor (or depositors) in those cases where an additional regular and bona fide consumer (or consumers) may be served by a subsequent main extension, either continuous or lateral, supplied from the original extension upon which an advance deposit is still refundable, whenever the length of the further extension is less than 100 feet per service connection. Such additional refunds will be based on the difference between the 100-foot allowance per service connection and the lengths of the required subsequent extension at the average unit cost of the original extension. In those cases where subsequent consumers are served through a series of such main extensions, refunds will be made to depositors in chronological order beginning with the first of the extensions in the series from the original point of supply, until the amount advanced is fully repaid within the period of ten years as specified above. In those cases where two or more consumers have made a joint advance deposit on the same extension, refunds will be made on a pro rata basis.

Adjustment of any substantial difference between the estimated and the reasonable actual cost will be made within 60 days after completion of the installation, subject to review by the Public Utilities Commission in the

(Continued)

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Rule and Regulation No. 15

MAIN EXTENSIONS
(Continued)

event of disagreement or dispute between depositor and the utility. No advance deposit in aid of construction will be required from an applicant requesting regular and bona fide service other than temporary from a main already in place.

B. Extensions to Serve Subdivisions, Tracts or Organized Service Districts.

Applicants for main extensions to serve new subdivisions, tracts, or service districts will be required to deposit with the utility before construction is commenced the estimated reasonable cost of installation of the mains and necessary fittings, gates and housings therefor from the nearest existing main, exclusive of service connections and meters, and exclusive of any costs of increasing the size or capacity of the utility's existing mains and for any other facilities used or necessary for supplying the proposed extension. Provided, however, that in the event applicant requests, or local laws or ordinances provide, that distribution stubs or service connections to lots in such subdivisions, tracts, or service districts be installed prior to the paving of streets, the cost of such stubs and service connections shall be included in the amount of the deposit.

The size, type and quality of materials, and location of the mains will be specified by the utility and the actual construction will be done by the utility or by a constructing agency acceptable to it.

In case of disagreement over location, size, type or quality of materials of the mains specified or the constructing medium, or the amount to be advanced by applicant, the matter may be referred to the Public Utilities Commission for settlement.

Adjustment of any substantial differences between the estimated and the reasonable actual cost thereof will be made within 90 days after completion of the installation, subject to review by the Public Utilities Commission in the event of disagreement or dispute between depositor and the utility.

For a period not exceeding ten years from and after the date of completion of the main extension, the utility will refund without interest to the depositor, or other party entitled thereto, annually, 35% of the gross revenues due and receivable from each bona fide consumer attached to the extension within the subdivision, tract or service district; provided, however, that the total payment thus made by the utility shall not exceed the amount of the original deposit, without interest.

Money advanced for installation of stubs and service connections will be refunded without interest in payments equal to the actual reasonable cost of each stub and service connection within 90 days after it is placed in service. No refunds hereunder will be made after a period of ten years from and after the date of completion of the original extension, and the total refund for such stub and service connection will not exceed the original deposit without interest.