

**ORIGINAL**

64119

Decision No. \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 CAPITOL ACCOMMODATIONS, INC., a )  
 California utility corporation, for )  
 an order authorizing applicant to )  
 increase certain of its water rates )  
 within its service area in a portion )  
 of the County of Sacramento. )

Application No. 43797

William T. Sweigert, for applicant.  
Martin Wirt, J. Paul Hicks, and A. R.  
Kaznowski, protestants.  
John D. Reader, for the Commission staff.

O R D E R

Applicant is a public utility water corporation. It has about 1,520 consumers and serves an area near Sacramento approximately one and one-half miles long and one-half mile wide. It is almost completely surrounded by an existing utility district, and the prospect of acquiring additional territory for its service area is slight. Applicant seeks herein authority to increase its rates for water service.

A duly noticed public hearing was held in this matter before Examiner Donald B. Jarvis at Sacramento on February 27, 1962. The matter was submitted subject to the filing of a late-filed exhibit and the reporter's transcript of the hearing. The last of said documents was filed on April 4, 1962, and the matter is now ready for decision.

The application, as amended prior to hearing, sought authority to increase applicant's flat rates but not its meter rates. At the hearing, the Presiding Examiner permitted further amendment of the application by interlineation. The application, as amended, seeks authority to increase all of applicant's rates. The purpose

of the amendment was to prevent the possibility of discrimination between customers receiving different types of service.

Applicant's system has approximately 80,000 feet of inter-connected distribution mains; seven 12-inch diameter wells with 50 horsepower, Peerless turbine pumps; and a 5,000-gallon hydro-pneumatic tank, with automatic controls, at each well. Applicant has 1,469 flat rate consumers, 31 meter rate consumers and supplies water service for 96 public fire hydrants and 20 swimming pools.

A comparison between applicant's presently authorized rates and the rates it seeks authority to establish is as follows:

FLAT RATE SERVICE <sup>1/</sup>

Item	:Per 3/4-Inch Service Connection:	
	: Per Month :	
	Present Rates	Proposed Rates
For each single-family residence, and lot . . . . .	\$2.75	
For each single-family residence and lot up to 11,000 sq.ft. . . .		\$3.45
11,001 sq.ft. to 13,000 sq.ft. .		3.95
13,001 sq.ft. to 15,000 sq.ft. .		4.45
15,001 sq.ft. to 20,000 sq.ft. .		4.95
For each separate dwelling unit or duplex located on single lot. . .		1.50

SPECIAL CONDITION

Premises in excess of 20,000 square feet will be metered.

<sup>1/</sup> Applicant did not propose a schedule for increased meter rates. Applicant stipulated that if an increase in rates is granted, the Commission may determine appropriate meter rates in order to prevent discrimination.

The record discloses that applicant's average depreciated rate base during 1961 was \$175,650. Applicant's evidence indicates that it had a rate of return of 3.777 percent in 1961. Applicant estimates that if its proposed rates were in effect during 1961 its rate of return would have been 8.215 percent.

All the parties agree that applicant's average depreciated rate base for 1962 should be estimated at \$185,050. There is disagreement with respect to whether certain items should be allowed for estimated operating expenses.

In 1961 applicant had adjusted operating expenses, other than taxes and depreciation, of \$32,007. These operating expenses included salaries and travel expenses. Applicant's board of directors recently approved certain salary increases and the establishment of a salary for the president of the corporation. A summary of past and present salaries, travel, legal and office expenses is as follows:

	<u>Actually Paid in 1961</u>	<u>Authorized by Board of Directors for 1962 and subsequent years</u>
President's Salary	--	\$ 4,800
Travel Expenses, from Southern California for President	\$ 1,829 <sup>2/</sup>	1,829 <sup>2/</sup>
Manager's Salary	6,000	8,400
Manager's Wife's Salary - (Billing, assisting Manager)	4,800	4,800
Rent paid to Manager and wife for use of home as office	1,000	1,000
Legal and Secretarial Fees	1,800	2,400
Auditing Fees	500	750
Total	<u>\$15,929</u>	<u>\$23,979</u>

<sup>2/</sup> This is a nine months' figure. Travel expenses are based on actual expenditures and may vary from year to year.

Applicant contends that the aforesaid salaries and expenses are reasonable and should be allowed for rate-making purposes. The protestants contend that these salaries and expenses are unreasonable and should not be allowed for rate-making purposes.

The record discloses that applicant's customers are billed bimonthly. Maintenance of applicant's system, other than minor repairs, is handled through local contractors. Applicant's president testified that he lives in Pasadena; that he comes to Sacramento on the average of a few times a month on company business; and that his duties were "to set some administrative policies and to see the operational end and financial end of the business and to project what we have to do for the future and project our future financial affairs." Applicant's manager testified that "I keep the books, I make collections, bank deposits, turn off the water when it's necessary, turn it on when it's necessary, and make minor repairs to the system." He also testified that his wife's duties were as follows: "She does the billing, makes telephone calls, in the office when I am not there. She has nothing to do with the books. She makes up the bank deposit slips."

The Commission finds, for rate-making purposes, that the amount of \$23,979 estimated by applicant for salaries of officers, rent, travel expenses, legal and secretarial fees and auditing fees is unreasonable in view of the fact that (1) applicant has only about 1,520 consumers and bills them bimonthly; (2) applicant's system is automatically, electrically controlled; and (3) most of the maintenance of applicant's system is done by local contractors. The Commission finds that for rate-making purposes the sum of \$16,500 is a reasonable amount for estimated officers' salaries, rent, travel expenses, legal and secretarial fees and auditing fees.

The Commission finds that the amount of estimated operating expenses, excluding depreciation and taxes, which is reasonable and should be used with respect to the rates to be authorized herein is \$32,600. The staff's estimates of \$7,340 for depreciation expense and \$8,740 for taxes other than on income are found to be reasonable and are adopted herein. The Commission further finds that, under the conditions found to exist in this proceeding, applicant is entitled to a rate of return of 7 percent upon an estimated rate base of \$185,050, and that schedules should be established to yield such rate of return taking into consideration taxes and the estimated expenses heretofore found to be reasonable. The Commission also finds that the increases in rates and charges authorized by this decision are justified, the rates and charges set forth in Appendix A attached hereto are fair and reasonable for the service to be rendered, and the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

The rates herein authorized will result in an increase in gross revenues of approximately \$9,030 or 15.2 percent. The typical residential customer's monthly bill for water service will increase from \$2.75 to \$3.10.

The estimated operating results for the purposes of this decision, including an amount of \$6,640 for income taxes, are as follows:

Operating Revenues	\$ 68,300
Total Operating Expenses	55,320
Net Income	12,980
Rate Base	185,050
Rate of Return	7.0%

Applicant and the staff differ over the accounting treatment to be given labor costs incurred on the original installation

of certain pumps. In the original installation, labor expense was capitalized and included in the total cost of the pumps. Depreciation expense was properly taken upon such total cost. Before the pumps were fully depreciated, they were removed and reinstalled at a lower depth with the incurrence of additional cost for labor. The staff contends that the original labor cost should be treated as a retirement by crediting plant and charging the depreciation reserve. Applicant contends that the staff method would not permit it to recover fully the labor cost of the original installation through depreciation. The Commission finds that, under the procedure outlined by the staff, the remaining life depreciation method will provide future depreciation accruals to recover the remaining net balance of the original labor cost.

The record discloses that the cost of the land upon which applicant's well sites are located has not been included in its entirety in its rate base. The evidence indicates that the total value of the land upon which the seven well sites are located at the time they were put into public utility service was \$2,500. The Commission finds that applicant should be authorized to include said amount in its nondepreciable plant account. ✓

The record also indicates that most of the switchboards and fuse boxes at applicant's seven pump stations are not locked and are easily accessible to unauthorized persons. The Commission finds that applicant should install adequate protection for the switchboards and fuse boxes at the pumping stations. ✓

The staff recommended that the applicant's present tariff schedule entitled "Limited Metered Service" should be canceled, since it does not apply to any customers. We find that this recommendation is reasonable.

No other points raised at the hearing require discussion.

O R D E R

A public hearing having been held and based upon the evidence therein adduced,

IT IS ORDERED that:

1. Applicant Capitol Accommodations, Inc., is authorized to file with this Commission, after the effective date of this order and in conformity with General Order No. 96-A, the schedules of rates attached to this order as Appendix A and, upon not less than five days' notice to the Commission and to the public, to make rates effective for service rendered on and after September 11, 1962, Concurrently therewith, applicant is authorized and directed to withdraw and cancel by appropriate advice letter its presently effective Schedule No. 7L, Limited Metered Service.

2. Within forty-five days after the effective date of this order, applicant shall file with the Commission, in conformity with General Order No. 96-A, and in a manner acceptable to the Commission, revised rules governing service to customers, a revised tariff service area map and copies of printed forms normally used in connection with customers' services. Such rules, tariff service area map and forms shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

3. Within sixty days after the effective date of this order, applicant shall file with the Commission four copies of a comprehensive map drawn to an indicated scale not smaller than 400 feet to the inch, delineating by appropriate markings the various tracts of land and territory served; the principal water production, storage, and distribution facilities; and the location of the various water system properties of applicant.

4. Beginning with the year 1962, applicant shall determine depreciation expense, by accounts, by multiplying depreciable utility

plant by the rates set forth on Page 22 of Exhibit No. 5 in this application. These rates shall be used until review indicates they should be revised. Applicant shall review the depreciation rates using the straight-line remaining life method when major changes in utility plant composition occur and for each account at intervals of not more than five years, and shall revise the above rates in conformance with such reviews. Results of these reviews shall be submitted to this Commission.

5. Within sixty days after the effective date of this order, applicant shall install adequate protection for the electric and hydraulic controls at each of the pumping stations, and shall notify the Commission, in writing, within ten days after the completion of said installations.

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

Dated at San Francisco, California, this 15<sup>th</sup> day of AUGUST, 1962.

George A. Hoover  
President  
Arthur E. Rybakell  
E. J. Fox  
Commissioners

Frederick B. HoJoboff  
Commissioner Everett C. McKeage, being necessarily absent, did not participate in the disposition of this proceeding.



APPENDIX A  
Page 1 of 5

Schedule No. 1

(T)

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The area known as Arden Manor, and vicinity, located approximately 6 miles northeast of Sacramento, Sacramento County.

(T)

(T)

RATES

Per Meter  
Per Month

Quantity Rates:

First 500 cu.ft. or less .....	\$ 2.50	(I)
Next 1,500 cu.ft., per 100 cu.ft. ....	.30	
Next 3,000 cu.ft., per 100 cu.ft. ....	.25	
Over 5,000 cu.ft., per 100 cu.ft. ....	.18	(I)

Minimum Charge:

For 5/8 x 3/4-inch meter .....	\$ 2.50	(I)
For 3/4-inch meter .....	3.50	
For 1-inch meter .....	5.50	
For 1 1/2-inch meter .....	10.00	
For 2-inch meter .....	14.00	
For 3-inch meter .....	25.00	
For 4-inch meter .....	35.00	(I)

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

(D)

APPENDIX A  
Page 2 of 5

Schedule No. 2R

(T)

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

The area known as Arden Manor, and vicinity, located approximately 6 miles northeast of Sacramento, Sacramento County.

(T)

RATES

Per Service Connection  
Per Month

For a single family residential unit, including premises not exceeding 11,000 sq.ft. in area .....	\$3.10	(I)
a. For each additional single family residential unit on the same premises and served from the same service connection .....	1.75	(N)
b. For each 100 sq.ft. of premises in excess of 11,000 sq.ft. but not exceeding 20,000 sq.ft. ....	.01	
c. For each swimming pool equipped with recirculating filter system, on the same premises and served from the same service connection, during the 6-month period, May through October .....	1.00	(N)

SPECIAL CONDITIONS

(D)

1. The above residential flat rates apply to service connections not larger than 3/4-inch in diameter. (N)  
(N)
2. All service not covered by the above classifications including service to premises being more than 20,000 sq.ft. of area shall be furnished only on a metered basis. (T)  
(T)
3. For service covered by the above classifications, if either the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service. (N)  
(N)

Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service furnished for privately owned fire protection systems.

TERRITORY

The area known as Arden Manor, and vicinity, located approximately 6 miles northeast of Sacramento, Sacramento County.

RATE

Per Month

For each inch of diameter of service connection ..... \$ 1.00

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

2. If a distribution main of adequate size to serve a private fire protection system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund.

3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector-type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

4. The utility 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.

Schedule No. 5

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service furnished to municipalities, duly organized fire districts and other political subdivisions of the State.

TERRITORY

The area known as Arden Manor, and vicinity, located approximately 6 miles northeast of Sacramento, Sacramento County.

RATE

Per Month

For each hydrant ..... \$0.75

SPECIAL CONDITIONS

1. For water delivered for other than fire protection purposes, charges shall be made at the quantity rates under Schedule No. 1, General Metered Service.
2. The cost of installation and maintenance of hydrants shall be borne by the utility.
3. Relocation of any hydrant shall be at the expense of the party requesting relocation.
4. Fire hydrants shall be attached to the utility's distribution mains upon receipt of proper authorization from the appropriate public authority. Such authorization shall designate the specific location at which each is to be installed.
5. The utility 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.

Schedule No. 9MC

CONSTRUCTION METERED SERVICE

APPLICABILITY

Applicable to all measured water service furnished for general construction.

TERRITORY

The area known as Arden Manor, and vicinity, located approximately 6 miles northeast of Sacramento, Sacramento County.

RATE

	<u>Per 100 Cu.Ft.</u>
For all water delivered .....	\$0.15