

ORIGINAL

Decision No. 65240

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the practices, operations, contracts, rules, facilities and service of the HESPERIA WATER COMPANY, a corporation, and KAYEM INVESTMENT COMPANY, a corporation.

Case No. 6159  
(Instituted July 29, 1958)

(For list of appearances see Decisions Nos. 59281, 62183, and 64833.)

Additional Appearances:

Greenbaum, Baker and Ancel, by Mark G. Ancel and Louis R. Baker (substituted for Kaplan, Livingston, Goodwin & Berkowitz), for respondents.

THIRD INTERIM OPINION

Further public hearings were held before Examiner Warner on December 15, 1961,<sup>1/</sup> and January 31, 1963, at Los Angeles. The purpose of the further hearings was to determine the extent of respondents' compliance with Decision No. 59281, dated November 17, 1959, and Decision No. 61521, dated February 14, 1961, each of which is an interim opinion and interim order in the instant matter, together with the extent of the compliance of

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<sup>1/</sup> Original hearing on Application No. 43638 of respondents for authority to enter into agreement for the lease of properties was held on a consolidated basis on this date. Decision No. 64833, dated January 22, 1963, denied said application and directed applicants, if they did not merge, to enter into negotiations leading to a more reasonable agreement.

the respondent Hesperia Water Company with Decision No. 62133, dated June 27, 1961, in Application No. 40862, which decision, among other things, authorized Hesperia to increase its rates for water service, but contained other orders to the applicant.

Ordering paragraphs 3, 4 and 5 of Decision No. 59281 directed respondent Kayem<sup>2/</sup> to prepare an inventory and ascertain the original costs of all tangible property owned by it and devoted to public utility service and to record such costs in its plant accounts in conformity with the Uniform System of Accounts for Water Utilities prescribed by the Commission and, further, to bring its books of accounts in all respects into accord with the Uniform System of Accounts, including proper entries to account for all advances for construction and all contributions in aid of construction and, further, to prepare a depreciation reserve requirement with respect to all of its properties and facilities.

A Commission staff accounting witness testified that Kayem has not recorded original costs on its books of accounts; has not adopted or utilized the straight-line remaining-life method of accruing depreciation; has not recorded all advances for construction and all contributions in aid of construction in its books of accounts; and has not filed an annual report to the Commission for the year ending December 31, 1961.

This staff witness testified further that respondent Hesperia has not discontinued the practice of collecting meter deposits and has not returned all meter deposits collected; has

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<sup>2/</sup> Properly Kayem Investment Corporation.

not returned to the respective contributors all charges that had been made for inclusions to the service area of Hesperia Water Company (\$100 per acre); and has not returned to the subdivider of Tract No. 5694, "Hesperia Park," the costs for the land, wells, and pumping equipment contributed by said subdivider, all ordered by Decision No. 62183.

Hesperia's president testified that Hesperia was not financially able to return all meter deposits at once, but that some are being returned as a pro rata of monthly water bills; that the total amount of deposits has been reduced by one-third; and that the deposits recorded on Hesperia's books (which had increased from a balance of about \$5,600 as of December 31, 1960, to more than \$11,000 as of December 31, 1962) represented deposits for temporary service connections rather than meter deposits.

Hesperia's witness further testified that Pacific Community Management Company had made a fund of \$18,000 available to respondents which had been used to replace approximately 6,000 feet of pipelines and to install new booster pumps. This, together with the replacement of approximately 800 feet of pipelines in Old Hesperia Townsite, the rezoning of respondents' water system, and the making available of water at more adequate pressures in different pressure zones from booster plants, storage tanks, and wells, had improved service conditions throughout respondents' service area to such an extent that, except on the occasion of two or three minor plant failures, only four or five service complaints per month had been received by Hesperia during the the year 1962. These complaints related primarily to rusty and dirty water which was relieved by the flushing of mains.

A witness for "Hesperia Park" testified that he, as a co-partner of said park and subdivider of Tract No. 5694, had donated land, wells, and pumping equipment to respondent Hesperia and did not expect or ask for the return of their cost.

The record shows that respondent Hesperia is approaching 2,000 active service connections. Exhibit No. 5 shows that 127 new connections were made during 1962; deposits of \$35 per connection in 83 cases and \$50 per connection in 38 cases under Rule No.13 were collected on 121 such connections; 22 of the premises served are vacant lots; an additional 20 houses had not been occupied as of February 18, 1963, and 8 deposits were refunded in full during the year.

Upon consideration of the record the Commission finds as follows:

1. Respondents have not complied with Decisions Nos. 59281 and 62123 to the extent set forth in the testimony of the Commission staff accounting witness, to-wit: Kayem has not recorded original costs on its books of accounts; has not adopted or utilized the straight-line remaining life method of accruing depreciation; has not recorded all advances for construction and all contributions in aid of construction in its books of accounts; and has not filed an annual report to the Commission for the year ending December 31, 1961, and Hesperia has not discontinued the practice of collecting meter deposits and has not returned all meter deposits collected; has not returned to the respective contributors all charges that had been made for inclusions to the service area of Hesperia Water Company (\$100 per acre); and has not returned to the subdivider of Tract No. 5694, "Hesperia Park", the costs for the land, wells, and pumping equipment contributed by said subdivider.

2. The pro forma adjusted balance sheet as of May 1, 1960, shown in Exhibit No. 14 in the record on Application No. 40862 and utilized for rate-making purposes in Decision No. 62183, represents the original costs of Kayem utility plant in service as of that date, and Kayem should be directed to record such costs in its plant accounts in conformity with the Uniform System of Accounts for Water Utilities prescribed by this Commission as hereinafter specified.

3. Respondent Hesperia has misapplied its Rule No. 13, Temporary Service, by classifying the majority of its new customers as "temporary" and by requiring therefrom \$35 or \$50 temporary service-connection deposits.

THIRD INTERIM ORDER

IT IS ORDERED that:

1. Kayem Investment Corporation shall, within thirty days after the effective date hereof, file its annual report to the Commission for the year ending December 31, 1961, reflecting balance sheet adjustments hereinafter ordered.

2. Kayem shall record the original cost of all tangible property owned by it and devoted to public utility service as of May 1, 1960, the segregation of such property between Utility Plant in Service and Utility Plant Held for Future Use and depreciation reserves applicable to such properties being set forth on the Summary Analysis of Adjusted Plant Balances, May 1, 1960, Table J in Exhibit No. 14, which is of record in this proceeding on Application No. 40862. Further, recorded account balances as of May 1, 1960, for Organization Expense, Capital Surplus, Earned Surplus, and Contributions in Aid of Construction shall be adjusted to the respective amounts for these accounts, shown under the

columnar heading "Adjusted May 1, 1960" in Table D, Comparative Balance Sheets, as set forth in said Exhibit No. 14. The adjusting entry to accomplish all of the above is as follows:

<u>Account Number</u>	<u>Account Title</u>	<u>Debit</u>	<u>Credit</u>
270	Capital Surplus	\$1,417,588.61	
250-1	Reserve for Depreciation, Utility Plant in Service	83,184.76	
100-1	Utility Plant in Service		\$ 778,484.62
265	Contributions in Aid of Construction		552,492.59
146	Organization Expense		51.26
271	Earned Surplus (Deficit)		169,744.90

To adjust recorded balances in the above accounts at May 1, 1960, to conform with prescribed accounting for water utilities as reflected in Table D of

Exhibit No. 14 in the proceeding on Application No. 40862, as follows:

	<u>Recorded 5/1/60</u>	<u>Adjusted 5/1/60</u>	<u>Adjustment Required</u>
Capital Surplus	(\$1,792,563.28)	(\$ 374,974.67)	(\$1,417,588.61)
Reserve for Depreciation	( 287,760.00)	( 204,575.24)	( 83,184.76)
Utility Plant in Service	2,210,569.28	1,432,084.66	( 778,484.62)
Contributions in Aid of Construction	--	( 552,492.59)	552,492.59
Organization Expense	51.26	--	( 51.26)
Earned Surplus (Deficit)	280,060.03	110,315.13	( 169,744.90)

( ) Credit account balance or reduction in account balance.

3. Kayem shall record the acquisition of additional facilities not yet assigned or recorded at May 1, 1960, in the manner set forth in Table K, Pro Forma Accounting Classification, in Exhibit No. 14, which is of record in the proceeding on Application No. 40862, as title to or assignment of such facilities is acquired by Kayem. Costs, depreciation reserves, and contributions in aid of construction, applicable to such facilities acquired, are to be recorded in accordance with the accounting classification for these items by specific facilities as set forth in Table K.

4. All additional and future acquisitions of properties by Kayem shall be recorded in strict conformance with accounting prescribed by this Commission as contained in the Uniform System of Accounts for Water Utilities, Class A, Class B, Class C.

5.(a)Hesperia shall, within thirty days after the effective date of this order and in conformity with General Order No. 26-4, file the following with this Commission:

- (1) Revised Rule No. 1, Definitions, and Revised Rule No. 13, Temporary Service, shown in Appendix A attached hereto.
- (2) A contract form for temporary service supplied under the provisions of Rule No. 13, including on the face of such form the definition of Temporary Service included in Revised Rule No. 1, Definitions, shown in Appendix A attached hereto; provision for the details of the estimated and actual cost of installing and removing the facilities necessary to furnish the service; and other necessary customer information.

Such revised rules and form shall become effective upon five days' notice to the Commission and to the public after filing as hereinabove provided.

(b)Hesperia shall refund all temporary service connection deposits collected from applicants for water service under conditions not in conformity with Rule No. 13 and shall, within sixty days hereafter, report to the Commission in writing its

compliance herewith. Temporary service connection deposits collected without first having executed a written contract for such service shall be refunded.

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

Dated at San Francisco, California, this 16th day of April, 1963.

George F. Thover  
President  
John E. Smith  
Charles W. Page  
Frederick B. Halaluff  
William W. Bennett  
Commissioners



APPENDIX A  
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Rule No. 1

DEFINITIONS

**Applicant:** The person, association, corporation or governmental agency applying for water service.

**Utility:** The public utility named herein.

**Customer:** Any person, association, corporation or governmental agency supplied or entitled to be supplied with water service for compensation by the utility.

**Premises:** The integral property or area, including improvements thereon, to which water service is, or is to be, provided.

**Metered Service:** Service for which the charges are computed on the basis of measured quantities of water.

**Flat Rate Service:** Service for which the charges are based upon the types and numbers of units served.

**Commercial Service:** Provision of water to residential premises or business premises.

**Residential Service:** Provision of water for household purposes, including water used on the premises for sprinkling lawns, gardens and shrubbery; washing vehicles; and other similar and customary purposes pertaining to single or multiple family dwellings.

**Business Service:** Provision of water for use in connection with commercial premises devoted primarily to operations for profit, including offices, stores, markets, apartments, hotels, motels, automobile trailer parks or courts, service stations and the like.

**Industrial Service:** Provision of water to industrial premises where the water is used primarily in manufacturing or processing activities.

**Irrigation Service:** Provision of water for commercial agricultural, flora-cultural or horticultural use and billed under distinct irrigation rates.

**Date of Presentation:** The date upon which a bill or notice is mailed or delivered by the utility to the customer.

**Main Extension:** The extension of water distribution mains beyond existing facilities in accordance with the provisions of the rule applicable to main extensions filed as part of these tariff schedules.

(Continued)

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Rule No. 1

DEFINITIONS  
(Continued)

**Service Pipe:** The connection between the utility's mains and the service connection, including all of the pipe, fittings and valves necessary to make the connection.

**Service Connection:** The point of connection of the customer's piping or ditch with the meter, service pipe or ditch owned by the utility.

**Tariff Schedules or Tariff Schedule Book:** The entire body of effective rates, rentals, charges, rules, and sample forms collectively, as set forth herein.

**Tariff Sheet:** An individual sheet of the tariff schedule book.

**Public Utilities Commission:** In these rules the word "Commission" or words "Public Utilities Commission" shall be construed to mean the Public Utilities Commission of the State of California.

**Temporary Service:** Provision of water service of limited duration to circuses, bazaars, fairs, industrial construction sites, and similar projects where a permit for a structure of permanent nature has not been obtained from an authorized agency. Service to premises improved with a residential or commercial structure of a permanent nature or to a trailer park improved with a permanent stationary service building or buildings will not be considered as temporary service.

Rule No. 13

TEMPORARY SERVICE

A. Establishment of Temporary Service

1. The utility will, if no undue hardship to its existing customers would result therefrom, furnish temporary service when the applicant has requested service on this basis or the utility reasonably expects the service to be temporary and the applicant therefor has executed a contract for temporary service and has:
  - a. Advanced to the utility the estimated net cost of installing and removing the facilities necessary to furnish the service; and,
  - b. (1) Deposited a sum of money equal to the estimated bill when the duration of service is to be for a period of one month or less, subject to adjustment and refund or repayment in accordance with the actual bill due upon discontinuance of the service,  

or

(2) Established credit in the same manner as is prescribed for permanent service when the duration of service is to exceed one month.
2. Adjustment of any difference between the estimated net cost advanced and the actual cost of installing and removing the facilities necessary to furnish the service, including reasonable costs for depreciation and consumption of such facilities, will be made within 10 days after the utility has ascertained such actual cost. The actual cost thus advanced is not subject to refund except as hereinafter provided.
3. Service to premises improved with a residential or commercial structure of a permanent nature or to a trailer park improved with a permanent stationary service building or buildings will not be considered as temporary service.

(Continued)

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Rule No. 13

TEMPORARY SERVICE  
(Continued)

B. Change to Permanent Status

1. In the event a temporary service becomes permanent, or a residential or commercial structure of a permanent nature is constructed on the premises, the utility will refund the amount advanced for the temporary service within 45 days when a main extension is not involved.
2. Where a main extension to an individual is involved, exclusive of an extension to serve a real estate development or subdivision, service which was initiated as temporary service hereunder when continued for 36 consecutive months, and at the end of that period appears to be of permanent and established character and is received at a premises improved with structures of a permanent nature, will be then treated as though it had been initially furnished on a permanent basis in accordance with Rule No. 15, Main Extensions. The amount advanced for the temporary service will be applied in full by the utility to the balance of any advance then due under such application of said main extension rule; any excess thereof over any such balance will be refunded by the utility.

C. Rates, Charges and Conditions for Service

Rates, charges and conditions for temporary service will be the same as those prescribed for permanent service except as are herein otherwise provided.