

Decision No. 32739

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of DOMINGUEZ WATER CORPORATION, a corporation, for a certificate of public convenience and necessity, and for an order validating the issue of its capital stock, and the acquiring of its assets, and for approval of its rates.

Application No. 22763

Earl D. Killion, for applicant

BY THE COMMISSION:

O P I N I O N

In this proceeding, the Commission is asked to enter its order (a) granting to Dominguez Water Corporation a certificate of public convenience and necessity to operate a public utility water system in the territory shown on the map filed in this proceeding on December 13, 1939; (b) to authorize Dominguez Water Corporation to issue \$500,000 of its common capital stock in payment for the properties to which reference will be made hereafter; and (c) to fix the rates which Dominguez Water Corporation may charge for water sold by it.

Dominguez Water Corporation is a corporation organized under the laws of California. It is in reality the successor to the business of Dominguez Water Company, a corporation, which was incorporated under the laws of California on February 2, 1911.

It is alleged that the Dominguez Water Company operated a water business as a mutual company up until about March 22, 1937. No issue pending in this proceeding makes it necessary to determine whether Dominguez Water Company in fact operated as a mutual water company.

It is of record that Dominguez Water Company in 1936 defaulted in complying with the terms of the trust indenture securing the payment of \$500,000 of bonds. These bonds were then held by the Dominguez Estate Company. On or about October 6, 1936, Dominguez Estate Company commenced an action in the Superior Court of the State of California, in and for the County of Los Angeles, being Action 407,414, to foreclose said trust indenture and said bond issue. On February 1, 1937, the said Superior Court entered a judgment and decree for \$503,670 plus interest and cost in favor of Dominguez Estate Company. The Court further ordered that all of the properties of the Dominguez Water Company be sold by R. E. Allen, Commissioner, in satisfaction of said indebtedness. Thereafter said R. E. Allen sold all of said properties at public auction to Dominguez Estate Company, and on March 22, 1937, he delivered to said Dominguez Estate Company a Commissioner's deed, a copy of which is on file in this proceeding as Exhibit No. 2. On the same date, to-wit: March 22, 1937, Dominguez Estate Company sold and/or transferred said properties to Dominguez Water Corporation, and accepted in payment therefor \$500,000 of the corporation's common stock. A copy of this deed is filed in this proceeding as Exhibit No. 3. The issue of this stock was authorized by the Commissioner of Corporations. It has since been concluded that Dominguez Water Corporation is a public utility, and that

the stock which it issued should be authorized by the Railroad Commission. Dominguez Water Corporation, therefore, requests that the Commission validate the issue of said stock or authorize the issue thereof. The order herein will authorize the issue of said stock.

Dominguez Water Corporation has operated the water properties formerly owned and operated by the Dominguez Water Company since March 22, 1937. As said, it requests that the Railroad Commission grant it a certificate of public convenience and necessity authorizing it to engage in and conduct a public utility water business. The territory in which it desires to operate is shown on a map filed in this proceeding on December 18, 1939. The exterior boundaries and service area, according to applicant's counsel, have been drawn so as to exclude all lands which are now served by mutual water companies or in which a demand for service will probably not accrue for a considerable period of time. In general, the area included is that which is either now or has been served through the existing water system including lands owned or controlled by corporations allied with applicant. Generally speaking, applicant's pipe lines, according to the testimony, permit service to an area of about thirty square miles, extending ten miles in an easterly and westerly direction and having an average width of approximately three miles west of the Los Angeles River, north of Wilmington and adjoining the easterly limits of the City of Redondo Beach.

Applicant now has about 1,500 consumers, and during 1938 sold 286,000,000 cubic feet of water for \$143,000. The testimony shows that the domestic service includes about 1,000

consumers which produced 13% of applicant's revenue and absorbed 4% of the water sold it. Irrigation service in 1938 consumed 50% of the water sold and produced 41% of the revenue. The industrial service is largely to the oil industry. It consumed 46% of the water sold and produced 46% of applicant's revenues. However, in November, 1938, the Shell Oil Company, which was using about 71% of applicant's water sold for industrial purposes, ceased to acquire water from applicant, except for standby service, because it had drilled its own well. Formerly the Shell Oil Company's water bill averaged about \$43,200 per annum, while presently applicant receives from that company \$50 per month for standby service. The municipally owned water system at Torrance, which was formerly a customer of applicant's, has also developed its own source of supply. Its annual water bill was about \$16,000. Because of the loss of these two large customers, applicant now owns a water system which is equipped to deliver water much in excess of that used by its present consumers. Its operation and maintenance expenses are to a large extent independent of the volume of water sold. It, therefore, deems it expedient to establish a rate schedule designed to attract additional customers and encourage greater use of water by its present consumers. On December 18, 1939, applicant submitted to the Commission for its consideration the following rate schedule:

DOMESTIC AND INDUSTRIAL SERVICE

Monthly Minimum Charges

For 5/8 x 3/4" Meter	\$1.00
" 1" "	2.50
" 1-1/2" "	5.00
" 2" "	7.50
" 3" "	10.00
" 4" "	15.00
" 6" "	25.00
" 8" "	50.00

Each of the foregoing "Monthly Minimum Charges" will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the following monthly quantity rates:

Monthly Quantity Rates

First 600 cubic feet or less	\$1.00
From 600 to 2,000 cu.ft., per 100 cu. ft.	.12
" 2,000 " 10,000 " " " " "	.10
" 10,000 " 100,000 " " " " "	.07
Over 100,000 cu. ft.	.05

IRRIGATION SERVICE

Monthly Minimum Charges

Same as for domestic and industrial service except that the quantity of water to which the consumer is entitled under the following quantity rate shall be accumulative upon an annual basis.

Monthly Quantity Charges

Per 100 cu. ft. \$0.04

Temporary rate during adjustment period,  
effective prior to December 31, 1940 -

Per 100 cu. ft. \$0.035

Special Irrigation Service

Where excess water is delivered directly from the wells and does not pass through the main pumping plant or distribution system, the monthly quantity rate shall be,

Per 100 cu. ft. \$0.01

This class of service is from excess water and is subject to interruption if the water is necessary to the normal service, determination of which rests with the Dominguez Water Corporation.

COMBINATION IRRIGATION AND DOMESTIC SERVICE

Monthly Minimum Charges

A flat rate of \$1.00 per month in addition to the Monthly Minimum and Quantity Charge for the irrigation service.

PIPE HYDRANTS

Each hydrant installed on a four-inch service line or less \$1.50 per Mo.

Each hydrant installed on a service line of more than four inches 2.00 per Mo.

It is estimated that on the basis of 1939 water use, the proposed rates would yield applicant operating revenues of \$113,194.

Mr. F. H. Van Hoesen, an engineer for the Commission, in Exhibit No. 9, and Mr. Edward R. Bowen, consulting engineer for applicant, in Exhibit No. 6, estimate the operating expenses of applicant as follows:

<u>Item</u>	<u>Van Hoesen</u>	<u>Bowen</u>
Source of water supply	\$ 300.00	\$ 300.00
Pumping expense	48,660.00	48,773.00
Purification expense	5,500.00	5,650.00
Transmission and distribution expense	16,100.00	21,175.00
Commercial expense	1,800.00	1,800.00
General & Misc. including taxes but not depreciation	<u>34,340.00</u>	<u>40,225.00</u>
Subtotal	\$106,700.00	\$117,983.00
Depreciation annuity on 5% sinking fund basis	<u>23,578.00</u>	<u>23,032.00</u>
Total operating expenses	<u>\$130,278.00</u>	<u>\$141,015.00</u>

The difference between the two estimates is \$10,737. In view of the fact that the estimated revenues are less than Mr. Van Hoesen's estimated operating expenses, there seems to be

no reason for explaining the difference of \$10,737.

There appears in this record three sets of figures relating to the cost of applicant's properties, to-wit: (a) an estimate of the cost of applicant's properties shown in Exhibit No. 9, prepared by Mr. Van Hoesen; (b) an estimate of the cost of applicant's properties shown in Exhibit No. 5, prepared by Mr. Bowen; and (c) the cost of its properties as shown by its books in Exhibit No. 8, prepared by J. Donovan, Commission accountant. The cost figures appearing in the several exhibits are shown in the table following:

Acct. No.	Item	Exhibit No. 9 Van Hoesen's Appraisal			Exhibit No. 5	Exhibit No. 8
		Including Overhead	Overhead	Without Overhead	Bowen's Appraisal Without Overhead	Company's Books Without Overhead
C- 5	Lands	\$ 7,285.00	\$ -	\$ 7,285.00	\$ 7,285.00	\$ 7,996.14
6	Buildings, structures and grounds	98,159.00	8,926.00	89,233.00	84,609.00	76,544.94
10	Wells	56,317.00	5,130.00	51,187.00	69,712.00	73,432.86
12	Collecting reservoirs)	18,778.00	1,799.00	16,979.00	14,734.00	14,248.58
13	Collecting conduits )					
14	Pumping equipment	181,975.00	16,548.00	165,427.00	142,704.00	134,606.96
15	Misc. pumping station equipment	961.00	88.00	873.00	848.00	-
16	Purification equipment	11,221.00	1,020.00	10,201.00	10,201.00	10,909.13
17	Transmission mains	254,182.00	23,107.00	231,075.00	240,680.00	( 797,581.27
18	Distribution mains	481,054.00	43,732.00	437,322.00	439,914.00	(
19	Distribution reservoirs	44,699.00	4,064.00	40,635.00	38,109.00	38,109.39
21	Services	31,325.00	2,847.00	28,478.00	28,942.00	15,747.46
22	Meters	31,390.00	2,854.00	28,536.00	30,690.00	33,796.66
24A	General Office equipment	5,203.00	-	5,203.00	5,204.00	5,204.26
24B	General shop equipment	-	-	-	2,485.00	-
24D	General Garage equipment	13,362.00	-	13,362.00	13,222.00	13,701.44
24E	Miscellaneous equipment	2,823.00	-	2,823.00	-	1,842.53
Total		\$1,238,734.00	\$110,115.00	\$1,128,619.00	\$1,129,339.00	\$1,223,721.62



The evidence shows that the cost of certain properties no longer in existence is still recorded on the books of the company, while the cost of property in existence is not recorded on such books. Furthermore, the company has found it necessary to encase in reinforced concrete some of its transmission and distribution pipe lines. Where this was done, the cost of the pipe lines as now recorded includes the cost of digging and filling both the original trench and the trench that had to be dug to place the concrete around the pipe lines as well as the original cost of the pipe. Moreover, in some instances the cost of the properties, as recorded on applicant's books, is not the actual cost of such properties. It is obvious that applicant's books should be adjusted and brought in line with the property as shown in the inventory on file in this proceeding. Applicant and its predecessors have, in general, not added overhead expenses to the cost of their properties. Such overhead expenses as were actually incurred were charged to operating expenses or income. Because of this practice, we do not believe that the cost of applicant's properties should now be restated at a figure which includes overhead expenses. After reviewing the testimony, we find the undepreciated cost of applicant's properties, as of May 31, 1939, to have been about \$1,130,000, segregated as follows:

Account C- 5	Lands	\$	7,996.14
" C- 6	Buildings, Structures and Grounds		88,087.70
" C-10	Wells		51,227.05
" C-12	Collecting Reservoirs		16,980.82
" C-14	Pumping Equipment		164,870.64
" C-15	Misc. Pumping Station Equipt.		872.78
" C-16	Purification Equipment		10,201.07
" C-17	Transmission Mains		231,133.80
" C-18	Distribution Mains		438,928.28
" C-19	Distribution Reservoirs		10,662.39
	Carried forward		<u>\$1,050,960.67</u>

	Brought forward	\$1,050,960.67
Account	C-21 Services	28,478.12
"	C-22 Meters	29,439.18
"	C-24A Gen. Office Equipment	5,204.26
"	C-24D Gen. Garage Equipment	13,451.52
"	C-24E Misc. Equipment	<u>2,517.53</u>
	Total	<u>\$1,130,051.28</u>

In arriving at the above cost figures, use was made of Mr. Van Hoesen's inventory and of the original cost of the company's properties where such cost was available. In the absence of the actual original cost, the estimated original cost appearing in Exhibit No. 9 was used. We believe that at the appropriate time applicant's cost records should be adjusted so that they will be substantially in accord with the findings in this opinion.

Because applicant's operating expenses exceed its operating revenues, there is no need to make a finding of the value of its properties. Even were applicant to charge four cents instead of three and one-half cents for one hundred cubic feet for irrigation water, it would not be earning a reasonable return upon its investment. As indicated, applicant intends to charge for irrigation water a temporary rate in order to increase the sale of water. There is no need to conjecture what the value of applicant's properties might be if it should be successful in finding, eventually, a market for all of its water. At that time its properties may differ materially from those now used to render public utility service. The rates herein authorized are authorized without any prejudice to any rights that applicant or its consumers may now have or at any time be entitled to in the future as a public utility under the provisions of the Public Utilities Act of the State of California, or any amendments thereto or under

any other statute.

The record shows that applicant and its predecessor have in some instances required consumers to own or rent meters of a type approved by them. This practice is contrary to the rules and regulations of the Railroad Commission and should be discontinued. We expect applicant to own all meters used in measuring water sold to its consumers in order to avoid discrimination. We further expect applicant to cease all other practices which are contrary to the rules and regulations of the Commission.

#### O R D E R

Dominguez Water Corporation having made application for a certificate of public convenience and necessity, for approval of a schedule of rates, and for permission to issue \$500,000 of common stock, a public hearing having been held thereon by Examiners Fankhauser, MacKall, and Stava, the matter having been submitted and the Commission being fully advised in the premises, and being of the opinion that the money, property or labor to be procured or paid for by the issue of said stock is reasonably required by applicant for the purposes herein stated, and that the expenditures for said purposes are not in whole or in part reasonably chargeable to operating expenses or to income, now, therefore

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA  
HEREBY DECLARES that public convenience and necessity require and will require Dominguez Water Corporation to construct, maintain and operate a water system for the purpose of supplying

water for domestic and other uses within that certain area shown on a map filed in this-proceeding on December 18, 1939, which map is made a part of this order by reference.

IT IS HEREBY ORDERED that, Dominguez Water Corporation be, and it is hereby, authorized to issue and deliver to Dominguez Estate Company on or before March 1, 1940, in payment for the properties acquired from said Dominguez Estate Company described in said Exhibit No. 3, \$500,000 par value of its common capital stock, provided, that it file with the Railroad Commission on or before April 1, 1940, a report showing the amount of stock issued under the authority herein granted, and the purposes for which said stock was issued.

IT IS HEREBY FURTHER ORDERED that Dominguez Water Corporation be, and it is hereby, authorized and directed to file with the Railroad Commission, within thirty (30) days from the date of this order, the following schedule of rates to be charged for all water service rendered subsequent to the thirty-first day of January, 1940:

RATE SCHEDULE

DOMESTIC AND INDUSTRIAL SERVICE

Monthly Minimum Charges

For 5/8 x 3/4" Meter	\$1.00
" 1" "	2.50
" 1-1/2" "	5.00
" 2" "	7.50
" 3" "	10.00
" 4" "	15.00
" 6" "	25.00
" 8" "	50.00

Each of the foregoing "Monthly Minimum Charges" will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the following monthly quantity rates:

Monthly Quantity Rates

First	600 cubic feet or less	\$1.00
From	600 to 2,000 cu. ft., per 100 cu.ft.	.12
"	2,000 " 10,000 " " " " "	.10
"	10,000 " 100,000 " " " " "	.07
Over	100,000 cu. ft.	.05

IRRIGATION SERVICE

Monthly Minimum Charges

Same as for domestic and industrial service except that the quantity of water to which the consumer is entitled under the following quantity rate shall be accumulative upon an annual basis.

Monthly Quantity Charges

Per 100 cu. ft. \$0.04

Temporary rate during adjustment period,  
effective prior to December 31, 1940 -

Per 100 cu. ft. \$0.035

Special Irrigation Service

Where excess water is delivered directly from the wells and does not pass through the main pumping plant or distribution system, the monthly quantity rate shall be,

Per 100 cu. ft. \$0.01

This class of service is from excess water and is subject to interruption if the water is necessary to the normal service, determination of which rests with the Dominguez Water Corporation.

COMBINATION IRRIGATION AND DOMESTIC SERVICE

Monthly Minimum Charges

A flat rate of \$1.00 per month in addition to the Monthly Minimum and Quantity Charge for the irrigation service.

FIRE HYDRANTS

Each hydrant installed on a four-inch service line  
or less \$1.50 per Mo.

Each hydrant installed on a service line of more  
than four inches 2.00 per Mo.

IT IS HEREBY FURTHER ORDERED that, within thirty (30) days from the date of this order, Dominguez Water Corporation be, and it is hereby, directed to submit rules and regulations governing relations with its consumers, said rules and regulations to become effective only upon approval by this Commission.

For all other purposes the effective date of this order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 16<sup>th</sup> day of January, 1940.

Ray L. Rice  
George R. DeWitt  
Robert A. DeWitt

Justus J. Quillen  
Commissioners.