

ORIGINAL

Decision No. 48550

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of DOMINGUEZ WATER CORPORATION, a)
Corporation, for an Order author-)
izing it to increase its rates,)
and to change the boundaries of)
its service area.)

Application No. 33508
(Amended)

J. P. Bradley, attorney, for applicant.
J. J. Deuel, for Los Angeles County Farm
Bureau and South Bay Chapter No. 52,
Disabled American Veterans, Louis F.
DeMartini, Jr., president, for Los
Angeles County Farm Bureau, Elmer R.
Clark, for Keystone Civic Betterment
Association, Mrs. Calispa B. Mills,
in propria persona, protestants.
John Reader and John Donovan, for the
Commission staff.

O P I N I O N

Dominguez Water Corporation, a corporation, by the above-entitled application originally filed June 19, 1952, and amended March 18, 1953, seeks authority to increase its rates for water service and seeks authority to change the boundaries of its service area. The rates applied for would increase estimated gross revenues for the year 1953 by approximately \$125,000, or 28.5 per cent. The area affected by the requested change in service area boundaries is delineated by a blue line on the map Exhibit A attached to the application.

A public hearing in this matter was held before Examiner Warner on March 24, 1953, at Los Angeles. A large group of truck farmers protested the proposed increase in irrigation rates, and some domestic consumers protested the proposed increase in domestic rates.

General Information

As of December 31, 1952, applicant was furnishing domestic and commercial, industrial, industrial on special contract, irrigation, municipal and fire hydrant service to approximately 6,650 consumers in unincorporated territory, Los Angeles County, lying due south of the City of Los Angeles, north of the City of Wilmington, east of the City of Redondo Beach and west of the Los Angeles River, as outlined by the red and blue lines on the map Exhibit A. The service area comprises about 26 square miles. The water system includes between 100 and 125 miles of pipe lines, one 7,000,000-gallon storage reservoir and one 16,500,000-gallon reservoir. Water is obtained from twelve wells, all equipped with deep well pumps driven by electric motors. Prior to 1952, gas engines were utilized to generate electric power for the pump motors but this source of power has been converted to electric power purchased from the Southern California Edison Company. This was done, primarily, to eliminate the high cost of maintaining the gas engines. It also eliminated the necessity for the employment of about six pump operators, thus reducing payroll costs.

All of the territory served by applicant has been annexed to the West Basin Municipal Water District, and a supplemental source of supply of water is now available to applicant from the Metropolitan Water District. The present cost of Metropolitan water is \$21 per acre foot, whereas the corporation's expenses for the year 1952 indicate a cost of \$6.61 per acre foot for water pumped from the Basin. Should applicant be restricted by court action in the amount of water it would be allowed to withdraw from the West Coast Ground Water Basin from its own wells, and should it supplement its pumping with Metropolitan Water District water, its water production costs would increase materially.

Applicant's water production during 1952 from its own sources was 13,100 acre feet. A referee's report filed with the Superior Court of the State of California in and for the County of Los Angeles in June, 1952, in the case of California Water Service Company, et al., vs. City of Compton, et al., No. 506806, recommended that, in an attempt to arrest salt water intrusion, production of ground water from the West Coast Basin be initially limited to a total of substantially 30,000 acre feet per year. This is about one-third of the present total production from the entire basin. This litigation is still pending. It is a real contingency against applicant's future operations and results thereof.

Present and Proposed Rates

Applicant's present rates were established in accordance with Decision No. 40672, dated August 26, 1947, in Application No. 27880. They became effective September 1, 1947. The following tabulation is a summary and comparison of the present and proposed general metered service rates in the application herein being considered:

Quantity Rates:		Per Meter	Per Month
		Present	Proposed ^{1/}
First	500 cu.ft. or less	\$1.00	\$ -
Next	2,000 cu.ft., per 100 cu.ft.	.17	-
First	600 cu.ft. or less	-	1.75
Next	1,900 cu.ft., per 100 cu.ft.	-	.23
Next	17,500 cu.ft., per 100 cu.ft.	.13	.17
Next	80,000 cu.ft., per 100 cu.ft.	.10	.12
Next	1,900,000 cu.ft., per 100 cu.ft.	.07	.08
Over	2,000,000 cu.ft., per 100 cu.ft.	.06	.06

The record shows that the average consumption by domestic and commercial consumers is 1,675 cubic feet per meter per month. At the present rates the charge for such consumption is \$3.00 and at the proposed rates it would be \$4.22, an increase of \$1.22, or 40.7 per cent.

^{1/} Per application as amended March 18, 1953.

Applicant also proposes an increase in its rate for irrigation service from \$.07 per 100 cubic feet of water per meter per month with a minimum metered charge of \$1 per month, to \$.09 per 100 cubic feet per meter per month with a minimum metered charge of \$1.75. The cost of one acre foot of water under the present irrigation schedule is \$30.49. Under the proposed rate such cost would be \$39.20, an increase of 28.6 per cent.

No change is proposed in the special contract rates. An increase in the combination irrigation and domestic service rate from the flat charge of \$1 per month, in addition to the monthly minimum and quantity charge for the irrigation service, to \$1.75 per month is also proposed.

Also, a flat rate of \$1.50 per hydrant per month for all municipal fire hydrant service is proposed. Fire hydrant service is furnished to Los Angeles County and the City of Torrance under contract. The presently filed rates are \$1.50 per hydrant per month on mains less than four inches inside diameter and \$2.00 per hydrant per month on mains of more than four inches inside diameter. The company has been billing most of its hydrants at the \$1.50 rate regardless of the fact that the majority of them are on mains over four inches in inside diameter. The company proposes the \$1.50 rate in order to have the filed rates conform with its present practice.

Applicant's Allegations

In support of this application applicant alleged that it had sustained severe operating losses for the years 1949 and 1950. During the years 1951 and 1952 the special contracts with large industrial consumers hereinafter discussed were negotiated, and the increases in revenues from sales of water attributable to such contracts were reflected in the net operating profit shown for the

years 1951 and 1952. It was further alleged that despite such increased revenues, and despite reductions in operating expenses effected through the change-over of power sources as noted, the net profit for the year 1952, when related to the rate base for that year, produced an inadequate and deficient rate of return. Such rate of return for the year 1953 estimated at present rates, applicant alleged, would be more deficient.

Summary of Earnings:

The following tabulation is a summary and comparison of earnings information for the year 1952 recorded, at present rates, and for the year 1953 estimated, at present and proposed rates, as submitted by applicant in its Exhibit No. 2 and by the Commission staff in its Exhibit No. 4.

SUMMARY OF EARNINGS

Item	Year 1952:		Year 1953 Estimated			
	Recorded :		at Present:			
	at Present:		Present Rates		Proposed Rates*	
	per Co.	Per FUC	Per Co.	Per FUC	Per Co.	Per FUC
Exh. #2	Exh. #2	Exh. #4	Exh. #2	Exh. #4	Exh. #4	
Operating Revenues	\$ 406,991	\$ 430,815	\$ 437,100	\$ 554,943	\$ 561,740	
Operating Expenses (excl. taxes & depreciation)	271,206	289,855	284,390	289,815	284,890	
Taxes	44,470 ^φ	48,708	55,000	115,678	121,900	
Depreciation	61,550	66,827	66,690	66,827	66,690	
Total Oper. Expenses	377,226	405,390	406,080	472,320	473,480	
Net Operating Revenue	29,765	25,425	31,020	82,623	88,260	
Rate Base	1,356,796	1,474,426	1,464,000	1,474,426	1,455,000	
Rate of Return	2.19%	1.72%	2.12%	5.60%	6.07%	

* Per application as amended March 18, 1953.
^φ Includes estimated taxes based on 1952 income.

Applicant sells water under contract at special rates to the Shell Oil Company and to the Reconstruction Finance Corporation-Rubber Reserve. During 1952 revenues from sales under these special contracts accounted for 23 per cent of applicant's gross revenues. They are in addition to sales to other regular industrial consumers. Water sales to the latter are made under applicant's regularly filed schedule of rates for general metered service. The quantity rates of such schedules in the large usage blocks apply to such industrial sales. While it is true that industrial sales, both special and regular, produce considerable revenue, it is also true that they are dependent on the continued operation of the industrial plants. The future operations of such plants are uncertain in some instances, particularly those of the Reconstruction Finance Corporation-Rubber Reserve synthetic rubber plant. These future revenue uncertainties are added to by future revenue uncertainties of irrigation sales.

The record shows that the number of irrigation customers is increasing due to the breaking up of larger farms into smaller ones but that the over-all use of water is approximately the same. Most irrigation water service is furnished to truck farmers, the quantity and quality of whose crops depend greatly on weather conditions and rainfall. The income from the sale of such crops depends upon market conditions. Both crop production and income are volatile and influence the farmers' water usage. The impact on each truck farmer of an increase in irrigation water service rates would be determined to a large extent by these unpredictable and variable physical and economic factors.

Analysis of the preceding tabulation indicates no significant differences between applicant's estimates of operating revenues, expenses, and rate base and those of the staff. The record indicates, however, that \$23,976 should be added to the staff rate base for

costs incurred by the corporation in the pending litigation in the West Coast Basin to secure its water rights.

An agreement relative to depreciation practices entered into between applicant and the Commission staff on October 16, 1952, which was approved by the Commission by its resolution dated December 9, 1952, provided for the calculation of the depreciation reserve requirement and annual depreciation expense for the year 1953 estimated, according to the straight-line remaining life method.

Financing

As of December 31, 1952, applicant's long-term debt consisted of \$825,763.91 due Dominguez Estate Company for advances to the former by the latter. Long-term debt comprised 60 per cent of applicant's capital structure and was non-interest bearing. By Decision No. 48411, dated March 30, 1953, in Application No. 34158, Dominguez Water Corporation was authorized to issue a note to Dominguez Estate Company, in the principal sum of \$898,149.56, bearing interest at the rate of 3-1/2 per cent per annum covering the amounts advanced to applicant by said Estate Company through February, 1953. The payment of the resulting interest expense of \$31,435 per year will affect applicant's income tax expense. This was not reflected in its or the staff's exhibits in this proceeding because of the recent filing of Application No. 34158 and the Commission's decision thereon which was subsequent to submission of this proceeding. Such effect, however, will be reflected in the rates being authorized herein.

Conclusions

The components of the rate of return for the year 1953 estimated as submitted in Exhibit No. 4 appear to be reasonable and are hereby adopted for the purpose of this proceeding, except that the cost of water rights and the effect of the interest expense on the note to be carried by Dominguez Estate Company hereinabove noted will be reflected in the staff's figures.

The above-adopted revenues, expenses and rate base, as further adjusted for different working cash amounts consistent with income tax accruals, results in the following comparison for the estimated year 1953 under present, proposed and hereinafter authorized rates:

<u>Item</u>	<u>Estimated Year 1953</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Operating Revenues	\$ 437,100	\$ 561,740	\$ 534,940
Operating Expenses	389,120	456,550	442,100
Net Revenue	47,980	105,190	92,840
Rate Base, Depreciated	1,496,000	1,479,000	1,479,000
Rate of Return	3.21%	7.11%	6.28%

From a review and careful consideration of the record it is evident that applicant is in need of financial relief, but that the rate of return at the proposed rates, based on the staff's showing as adjusted would be excessive. The order which follows will authorize the filing of the general meter rate proposed by applicant. The irrigation rate will remain at \$0.07 per 100 cubic feet but the minimum charge and combination flat rate charge for this service will be increased from \$1.00 to \$1.75 per month. The schedules of rates authorized by this order will increase gross annual revenues by about \$98,000. When related to the estimated results of operation for the year 1953, as hereinabove adopted, such revenues will produce a rate of return of 6.28 per cent. This rate of return is hereby found to be just and reasonable.

Operating Conditions

The record shows that about 20 miles of redwood-stave distribution pipe lines, most of which were installed in 1911, are still in operation. About one-third to one-half of these pipe lines are in poor operating condition and should be replaced. Applicant's 1953 budget and construction program provides for the replacement of about 15,000 feet of this type of pipe line. If such pipe lines were in sound condition it follows that leaks, pumping costs, and costs of repairs would be substantially reduced. The increased investment in fixed capital resulting from their replacement would have some effect on future earnings but it is probable that this effect would be offset, for the most part, by reduced operating expenses. Service to consumers would be materially improved.

The company should continue with the programmed replacement of the unsatisfactory portions of redwood pipe at no less than the minimum replacement rate reflected in its 1953 budget.

Request to Change Service Area Boundaries

In its amended application applicant requested authority to change its service area boundaries and extend such boundaries into the territory delineated by the blue line on map Exhibit A. This territory comprises about one square mile. Water service has been furnished for the last three and a half years and is now being furnished therein by applicant to approximately 250 domestic consumers. Water service was formerly furnished in the area by Factory Center Mutual Water Company, a mutual water company; and North Wilmington Water Company, also a mutual water company. Each mutual water company has withdrawn from the area, and each company has requested applicant to furnish water service therein. Neither mutual water company made an appearance at the hearing.

No other public utility of like character, with which applicant might compete, furnishes waterservice in the vicinity. The territory is immediately contiguous and adjacent to applicant's present service area on the south. The record shows that applicant's sources of water supply and distribution facilities are adequate for the proposed extension of service area boundaries.

The Commission has considered applicant's request for authority to change its service area boundaries and extend such boundaries into the territory delineated by the blue line on Exhibit A attached to the application and is of the opinion that a certificate of public convenience and necessity covering such area should be granted subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate, or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

O R D E R

The above-entitled application as amended having been filed, a public hearing having been held, the matter having been submitted and the Commission now being fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that public convenience and necessity require the construction and operation of a public utility water system by Dominguez Water Corporation, a corporation, in the area delineated by the blue line on the map Exhibit A attached to the application; therefore,

IT IS HEREBY ORDERED that Dominguez Water Corporation, a corporation, be and it is granted a certificate of public convenience and necessity covering the area hereinabove described.

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

IT IS HEREBY FURTHER ORDERED as follows:

1. a. That applicant be and it is authorized to file in quadruplicate with this Commission after the effective date of this order, the schedules of rates shown in Exhibit A attached hereto, and on not less than five days' notice to the Commission and the public, to make such rates effective for service rendered on and after May 15, 1953.
 - b. That applicant shall file in quadruplicate with this Commission within thirty days after the effective date of this order, rules and regulations and four copies of a tariff service area map, in conformity with the Commission's General Order No. 96.
 - c. That applicant shall file within forty days after the effective date of this order four copies of a comprehensive map drawn to an indicated scale not smaller than 600 feet to the inch, delineating by appropriate markings the various tracts of land and territory served, and the location of various properties of applicant.
 - d. That applicant's presently filed tariffs be cancelled on the date the rates and rules and regulations hereinabove authorized become effective, respectively.
2. That applicant shall review annually the accruals to depreciation reserve which shall be based upon spreading the original cost of the plant, less estimated net salvage, and less depreciation

reserve, over the estimated remaining life of the property. The results of these reviews shall be submitted annually to the Commission.

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

Dated at San Francisco, California, this 28th day of April, 1953.

R. J. [Signature]
President.

Harold D. [Signature]

[Signature]

[Signature]

Commissioners.

EXHIBIT A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

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

TERRITORY

Throughout the authorized service area comprising approximately 26 square miles of unincorporated territory lying south of the City of Los Angeles, north of the City of Wilmington, east of the City of Redondo Beach, and west of the Los Angeles River, Los Angeles County.

RATES

Quantity Rates:		Per Meter Per Month
First	600 cu.ft. or less	\$ 1.75
Next	1,900 cu.ft., per 100 cu.ft.23
Next	17,500 cu.ft., per 100 cu.ft.17
Next	80,000 cu.ft., per 100 cu.ft.12
Next	1,900,000 cu.ft., per 100 cu.ft.08
Over	2,000,000 cu.ft., per 100 cu.ft.06

Minimum Charge:

For 3/4-inch meter, or smaller	\$ 1.75
For 1-inch meter	3.00
For 1 1/2-inch meter	5.50
For 2-inch meter	8.00
For 3-inch meter	15.00
For 4-inch meter	23.00
For 6-inch meter	40.00
For 8-inch meter	60.00
For 10-inch meter	80.00
For 12-inch meter	110.00

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

EXHIBIT A
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Schedule No. 2

IRRIGATION SERVICE

APPLICABILITY

Applicable to all irrigation metered water service, except combination domestic and irrigation service.

TERRITORY

Throughout the authorized service area comprising approximately 26 square miles of unincorporated territory lying south of the City of Los Angeles, north of the City of Wilmington, east of the City of Redondo Beach, and west of the Los Angeles River, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
Per 100 cu.ft.	\$0.07
Minimum Charge:	
All meters	\$1.75

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

SPECIAL CONDITIONS

1. An application for irrigation service shall be filed by the consumer with the Company setting forth the conditions of service requested and the proposed use of water.

2. The size of the meter for irrigation service shall not be greater than that reasonably necessary to furnish service to the area to be irrigated.

EXHIBIT A
Page 3 of 4

Schedule No. 3

COMBINATION DOMESTIC AND IRRIGATION SERVICE

APPLICABILITY

Applicable only as follows:

1. Where combination domestic and irrigation service has been rendered prior to the effective date hereof;
2. Where irrigation service rates are applicable;
3. Where it is impracticable for the company to install a separate domestic service meter.

TERRITORY

Throughout the authorized service area comprising approximately 26 square miles of unincorporated territory lying south of the City of Los Angeles, north of the City of Wilmington, east of the City of Redondo Beach, and west of the Los Angeles River, Los Angeles County.

RATES

	<u>Per Service</u> <u>Per Month</u>
A flat rate in addition to the monthly minimum charge for irrigation metered service	\$1.75

Schedule No. 4

FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all fire hydrant service.

TERRITORY

Throughout the authorized service area comprising approximately 26 square miles of unincorporated territory lying south of the City of Los Angeles, north of the City of Wilmington, east of the City of Redondo Beach, and west of the Los Angeles River, Los Angeles County.

RATES

	<u>Per Hydrant</u> <u>Per Month</u>
For all hydrants	\$1.50