

**ORIGINAL**

Decision No. 72848

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )

CONSERVATIVE WATER COMPANY  
and CITY OF LOS ANGELES and  
DEPARTMENT OF WATER AND POWER  
OF THE CITY OF LOS ANGELES

Application No. 49429  
(Filed June 2, 1967)

for an Order authorizing the sale  
of certain properties of  
Conservative Water Company

O'Melveny & Myers, by Lauren M. Wright, for applicant.  
Gillmore Tillman, for City of Los Angeles; Carl H. Zeise, for City of South Gate; and R. W. Russell, by K. D. Walpert, for Department of Public Utilities and Transportation, City of Los Angeles; interested parties. Edward C. Crawford and Chester O. Newman, for the Commission staff.

O P I N I O N

By this application Conservative Water Company (Conservative) seeks authority pursuant to Section 851 of the Public Utilities Code to sell its water system (except water rights) to the Department of Water and Power (DWP) of the City of Los Angeles (City). The sales price according to the proposed agreement, copy of which is attached to the application as Exhibit C, is \$938,700<sup>1/</sup>, subject to certain adjustments provided in the agreement. City joined in the application and

---

<sup>1/</sup> Applicant's net book cost as of December 31, 1966, was \$958,301.55.

A. 49429 - SW /GF \*

submitted to the Commission's jurisdiction solely to concur in the application.

An ex parte order granting the application was sought by the parties. In view of the probable impact of the differential in applicant's rates and the City's rates for service both within the city limits and outside the city limits which would substantially affect Conservative's customers, public hearing was held on July 5, 1967, in the community of Watts, Los Angeles County. About 120 customers appeared and the majority of those receiving service within the Los Angeles city limits favored the sale, whereas the majority of those customers receiving water service in the surrounding county area opposed the sale because of the magnitude of the proposed DWP rates applicable to them. Conservative had been directed by the Commission on June 21, 1967, to mail notices of the hearing to all customers, but the record shows that some customers did not receive a notice (probably due to faulty addressing or addressing unsatisfactory to the post office, since the company's billing addressograph machine was used). The addressograph plates contain the customer account number and the address of the property owner and the person responsible for the payment of the water bill. In those instances where two addresses appeared, the post office would have rejected them. Notices of the hearing were not received by customers until July 1 or July 3 due to delays in addressing and printing. A newspaper release was issued by the Commission to all newspapers in the area and legal notice was published.

A. 49429 - SW/gf \*

The record shows that the Watts Star Review newspaper of Thursday, June 29, 1967, carried a front page two-column announcement of the hearing. Nevertheless, the Commission, on July 20, 1967, notified some 8,500 customers by a mailed postcard that any interested customer who did not attend the hearing might write the Commission on or before July 26, 1967, and express his comments on the sale. About 160 responses were received; all have been given careful consideration. The responses corroborated the views expressed at the hearing, except that customers receiving service in the City of South Gate requested service by that city's water department.

By Decision No. 70395, dated March 1, 1966, in Application No. 47708, Conservative's request for a general rate increase was granted. It was noted therein that on December 23, 1965, the Los Angeles City Council adopted a resolution requesting DWP to enter into negotiations with Conservative for the purpose of acquiring Conservative's existing facilities within the boundaries of the City of Los Angeles so that residents of the Watts statistical area of the City could have their water supply provided through City-owned facilities. It was further noted in said decision that many of the customers protesting Conservative's rate increase application expressed a strong desire for "city water" because they believed it to be more potable than and not as hard as the water supplied by Conservative. Clear support for their position was not found on the record, and a tabulation in said decision showed that city rates were higher than either Conservative's

present or proposed rates for all quantities of consumption within the city limits.

By Decision No. 70395, supra, the Commission directed Conservative to submit a study of the methods and costs of improving the quality of water served since it was evident that, by the use of the production from Conservative's wells, customers were receiving excessively hard water. Said report was filed on July 18, 1966, and after study by Commission staff hydraulic engineers, proceedings were reopened by Decision No. 71408, dated October 11, 1966, and further hearing was held on November 9, 1966. Then, by Decision No. 72006, dated February 15, 1967, Conservative was directed to utilize Metropolitan Water District (MWD) water in a 70-30 percent ratio which would produce water of acceptable hardness, probably in the range of 200-250 parts per million of hardness. It was noted in said decision that negotiations between Conservative and City, for the purpose of acquiring the former's existing facilities within City's boundaries, had not resulted in any effective action or negotiations.

A Petition to Reopen the Proceedings, because of its apparent inability to comply with Decision No. 72006, was filed by Conservative on March 21, 1967, and is pending. A report of an investigation of said petition by Commission staff hydraulic engineers, mailed to all appearances in Application No. 47708 on May 23, 1967, shows that it would be at least 18 months before MWD could supply Conservative with 100 percent softened water through its two service connections with the Middle Cross feeder.

In the meantime, however, filtered water is being delivered, in the ratio of 30-70 percent. The record on the instant proceeding shows that Conservative has not increased its purchases from MWD and had not reduced its well pumping to the 70-30 percent ratio ordered by the Commission. The staff investigation of the petition also shows that it would be necessary to increase Conservative's rates by approximately 6.5 percent to compensate for increased purchases of filtered MWD water, and when softened and filtered water became available to Conservative, it would be necessary to increase rates by an additional 5.9 percent.

On May 31, 1967, the contract, Exhibit C, was negotiated and approved by Conservative's officers and the City of Los Angeles.

The record herein shows that if the contract were executed and the transfer were granted, DWP would construct a transmission line from MWD's Palos Verdes feeder in Avalon Boulevard, approximately one and one-half miles west of Conservative's service area, and would immediately furnish softened and filtered MWD water to Conservative's present customers, both inside and outside the Los Angeles city limits; some four customers in the City of Lynwood; and about 150 customers in the City of South Gate. The record further shows that DWP has budgeted expenditures of \$1,300,000 over the next five years to improve the water system throughout Conservative's present service area and to bring it up to citywide standards; there would be a disparity of approximately 23 percent for customers within the city between Conservative's present rates as authorized by Decision No. 70395,

dated March 1, 1966, supra, and DWP's present rates, and a disparity of about 84 percent for Conservative's customers outside the city limits; DWP's rates are authorized by a city ordinance; no disparity in rates for service outside the city limits is required by the city charter, but it is recommended to the City Council by DWP's general manager; the disparity outside the city limits is the result of the application of a 1.5 factor to DWP rates inside the city limits; such factor is not supported by any rate or cost of service study; and the factor has been in effect since the year 1924.

The instant record shows that Conservative's superintendent has become ill and resigned; office help and outside field employees are difficult to obtain; DWP field men are assisting in Conservative's operations in anticipation of the take-over by DWP; and it has been and will continue to be difficult for Conservative to maintain operations.

The City of South Gate has offered to purchase Conservative's present water system within South Gate's boundaries, and South Gate's City Administrator was authorized by his City Council to so testify.

Based on the evidence, the Commission finds that:

1. Conservative Water Company has been furnishing water service in south central Los Angeles County since the year 1904. Commission records disclose that, until recently, redwood pipe was utilized in the water system; this has now been completely replaced by cast iron, standard screw or welded casing steel, and cement asbestos pipe. The service area, which is nearly fully occupied, comprises territory lying generally east of Central Avenue, south of Firestone Boulevard, west of Alameda

Street, and north of 116th Street, as shown on the map, Exhibit No. 2. The total number of customers exceeds 8,500, of whom about 65 percent are in the yellow area within the City of Los Angeles and the balance, or about 35 percent, are in the blue or County area, except four customers in the City of Lynwood and some 150 customers in the City of South Gate.

2. Conservative's first increase in rates was granted in August 1960; another increase was granted in 1963; and the present rates were established in March 1966. A further increase in rates would be required to compensate for the additional costs of purchasing 70 percent of Conservative's requirements from Metropolitan Water District. Such water would be filtered and softened, but would not be available earlier than approximately 18 months hence.

3. Conservative and the City of Los Angeles Department of Water and Power entered into an agreement on May 31, 1967, for the sale by the former and the purchase by the latter of the former's existing water system inside and outside the city limits for \$938,700 subject to certain adjustments. Conservative's net book cost and net original cost as of December 31, 1966, amounted to \$958,301.55. All of Conservative's production, transmission and distribution facilities are proposed to be sold and purchased, except water rights. The facilities are so interconnected within and without the city limits as to render their severance economically unfeasible. Some of Conservative's distribution mains are paralleled by City mains.

4. Conservative's present operations are difficult to maintain.

5. DWP proposes to build a transmission line and connect the present Conservative water system to the Palos Verdes feeder of MWD and to deliver softened and filtered water to the Conservative area, immediately. No Conservative well water would be produced or delivered by DWP.

6. DWP has budgeted \$1,300,000 over the next five years for improvements to Conservative's system.

7. DWP's rates for service inside the city limits, affecting approximately 65 percent of Conservative's present customers, are about 23 percent higher than Conservative's present rates; and would be 16.5 percent higher if Conservative were compensated for the additional costs of purchasing filtered MWD water; and would be 10.6 percent higher to compensate for the additional cost to Conservative of purchasing softened MWD water on a 70-30 percent ratio.

8. DWP's rates for water service outside the city limits, affecting approximately 35 percent of Conservative's present customers, are about 84 percent higher than Conservative's present rates; would be 77.5 percent higher if Conservative were compensated for the additional costs of purchasing filtered MWD water; and would be 71.6 percent higher to compensate for the additional costs to Conservative of purchasing softened MWD water on a 70-30 percent ratio.

9.a. The general preference of Conservative's present customers within the city limits is for service by DWP even though at a slightly higher price; the general preference of Conservative's customers receiving water service outside the city limits is for



continuance of Conservative service with a Commission requirement that such service be brought up to standard especially as to quality of water hardness and elimination of tastes, odors and discoloration. South Gate customers preferred South Gate's water department service to service by DWP if transfer were authorized.

b. No study of any differential in costs of providing water service inside the Los Angeles city limits and outside the city limits has been made by DWP; maintenance of any such differential is not required by the Los Angeles city charter; recommendation of water rate levels, inside and outside the Los Angeles city limits, is made by the DWP to the city council which makes them effective by city ordinance.

It would appear that the making of a study to justify the existence and perpetuation of any differential in water rates for service inside or outside the Los Angeles city limits would be in the public interest looking toward possible substantial reduction or complete elimination of such differential in the Watts District served by Conservative Water Company.

c. The City of South Gate has offered to purchase Conservative's present water system within South Gate's city limits from DWP.

d. DWP would provide superior water service to the Watts District. Its construction, maintenance and operating crews are experienced; it would immediately provide ample quantities of softened, filtered, potable water thereby eliminating the need for water softeners and bottled water; and it would employ its

broad financial resources to bring the Conservative Water Company's present water system up to citywide standards, which are excellent. Transfer of customers' deposits is provided for in the sales and purchase contract.

The Commission concludes that, despite the existing rate disparities, granting of the application and authorization of the sale and transfer are not contrary to the public interest.

The Commission strongly recommends to the Department of Water and Power and the City of Los Angeles that the justification, existence and maintenance of the 1.5 factor rate differential for service outside the City in the Watts District be studied looking toward substantial reduction or possible elimination, in the public interest, of such differential factor.

Because of Conservative's difficulties in maintaining operations, the public interest requires that the order which follows be made effective on its date.

O R D E R

IT IS ORDERED that:

1. This application is granted, and Conservative Water Company is authorized to sell to the City of Los Angeles, Department of Water and Power, its water production, transmission and distribution facilities (except water rights) as described in the Agreement of Purchase and Sale, dated May 31, 1967, attached to the application as Exhibit C.
2. When service by the Department of Water and Power has been effected to all customers of Conservative Water Company, and

A. 49429 - SW

all property, except water rights, has been transferred, Conservative shall notify the Commission in writing thereof, and shall then stand relieved of its obligations as a public utility.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 1st  
day of AUGUST, 1967.

[Signature]  
President

[Signature]

[Signature]

[Signature]

[Signature]  
Commissioners