

**ORIGINAL**

Decision No. 74249

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
MALIBU WATER COMPANY, )  
a corporation, for authorization to )  
increase rates for water service. )

Application No. 49355  
(Filed May 5, 1967)  
(Amended October 26, 1967)

(For appearances, see Appendix A.)

O P I N I O N

By this application, as amended, Malibu Water Company seeks authority to increase its rates for general metered service and irrigation service by a gross annual amount of \$140,000 based on its estimates of operations for the year 1967 as shown in its revenue requirement study, Exhibit No. 8. According to the Commission staff report on the results of applicant's operations for the years 1967 and 1968 estimated at present and proposed rates, Exhibit No. 9, the gross annual increase would amount to \$147,000 based on 1968 operations. The applicant's estimates would represent an increase of 41 percent over the revenues which would be produced by the present rates.

Public hearings were held before Examiner Warner on November 7, 8 and 9, and 13 and 14, 1967, at Malibu. About 100 customers attended the hearings and many of them protested individually and for groups not only against the increase in rates and its magnitude, but complained of insufficient water

supplies, especially during the latest Malibu fire in October, 1967, just preceding the hearings, and water pressures, some excessive, but mostly deficient. Others complained of lack of attention to service calls and inaccurate and slow billing practices, incorrect bills, inattention on the part of office and service personnel and the management to complaints, improper street maintenance, quality and hardness of water, taste and odor, and inattention to pumping and well structures. Petitions containing nearly 1,000 names were filed protesting the service and the proposed rate increase. One customer complained that his annual water bill for an ordinary small two-bedroom house, two baths and two people was \$204. His property tax on \$11,550 assessed value was \$913.85, including \$171.52 water agencies and flood control - and related taxes.

The record comprises 17 exhibits and 651 pages of testimony from 24 public, 3 utility and 2 staff witnesses.

The matter was submitted for decision subject to the receipt of late-filed exhibits, which were received by December 11, 1967.

#### Motions

Counsel for about a dozen property owners' associations moved that the applicant be directed to submit a study of its ground water supplies, and their availability for greater use. He also moved that applicant be directed to investigate the basis of the rates set by the Los Angeles County Board of Supervisors for water purchased by applicant from Los Angeles County Waterworks District No. 29 (District 29).

Another attorney, objecting on behalf of himself in a brief filed December 4, 1967, contended (1) that no rate increase is justified; and (2) that the application should be denied further and altogether; or (3) in the alternative, that consideration of the application be deferred pending a full investigation of the relationship between the applicant and its controlling parent corporation, the Marblehead Land Company.

Each of the motions will be dealt with hereinafter.

General Information and Operations

Applicant's operating and financial problems have been, are, and will continue to be manifold. Although the coastal area is scenic, its hydrology is bad. Ground water sources of supply have been and are unreliable, both in quantity and quality. Cost of water purchased and power costs comprise 56 percent of applicant's operating expenses; and, together with payroll, total 84 percent of such expenses.

Domestic and commercial general metered water service is furnished to approximately 2,300 customers, ranging from large and small one and two-acre estates and ranches to Malibu Colony beach homes, beach, vacation and full-time residences, schools, churches, Hughes Aircraft Research Laboratories, and stores and other commercial establishments--nearly all with relatively high water usage requirements. Irrigation service in Malibu Canyon is furnished to commercial flower gardens and other agricultural uses.

The service area, all in unincorporated territory of Los Angeles County, is 19 miles long extending from Los Flores

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Canyon at the east, along the Pacific Ocean nearly to the Ventura County line, west of Nicholas Canyon. The width of the service area, comprising 70 miles of pipelines throughout 40 square miles of territory, does not exceed 2 miles; its height ranges from sea level to about 800 feet. The figures A through E of Exhibit No. 8 are maps of the distribution system which also show the boundaries of Rancho Topanga Malibu Sequit. Marblehead Land Company, whose predecessors owned the rancho, now owns about 1,000 acres of undeveloped land within applicant's service area, worth probably \$20,000,000, and about 4,000 acres of largely inaccessible and non-developable land outside of the water company's service area probably worth \$40,000,000, all within the boundaries of Los Angeles County Waterworks District No. 29, established on September 29, 1959, and adjacent to Las Virgenes Municipal Water District (Las Virgenes) on the south and coastward side thereof. As may be observed on said maps the distribution system is divided into 11 operating segments.

Applicant has 10 employees, i.e., a general manager, his secretary and a part-time office girl, a superintendent, and six field men. Marblehead's vice president, its treasurer, and its chief engineer furnish regular services to applicant through a management services contract hereinafter discussed. Marblehead-Malibu's president also devotes considerable time to applicant's affairs.

Since 1962, applicant's well water supplies have been augmented by and nearly entirely substituted with purchases of water from District 29, which, with proceeds from the sale in

1959 and 1961 of \$7,860,000 of public bonds, installed a 30-18-16-inch pipeline from MWD's Charnock plant in Culver City through Santa Monica and up the coast line to Decker Road near the Ventura County line. The water purchased by District 29 from West Basin Municipal Water District (West Basin), a constituent agency of MWD, is delivered to applicant through 11 connections along this line. The water is purchased by District 29 from West Basin at the rate of \$43.30 per acre-foot, and is sold to applicant at the rate of about \$99 per acre-foot. District 29 furnishes water service to about 900 individual customers and five other utilities in the Topanga Canyon area, for a total of about 2,500 customers. Said District, along with a total of 17 County waterworks districts, is governed by the Los Angeles Supervisors, under the immediate direction of the county engineer.

There are 22 active and three inactive booster stations and 3,000,000 gallons of storage in 24 active reservoirs on applicant's system. Irrigation service is furnished to commercial agriculturalists, including husbandry, in Malibu Canyon only, where the former source of water supply was water impounded behind Malibu Dam, which became inoperative in 1963; the transmission line therefrom having been destroyed by floods.

Applicant's seven wells have become generally inoperative due to poor production and total dissolved solids in excess of amounts permitted by the State Department of Public Health. The wells are also subject to salt water intrusion during drought periods. They are now utilized to a minor extent and also for emergency and standby purposes, and applicant estimated that 100 percent of its water requirements would be procured from

District 29 in 1967, although Commission staff engineers estimated that possibly 2-1/2 percent for 1967 and 2 percent for 1968 could be procured from well sources. Applicant's estimated cost of water production from wells is \$30 per acre-foot.

Water sold for agricultural purposes is discounted in price by MWD at \$16 per acre-foot. For the fiscal year 1968-1969 said agricultural discount will be \$18 per acre-foot and the cost of MWD water to District 29 for domestic purposes will increase to \$46 per acre-foot, plus West Basin's 30 cents per acre-foot surcharge.

The service area has been zoned by the Los Angeles Supervisors and many deed restrictions on lot sizes and property uses will expire in 1970. Malibu's treasurer testified that by 1980 the population of the service area would increase from its present number of 13,000 to 50,000 and by 1990 to 100,000. He stated that applicant would need about \$4,000,000 of additional financing between now and 1980 to meet projected growth.

Immediately, a large-scale development is being promoted by Marblehead in North Winter Mesa, plus a golf course comprising 125 acres; housing and condominium in Zuma Canyon are in the planning stages for 1970, and a 300-unit, 90-acre, trailer park on Point Dume will commence sales at the end of 1968 over a projected three-year period.

The Adamson Company, a family partnership, owns Marblehead, which in turn owns all of applicant's capital stock. The holding company also owns Yerba Buena Water Company, a public utility water corporation whose service area is in Ventura County beyond the west end of applicant's service area in Los Angeles County at Decker Road and the production facilities of Adohr Farms

and Artesian Water Company, a nonutility, non-water purveyor, and several minor family corporations.

The record shows that Marblehead has made substantial advances to applicant either for construction and installation of water system facilities in lands developed by Marblehead, or for other capital additions, or to defray operating costs.

Effective March 1, 1966, applicant entered into a management agreement with Marblehead to pay \$2,300 per month for all management services, all accounting services, ordinary and necessary in the regular course of business, together with book-keeping, including customer accounting, assistance in hiring and advising personnel, negotiating contracts, assisting in financial negotiations with banks and other lending institutions, and other services enumerated in Exhibit 8-B. For rate making purposes, applicant reduced the fee to \$8,500 for the year 1966, and increased this amount to \$11,100 in its estimate for 1967. The Commission staff, in Exhibit No. 9, utilizes the former amount.

#### Rates

Applicant's present rates for general metered service were authorized by Decision No. 66234, dated October 29, 1963, in Application No. 43579 and became effective January 31, 1964.

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The following tabulation compares the present general metered service rates with those proposed in the application, and with those authorized hereinafter:

General Metered Service

Quantity Rates	Per Meter Per Month		
	Present Rates	Proposed Rates	Authorized Rates
First 500 cu.ft. or less.....	\$ 3.40	\$ 4.80	\$ 3.70
Next 1,500 cu.ft., per 100 cu.ft. ..	.53	.75	.57
Next 3,000 cu.ft., per 100 cu.ft. ..	.46	.65	.51
Over 5,000 cu.ft., per 100 cu.ft. ..	.38	.54	.42

Minimum Charges

For 5/8 x 3/4-inch meter.....	\$ 3.40	\$ 4.80	\$ 3.70
For 3/4-inch meter.....	5.00	7.00	5.50
For 1-inch meter.....	7.50	10.00	8.25
For 1½-inch meter.....	15.00	20.00	17.50
For 2-inch meter.....	22.00	35.00	25.00
For 3-inch meter.....	40.00	60.00	44.00
For 4-inch meter.....	60.00	90.00	65.00
For 6-inch meter.....	100.00	140.00	110.00

The following tabulation is a comparison of typical billings under applicant's present and proposed rates for general metered service, and the authorized rates for such service:

Rate Comparison

General Metered Service

monthly	Present Rates	Proposed Rates	Proposed Increase Amount	Proposed Increase Percent	Authorized Rates	Authorized Increase Amount	Authorized Increase Percent
0	\$ 3.40	\$ 4.80	\$ 1.40	41.2	\$ 3.70	\$ .30	8.8%
500	3.40	4.80	1.40	41.2	3.70	.30	8.8
1,000	6.05	8.55	2.50	41.3	6.55	.50	8.3
1,500	8.70	12.30	3.60	41.4	9.40	.70	8.0
2,000	11.35	16.05	4.70	41.4	12.25	.90	7.9
3,000	15.95	22.55	6.60	41.4	17.35	1.40	8.8
5,000	25.15	35.55	10.40	41.4	27.55	2.40	9.5
10,000	44.15	62.55	18.40	41.7	48.55	4.40	10.0
20,000	82.15	116.55	34.40	41.9	90.55	8.40	10.2



The charge for a typical residential monthly consumption of 2,000 cubic feet at the rates authorized herein will be \$12.25, an increase of \$.90 or 7.9% over the \$11.35 charge at the present rates.

Applicant's present irrigation service rates were authorized by Decision No. 71803, dated January 4, 1967, in Application No. 48586. The present, proposed and authorized irrigation service rates are set forth as follows:

Irrigation Service

		<u>Per Meter Per Month</u>		
		<u>Present</u>	<u>Proposed</u>	<u>Authorized</u>
		<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
<b>Monthly Quantity Rates:</b>				
First	500 cu.ft. or less .....	\$ 3.40	\$ 4.80	\$ 3.70
Next	1,500 cu.ft., per 100 cu.ft. ..	.53	.75	.57
Next	3,000 cu.ft., per 100 cu.ft. ..	.46	.65	.51
Over	5,000 cu.ft., per 100 cu.ft. ..	.348	.508	.379
<b>Annual Minimum Charges:</b>				
For	5/8 x 3/4-inch meter .....	\$ 40.80	\$ 57.60	\$ 44.40
For	3/4-inch meter .....	60.00	84.00	66.00
For	1-inch meter .....	90.00	120.00	99.00
For	1½-inch meter .....	180.00	240.00	210.00
For	2-inch meter .....	264.00	420.00	300.00
For	3-inch meter .....	480.00	720.00	528.00
For	4-inch meter .....	720.00	1,080.00	780.00
For	6-inch meter .....	-	1,680.00	1,320.00

Since irrigation service is now supplied from MWD sources, a special condition limiting the availability of irrigation water service for agricultural purposes defined by MWD, in order to qualify for the irrigation discount, is proposed. Applicant's present Schedule No. 2, Irrigation Service, is applicable only to the Malibu Canyon area and is not proposed to be applicable systemwide since it would be too difficult to administer.

Earnings

Exhibit No. 3 contains a summary of applicant's earnings at the present rates for the year 1966 recorded and adjusted, and for the year 1967 estimated at present and proposed rates. The following tabulation summarizes the 1966 earnings data at present rates:

Summary of Earnings - 1966  
(Per Co., Ex. No. 8, Pg. 49)

Item	Year 1966 - Present Rates	
	Recorded	Adjusted
Operating Revenues	\$ 338,812	\$ 323,260
Operating Expenses	300,849	251,910
Depreciation	47,980	38,760
Taxes	30,247	26,210
Subtotal	\$ 379,076	\$ 316,880
Net Operating Revenues	\$ (40,264)	6,380
Rate Base	\$1,194,200	\$1,142,300
Rate of Return	(3.37%)	0.56%

( ) Red Figure

This tabulation illustrates the radical adjustments made by applicant to recorded data, especially in revenue accounts for temperature and precipitation normalization, and in operating expense accounts, among other things, to reflect a reduction of administrative salaries and management service fees by about \$22,000. As shown in the tabulation, the total effect of adjustments made was to reduce recorded operating expenses by about \$49,000, and to show net operating income of \$6,380 instead of a recorded loss of \$40,264.

Exhibit No. 9 contains a summary of earnings comparison between the data submitted by applicant and the staff for the year 1967 estimated at present and proposed rates, and data submitted by the staff for the year 1968 estimated at present and proposed rates. Such data is set forth as follows:

Summary of Earnings  
(As shown in P.U.C. Ex. No. 9)

		Years 1967 and 1968 Estimated					
		1967 Estimated				1968 Estimated	
		Applicant		Staff		Staff	
		Present	Proposed	Present	Proposed	Present	Proposed
Item		Rates	Rates	Rates	Rates	Rates	Rates
Oper. Revenues	\$	340,150	\$ 480,000	\$ 351,970	\$ 492,300	\$ 368,220	\$ 515,010
Oper. Expenses		277,600	278,640	252,800	252,800	262,500	262,500
Depreciation		41,210	41,210	41,340	41,340	43,350	43,350
Taxes		27,790	74,920	27,280	92,840	28,620	99,330
Subtotal	\$	346,600	\$ 394,770	\$ 321,420	\$ 386,980	\$ 334,470	\$ 405,180
Net Revenue		(6,450)	85,230	30,550	105,320	33,750	109,830
Rate Base		\$1,217,500	\$1,217,500	\$1,188,500	\$1,188,500	\$1,235,600	\$1,235,600
Rate of Return		(.53%)	7.0%	2.6%	8.9%	2.7%	8.9%

( ) Red Figure

The principal issues in this proceeding are as follows:

1. Differences in Estimates of Sales of Water During the Test Year 1968

The staff estimates of 1967 revenues at present and proposed rates exceed those of applicant by \$11,820 and \$12,300 primarily due to differences in estimated annual use per customer. The applicant used the year 1966 normalized for climatological conditions, whereas the staff computed its estimated revenues from applicant's water use tabulation normalized for temperature and precipitation with a three-year period as a base.

2. Availability and Utilization  
of Ground Water Supplies

As noted heretofore, applicant's ground water supplies have been, are, and the outlook is that they will continue to be, unreliable and limited. Applicant estimated that because of this condition, it would necessarily be required to rely entirely on importations of MWD water. The staff considered that possibly 2½ percent in 1967 and 2 percent in 1968 of the total requirements could be obtained from some use of applicant's seven wells.

3. Cost of Purchased Water

The major factor of applicant's expenses of operation is the nearly \$100 per acre-foot paid to District 29 for purchased water. Of the \$150,160 source of supply expenses estimated for 1968, \$85,140 represents the surcharge by District 29 over the basic cost of purchased MWD water. It is inconceivable that the reasonable cost of operating and maintaining a 30-18-16-inch gravity flow pipeline from Culver City to the Ventura County line with no related pumping, booster, or storage costs, or bond interest, or bond amortization costs, should amount to the more than \$7,000 per month surcharged. The Commission is powerless to change District 29's rates which are set by the Los Angeles County Supervisors. The record shows, however, that Marblehead and Malibu actively supported the \$7,860,000 bond issues in 1959 and 1961 since its service area was desperately lacking sufficient sources of water supply. District 29's operating costs are the result of allocations by the county engineer of the general operating costs of all 17 Los Angeles County water districts on the ratio of sales of water.

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Although applicant has made some investigation of District 29's costs and some reduction in the District's rates has been effected as a result of such investigation and negotiations, the reductions have been minimal. District has offered to review its rates for the fiscal year ending June 30, 1967, but applicant had not, as of November 1967 pursued such review. Further, applicant has made no formal representation to the Los Angeles County Supervisors. The result is that applicant now is impelled to burden its customers with one of the highest costs of water in Southern California.

Although Las Virgenes Municipal Water District abuts applicant on the north, importation of water from that source, if it were available, even at lower cost (possibly in the neighborhood of \$56 per acre-foot), would still leave property owners with District 29's bond interest and amortization costs to pay. Applicant's vice president testified that it would be to Marblehead's advantage if District 29 were the exclusive water purveyors in applicant's service area, if water rates were lowered as a result thereof.

The reasonableness of District 29's total surcharge of some \$85,000, purportedly representing District's "operating" costs,

is also difficult for the Commission to accept, and such charges should be further investigated by applicant and better substantiated by District.

4. Maintenance Expenses

Applicant's estimate reflected a sharp increase over the trend established in previous years for these expenses, whereas the staff estimate reflected a normal growth trend and included normalization of meter maintenance expenses.

5. Uncollectibles

Applicant's estimate of customer accounting and collecting expenses for 1967 exceeds that of the staff by \$3,020 due primarily to the staff's lower estimate for uncollectibles which latter reflects improved follow-up procedures on delinquencies and collection of deposits allowed by its rules. The record shows that as much as a four-months' in advance deposit may be required by applicant of customers. The record further shows that many of applicant's customers are vacationers or short-term residents, a disproportionate number of whom have left the area with delinquent bills. The record further shows that applicant has been lenient and lax in requiring minimum deposits.

6. Administrative Salaries

Applicant's 1967 estimate of \$32,800 for administrative salaries includes a \$7,236 increase over 1966 recorded and a \$5,590 increase over 1966 adjusted amounts. The staff's 1967 and 1968 estimate of administrative and general salaries is \$18,000, which the staff contended was adequate for a utility of this size and character.

7. Management Service Contract Fees

Recorded management fees of \$20,825 in 1966 were adjusted to \$8,500 by applicant after reclassification of \$990 to customer accounts and \$1,800 to administrative and general salaries. Applicant increased the management fee in its estimate for 1967 by \$2,600 to \$11,100. The staff's estimate for 1967 and 1968 for outside services was \$8,500; the amount used by applicant for 1966 adjusted.

8. Administrative and General Expenses Transferred-Credit

Applicant's 1967 estimate of \$20,600 for administrative expenses transferred to capital is a 21.5 percent overhead charge. The record shows that the four-year average of capitalized overheads was 14.1 percent, which the staff applied to average plant additions in 1967 and 1968. This resulted in a staff estimate of \$15,130.

9. Advances by Marblehead

By Decision No. 66234 in Application No. 43579, applicant was permitted to transfer an amount of \$231,370 from contributions

in aid of construction to capital surplus with a recommended proviso in the decision that such transfer not necessarily be construed as applicable to a determination of the rate base in that proceeding. The amount transferred later was \$226,571. Rate base determination in Decision No. 66234 reflected the transfer to surplus. In the instant proceeding this amount again has not been treated as a contribution in aid of construction and has not been deducted from fixed capital in the staff's estimated 1967 or 1968 rate bases.

10. Rate of Return

Applicant sought a flat 7.0 percent rate of return on its estimated rate base of \$1,217,500 for the year 1967. Applicant's 1967 estimated rate of return components included, among other things, its cost of water at approximately \$100 per acre-foot; its adjusted administrative salaries and management fee; utilization of a percentage of 21.5 percent of average plant additions to capitalize administrative expenses; straight line depreciation for income tax purposes; and inclusion of Marblehead's contributions in fixed capital in its rate base.

The staff recommended a 6 percent rate of return on its 1968 rate base of \$1,235,600.

The staff engineering estimate of results of operations for the year 1968 at present and proposed rates utilized a percentage of 14.1 percent of average plant additions to capitalize administrative expenses.

11. Service Complaints

Exhibit No. 1 is a report of an investigation by applicant of customers' service complaints. Some 17 service complaints,



lodged at the hearings of November 7 through 14, were investigated by applicant accompanied by a Commission staff engineer. The results of the investigation vary. They illustrate that the company's past service practices have left much to be desired not only in their effectiveness, but in promptness of attention and follow-up and the meeting of minimum standards under General Order No. 103.

The Benson complaint (A) should be met to Mr. Benson's satisfaction within the standards established by General Order No. 103, if he agrees to take service under applicant's main extension rule. The altitude valve should be monitored at least weekly.

The Rudolph Smith complaint (B) regarding the size of water bills appears to be related to the magnitude of applicant's rates authorized by the Commission, caused in great measure by the high cost of water purchased from District 29.

The Nicolaysen complaint (C) and applicant's position with respect thereto are summarized in applicant's letter to Mr. Hal Dale, dated October 19, 1967, which is a part of this record. Applicant's road repair practices have not been satisfactory, and cold patches should be implemented by hot patches and machine work as soon as practicable after completion of the job which required the road excavation. There is no reason why applicant's road excavation for pipeline repairs, replacements or relocations should be inferior to those of the gas company, or any other utility.

Hydrant heads should be installed on a 6-inch main serving complainant Miller (D) at once.

With respect to complaint (E) of Rulon Smith, applicant should alert itself to providing adequate fire flows to the Smith property. However, it would not be fair policy to permit him to have a hydrant installed on District's pipeline, as he requested.

Complainant Moylan, owner and manager of Paradise Cove, a resort (F), has substantially increased his water usage for the 100 trailers on 90 acres, and a fishing resort with pier. The replacement of one 1-inch meter and one 2-inch meter, with two 4-inch meters and the increased flow, together with the increases in pipe sizes within his development, accounts for the higher water bills complained of.

The Kubovec (H), Tenn (I), Rose (J), and George (K) complaints should be easily satisfied since they refer to leaks and quality of water, primarily. A supplement to Exhibit No. 1, filed February 19, 1968, contains a laboratory report of a test of water samples taken from the Rose property. The supplement also contains a statement that it appeared that Mrs. Rose's problem had cleared up.

The Christianson complaint (M) is similar to the Benson and Nicolaysen complaints in the Sycamore Park area.

The Poole complaint (N) regarding hardness of water from Zuma Well No. 4 is not regarded as a permanent condition. It should be alleviated by the delivery of increased amounts of MWD water of satisfactory hardness.

The reports on complainants Klein (G) and Shiffrin (L) are self-explanatory, and the conditions complained of have been remedied.

The record shows that applicant has, within the last 12 months, taken steps to eliminate the causes of complaints. Billing procedures, meter reading and customer relations have greatly improved and will continue to improve through the utilization of computerized billing processes and better trained and supervised field and office personnel.

The staff recommended that applicant set up a procedure for the prompt acknowledgement and processing of informal complaints.

The Ioki and Newcomer complaints regarding irrigation service will be discussed separately.

## 12. Irrigation Service

S. Ioki, a commercial grower of geraniums, birds of paradise and gypsophila in lower Malibu Canyon, complained of low pressure and insufficient flow in his irrigation system. Exhibit No. 1 shows that with two 1-inch faucets opened, the pressure was 16 psi at a distance of approximately 500 to 600 feet from his 2-inch meter. This is inadequate and should be improved. Exhibit No. 1 also shows that the pump structures on the Ioki property are in disrepair and should either be replaced or removed.

Dr. Victor D. Newcomer, a dermatologist on the staff of the UCLA Medical Center, with property which he purchased at 3314 Serra Road in Malibu Canyon, complained that he had been refused irrigation service. His informal complaint, IC-46979-W, has been made a part of this proceeding and was the subject of testimony in Application No. 48586 to discontinue the operation of applicant's irrigation system. By Decision No. 71803, dated January 4, 1967, Malibu was authorized to discontinue irrigation service, but was ordered to file rates applicable to the sale of irrigation water from the domestic system and to make refunds to irrigation users of 26 cents per 100 cubic feet for irrigation water purchased from the domestic system during 1964, 1965 and 1966.

The record herein discloses that Dr. Newcomer purchased his property for the purpose of growing rare geraniums for resale. He obtained a commercial growers' license in April 1966, and although so disclaimed by the applicant, is entitled to irrigation service and refund pursuant to Decision No. 71803 (supra).

#### Findings

The Commission finds as follows:

1. Malibu Water Company is a public utility water corporation under this Commission's jurisdiction, furnishing water service to approximately 2,300 domestic, commercial and some irrigation customers throughout its service area which extends along the Pacific coastline from Los Flores Canyon on the east to Decker Road near the Ventura County line on the west, about 19 miles in

length and 2 miles at the most in width, with elevations from sea level to approximately 800 feet.

2. Applicant secures most of its water supply by purchases of MWD water from District 29, which purchases its water from West Basin Municipal Water District, an MWD constituent agency, at the rate of \$43.30 per acre-foot. The cost to Malibu, at its 11 connections to District 29's 30-18-16-inch gravity flow transmission line from Culver City to Decker Road, is approximately \$100 per acre-foot and will increase as MWD's announced \$3.00 per acre-foot annual increases become effective over the next five years.

3.a. District 29 is under the governorship of the Los Angeles County Board of Supervisors through the county engineer. The Supervisors set District 29's rates which reflect the effects of allocations of the general expenses of all of the 17 county water districts. The surcharge by District 29 to applicant is about \$57 per acre-foot, or about \$85,000 per year. The reasonableness of this surcharge is not established on the record in this proceeding, but the Commission is without jurisdiction to change the magnitude of the surcharge.

b. Applicant has investigated District 29's rates for water purchased by applicant and has negotiated a slight reduction with the understanding that District 29 would review its rates for the period ending June 30, 1967, and discuss its review with applicant subsequent to that date. As of November 1967, applicant had not pursued such discussions, and had made no formal representation to the County Board of Supervisors for rate relief from District 29.

4. The review of the evidence on rates and earnings data and the principal issues of this proceeding, together with the discussion of the rate of return components, all as contained in the preceding Opinion, are correct inasmuch as they represent the showing of the applicant in support of its need for financial relief and the Commission staff's report on the results of its investigation of the application.

5. Applicant is in need of financial relief, despite substantial adjustments made by it for rate making purposes to its recorded data for the year 1966 operations. The present rates for water service which have been in effect since January 1964 for domestic water service and since February 1967 for irrigation service would not have produced a reasonable rate of return for the year 1967 estimated according to the applicant's showing. Neither will they produce a reasonable rate of return for the test year 1968 as estimated by the staff, after further adjustments hereinafter adopted.

6. The rate of return which would be produced by the proposed rates is excessive.

7.a. The methods employed by the staff in estimating revenues are more precise than applicant's methods. The staff's methods are reasonable.

b. The applicant will have little use of its well sources of water supply and will not be able to rely on such sources in the future. Applicant's estimate of 100 percent usage of imported MWD water is more realistic than the staff's estimate of 2 percent of well supplies. Applicant's percentage estimate is reasonable.

c. The staff estimates of operating and maintenance expenses, adjusted for 100 percent imported water costs and elimination of well pumping and maintenance costs, uncollectibles, administrative salaries, regulatory Commission expenses amortized, and rate base, except the staff adjustment to decrease Administrative and General Expenses Transferred-Credit, are reasonable.

d. The year 1966's Administrative and General Expenses Transferred-Credit percentage should be 21 percent of average plant additions instead of the four-year average percentage of 14.1 percent utilized by the staff. The former percentage is the recorded percentage amount transferred to capital and is in fixed capital in the rate base. Said percentage is reasonable for the purpose of this proceeding. An audit and analysis of fixed capital accounts (over several past years and reconstruction of those accounts) would be required to sift out and transfer administrative overheads on a lower percentage basis.

e. Applicant should be directed to make a thorough study of administrative overheads and in the future capitalize them at a proper percentage according to instructions set forth in the Uniform System of Accounts prescribed by this Commission.

f. After making the adjustments to rate of return components heretofore set forth and found to be reasonable, a rate of return of 5.0 percent on an estimated rate base for the test year 1968 of \$1,242,400 is reasonable in view of the circumstances. The 5.0 percent rate of return reflects applicant's service record, and in particular its lack of justification for the extremely high cost of water from District 29. The applicant has not diligently pursued negotiations on this matter and only after further production effort, will the rate of return be improved. The adopted level of rate of return also takes into consideration applicant's service record which has left much to be desired, together with the management-ownership

relation between Adamson Enterprises, Inc., Marblehead Land Company and applicant heretofore set forth.

g. The adopted rate of return on rate base will equate to a 6.4 percent return on equity capital. This contrasts to the 17.1 percent return on equity which would have been produced by the rates for water service proposed in the application.

h. The following tabulation sets forth the adopted results of operations for the estimated test year 1968:

Adopted Results of Operations

<u>Item</u>	<u>Estimated Test Year 1968</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Operating Revenues	\$ 368,220	\$ 515,010	\$ 404,160
Operating Expenses	257,500	257,500	257,500
Depreciation	43,420	43,420	43,420
Taxes	28,600	98,710	41,090
Subtotal	<u>329,520</u>	<u>399,630</u>	<u>342,010</u>
Net Operating Revenues	38,700	115,380	62,150
Rate Base	1,242,400	1,242,400	1,242,400
Rate of Return	3.11%	9.29%	5.00%

8.a. Applicant has reasonably investigated the service complaints lodged at the hearings of November 7 through 14, 1967. However, the report of such investigation, Exhibit No. 1, should be supplemented by action with respect to the individual complaints set forth in Item 11 - Service Complaints, together with the staff recommendation regarding acknowledgement and processing of complaints hereinbefore set forth.

b. Dr. Victor D. Newcomer has been and is a commercial horticulturalist within the definition of applicant's tariffs,



and was and is entitled to irrigation service at the authorized rates for such service. He is entitled to the refund ordered by Decision No. 71803.

9. We find that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

10. The staff recommendation that applicant request approval of the 36-month Rockwell Manufacturing Company conditional sales contract, dated December 19, 1966, in the amount of \$41,942.56 has been satisfied by Decision No. 73540, dated December 27, 1967, in Application No. 49777.

#### Conclusions

Based on the foregoing findings, the Commission concludes that the application should be granted in part and denied in part, and that applicant should be authorized to file new schedules of rates which will produce gross annual revenues for the estimated test year 1968 of \$404,160 which is an increase of \$35,940 or 9.8 percent over the revenues which would be produced by the present rates, but \$110,850 and 21.5 percent less than the revenues which would be produced by the rates proposed in the application.

Applicant should be directed to pursue its negotiations with District No. 29 and if necessary, formally seek a reduction by the Los Angeles County Board of Supervisors of rates for water purchased by applicant from District 29. When a fair reduction of

applicant's costs of water purchased is effected, applicant's earnings should reflect a corollary improvement.

Water service to Dr. Victor D. Newcomer should be furnished to him at his properties at 3314 Serra Road in Malibu Canyon at irrigation rates, and applicant should make a refund to him of 26 cents per 100 cubic feet for irrigation water purchased by him from the domestic system during 1966.

Applicant should be otherwise ordered to carry out the service improvements outlined under Item 11 - Service Complaints and Item 12 - Irrigation Service, of the Opinion herein.

The motions of counsel for certain property owners' associations should be granted to the extent that applicant continue to negotiate with District 29 and seek purchased water rate reductions from the Los Angeles Supervisors.

The motion for dismissal or deferment of consideration of the application should be denied; appropriate and reasonable adjustments to reflect Marblehead's relationship to and ownership of Malibu having been made and adopted for rate making purposes herein.

O R D E R

IT IS ORDERED as follows:

1. The motion for dismissal or deferment of consideration of this application is denied.
2. The application is granted in part, and after the effective date of this order, Malibu Water Company is authorized to file the revised rate schedules attached to this order as

Appendix B. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

3.a. The motion of counsel for certain property owners' associations is granted to the extent that applicant shall immediately commence negotiations with Los Angeles County Waterworks District No. 29 looking toward a substantial reduction in the cost of water purchased and, in the event that such negotiations are not satisfactory, shall formally complain to the Los Angeles County Board of Supervisors and seek such substantial reduction.

b. A report on the results of such negotiation or formal complaint shall be filed in writing with the Commission every six months for the next two years, or until a satisfactory level of cost of water purchased is reached, whichever is earlier.

4. Applicant shall make a study of the proper percentage of administrative expenses to be capitalized, and shall employ such percentage in its accounting pursuant to instructions contained in the Uniform System of Accounts.

5. Applicant shall implement Exhibit No. 1, its report of investigation of complaints, by effective action with respect to each complaining customer as such action is set forth in Item 11 - Service Complaints and Item 12 - Irrigation Service, of the Opinion herein and pursuant to the findings and conclusions herein, including the setting up of a procedure for prompt acknowledgement and processing of informal complaints.

6. Applicant shall apply the depreciation rates set forth in Table 3-A of Exhibit No. 9. Until review indicates otherwise, applicant shall continue to use these rates. Applicant shall review its future depreciation rates at intervals of three years and whenever a major change in depreciable plant occurs. Any revised depreciation rates shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission and upon recognition by the Commission that the rates are acceptable, applicant shall use such revised rates in recording future depreciation.

7. In all other respects this application is denied.

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

Dated at San Francisco, California, this 18th day of JUNE, 1968.

[Signature]  
President

[Signature]  
[Signature]  
Commissioners

Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding.

## APPENDIX A

APPEARANCES

Gibson, Dunn & Crutcher, by Raymond L. Curran, for applicant.

Robert Kniffin, for Malibu West Property Owners, Malibu Township Council, Malibu Canyon P.O.A., Sycamore Park P.O.A., Louis Ragsdale, Sea Vista Drive Property Owners Association, Malibu Colony Association, Malibu Encinal Property Owners Association, Malibu Riviera One, Inc., Malibu La Costa Homeowners Association, R. O. Papkes, Income Property, Malibu Vista, Malibu Park, Point Dume, La Chusa Highlands Property Owners Improvement Association, Zuma Canyon, Paradise Cove Property Owners Association, Broad Beach Vistas; Mrs. Rudolf Bretz, for family; Mrs. Jay Dresser, for Mr. & Mrs. Jay Dresser; Herman F. Hoffman, in propria persona and for W. Perry, G. Busick, Reel, Loosen; H. A. Klein, for family; Mrs. J. Ralph Meigs, for family; William O. Moylan, for Paradise Cove Land Company; Peter S. Nicolaysen, in propria persona and for Sycamore Park Property Owners Association; Francis H. Packard, for Virginia R. Chandler; Margaret S. Rose (Mrs. Donald E.), in propria persona and for family; Mrs. Gordon Shifria, for family; Johan A. Wassenaar, for Point Dume Improvement & Recreation Association; Susumu Ioki, for Ioki Floral Products Company and Toyoshige Ioki; and Minnie E. Carter; John J. Fling; Mrs. Rosaline George; Calhoun E. Jacobson; Howard Kettering; Mrs. Ruth Kubovec; William Littlejohn; Paul F. Miller; Mrs. Rudolph Smith & Family; Mrs. Norman L. Williams; Harry R. Lee; Richard A. Perkins; Mrs. Lionel W. Pierce; and Ernest E. Price, in propria personae, protestants,

Walter J. Hinkle, for Carbon Mesa Property Owners Association; Allan Benson; William G. Poole; Rulon Smith; and Mrs. Sam B. Tonn, in propria personae, protestants and complainants.

Mrs. Clair Christianson; and Victor D. Newcomer, M.D., in propria personae, complainants. Mrs. Gordon W. Yarber, for Group of Home Owners in Ramirez Canyon; Harvey Knox; and Jack Corrodi, in propria personae, interested parties.

Edward C. Crawford and Jerry J. Levander, for the Commission staff.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all commercial, residential, business and industrial metered water service. (T)  
(T)

TERRITORY

The area adjacent to the Pacific Coast known as Rancho Topanga Malibu Sequit, and vicinity, Los Angeles County.

RATES

	<u>Per Meter</u> <u>Per Month</u>	
Quantity Rates:		
First 500 cu.ft. or less .....	\$ 3.70	(I)
Next 1,500 cu.ft., per 100 cu.ft. ....	.57	
Next 3,000 cu.ft., per 100 cu.ft. ....	.51	
Over 5,000 cu.ft., per 100 cu.ft. ....	.42	
Minimum Charge:		
For 5/8 x 3/4-inch meter .....	3.70	(I)
For 3/4-inch meter .....	5.50	
For 1-inch meter .....	8.25	
For 1 1/2-inch meter .....	17.50	
For 2-inch meter .....	25.00	
For 3-inch meter .....	44.00	
For 4-inch meter .....	65.00	
For 6-inch meter .....	110.00	

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

Schedule No. 3AM

(T)

ANNUAL METERED IRRIGATION SERVICE

(T)

APPLICABILITY

Applicable to all metered water irrigation service furnished on an annual basis.

(T)

TERRITORY

The Malibu Canyon area and those lands that could be served water from the irrigation distribution system in place on September 1, 1955.

RATES

Monthly Quantity Rates:		<u>Per Meter</u> <u>Per Month</u>
First	500 cu.ft. or less .....	\$ 3.70
Next	1,500 cu.ft., per 100 cu.ft. ....	.57
Next	3,000 cu.ft., per 100 cu.ft. ....	.51
Over	5,000 cu.ft., per 100 cu.ft. ....	.379

(I)

Annual Minimum Charge:		<u>Per Meter</u> <u>Per Year</u>
For	5/8 x 3/4-inch meter .....	\$ 44.40
For	3/4-inch meter .....	66.00
For	1-inch meter .....	99.00
For	1 1/2-inch meter .....	210.00
For	2-inch meter .....	300.00
For	3-inch meter .....	528.00
For	4-inch meter .....	780.00
For	6-inch meter .....	1,320.00

(I)

(N)

The Annual Minimum Charge will entitle the customer to the quantity of water each month which one-twelfth of the annual minimum charge will purchase at the Monthly Quantity Rates.

(Continued)

## Schedule No. 3AM

(T)

ANNUAL METERED IRRIGATION SERVICE  
(Continued)SPECIAL CONDITIONS

1. The annual minimum charge applies to service during the 12-month period commencing January 1 and is due in advance. It may be paid in two equal installments, the first installment being due and payable on January first and the second installment on July first of each year. When meters are read bimonthly or quarterly, the charge for water used in excess of the monthly allowance under the annual minimum charge will be computed by doubling or tripling, respectively, the number of cubic feet to which each block rate is applicable on a monthly basis.

2. The opening bill for service shall be one-half the established annual minimum charge for the service. Where initial service is established after the first day of January or July, the portion of such minimum charge applicable to the current period shall be determined by multiplying one-half the annual charge by one one hundred eighty-second (1/182) of the number of days remaining in the period. The balance of the initial payment shall be credited against the charges for the succeeding period. If service is not continued for at least six months after the date of initial service, no refund of the initial charges shall be due the customer.

3. Irrigation water service is available for agricultural purposes (N) defined as follows: "Agricultural purposes" shall mean the growing or raising for the purposes of commerce, trade, or industry, of agricultural products, in conformity with the recognized practices of husbandry, and produced (1) for human consumption or for the market, or (2) for the feeding of fowl or livestock produced for human consumption or for the market, or (3) for the feeding of fowl or livestock for the purpose of obtaining their products for human consumption or for the market, such agricultural products to be grown or raised on a parcel of land having an area of not less than one acre utilized exclusively therefor. (N)



Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

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

TERRITORY

The area adjacent to the Pacific Coast known as Rancho Topanga Malibu Sequit, and vicinity, Los Angeles County.

RATE

Per Month

For each inch of diameter of service connection ..... \$3.00 (I)

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. The minimum diameter for fire protection service shall be four inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
3. 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.
4. 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.
5. The utility undertakes to supply only such water at such pressure as may be available at any time through the normal operation of its system.

Schedule No. 5

(T)

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

The area adjacent to the Pacific Coast known as Rancho Topanga (T)  
Malibu Sequit, and vicinity, Los Angeles County.

RATE

Per Month

For each hydrant ..... \$1.50 (I)

SPECIAL CONDITIONS

1. Water delivered for purposes other than fire protection shall (N)  
be charged for at the quantity rates in Schedule No. 1, General  
Metered Service.

2. The cost of relocation of any hydrant shall be paid by the  
party requesting relocation.

3. Hydrants shall be connected to the utility's system upon  
receipt of written request from a public authority. The written request  
shall designate the specific location of each hydrant and, where appro-  
priate, the ownership, type and size.

4. The utility undertakes to supply only such water at such  
pressure as may be available at any time through the normal operation  
of its system. (N)