

ORIGINAL

Decision No. 74833

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
DOMINGUEZ WATER CORPORATION,
a California corporation,
for authorization to increase its
rates for water service.

Application No. 49793
(Filed November 13, 1967)

Gibson, Dunn & Crutcher, by Raymond L. Curran, for applicant.
Linda M. Adams, in propria persona and for Stan Miles and Christopher Johnson;
Francisco Bielma, in propria persona and for neighbors; Don Davis, for Dominguez Hills Homeowner Association; Agatha M. Berwanger (Mrs. C. R.), Margaret A. Buxton, Mrs. Ralph M. Mills, Mrs. Earl L. (Paula G.) Boughner, John F. Holmgren, Reid K. Coy, Phillip Fife, Clifford L. Pratt, Willis M. Tuttle, and W. R. Zappas, in propria personae, protestants.
Mathilde H. Wascher, for approximately 100 customers; and R. W. Russell, by K. D. Walpert, for Department of Public Utilities and Transportation, City of Los Angeles, interested parties.
S. M. Boikan, counsel, Edward C. Crawford, and Reginald Knaggs, for the Commission staff.

O P I N I O N

Dominguez Water Corporation (applicant or Dominguez) seeks authority to increase its rates for water service by a gross annual amount of \$329,162, or 10.9 percent, according to its estimates of operations for the year 1968. Commission staff

engineers estimated the increase would be \$331,300, or 11 percent. Of the latter amount, \$172,000 would be derived from sales to industrial customers. In 1966, they accounted for 32.8 percent of the company's recorded revenue and 56 percent of its water sales. Of the 85 industrial customers in 1966, the largest 11 accounted for 93.4 percent of the class sales, with five customers having individual use in excess of 500,000 ccf per year. Said estimated increase in revenues from sales to industrial customers for the year 1968 would be 18.1 percent; revenues from residential sales would increase \$84,700, or 6.5 percent; and revenues from business sales would increase \$52,300, or 13.2 percent.

Public hearings were held before Examiner Warner on June 5, 6 and 7, at Torrance, and on June 28, 1968, at Los Angeles. Some 17 customers protested the granting of the application because of the quality of the water which, they stated, frequently was badly discolored, odoriferous and contained sand and foreign matter such as slime or algae. They also complained that the water corroded plumbing fixtures. At the direction of the presiding officer, applicant was directed to investigate each complaint, and Exhibit No. 1 is a report on the results of such investigation. Said exhibit shows that the primary cause of bad taste, odor and discoloration is the accumulation of residue in dead-end mains and cul-de-sacs. More frequent flushing of mains without waiting for customer complaints was recommended by a Commission staff engineer who participated in the investigation of complaints. The record also shows that applicant has engaged Truesdail Laboratories, Inc., chemical consultants, to investigate and report on corrosion problems.

A petition protesting the application containing some 95 signatures and about 132 letters of protest have been received. Their receipt has been acknowledged by the Commission. Industrial customers have not entered any protests.

General Information and Operation

Applicant's predecessor was formed in February 1911 as a mutual water company, and in January 1937, the corporation was organized and incorporated. In 1950, water service was being furnished to 4,791 customers plus 130 fire hydrants, and the average number of customers for the estimated year 1968 was 24,330 plus 1,750 fire hydrants. The service area is delineated on Figure 3-2 of Exhibit No. 2 and comprises the territory south of 190th Street and Victoria Street, west of the Long Beach Freeway, north of Lomita Boulevard, Del Amo Boulevard, and Sepulveda Boulevard, and east of a point west of Anza Avenue and east of Normandie Avenue. About 6,000 customers are served in Torrance, Shell Chemical Company and Harvey Aluminum Company in Los Angeles, Grayson Controls in Long Beach, and the balance in the newly formed city of Carson and unincorporated territory of southern Los Angeles County. The service area is divided into four operating zones. Applicant also owns and operates Antelope Valley Water Company, which has acquired Rancho Green Valley Water Company and Lake Hughes Water Department in Los Angeles County, and Kernville Domestic Water Company, Inyokern Water Company, and North Edwards Water Company in Kern County.

Dominguez has six connections to the West Basin Municipal Water District (WBMWD), an agency of the Metropolitan Water District (of Southern California) (MWD). In 1966, water

purchased from WBMWD made up in excess of 63 percent of total water used. Production from applicant's 14 wells is restricted by adjudications of the West Coast and Central Basins. Under the terms of these adjudications, the company's rights to pump from the West Coast Basin were set at 8,652.4 acre-feet for the 1967 water year, and at 6,296 acre-feet from the Central Basin. Certain producers in the Central Basin do not have MWD connections or any other alternate to withdrawal from wells, and the terms of the adjudication orders provide for the establishment of a pool of water rights and provide that contributors to the pool shall be fully reimbursed for the expense of purchasing additional MWD water to cover the allocation to the pool. The Central Basin Watermaster estimated that the requirement from Dominguez would be 800 acre-feet in 1968 out of a total mandatory allocation which might be required of 1,282 acre-feet.

In November 1959, a Replenishment District was organized by the electorate of the Central and West Coast Basins to raise funds from water producers in the Basins to be used to purchase MWD water to recharge the underground basins. The replenishment assessment for the water year 1966-1967 was \$6.20 per acre-foot of water pumped.

Rates

Applicant's present rates became effective October 1, 1966, when the Commission granted an increase to offset increased direct costs for water.

The following tabulations compare present, proposed, and authorized general metered service rates. Also compared in the tabulations are total operating revenues by classes of service, and monthly average uses and billings for residential, business, public authority, industrial and irrigation customers, at present,

proposed, and authorized rates. The percentage increases authorized are also shown in the latter two tabulations:

DOMINGUEZ WATER CORPORATION

Comparison of Present, Proposed, and
Authorized General Metered Service Rates

Quantity Rates:			<u>Present</u>	<u>Proposed</u>	<u>Authorized</u> ^{**}
First	600 cu.ft., or less		\$2.29	\$2.29	\$2.29
Next	1,900 cu.ft., per 100 cu.ft.		.29	.325	.31 ✓
Next	17,500 cu.ft., per 100 cu.ft.		.24	.27	.26
Next	80,000 cu.ft., per 100 cu.ft.		.16		
Next	1,900,000 cu.ft., per 100 cu.ft.		.14		
Over	2,000,000 cu.ft., per 100 cu.ft.		.1035		
Next	480,000 cu.ft., per 100 cu.ft.			.19	.19
Over	500,000 cu.ft., per 100 cu.ft.			.13	.13

Operating Revenues at Present,
Proposed, and Authorized Rates

Item	Year 1968 Estimated				
			<u>Authorized Rates</u>		
	<u>Present</u>	<u>Proposed</u>	<u>Increase</u>		
	<u>Rates</u>	<u>Rates</u>	<u>Amount</u>	<u>Amount</u>	<u>Percent</u>
Residential	\$1,310,300	\$1,395,000	\$1,369,400	\$ 59,100	4.5
Business	395,600	447,900	425,600	30,000	7.6
Industrial	951,500	1,123,500*	1,121,400	169,900	17.9
Public Authority	100,500	110,900	110,100	9,600	9.6
Irrigation	57,000	67,900	64,900	7,900	13.9
Private Fire Protect.	55,400	55,400	55,400	-	-
Public Fire Protect.	76,700	76,700	76,700	-	-
Temp. Construction	12,500	13,500	13,500	1,000	8.0
Misc. Revenue	6,000	6,000	6,000	-	-
Rent	39,400	39,400	39,400	-	-
Other Revenue	11,000	11,000	11,000	-	-
Totals	\$3,015,900	\$3,347,200	\$3,293,400	\$277,500	9.2 ✓

Comparison of Monthly Average Uses and Billings

Class of Customer	Cubic Feet			<u>Authorized Rates</u>		
		<u>Present</u>	<u>Proposed</u>	<u>Increase</u>		
		<u>Rates</u>	<u>Rates</u>	<u>Billing**</u>	<u>Amount</u>	<u>Percent</u>
Residential	1,500	\$ 4.90	\$ 5.22	\$ 5.08	\$.13	3.7
Business	8,100	21.24	23.59	22.74	1.50	7.1
Public Authority	35,600	74.76	85.36	83.32	8.56	11.4
Industrial	651,100	944.10	1,169.12	1,162.11	217.01	22.9
Irrigation	24,000	20.11	24.00	23.04	2.93	14.6

* Does not include partial monthly billings of approximately \$23,000 which are reflected in the present and authorized rates tabulations.

** These authorized rates will be increased by 1.11 percent via a surcharge on the water billings for the duration of the Federal Income Tax 10 percent surcharge.

It will be noted that the largest dollar and percentage increases are authorized for the industrial customers to whom water under the present rates is being sold at rates below cost. The four largest industrial customers are Shell Chemical Company, Atlantic Richfield Oil Company's refinery, Shell Oil Company's Watson refinery, and Harvey Aluminum Company. Exhibit No. 9 shows that the recorded industrial sales revenues by months fluctuated widely during the years 1966 and 1967 and the first four months of 1968. Exhibit No. 2-B shows the effect of a 1,500,000 ccf increase or decrease of industrial sales on applicant's rate of return; the change in Figure 2-B-1 of said exhibit assumed a spread pro rata to the four largest customers as a group; Figure 2-B-2 of said exhibit shows the effect of a 1,500,000 ccf increase, or a 900,000 ccf decrease in sales to Shell Chemical Company, only. The latter customer purchases water either from applicant or from the Los Angeles Department of Water and Power according to water desirability shown by this customer's daily chemical analyses of water supplies available from each.

Earnings

Exhibit No. 2-A is a recomputation of results of operations showing revenues and expenses based on a review of sales to industrial customers during the calendar years 1963 through 1967 and the first five months of 1968, submitted by applicant's engineering consultants. Exhibit No. 8-A is a supplemental report on applicant's results of operations for the estimated years 1967 and 1968 at present and proposed rates, submitted by a Commission staff engineer.

The following tabulation summarizes the earnings data contained in Exhibits Nos. 2-A and 8-A:

Summary of Earnings

Item	Year 1968 Estimated			
	Present Rates		Proposed Rates	
	Per Co.	Per PUC	Per Co.	Per PUC
	Ex. 2-A	Ex. 8-A	Ex. 2-A	Ex. 8-A
Operating Revenues	\$3,008,717	\$3,015,900	\$3,337,879	\$3,347,200
Operating Expenses	1,795,217	1,791,800	1,795,217	1,791,800
Depreciation	384,110	397,000	384,110	397,000
Taxes	275,070	282,200	445,050	468,100
Subtotal	2,454,397	2,471,000	2,624,377	2,656,900
Net Operating Revenues	554,320	544,900	713,502	690,300
Rate Base	9,141,000	9,013,000	9,141,000	9,013,000
Rate of Return	6.06%	6.0%	7.8%	7.7%

There are no major disputed areas of difference between the estimated results of operations submitted by applicant and the staff. Each takes into account the annual increase of \$3.00 per acre-foot announced by MWD for water purchased by applicant. The rate for the fiscal year 1967-1968 which was \$43.30, became \$46.30 on July 1, 1968; each estimate takes into account the five percent across-the-board cost-of-living increase granted to applicant's employees, effective July 1, 1968, as shown in Exhibit No. 10; and each estimate takes into account the fact that applicant utilizes liberalized depreciation and investment tax credit in the calculation of taxes based on income, and the ten percent federal income tax surcharge enacted in July 1968. The ten percent federal income tax surcharge per PUC Exhibit No. 8-A at proposed rates amounts to \$18,800. This surcharge is scheduled to expire on June 30, 1969. The rate of return excluding this surcharge would be 7.9 percent.

Rate of Return

One of applicant's financial witnesses, its secretary and treasurer, testified with respect to Exhibit No. 2, that cost of purchased water, taxes, labor costs, and higher interest rates have effected deterioration of income; the rate of return authorized in 1964 of 6.6 percent had never been realized; and it had declined to a projected 5.96 percent for the year 1968 at present rates for water service.

Another of applicant's financial witnesses, a consulting certified public accountant, testified that a 7.5 percent return on rate base would be required to return 11 percent on common equity. He further testified that in all probability the interest rate on bonds or debt in 1969 would be between 7-1/4 percent and 7-3/4 percent. No definite debt financing requirements or plans were disclosed, although a staff financial expert termed applicant's financial structure and management to be "excellent". It is noted that two of applicant's directors are representatives of financial institutions of high standing, e.g., Eastman Dillon, Union Securities & Company, investment counselors and brokers, and Pacific Mutual Life Insurance Company, both of which market or own substantial portions of applicant's securities.

In Exhibit No. 8 a Commission staff financial expert recommended a rate of return of 6.85 percent based on 1968 estimated operations and a rate base of \$9,013,000. Said rate of return would yield 9.07 percent on equity as shown in Exhibit No. 8-B.

The staff Exhibit No. 8-A shows a decline in rate of return between 1967 and 1968 of 0.2 percent at present rates and of 0.1 percent at proposed rates, excluding trend for payroll and price of purchased water. The record shows that, according to the Commission staff engineering witness, said indicated decline would be a total of 0.8 percent at the present rates and 0.7 percent at the proposed rates, including trend for payroll and price of purchased water. With respect to the increase in price of water purchased from MWD, the record shows that the annual increase of \$3 per year per acre-foot is expected to continue into the future. This increase alone would account for approximately $.4\frac{1}{2}$ percent of the total of .7 percent future annual decline in rate of return estimated by the staff at proposed rates.

Service

The Commission staff engineering witness recommended that applicant's present 60-day main flushing program be changed to a 30-day program as a first step, and he testified that the period might have to be further lowered if satisfactory results are not obtained from his first-step recommendation.

Other Staff Recommendations

In addition to a standard depreciation accrual recommendation, the staff engineer in Exhibit No. 8 recommended that applicant be directed to obtain Commission authorization prior to entering into subdivision main extension agreements in which contributions in aid of construction are required to meet fire flow requirements of public authorities.

Findings

The Commission finds as follows:

1/ \$3 per acre-foot x 22,000 acre-feet x net after tax ratio of .5164 equals .4 percent divided by Rate Base of \$9,013,000. ✓

1. Dominquez Water Corporation furnishes water service to approximately 24,000 residential, business, industrial, irrigation, fire protection and public authority customers and in excess of 1,700 fire hydrants in Torrance, Long Beach, Los Angeles, and Carson, and in unincorporated territory of southern Los Angeles County. It and its predecessors have been in existence since 1911, and in 1950 it was furnishing water service to 4,791 customers and 130 fire hydrants.

2. Although applicant owns and operates some 14 wells with total pumping capacity of 17,200 gallons per minute, its pumping is restricted by adjudications of pumping rights in the Central and West Coast Basins. In 1966, 63 percent of its water was purchased from the West Basin Municipal Water District, an agency of the Metropolitan Water District of Southern California.

3. Metropolitan Water District has annually increased the cost of water purchased from it by applicant, and the price for the year 1967-1968 which was \$43.30, became \$46.30 on July 1, 1968, and will increase annually for the foreseeable future at the rate of \$3.00 per acre-foot.

4.a. Industrial water sales have accounted for approximately 33 percent of the company's revenues and 56 percent of its water sales. In 1966, the largest 11 of the 85 industrial customers accounted for 93.4 percent of industrial sales, with five customers having individual use in excess of 500,000 ccf per year.

b. Sales at present rates to applicant's industrial customers have been made at less than cost.

c. An increase or decrease of 1,500,000 ccf in industrial sales to Shell Chemical Company, to Atlantic Richfield Oil Company's refinery, to Shell Oil Company's Watson refinery, and

to Harvey Aluminum Company, as a group, at present and proposed rates, and an increase in industrial sales to Shell Chemical Company of 1,500,000 ccf, or a decrease of 900,000 ccf, would have radical effects on applicant's rate of return.

5. Applicant's directors authorized an across-the-board cost-of-living increase to all employees effective July 1, 1968.

6.a. Applicant utilizes liberalized depreciation and investment tax credit in computing its income taxes.

b. A 10 percent federal income tax surcharge, effective January 1, 1968, has been enacted by Congress and said surcharge is applicable to applicant's net income for the year 1968 at said rate. This tax surcharge is scheduled to be eliminated on June 30, 1969. Tariffs set in this proceeding should provide, via a surcharge to water billings, an amount to recoup the effects of the tax surcharge until the surcharge is eliminated. The appropriate surcharge to applicant's metered rates is 1.11 percent. This surcharge on its bills will offset only the future effect of the tax surcharge and is not designed to recoup any of the increased taxes on net revenue produced prior to the effective date of the increased water rates authorized in this proceeding.

7. The estimated results of operation for the year 1968 estimated at present and proposed rates submitted by applicant in Exhibit No. 2-A and of the Commission staff in Exhibit No. 8-A are reasonable.

8.a. The rate of return of 6.0 percent which would be produced by revenues received by applicant from present rates is deficient, and applicant is entitled to financial relief.

b. The rate of return of 7.9 percent, as shown by the staff estimate (exclusive of the tax surcharge) to be produced by the rates proposed in the application, is excessive.

c. The rate of return of 6.85 percent recommended by the staff does not fully take into account the extremely volatile character of applicant's industrial consumers' requirements and demands as shown in Exhibit No. 2-B. A rate of return of 7 percent is reasonable for the future.

The rationale of this finding is based on Dominquez' favorable management, financial, and operating record; the upward trend of and the outlook for increased cost of money heretofore discussed; the risk inherent in the aforementioned volatility of applicant's industrial consumers' requirements and demands; and the fact, as the record shows, that applicant's present rates for water service, and those authorized hereinafter, compare on the low side with similar rates for public utility water service in the Southwest Los Angeles Metropolitan Basin.

d. An annual decline in rate of return of approximately .7 percent will result in the foreseeable future. Of this decline .4 percent is caused by increases in cost of water and .3 percent by all other factors in the company's operations. The prospective increase in the costs of purchased water from MWD and the effects of such increases on rate of return are of such magnitude that it is impractical to consider them in setting rates in this proceeding. This major specific identifiable increase in cost level is best considered in the rate-fixing process by separate applications to offset these costs as they are incurred. This is the practice the utility has followed in the past and was recognized by the Commission when it granted an increase in rates on October 1, 1966 to offset increases in direct costs of water.

e. A rate of return of 7.5 percent for the estimated year 1968, a portion only of which will be realized, is found to be reasonable. The rate of return of 7.5 percent for the year 1968 will average out to approximately 7.0 percent over the next four years.

9.a. The record shows that applicant's financial management is excellent. Its capital structure is excellent and applicant is successful in timely obtaining the best types of financing.

b. The rate of return herein found to be reasonable will yield 10.7 percent on equity, which is found to be reasonable.

10. Applicant's main flushing program on a 60-day basis, or upon customer complaint, has been and is inadequate and unsatisfactory, but applicant is on record that it will step up its main flushing program. The staff recommendation of a 30-day program on a test basis for six months, with possible lowering of the flushing period, is reasonable.

11. The staff recommendation regarding the securing by applicant from the Commission of authority prior to entering into subdivision main extension agreements in which contributions in aid of construction are required to meet fire flow requirements of public authorities is reasonable.

12. 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.

Conclusion

It is concluded that the application should be granted in part and denied in part, and applicant should be authorized to file new schedules of rates which will produce the rate of return of 7.5 percent on the estimated rate base of \$9,013,000 for the estimated year 1968, or an average of approximately 7.0 percent over the next four years, hereinbefore found to be reasonable.

Applicant should be directed to carry out the staff recommendations regarding depreciation, subdivision main extension agreements, and a main flushing program, hereinbefore found to be reasonable.

O R D E R

IT IS ORDERED as follows:

1. After the effective date of this order Dominquez Water Corporation is authorized to file the revised rate schedules attached to this order as Appendix A. 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.

2. Beginning with the year 1968, applicant shall determine its depreciation accruals by the straight-line remaining life method using the rates set forth in Table 8-2 on page 56 of Exhibit No. 2 herein.

3. Applicant shall obtain Commission authorization prior to entering into subdivision main extension agreements in which

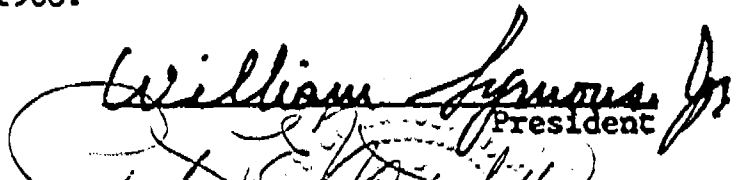
contributions in aid of construction are required to meet fire flow requirements of public authorities.

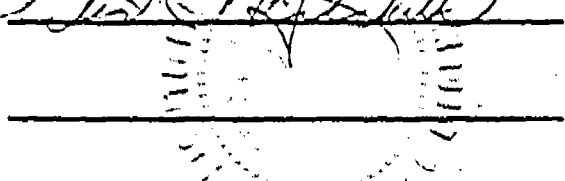
4. Applicant shall immediately institute a main flushing program of 30-day intervals for dead-end mains and cul-de-sacs for the next six months and shall lower such 30-day interval to a 14-day interval if, at the end of the six-months' period, satisfactory results have not been obtained. A record of all complaints regarding odor, discoloration and residue shall be maintained, and a copy thereof shall be forwarded to the Commission, monthly, for the next 12 months.

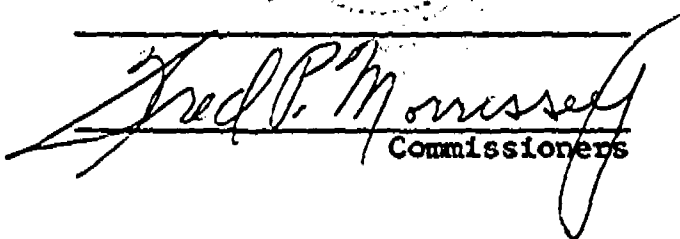
5. In all other respects the application is denied.

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

Dated at San Francisco, California, this 15th
day of OCTOBER, 1968.



President




Commissioners

Commissioner A. W. GATOV

Present but not participating.

APPENDIX A
Page 1 of 3

Schedule No. 1

METERED SERVICEAPPLICABILITY

Applicable to all metered water service, excepting metered irrigation (T)
and combination residential and irrigation service. (T)

TERRITORY

Portions of Carson, Los Angeles, Long Beach, Torrance, and vicinity, (T)
Los Angeles County. (T)

RATES

Quantity Rates:

Per Meter
Per Month

First	600 cu.ft. or less	\$ 2.29	(I)
Next	1,900 cu.ft., per 100 cu.ft.	.31	
Next	17,500 cu.ft., per 100 cu.ft.	.26	
Next	480,000 cu.ft., per 100 cu.ft.	.19	
Over	500,000 cu.ft., per 100 cu.ft.	.13	

Minimum Charge:

For	5/8 x 3/4-inch meter	\$ 2.29
For	3/4-inch meter	3.55
For	1-inch meter	5.80
For	1 1/2-inch meter	11.00
For	2-inch meter	16.00
For	3-inch meter	29.00
For	4-inch meter	46.00
For	6-inch meter	82.00
For	8-inch meter	122.00
For	10-inch meter	162.00
For	12-inch meter	225.00

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

SPECIAL CONDITION

Until the 10 percent surcharge to federal income tax is removed, (I)
bills computed under the above tariff will be increased by 1.11 percent. (I)

APPENDIX A
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Schedule No. 3M

METERED IRRIGATION SERVICE

APPLICABILITY

Applicable to all metered irrigation water service, excepting combination residential and irrigation service.

TERRITORY

Portions of Carson, Los Angeles, Long Beach, Torrance, and vicinity, (T)
Los Angeles County. (T)

Rates

Quantity Rate:	Per Meter Per Month
For each 100 cu.ft. or fraction thereof	\$0.096

(I) ✓

Minimum Charge:

For all meter sizes 2.29

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

SPECIAL CONDITIONS

1. An application for service under this schedule shall be filed by the customer with the utility. Such application shall set forth the conditions of service requested and the proposed use of water.

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

3. Until the 10 percent surcharge to federal income tax is removed, (I)
bills computed under the above tariff will be increased by 1.11 percent. (I)

APPENDIX A
Page 3 of 3

Schedule No. 3RL

COMBINATION RESIDENTIAL AND IRRIGATION SERVICEAPPLICABILITY

Applicable to all combination residential and irrigation water service furnished on a limited basis.

TERRITORY

Portions of Carson, Los Angeles, Long Beach, Torrance, and vicinity, (T)
Los Angeles County. (T)

RATESIrrigation Service

Per Meter
Per Month

Quantity Rate:

For each 100 cu.ft. or fraction thereof \$0.096 (I) ✓

Minimum Charge:

For all meter sizes 2.29

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

Residential Service

Per Month

A flat rate in addition to the above charges
for irrigation service \$2.29

SPECIAL CONDITION

1. Combination Residential and Irrigation Service is available only to those customers being served as of October 23, 1961. Service to new occupants of premises which have been served under this schedule will be available only under other appropriate tariff schedules. ✓

2. Until the 10 percent surcharge to federal income tax is removed, (I)
bills computed under the above tariff will be increased by 1.11 percent. (I) |