

ORIGINAL

Decision No. 80370

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. 52888
(Filed September 23, 1971;
Amended May 26, 1972)

Gibson, Dunn & Crutcher, by Raymond L. Curran,
Attorney at Law, for applicant.
Jerry H. Wilbur, Attorney at Law, for himself,
protestant.
R. W. Russell, by K. D. Walpert, for City of
Los Angeles, interested party.
Cyril M. Saroyan, Attorney at Law, and Andrew
Tokmakoff, for the Commission staff.

O P I N I O N

By this application, Dominguez Water Corporation requests authority to establish rates in its Dominguez service area which are designed to increase annual revenues in the year 1972 estimated by \$834,140, or 21.64 percent, over the rates now in effect.

Public hearing was held before Examiner Gillanders at Carson on March 21, 22 and 23, 1972, and the matter submitted upon receipt of various late-filed exhibits, the last of which was received on June 19, 1972. Copies of the application had been served and notice of hearing had been published, posted, and mailed in accordance with this Commission's rules of procedure.

Testimony on behalf of applicant was presented by its president, a director, its treasurer, its consulting engineer and its consulting accountant. The Commission staff presentation was made by one accountant, one rate of return expert and two engineers. Twenty-six customers attended the hearing of whom 16 testified as to various service complaints.

General Information

Applicant is a public utility water corporation organized in January of 1937 under the laws of the State of California. Its principal place of business is located in Long Beach.

Applicant has entered into a program of expansion, by acquiring water companies within southern California. The major objective is to preserve the growth potential of total company equity in the future when applicant's present service area approaches saturation density of customers.

The areas outside applicant's Dominguez service area served by applicant include two wholly owned subsidiaries, the Antelope Valley Water Company and the Uehling Water Company. These subsidiaries are not involved in this present study except insofar as costs properly allocable to the operations of the subsidiaries are deleted from the recorded accounting data pertaining to the operations of applicant.

Antelope Valley Water Company (Antelope) was purchased by applicant in 1965. Subsequent to that time, Antelope has acquired, and absorbed through merger, the North Edwards Water Company, the Inyokern Water Company, and the Rancho Green Valley Water Company. Antelope has also acquired and is operating the water system of the former Lake Hughes Water Department (a de-facto public utility). The Kernville Domestic Water Company is operated as a subsidiary of Antelope. Uehling Water Company was purchased by applicant in 1968.

Dominguez Service Area and Water Systems

The service area is delineated on Figure 3-2 of Exhibit 13 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.

The service area is divided into four operating zones as follows:

Zone I. Zone I covers the western end of the service area and is primarily supplied by local wells 32 and 33, supplemented with water from sources in Zone II transported through the Carson Street line. Water is boosted from reservoir No. 1 to the 750,000 gallon elevated tank (reservoir No. 5). The hydraulic grade in this zone is controlled by the water surface in reservoir No. 5, which ranges from 250 feet to 275 feet above sea level, giving a distribution pressure varying from 35 pounds per square inch (psi) at the elevation of the reservoir base to 35 psi at the low point of the zone.

Zone II. Zone II includes the major proportion of the system and is served by gravity from reservoirs numbers 3, 4, 6 and 7 located atop Dominguez Hill. There are 10 wells and 6 taps to feeder lines of the Metropolitan Water District of Southern California (MWD) serving this system. The hydraulic grade is established by the 200 foot elevation of the top of Dominguez Hill. Within Zone II, MWD tap No. 21 located approximately at Del Amo Boulevard and the Harbor Freeway, together with the portion of the system served through the North header which runs westerly along Del Amo Boulevard, has been isolated by a valve. This enables higher pressure to be maintained within that portion of Zone II serving industrial customers, located near Del Amo Boulevard between Crenshaw Boulevard and Western Avenue. In the near future, MWD tap No. 39, located at Del Amo Boulevard and Western Avenue, will be installed and connected to the North header. At this time an integrated transmission network will be achieved within Zone II.

Zone III. Zone III consists of certain areas in the northeast portion of the service area, which are only slightly lower than the base of the storage tanks on Dominguez Hill. These customers are supplied by MWD tap No. 35, and Booster 3A.

Zone IV. Zone IV consists of a separate system serving a few extremely large customers in the southeast corner of the service area. This system is served from MWD tap No. 9 without pressure regulation. In the event of failure of MWD tap No. 9, water could be provided to this system from the Zone II system, but not at the pressure normally provided.

Sources of Supply General

Historically, applicant's service area's principal source of supply has been from wells in the West Coast and Central Basins. Restrictions placed on the withdrawal of ground water from the West Coast and Central Basins have resulted in a curtailment of ground water pumping and a corresponding increase in the use of MWD water purchased from the West Basin Municipal Water District (WBMWD). Applicant currently has six connections in the WBMWD. Increases in water supply needs due to system growth must now be met by increased purchases of MWD water. In 1970, water purchased from the WBMWD made up 50 percent of total water production.

Sources of Supply West Coast Basin

The annual production from wells in the West Coast Basin is limited by final decrees of the Superior Court of Los Angeles County in adjudication suits. All producers in the basin are restricted by these orders in their individual annual withdrawal of water to the amounts assigned as the prescriptive rights as of 1949. A variance of 10 percent is permitted, provided it is balanced out in succeeding years.

Under the terms of the adjudication, applicant's service area is limited to 9,447.3 acre-feet of withdrawal per year from the West Coast Basin. Since the adjudication, applicant has acquired certain rights and has leased rights to others. The net effect of these transactions has been to reduce the rights in applicant's service area to an annual withdrawal of 9,054.35 acre-feet for the water year extending from October 30, 1970 through September 30, 1971. Applicant's wells located within the West Coast Basin now in operation are Wells Nos. 1, 2, 6, 15, 16, 19, 32 and 33.

Sources of Supply Central Basin

Court adjudication of the ground water rights in the Central Basin has also become final. Under this adjudication applicant's service area was entitled to a gross pumping allowance of 6,296 acre-feet.

Since the adjudication, applicant has bought, sold, and leased water rights in the Central Basin. The net effect of these transactions is to increase applicant's share of water rights to 6,407 acre-feet for the October 30, 1970 through September 30, 1971 water year.

Certain of the producers in the Central Basin do not have connections to Metropolitan Water District feeder lines, or any other source of supply other than wells. The adjudication orders, therefore, provide that a pool of water rights be established by mandatory allocation from producers having alternate sources of supply, to be made available to meet excess requirements of the producers not having alternate sources of supply. The terms of the order provide that contributors to the pool shall be reimbursed for the expense of purchasing additional MWD water to cover the allocation to the pool. The mandatory allocation which may be required of applicant's service area is 1,282 acre-feet. In the 1970-71 water year, however, only 343 acre-feet was purchased through this exchange pool.

Central and West Basin Water Replenishment District

In November 1959 the electorate of the Central and West Coast Basins voted to organize a Replenishment District. This District was created for the purpose of raising funds from water producers in the basin to be used to purchase MWD water to recharge the underground basins. These funds are obtained by means of an annual assessment related to the amount of water pumped. This assessment rate is subject to annual revision to reflect changes in cost of purchased water. The operation of this District provides the means of managing the fiscal requirements of an assured ground water supply. The charge made in the fiscal year July, 1970 through June, 1971 was \$6.00 per acre-foot of water pumped.

Present Rate Schedules

Present rates for general metered service, metered irrigation service, and combined residential and irrigation service were established by Decision No. 77481 effective July 13, 1970. All other rates became effective November 16, 1964 pursuant to Decision No. 62075.

Proposed Rate Schedules

Applicant proposes to charge \$1.00 a month, for 5/8 x 3/4-inch meter, with no quantity allowance, and quantity rates of 36 cents per 100 cubic feet for amounts up to 2,500 cubic feet, 27.8 cents per 100 cubic feet for the next 497,500 cubic feet, and 17.3 cents per 100 cubic feet for amounts over 500,000 cubic feet. Applicant proposes no increase in private fire protection service, public fire protection service, or construction flat rate service.

Proposed Tariff Schedule Modifications Other Than Rates

The proposed rates differ from the current rates in that service charges based upon the capacity of the various meter sizes replace the current minimum charges. It is proposed that the schedule of service charges for General Metered Service and Metered Irrigation Service be identical, while most service charges for Combination Residential and Irrigation Service would be double that for General Metered Service or Metered Irrigation Service.

Results of Operation

Witnesses for applicant and the Commission staff analyzed and estimated applicant's operational results. These results were tested by searching cross-examination during the hearings which ended on March 23, 1972.

At the hearing, applicant and staff stipulated that staff's estimate of the rate base for test year 1972 was too low.

On May 31, 1972 staff submitted as a late-filed exhibit a calculation showing the effect of certain changes on its summary of earnings for test year 1972. The changes were:

1. Reduction in ad valorem taxes.
2. Stipulation to higher rate base.
3. Increased cost of water and replenishment taxes effective July 1, 1972.

As applicant had no objection to this proposed exhibit, it was received into evidence as Exhibit 26. Applicant did, however, request that an appropriate adjustment be made in the exhibit to reflect the cost of purchased power due to the recent increase in rates granted to Southern California Edison Company.

The staff did prepare such an exhibit which was acceptable to applicant. This exhibit was received into evidence as Exhibit 27 on June 19, 1972. As Exhibit 27 contains the latest available information, it is reproduced as follows:

DOMINGUEZ WATER CORPORATION
STAFF 1972 ESTIMATED
SUMMARY OF EARNINGS

	Present Rates Exh. 20 (1)	Ad Valorem Tax Change (2)	Stipulated Rate Base Adjustment (3)	July 1, 1972 C & W Basin Rates and \$9.00 Replen. (4)	May 1, 1972 So. Cal. Edison Power (5)	Present Rates Revised (6) = Sum (1) to (5)	Increase In Proposed Rates (7)	Proposed Rates Revised (8) = (6) + (7)
(Dollars in Thousands)								
Oper. Revenues	\$ 3,788.7	\$	\$	\$	\$	\$ 3,788.7	\$856.3	\$ 4,645.0
<u>Oper. Expenses</u>								
Op. & Maint.	1,822.2			124.3	3.5	1,950.0	3.9	1,953.9
Adm. & Gen.	324.0					324.0		324.0
Deprec.	424.7		5.2			429.9		429.9
Taxes Other	513.5	(141.9)	3.7			375.3		375.3
Inc. Taxes	62.6	73.7	(7.3)	(64.5)	(1.8)	62.7	442.8	505.5
Total Exp.	\$ 3,147.0					\$ 3,141.9		\$ 3,588.6
Net Oper. Revenues	641.7					646.8		1,056.4
Avg. Rate Base	10,013.7		200.0			10,213.7		10,213.7
Rate of Return	6.4%					6.3%		10.3%

(Negative)

Rate of Return

As we understand applicant's request, it is asking for a return of 8.88 percent^{1/} on its 1972 test year rate base which return it estimates would produce an 11.5 percent return on the book value of the common equity allocated to the applicant's Dominguez service area. (Approximately 90 percent of total book value.)

According to the staff, a reasonable rate of return should allow for servicing the company's fixed charges and provide for moderate additions to retained earnings after payment of a suitable dividend to common stockholders. The earnings allowance for common stock equity is necessarily a judgment based on many considerations, some of which are (a) earnings of other water utilities, (b) recently authorized rates of return, (c) capital structure and imbedded costs, (d) financial requirements for construction and other purposes, (e) the amount of funds available from advances, contributions and other sources, (f) maintenance of financial integrity, and (g) the general economic climate.

After considering all of the circumstances, the staff concluded that a rate of return in the range of 7.80 percent to 8.10 percent would be reasonable for applicant. The earnings rate on common stock equity within this limit would range from 9.90 percent to 10.69 percent.

Service

According to the staff (Exhibit 20), it made a field investigation of applicant's operations and facilities during November 1971. The facilities and equipment were, on the whole, in satisfactory condition, and it appeared to the staff that the service being furnished met standards of good service.

^{1/} The 8.88 percent rate of return consists of two elements, an 8.14 percent rate of return on rate base and a request for a one time additional .74 percent rate of return to offset the decline in rate of return between the time of filing its application and the time new rates could become effective.

Informal complaints registered recently with the Commission number as follows: 1969, five bill complaints, one low pressure complaint; 1970, nine bill complaints, one rusty water; 1971 to date, fourteen bill complaints, no service complaints. The staff does not consider these numbers to be excessive.

Examination by the staff of service complaints on file in applicant's office revealed the following: 1969, 376 service complaints; 1970, 649 service complaints; 1971 (11 months), 420 service complaints. Applicant reports that these complaints were all investigated and corrected.

Of the sixteen public witnesses who testified, 12 complained of poor water quality, two complained of low pressure, one protested the rate increase request in total and one protested the proposed 193 percent increase in his fire hydrant charge due to the requirement for a six-inch meter. The witness who protested the overall rate increase represented a homeowners association of 360 homes whose members complained of poor water quality.

The examiner instructed applicant to investigate the complaint of each witness and to file the results of each investigation as a late-filed exhibit. Late-filed Exhibits 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 14, 17, 22 and 23 were filed and copy furnished to the witness in response to that instruction. Each witness was allowed five days after receipt of the investigation pertaining to his complaint to furnish written comments regarding the investigation to the Commission. No written comments were received by the Commission. According to the tests made by an independent testing laboratory, "The water samples from the water distribution system of the Dominguez Water Corporation during the month of March, 1972 conform to an acceptable bacteriological sanitary quality according to principles and procedures set forth by the American Public Health Service Drinking Water Standards."

In addition to the bacteriological analysis, tests were conducted to determine the chief mineral constituents of the water supply. According to the independent testing laboratory, "In our opinion the above analysis indicates that this water conforms with the U.S.P.H.S. Standards for drinking water".

Seven-day pressure charts taken as directed show that in some cases "pressure supplied to the consumer is more than adequate and that low pressure is due to old condition of private plumbing" and in some cases "Seven-day pressure recording charts at his house and main line, each show pressure to be adequate."

Applicant's president testified that he had been aware of the complaints re poor water quality for several years. His investigation had determined that most of the complaints arose because of the use of Well No. 22. Applicant has spent \$70,000 for a new well and Well No. 22 has been abandoned. Water quality complaints should cease now that Well No. 22 is no longer in service.

Adopted Results

Exhibit 27 reflects the latest known operating conditions and except for minor differences between applicant and staff represents fairly an estimate of applicant's future operating conditions. However, we find that applicant's proposed rates result in too high a net revenue.

Applicant's estimates as presented in Exhibit 13 show a continuing decline in rate of return ranging from 0.94 percent to 1.23 percent. The staff's estimates as presented in Exhibit 20 show an upward trend in rate of return at 0.1 percent.

Taking into account the various factors used by applicant and staff rate of return experts in determining their recommended rates of return, we find that a rate of return of 7.90 percent on rate base and a return on common equity of 10.16 percent is reasonable with no allowance for attrition.

Based on the above, applicant is entitled to an increase in gross revenues of \$335,000, instead of its requested increase of \$334,140.

Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues, but proposed rates set forth in the application are excessive.
 2. The estimates (Exhibit 27), previously discussed herein, of operating expense and rate base for the test year 1972 reasonably indicate the results of applicant's operations for the future.
 3. A rate of return of 7.90 percent on the adopted rate base for the year 1972 and return of common equity of 10.16 percent is reasonable.
 4. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable; and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.
 5. Pursuant to Rule 23.1 of the Commission's Rules of Procedure:
 - (a) The increased rates are expected to provide increased revenue of \$335,000 yearly.
 - (b) The rate of return is expected to average 7.90 percent as compared to 6.3 percent under present rates.
 - (c) The increase is cost-justified and does not reflect future inflationary expectations; the increase is reduced to reflect productivity gains; the increase is the minimum rate which is necessary to assure continued and adequate service; and any increase in the rate of return above that allowed previously either is required by an increase in the cost of money, including equity capital, or is necessary to provide for necessary expansion to meet future requirements, and it is the minimum rate of return needed to attract capital at reasonable cost and which will not impair the applicant's credit.
 6. Service meets the requirements of General Order No. 103.
- The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that after the effective date of this order, Dominguez Water Corporation is authorized to file the revised rate schedules attached to this order as Appendix A, and concurrently to withdraw and cancel presently effective schedules for General Metered Service, Metered Irrigation Service and Combined Residential and Irrigation Service. 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.

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

Dated at San Francisco, California, this 15th
day of AUGUST, 1972.

Vernon L. Stinson
President
William Symons Jr.
William J. ...
John ...
Commissioners

Commissioner D. W. Holmes, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A
Page 1 of 6

Schedule No. 1

GENERAL METERED SERVICE

(T)

APPLICABILITY

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

TERRITORY

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

RATES

Service Charge:

Per Meter
Per Month

For 5/8 x 3/4-inch meter	\$ 1.00	(C)
For 3/4-inch meter	1.50	
For 1-inch meter	2.50	
For 1 1/2-inch meter	5.00	
For 2-inch meter	8.00	
For 3-inch meter	15.00	
For 4-inch meter	21.00	
For 6-inch meter	35.00	
For 8-inch meter	52.00	
For 10-inch meter	65.00	
For 12-inch meter	100.00	
For 18-inch meter	150.00	(C)

(Continued)

APPENDIX A
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Schedule No. 1

GENERAL METERED SERVICERATES - Contd.

Quantity Rates:

	<u>Per Meter</u> <u>Per Month</u>	
First 2,500 cu.ft., per 100 cu.ft.	\$0.304	(C)
Next 497,500 cu.ft., per 100 cu.ft.	0.263	(C)
Over 500,000 cu.ft., per 100 cu.ft.	0.146	

The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

APPENDIX A
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Schedule No. 3M

METERED IRRIGATION SERVICEAPPLICABILITY

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

TERRITORY

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

RATES

Service Charge:

	Per Meter Per Month	
For 1-inch meter or smaller	\$ 2.50	(I)
For 1½-inch meter	5.00	
For 2-inch meter	8.00	
For 3-inch meter	15.00	
For 4-inch meter	21.00	
For 6-inch meter	35.00	
For 8-inch meter	52.00	
For 10-inch meter	65.00	
For 12-inch meter	100.00	
For 18-inch meter	150.00	(I)

Quantity Rate:

For all water delivered, per 100 cu.ft.	\$ 0.08	(R)
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The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

(Continued)

APPENDIX A
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Schedule No. 3M

METERED IRRIGATION SERVICE

(Continued)

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.

APPENDIX A
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Schedule No. 3RL

COMBINATION RESIDENTIAL AND IRRIGATION SERVICEAPPLICABILITY

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

TERRITORY

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

RATES

Service Charge:

	Per Meter Per Month	
For 1-inch meter or smaller	\$ 5.00	(I)
For 1½-inch meter	10.00	
For 2-inch meter	16.00	
For 3-inch meter	30.00	
For 4-inch meter	40.00	
For 6-inch meter	70.00	(I)

Quantity Rate:

For all water delivered, per 100 cu.ft.	\$ 0.08	(R)
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The service charge is applicable to all metered service. It is a readiness-to-serve charge to which is added the charge, computed at the Quantity Rates, for water used during the month.

(N)
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(N)

(Continued)

Schedule No. 3RL

COMBINATION RESIDENTIAL AND IRRIGATION SERVICE

(Continued)

SPECIAL CONDITION

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.