

Decision 98-11-019 November 5, 1998

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of DOMINGUEZ WATER CORPORATION (U-330-W), LUCERNE WATER COMPANY (WTC-71) and ROBERT AND NADINE STRAUSS for an Ex Parte Order Authorizing the Acquisition of substantially all of the Utility Assets of LUCERNE WATER COMPANY by DOMINGUEZ WATER CORPORATION.

ORIGINAL

Application 98-02-028
(Filed February 19, 1998)

John Tootle, Attorney at Law, for Dominguez Water Company, applicant.

Robert F. Strauss, for Lucerne Water Company, applicant.

Peter G. Fairchild, Attorney at Law, for the Ratepayer Representation Branch of the Water Division, protestant.

OPINION

Background

Lucerne Water Company

Today the sole stockholders of Lucerne Water Company (Lucerne), a California corporation since 1970, are Robert and Nadine Strauss. The Strauss's first interest in Lucerne was acquired through Decision (D.) 90060 in 1979, from the Korth partnership. Lucerne's ownership earlier traces back to Verne L. Olson, doing business as Lucerne Water, Light, and Power, which received certification as a public utility by D.17201 in 1926.

The Lucerne system presently distributes water drawn from Clear Lake to approximately 1,242 metered customers in the town of Lucerne in Lake County,

California. Its assets include an office building, a shop building, a support pier extending into the lake for a suction line, pumps, water treatment equipment, storage tanks with 612,000 gallon capacity, transmission and distribution mains, meters, 41 hydrants, various other equipment, and parcels of land and easements.

By D.92711 issued February 18, 1981, Lucerne was authorized to borrow \$817,500 from the Department of Water Resources (DWR) for a Safe Drinking Water Bond Act (SDWBA) loan used for improvements to the system. As of September 25, 1997, Lucerne was in compliance with the repayment obligations of the SDWBA loan. As of November 18, 1997, the total outstanding loan obligation (principal balance plus interest due) was \$817,500.

Today, the Lucerne system needs an additional clarifier unit estimated to cost approximately \$420,000, which was recommended by the Department of Health Services. Also, it should replace approximately 10,000 feet of 2-inch steel mains, some 60 years old, that fail to meet standards under the Commission's General Order 103.

Dominguez Water Corporation

Dominguez Water Corporation (Dominguez), a California corporation organized January 26, 1937, commenced public utility operations pursuant to authorization granted by D.32739 on January 16, 1941, as the successor to Dominguez Water Company which assertedly had operated as a water mutual since 1911 until its demise as the consequence of a bond default in 1936.

Today, Dominguez, a Class A water utility, is the wholly owned subsidiary of Dominguez Services Corporation, whose common stock has been quoted since about 1987 on the National Association of Securities Dealers Automated Quotations (NASDAQ).

Dominguez provides water service to approximately 32,000 customers in service areas which include most of the City of Carson, a large portion of the City of Torrance, a modern industrial subdivision in the City of Compton, a strip of Los Angeles County, and a commercial subdivision tract in the City of Los Angeles. In addition, Dominguez owns all of the outstanding capital stock of Antelope Valley Water serving approximately 1,250 customers in Northern Los Angeles County, as well as Kernville Domestic Water Company, Lakeland Water Company, and Arden Water Company, which collectively serve approximately 4,000 customers in the Lake Isabella area in southern Kern County.

Statements of Facts

Assuming a reasonably favorable business climate, Dominguez is interested in expanding its successful small water system acquisition program to the Clear Lake area of Lake County. It concludes that acquisition of small systems such as Lucerne offer opportunities to achieve certain operational efficiencies and economies of scale which would benefit customers of these small utilities.

For their part, facing an imminent need to finance substantial improvements to the system, the Strausses are also desirous of being relieved of the responsibility of operating and maintaining the Lucerne system in order to pursue other interests.

The Application

Accordingly, on November 20, 1997, Dominguez, Dominguez Services Corporation, Lucerne, and the Strausses entered into an Acquisition Agreement and Plan of Reorganization (Agreement). Subject to approval of the Commission and DWR, the Agreement provides for the sale and transfer to Dominguez of all of the water system, real property and easements, and other assets of Lucerne, and for Dominguez to assume Lucerne's obligations arising out of Lucerne's

SDWBA loan, in exchange for Dominguez causing, at closing of the transaction, the transfer to Lucerne of 28,061 shares of common stock of Dominguez Services Corporation valued at \$729,586 (the closing price of that common stock quoted on NASDAQ on September 30, 1997, multiplied by the number of shares to be delivered). The parties intend the transactions to qualify as a tax free "C" reorganization pursuant to Section 368(a)(1)(c) of the Internal Revenue Code, as amended.

Lucerne's assets were divided between "land and land rights," and "company funded plant." The applicants did an asset valuation analysis, including both a market appraisal of the real property prepared by BOSS General appraisal (a certified general appraisal services company), and a replacement cost analysis of all of the plant assets done by Donald R. Howard Consulting Engineers. While the book value of the real property is \$3,339, the present market value was determined to be \$81,339. The book value of the company funded plant is \$466,704. The reproduction cost new less depreciation (RCNLD) and market value respectively, were determined to be \$821,947 and \$631,875. In summary, the difference between the book value of all the rate base assets, \$470,043, and the determined fair market value of these assets, \$713,214, was \$243,171 (52% of rate based assets book value). This \$243,171 difference is the "market differential."

The applicants also prepared a rate impact analysis to determine the net impact of using market value on Lucerne's annual revenue requirements. The analysis showed that the impact (including the SDWBA loan surcharge) would result in an annual total additional revenue requirement of \$19,878, or 4.52% increase over current revenue requirements. Dominguez states in the application that it would not request any change now to Lucerne's current rates or tariffs if the sale and transfer is approved; that it does not intend to apply for any general

change in rates until after 1999. Dominguez believes that under its ownership the rate impact of adoption of the \$713,214 valuation for ratesetting and related purposes would be minimized in part due to lower financing costs under the equity structure of Dominguez as a Class A utility, and that Lucerne's customers would benefit from Dominguez's lower capital costs with respect to financing future mandated capital improvements. Finally, Dominguez would expand the surface water treatment facility and make other improvements.

The parties requested that the Commission issue its order authorizing the transfer ex parte.

Pursuant to provisions of Rule 6.1 of the Commission's Rules of Practice and Procedure, by Commission Resolution ALJ-176-2989, issued March 26, 1998, the proceeding was preliminarily designed as "ratemaking" with the probability of no hearing to be needed.

Notice and Protest

By a letter mailed to each customer on March 5, 1998, Lucerne notified each of the proposed sale. Notice also appeared in the February 24, 1998 Commission Daily Calendar. There were three customer responses. One requested information about Dominguez, and two from limited income customers expressed concern about a possible rate increase after 1999. On March 26, 1998, the Ratepayer Representation Branch of the Water Division (RRB) filed a protest expressing concern of the effect of the proposed acquisition upon rates charged customers of both utilities.

Hearings

A prehearing conference was held on May 8, 1998 before Assigned Commissioner Henry M. Duque and Administrative Law Judge (ALJ) John B. Weiss, following which the Commissioner on May 15, 1998 issued a Scoping

Memo and Ruling setting the proceeding for hearing designating ALJ Weiss as the principal hearing officer for the proceeding.

After a protest was filed, the Assigned Commissioner at the prehearing conference determined, and in his Scoping Memo ruled, that a hearing was required.

As directed by the Commissioner's Scoping Memo, on June 19, 1998 RRB issued its report on the application. RRB differed with applicant's appraisal insofar as RCNLD was determined, concluding that applicant had ascribed inappropriately long lives to certain plant items, thereby inflating RCNLD (\$903,286 vs. RRB's \$812,247. However, while the application purchase price was \$729,214, applicant Dominguez sought to have its fair market value appraisal of \$713,214 set as the collective rate base value of land and company funded plant for both ratesetting and all other related purposes. Based on the estimated cost of future operations, and in recognition that the ratebasing proposed fell within the scope of Public Utilities (PU) Code § 2720, RRB recommended approval of the application, but would withhold approval until Dominguez furnished evidence of compliance with Health and Safety (H&S) Code § 116540(a).¹

Prior to the evidentiary hearing, the parties informally advised the ALJ that they would have a Settlement for filing, but that it could not be

¹ H&S Code § 116540(a) provides

"No public water system that was not in existence on January 1, 1998 shall be granted a permit unless the system demonstrates to the department that the water supplier possesses adequate financial, managerial, and technical capability to assure the delivery of pure, wholesome, and potable drinking water. This section shall also apply to any change of ownership of a public water system that occurs after January 1, 1998."

memorialized in time for the hearing. The Settlement terms essentially embraced the RRB report recommendations. It was agreed that the formal filing would be done after the hearing.

The duly noticed hearing scheduled for July 15, 1998 in San Francisco was advanced one day to July 14, 1998 for the convenience of the parties.² At that hearing the staff report and a letter from DHS dated July 10, 1998, were received into evidence. In the latter, DHS stated its conclusion, that while not complete, the application to DHS had provided sufficient information and plans to allow the determination that the applicant will provide competent and professional operation of the water system.³ Commissioner Duque was present for the hearing. By date of August 6, 1998, the Settlement was filed and is appended to the decision as Appendix A. The essential difference from the RRB report is that in light of the DHS letter, RRB withdrew its recommendation to withhold Commission approval pending DHS approval.

The proceeding was submitted July 15, 1998.

Discussion

PU Code § 851 et seq. require prior Commission authorization for the sale and transfer of the property or of control of a public utility. This is because it is the function of the Commission to protect the public interest, to prevent

² The proceeding was also called on July 15, 1998 as noticed and scheduled, with Commissioner Duque present. No additional parties appearing, the proceeding was submitted.

³ The DHS letter of July 10, 1998 was addressed to "Redwood Valey Water Company," not to Dominguez. Dominguez is in the process of organizing Redwood as the wholly owned subsidiary which will in turn own Lucerne and other Clear Lake small systems. This corporate set-up, however, apparently could not be completed in time for this proceeding.

impairment of the public service by a transfer into the hands of parties incapable of rendering adequate service at reasonable rates or upon terms which would produce the same undesirable result (So. Cal. Mountain Water Co. (1912) 1 CRC 520).

In the present situation, there is no indication of evidence that the sale and transfer of all the utility assets of Lucerne by the sole shareholders to Dominguez would be injurious to the public interest. It is evident that the new rate base being authorized for ratesetting, \$713,214, greatly exceeds the present book value of \$470,043 that determined the existing rate base.

However, in recognition of the capital investment problems faced by small water utilities in meeting needs to replace or upgrade their distribution systems to meet safe drinking water laws and to provide adequate fire flow, the Legislature last year passed the Public Water System Investment and Consolidation Act of 1997, codified as PU Code §§ 2718 et seq. The Act provides incentive to larger water utilities to acquire smaller systems, thereby bringing economies of scale to the operation of smaller systems, and better access to capital. The Act provides that the Commission shall use "fair market value" as the standard to establish the future rate base value of an acquired distribution system, and for rate setting purposes. (PU Code § 2720(a)(1).⁴

⁴ Pursuant to PU Code § 2720(a)(1), "fair market value" shall have the same meaning as set forth in Civil Procedure Code § 1263.320:

"(a) The fair market value of the property taken is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing, and able to buy but under no particular necessity for so doing, each dealing with the other with full

Footnote continued on next page

While the RRB report of June 19, 1998 attained a lower RCNLD appraisal than applicants (\$812,247 vs. \$903,286), the "fair market value" ascribed to the land and company funded plant assets of \$713,214 does not exceed either RCNLD valuation, thereby obviating any necessity of having to meet the requirements of PU Code § 2720(b), which apply where the "fair market value" exceeds RCNLD.

Here Dominguez plans to replace about 10,000 feet of undersized steel mains and will also install an additional clarifier unit. These improvements will improve system reliability and improve the system's ability to comply with health and safety regulations. In addition, Dominguez's superior access to finance markets and its ability to bring efficiencies and economies of scale to bear will be to the benefit of existing customers. The acquisition, with its attendant imposition of "fair market value" as the rate base standard, in its effect upon existing Lucerne customers is fair and reasonable.

Dominguez has extensive small water system experience, currently owning and operating ten small systems in the Kern River Valley, and four small systems in Antelope Valley. Under Dominguez, apart from achievement of operational efficiencies and economies of scale, DHS connection moratorium previously in effect under prior system owners have been lifted. Dominguez obtains more favorable debt terms through its access to capital markets than are

knowledge of all the uses and purposes for which the property is reasonably adaptable and available.

"(b) The fair market value of property taken for which there is no relevant, comparable market is its value on the date of valuation as determined by any method of valuation that is just and equitable."

available to small independent system. It is our conclusion that Dominguez has the financial, managerial, and technical capability to successfully operate the Lucerne system, with benefit to the ratepayers.

While there were no specifically noticed settlement conferences, the three parties proceeded informally before reaching a resolution of their differences. The parties, having joined in the offered Settlement, as permitted by Rule 51.10 where there would be no impairment of the public interest, Rule 51.1(b) which requires at least one noticed settlement conference may be and under these circumstances should be waived.

The Settlement sets forth factual and legal considerations adequate to advise the Commission of its scope and of the grounds for its adoption. The benefit to the ratepayers of Lucerne not only for the present, but for the future is evident. In light of the entire record we find the Settlement to be consistent with law and the public interest. In addition, the Settlement commands the sponsorship of the parties to the proceeding; each party is represented by either legal counsel or competent officers; the Settlement terms do not offend Statutory provisions or prior Commission decisions; and sufficient information is conveyed to allow the Commission to discharge its regulatory obligations with regard to the matters covered in the Settlement. The Settlement satisfies the requirements for an "all party" settlement as set forth in Re San Diego Gas and Electric Company General Rate Case (1992) 46 CPUC 2d 538, 550. Accordingly, the Settlement is accepted by the Commission.

Comments on the ALJ's Proposed Decision

As provided by PU Code § 311, the Proposed Decision of ALJ Weiss was served on the parties to this decision. To allow the Commission to issue its decision more quickly, the parties by letter dated October 8, 1998, waived the 20-day and 5-day periods for comments and replies to comments and the 30-day

waiting period prescribed by the Commission's Rule 722.2 and PU Code § 311(d), and agreed to file their only comments, if there were to be comments, within five days of the October 20, 1998 mailing date of the Proposed Decision. No comments were filed.

Findings of Fact

1. Lucerne is a public utility water company providing water service in the town of Lucerne in Lake County, California, to approximately 1,242 customers.
2. Lucerne is a corporation whose issued common stock is owned by Robert and Nadine Strauss.
3. Dominguez, a wholly owned subsidiary of Dominguez Services Corporation, is a Class A water public utility providing water service directly and through wholly owned subsidiary small water companies, to approximately 37,250 customers in several areas of California.
4. Dominguez's common stock is quoted on NASDAQ.
5. Dominguez is seeking to expand its operations into Lake County, California, through acquisition of small local water utilities to be under a new subsidiary, currently being organized - Redwood Valley Water Company.
6. The Strausses, facing the necessity of substantial investment for capital improvements to Lucerne, are desirous of selling the assets of Lucerne.
7. Lucerne has an outstanding SDWBA loan. As of November 18, 1997, the outstanding balance was \$755,339.
8. On November 20, 1997, Lucerne, the Strausses, and Dominguez entered into an acquisition Agreement and Plan of Reorganization.
9. By this agreement, Lucerne will sell and transfer to Dominguez, and Dominguez will purchase and acquire from Lucerne all of the latter's assets and will assume Lucerne's obligations arising out of Lucerne's SDWBA loan.

10. In arm's length negotiations with no party under a necessity to act, the parties valued the land and company funded plant assets at \$713,214 as of September 30, 1997 in accordance with the standard of "fair market value."

11. Using the closing NASDAQ price of Dominguez common stock as of the same valuation date of September 30, 1997, the parties calculated the total number of Dominguez Services corporation shares (28,061) that would be issued to Lucerne in consideration for the sale and transfer of Lucerne's assets, representative of a purchase price of \$729,586.

12. The agreement defines Lucerne's nonratebased assets as "SDWBA Funded Plant" and "Contributions in Aid of Construction." Dominguez intends to record these nonratebased assets at their book value.

13. RRB protested the application, and in its June 19, 1998 report determined \$812,247 as the appropriate RCNLD appraisal as contrasted to the applicants' \$903,286 RCNLD appraisal.

14. RRB did not contest applicants' \$713,214 "fair market value" appraisal or the \$729,586 purchase price; its primary concern being rate impact upon the ratepayers.

15. Applicants also submitted a rate impact analysis using fair market valuations which showed that the impact, including SDWBA's surcharge, would result in an annual total additional revenue requirement of \$19,878, or a \$4.52% increase over current revenue requirements.

16. Dominguez asserts that under its ownership, due to lower financing costs under its equity structure as a Class A utility; efficiencies of operation, and economies of scale it can bring to the Lucerne operation, the adoption of the \$713,214 "fair market" valuation for rate base purposes will produce minimal impact on rates while bringing benefits to Lucerne customers.

17. Lucerne would expand the present surface water treatment facility and replace undersized mains of the Lucerne system.

18. The all party Settlement, based in part upon the lower RRB RCNLD appraisal, recommends Commission authorization for the sale and transfer of Lucerne's assets.

19. The proposed sale and transfer of utility assets to Dominguez would be cost effective on a revenue requirements basis, as contrasted with continued operation by Lucerne when continued Lucerne operation would include the capital investments needed to bring the system to General Order and DHS standards.

20. The proposed Settlement is reasonable, consistent with law, and is in the public interest, meeting as it does the requirements of Rule 51.1 of our Rules of Practice and Procedure, and the guidelines set forth in Re San Diego Gas and Electric (supra).

21. Lucerne, the Strausses, and Dominguez being the only partners of record in this proceeding, there was no impairment to the public interest in their not having convened at least one noticed settlement conference before signing and submitting their Settlement, and as provided by Rule 51.10, since all joined in the settlement, the requirement may be waived.

22. Dominguez has the financial, managerial, and technical capability of operating the Lucerne system.

23. The July 10, 1998 letter from DHS indicates that Dominguez has satisfied that agency's requirements so as to provide no impediment to our consent to the sale and transfer.

24. Dominguez should be authorized to assume Lucerne's obligations under the SDWBA loan for operation, maintenance, and repair of the assets funded

under SDWBA; collection of the surcharge, and remittances as required under the loan agreement.

25. Dominguez will seek no general rate adjustments relative to the Lucerne operation until after 1999.

26. Considering the benefits to be gained, the sooner Dominguez acquires the Lucerne system, the sooner work can begin on main replacement; therefore, authorization for the sale and transfer of these assets should be made effective immediately.

Conclusions of Laws

1. The Settlement submitted by the parties should be adopted.

2. Dominguez should be authorized to acquire, and the Strausses and Lucerne authorized to sell and transfer, the Lucerne ratebased land and company funded plant assets as set forth in their application, and the certificate of public convenience and necessity transferred.

3. The "fair market value" of Lucerne's land and company funded plant assets, collectively set at \$713,214, should be adopted pursuant to provisions of PU Code § 2720 for rate base and rate setting purposes upon Dominguez' acquisition of these assets.

4. Dominguez should be authorized to assume Lucerne's SDWBA loan obligations, and the SDWBA funded plant should be recorded at its book value.

5. Upon Lucerne's remittance to the Commission of the Public Utilities Commission Reimbursement Fees collected to the effective date of the sale and transfer of Lucerne assets, Lucerne and the Strausses should be relieved of their public utility obligations.

6. Redwood Valley in no way having been qualified before the Commission pursuant to provisions of PU Code § 851 et seq., or otherwise, no sale, purchase,

assignment, or transfer of any of the assets or control of Lucerne's assets or operations to Redwood Valley can be consummated.

7. This proceeding should be closed.

O R D E R

IT IS ORDERED that:

1. Within 90 days of the effective date of this order, Lucerne Water Company (Lucerne), and Robert and Nadine Strauss (the Strausses) may sell and transfer, and Dominguez Water Corporation (Dominguez) may purchase and acquire, the rate based land and company funded plant assets of Lucerne as provided in Application 98-02-028, and Dominguez is authorized to assume the Safe Drinking Water Bond Act (SDWBA) obligations presently held by Lucerne relative to the nonratebased assets funded by the SDWBA loan to Lucerne.

2. Upon acquisition by Dominguez, the rate base value of the Lucerne land and company funded assets acquired will be set collectively at \$713,214, and as provided by PU Code § 2720, that valuation will apply for both rate setting and all other related purposes.

3. Upon acquisition by Dominguez, The SDWBA funded assets acquired will be recorded at book value.

4. The settlement entered by the parties to this proceeding is adopted by the Commission and appended to this order as Appendix A.

5. Within 10 days after the actual sale and transfer, Dominguez shall notify the Commission of the date on which the sale and transfer was consummated. A true copy of the instrument affecting the sale and transfer shall be attached to the written notification.

6. Upon completion of the sale and transfer, and remittance of the Public Utilities Commission Reimbursement Fees collected to the effective date of the

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sale and transfer, Lucerne and the Strausses shall stand relieved of their public utility water obligations, and their Certificate of Public Convenience and Necessity shall be transferred to Dominguez.

7. The Assigned Commissioner's determination in the scoping memo and ruling that a hearing was necessary is affirmed.

8. This proceeding is closed.

This order is effective today.

Dated November 5, 1998, at San Francisco, California.

RICHARD A. BILAS
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of)	Application 98-02-028
DOMINGUEZ WATER COMPANY,)	
LUCERNE WATER COMPANY and)	
ROBERT and NADINE STRAUSS for an Ex)	
Parte Order Authorizing the Acquisition of)	
substantially all of the Utility Assets of)	
LUCERNE WATER COMPANY by)	
DOMINGUEZ WATER COMPANY)	
_____)	

SETTLEMENT

1.1 This Settlement resolves all issues in the matter of the application ("Application") of Dominguez Water Company ("Dominguez") to acquire all of the assets of Lucerne Water Company ("Lucerne"). The parties to this Settlement are Dominguez, Lucerne, and the Ratepayer Representation Branch ("RRB") of the Water Division, collectively referred to as the "Parties." They are the only parties in this proceeding.

1.2 The Application also requests authority for Dominguez to assume Lucerne's obligations under the Safe Drinking Water Bond Act (SDWBA), pursuant to Contract No. E51032 with the California Department of Water Resources.

1.3 In addition, the Application requests authority for Dominguez to record as ratebase for Lucerne the price of \$713,214, based on an appraisal of Replacement Cost New Less Depreciation in the amount of \$903,286.

APPENDIX A

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1.4 On completion of its review of the Application, RRB submitted a Report on the Proposed Acquisitions by Dominguez Water Company, dated June 19, 1998, hereinafter referred to as the "Report." The recommendations of the Report are summarized below:

- (a) Based on the estimated cost of future operations, Dominguez should be authorized to acquire the assets of Lucerne.
- (b) Based on RRB's lower appraisal of Lucerne, Dominguez should be authorized to record as ratebase the price of \$713,214 requested by the Application.
- (c) Authority for Dominguez to acquire the assets of Lucerne should be withheld until Dominguez complies with Section 116540 (a) of the California Health and Safety Code, which requires that new operators demonstrate to the California Department of Health Services ("DHS") that they possess adequate financial, managerial, and technical capability to provide proper service.

1.5 The Parties have agreed that authority for Dominguez to acquire all of the assets of Lucerne should not be withheld in view of the letter DHS sent to Dominguez on July 10, 1998, stating that Dominguez has clearly demonstrated to DHS that it possesses adequate financial, managerial, and technical capability to operate Lucerne and that DHS will issue an amended Water Supply Permit to Dominguez once the California Public Utilities Commission ("Commission") has approved Dominguez' acquisition of Lucerne.

1.6 The Parties further agree that Dominguez should be authorized to assume Lucerne's obligations under SDWBA because Dominguez will operate the assets constructed with funds obtained under SDWBA and will assume all obligations to maintain and repair those assets as agreed to by Lucerne.

1.7 Finally, the Parties agree that, pursuant to Section 2720 of the California Public Utilities Code, Dominguez should be authorized to record as ratebase for Lucerne the price of \$713,214 requested by the Application.

By: Peter G. Fairchild

PETER G. FAIRCHILD
Principal Counsel
Ratepayer Representation Branch
of the Water Division

Date: 8/6/98

By: C.G. Alario

C.G. ALARIO
Regulatory Affairs Manager
Dominguez Water Company

Date: 8/4/98

By: Nadine D. Strauss

NADINE STRAUSS
President
Lucerne Water Company

Date: 8/4/98

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document entitled SETTLEMENT to the parties of record in this proceeding by mailing by first-class mail a copy thereof properly addressed to each party.

Dated at San Francisco, California, this 6th day of August, 1998.

/s/ ALBERT HILL

Albert Hill

(END OF APPENDIX A)