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Decision 99-07-040 July 22, 1999

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Joint Application of Dominguez Water Company (U-330-W) and Hawkins Water Service (U-114-W) for Approval of the Acquisition of the Utility Assets of Hawkins Water Service by Dominguez Water Company.

Application 99-02-003  
(Filed February 5, 1999)

**OPINION ADOPTING SETTLEMENT**

**1. Summary**

We conclude that the all-party settlement filed in this proceeding is in the public interest and we approve it, thereby authorizing Dominguez Water Company (Dominguez) to acquire Hawkins Water Service (Hawkins) under the terms of the settlement.

**2. Procedural and Factual Background**

Dominguez and Hawkins jointly filed an application on February 5, 1999, seeking approval of their proposal for Dominguez to acquire the utility assets of Hawkins, a privately owned Class D water utility which serves 51 customers in an outlying area of the city of Santa Rosa in Sonoma County. Dominguez, a wholly-owned subsidiary of Dominguez Services Corporation (DSC), is a Class A water company and currently provides water to approximately 34,600 customers in two operating divisions.<sup>1</sup>

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<sup>1</sup> In addition to Dominguez, DSC owns and operates ten small water systems in southern Kern County (through its Kern River Valley (Kern River) subsidiary) and four small water systems in northern Los Angeles County (through its Antelope Valley (Antelope) subsidiary). These small water systems serve approximately 5,250

*Footnote continued on next page*

Dominguez' South Bay division is located in southern Los Angeles County and serves about 32,400 customers, most of them within the City of Carson, the City of Torrance and a modern industrial subdivision in the City of Compton. Dominguez' Redwood Valley division, located in northern California, serves about 370 customers in two of Sonoma County's Russian River communities (the town of Armstrong Valley, north of Guerneville and Ranch Del Paradiso, a subdivision of the town of Duncan Mills) and approximately 1,250 customers in Lake County in the town of Lucerne.<sup>2</sup> In addition, the Redwood Valley division currently is managing Coast Springs Water Company, which serves about 237 customers in the town of Dillion Beach in Marin County.<sup>3</sup>

On February 18, in Resolution ALJ 176-3010, we preliminary categorized this application as ratesetting and preliminarily determined that no evidentiary hearings would be necessary. On February 24, the Ratepayer Representation Branch of the Commission's Water Division (RRB) filed a timely protest; consequently, a prehearing conference (PHC) was set for April 7. At the PHC before the assigned administrative law judge (ALJ) and Commissioner Duque, the assigned Commissioner, the three parties stated they had commenced preliminary settlement discussions and hoped to reach a settlement of all issues

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customers. On February 5, 1999, Dominguez, Antelope, Kern River and California Water Service Company filed a joint application at the CPUC for approval of their merger. The application, A.99-02-004, is pending.

<sup>2</sup> We approved Dominguez' acquisitions of these three small water systems in Decision (D). 98-11-018 and D.98-11-019.

<sup>3</sup> On February 5, 1999, Dominguez and Coast Springs Water Company filed a joint application at the CPUC for Dominguez to acquire Coast Springs. That proceeding, A.99-02-005, is pending.

raised by the application within the ensuing month. On April 9, Commissioner Duque issued a scoping memo that designated ALJ Vieth as the principal hearing officer, identified the issues to be decided and established a procedural schedule. The schedule provides for a Commission decision by July 22, 1999, or in no event later than 18 months from the date of filing of the application, in accordance with Pub. Util. Code § 1701 et seq. and Article 2.5 of our Rules of Practice and Procedure.<sup>4</sup>

On May 14, the parties filed the settlement at issue here. No opposition has been filed and at least one Hawkins' customer has written to support the proposed acquisition.

### **3. The Proposed Acquisition**

Applicants propose that Dominguez purchase from Hawkins and Hawkins sell to Dominguez, for the purchase price of \$51,500 in cash, all Hawkins' utility assets including land and plant valued at \$51,321 and miscellaneous inventory valued at \$179. The Asset Purchase Agreement is Exhibit D to the Application. Upon the transfer to Dominguez of Hawkins' Certificates of Public and Convenience, Hawkins public utility obligations would cease. Dominguez would assume those public utility obligations and all direct control of the public water system.

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<sup>4</sup> Unless otherwise indicated, all subsequent citations to sections refer to the Public Utilities Code, and all subsequent citations to rules refer to the Rules of Practice and Procedure, which are codified at Chapter 1, Division 1 of Title 20 of the California Code of Regulations.

#### 4. Highlights of the Settlement

The settlement resolves all issues pending in this proceeding, including the following:

- Ratebase. The parties agree Dominguez should be authorized to record as ratebase for Hawkins the value of Hawkins' current ratebase, \$51,321.
- Rates: The parties agree Dominguez should not apply for a general change in rates for Hawkins before 2004 (applicants had proposed to defer a rate change application until 2002). When it files, Dominguez should use its own capital structure to calculate the requested rate of return for Hawkins. The effect of a lower cost of equity (based on a Class A rather than a Class D equity structure) will be a lower rate of return.
- Improvements. The parties agree Dominguez should make all future improvements necessary to maintain service to Hawkins' customers.

#### 5. Standard for Review of All Party Settlements

66.3 We review settlements, initially, for compliance with Article 13.5 of our Rules. Dominguez, Hawkins, and RRB have followed the procedural requirements set out in those rules and we consider, next, the substantive conditions for our approval. When, such as here, a settlement is presented as an "all party" settlement, we review it for conformance with the broad guidelines we adopted in Re San Diego Gas and Electric Company, D.92-12-019, 46 CPUC 2d 538 (1992). Those guidelines require that we be satisfied that:

- a. a proposed all party settlement commands the unanimous sponsorship of all active parties to the instant proceeding;
- b. the sponsoring parties are fairly reflective of the affected interests;
- c. no term of the settlement contravenes statutory provisions or prior Commission decisions; and

d. the settlement conveys to the Commission sufficient information to permit us to discharge our future regulatory obligations with respect to the parties and their interests.

## 6. Discussion

### 6.1 *Compliance With the All-Party Settlement Guidelines*

We find that the settlement meets each of the four guidelines articulated above. We note Dominguez, Hawkins and RRB are the only parties, no other person or entity has sought to intervene for any purpose and the executed settlement is unopposed. We are persuaded that utility and ratepayer interests have been asserted by and are adequately represented by these three parties.

72-1,12  
In recent years, both this Commission and the Legislature have favored the acquisition of small Class C and D water companies by larger Class A water companies. Such acquisitions generally result in an improved ability to meet the financial and managerial challenges caused by California's aging water infrastructure and by more stringent federal and state water quality laws. A number of factors combine to underscore the positive nature of this acquisition. Hawkins' current owners are of retirement age and no longer wish to operate, manage and maintain the public utility water system that they own. Dominguez has proven experience operating and maintaining small water systems and has the technical, managerial and financial capability to operate and maintain Hawkins. Hawkins' existing customer base will benefit from Dominguez lower cost of capital with respect to financing future capital improvements. Dominguez' existing -- and future -- Redwood Valley division customer base will benefit from increased operational efficiencies and synergies, economies of scale and enhanced emergency response capabilities. Applicants' rate impact analysis

forecasts the acquisition will have no significant impact on the Hawkins' revenue requirement.

Following acquisition, while the management and operations of Hawkins will be merged into Dominguez' Redwood Valley division, Hawkins will remain a separate rate district. The parties agree the ratebase valuation of Hawkins' land and plant assets should be \$51,321, which is approximately the book value. Section 2720 requires an additional showing if the rate base valuation sought is greater than Reproduction Cost Net Less Depreciation (RCNLD) for the system. That is not the case here, where the undisputed calculation of RCNLD is \$112,934.

Under the terms of the settlement, the rates we approved for Hawkins by Resolution W-4126, dated December 15, 1998, will remain in effect through 2004. We retain jurisdiction to fully consider the merits of any future application for a rate change or for any other authority requiring our approval.

### **6.2 Environmental Review**

The Commission's staff has determined that the transfer of control proposed by applicants constitutes "a project" under the California Environmental Quality Act (CEQA), Pub. Resources Code § 21000 et seq. However, since it can be seen with certainty that no significant effect on the environment could result from our granting the authorization, the proposed project itself qualifies for an exemption from CEQA pursuant to § 15061(b)(3) of the CEQA guidelines. Therefore, no further environmental review by the Commission is required.

### **6.3 Conclusion**

We conclude that the settlement together with the record in this proceeding provide sufficient information to permit us to make an informed

evaluation that adoption of the settlement is in the public interest. We conclude that the settlement should be adopted and Dominguez should be authorized to acquire Hawkins pursuant to the terms of the settlement.

## **7. Health and Safety Code Compliance**

Health and Saf. Code § 116525 requires the owner of a public water system to obtain a permit to operate the system from the Department of Health Services and the ensuing sections establish the application and review processes. As recently amended, Health and Saf. 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."* (Emphasis added.)

Accordingly, upon the change of ownership, Dominguez must comply with Health and Saf. Code § 116525 et seq.

## **8. Draft Decision**

The draft decision of ALJ Vieth was mailed to the parties for comment as required by the scoping memo. No comments were filed. Because this is an uncontested matter pertaining solely to water corporations, the public review requirements are not applicable. (See § 311(g)(3).)

## **Findings of Fact**

1. Dominguez, Hawkins and RRB, the three parties to this proceeding, have settled all issues and memorialized their agreement in the settlement filed on May 14, 1999.

2. The settlement is unopposed.

3. The settlement is an all-party settlement.

### **Conclusions of Law**

1. The settlement complies with Article 13.5 of the Commission's Rules of Practice and Procedure and meets the all-party settlement guidelines outlined in Re San Diego Gas & Electric Co., supra.
2. The settlement should be adopted.
3. The acquisition and transfer of control is a "project" that qualifies for an exemption from CEQA pursuant to § 15061(b)(3) of the CEQA guidelines.
4. Pursuant to Health and Saf. Code § 116540(a), upon change of ownership after January 1, 1998, a public water system must obtain a permit from the Department of Health Services.

### **O R D E R**

#### **IT IS ORDERED that:**

1. The settlement executed by Dominguez Water Company (Dominguez), Hawkins Water Service (Hawkins) and the Ratepayer Representation Branch of the Water Division, filed May 14, 1999, is approved. Pursuant to the terms of the settlement:
  - a. Hawkins is authorized to sell its utility assets to Dominguez and Dominguez is authorized to acquire Hawkins' utility assets.
  - b. Hawkins' Certificates of Public Convenience and Necessity shall be transferred to Dominguez and upon such transfer, Hawkins' obligations as a public utility shall terminate.
  - c. The ratebase value of Hawkins' land and plant utility assets is set at \$51,321.
  - d. Dominguez shall not apply for a general change in rates for Hawkins before 2004 and in such future application, shall use its own capital structure to calculate the rate of return for Hawkins.
  - e. Dominguez shall make all future improvements necessary to maintain service to the customers of Hawkins.



A.99-02-003 ALJ/XJV/hkr

2. Application 99-02-003 is closed.

This order is effective today.

Dated July 22, 1999, at San Francisco, California.

RICHARD A. BILAS  
President  
HENRY M. DUQUE  
JOSIAH L. NEEPER  
JOEL Z. HYATT  
CARL W. WOOD  
Commissioners