



**2023 APPLICATION OF  
CALIFORNIA WATER SERVICE COMPANY**

**TO THE HAWTHORNE CITY COUNCIL FOR APPROVING RATE  
INCREASES FOR THE CITY OWNED WATER UTILITY  
SERVICES**

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## I. INTRODUCTION

California Water Service Company (Cal Water) operates the City of Hawthorne's (Hawthorne) water treatment and distribution system to provide safe and reliable water service to Hawthorne's residents under terms of the renewed lease of the Hawthorne Municipal Water System (Lease) dated August 9, 2011. The Lease also requires Cal Water to provide billing and collection services to Hawthorne water customers.

In June 2019, the Hawthorne City Council (City Council) adopted Resolution No. 8107 approving Cal Water's request for proposed rate increases for 2020, 2021, and 2022. Resolution No. 8107 also permitted Cal Water to implement a temporary surcharge<sup>1</sup> to recover certain costs incurred in connection with the Water Conservation Program Drought Plan (Drought Plan) as approved in amended 2015 Lease Agreement (Amended Lease). Resolution No. 8123, which affirmed Resolution No 8107, and titled "A Resolution of the City Council of the City of Hawthorne, California Consenting to a Water Rate Increase Proposed by California Water Service Company," was approved on August 27, 2019.

Cal Water hereby requests to establish procedures for 2023-2026 rate changes for Hawthorne water customers. The main drivers for the requested rate changes are proposed infrastructure improvements, rising cost of purchased water and increases in cost of service due to inflation as detailed in the following sections. Cal Water proposes a 9.4 percent increase in 2023, 11.7 percent decrease in 2024, 7.8 percent increase in 2025, and 3.2 percent increase in 2026. However, Cal Water is requesting to phase this increase evenly over four years to balance the rate impacts to the Hawthorne customers. The four-year phase-in proposal results in a 1.5 percent increase in 2023, 1.9 percent increase in 2024, 1.6 percent increase in 2025, and 2.3 percent increase in 2026.<sup>2</sup> Cal Water proposes to include a fourth calendar year in this rate increase proposal to recover capital infrastructure improvement and operation costs for 7 months of the year 2026 as the Amended Lease is scheduled to end on August 1, 2026<sup>3</sup>. Graph 3 at the end of this report,

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<sup>1</sup> Resolution No. 8123 approved the surcharge from January 2020 to August 2026.

<sup>2</sup> The phased in rates approach mathematically generates different rate change percentages per year and cumulatively, but as shown in Graph 1 and Table 3, both options result in the same total revenues over the four-year period.

<sup>3</sup> If the Lease is extended or renewed, Cal Water reserves the right to re-analyze the adequacy of the existing rates and may propose additional increases if appropriate

Hawthorne's rates with the full increase compare reasonably to the rates of surrounding communities.

In summary, a total revenue increase of \$950,000 or 8.7 percent, phased-in over four years, is needed to partially offset the additional costs incurred to operate the Hawthorne water system safely, effectively, and efficiently.

Cal Water also requests to establish a Full Cost Balancing Account (FCBA) as a mechanism to track and offset the difference between adopted water production costs and actual water production costs. Differences in water production costs may result from non-controllable changes due to inflation, rate increases by wholesale water suppliers, power and pump taxes, or availability of water sources. The FCBA mechanism works such that it tracks the balance owed to customers when the adopted water production costs are below actual production costs and balances owed to the company when actual water production costs exceed adopted production costs. In effect, the FCBA is designed to neutralize fluctuations in water production costs.

This request is consistent with the Lease adopted by resolution no. 7386. Specifically, page 3, Section 8 of the Lease states:

“Lessee may from time to time ask City to approve amendments to the schedule of maximum rates and charges. Any such amendment shall require approval by the City, which approval shall not be unreasonably withheld. In determining reasonable maximum rates and charges, City shall consider all relevant information, including the California Public Utilities Commission approved rates for Lessee or other public utility water corporations in similar, nearby municipalities or jurisdictions. An amendment may include any or all of the following: ... (vi) the establishment of a formula for automatic adjustments (based on the commodity cost of water acquired by Lessee from public agencies)”

Also, the proposed mechanism to track and offset water production cost differences is reasonable and consistent with Section 53756 of the California Government Code, which allows the City to adopt a schedule of fees or charges authorizing automatic adjustments that pass-through increases in wholesale charges for water or adjustments for inflation if it complies with the following:

- a) It adopts the schedule of fees or charges for a property-related service for a period not to exceed five years pursuant to Section 53755,
- b) The schedule of fees or charges may include a schedule of adjustments, including a clearly defined formula for adjusting for inflation. Any inflation adjustment to a fee or charge for a property-related service shall not exceed the cost of providing that service,
- c) The schedule of fees or charges for an agency that purchases wholesale water, sewage treatment, or wastewater treatment from a public agency may provide for automatic adjustments that pass through the adopted increases or decreases in the wholesale charges for water, sewage treatment, or wastewater treatment established by the other agency, and
- d) Notice of any adjustment pursuant to the schedule shall be given pursuant to subdivision (a) of Section 53755, not less than 30 days before the effective date of the adjustment;

Cal Water proposes to track the difference between actual and adopted production costs in the FCBA. The FCBA methodology is described in Appendix 1.

## **II. CURRENT OPERATIONS**

### **A. ORGANIZATION**

As of April 1, 2023, the Hawthorne water system personnel organization includes: Ralph Felix, District Manager, Robert Thompson, Operations Manager, and Michael Miller, Superintendent. Ron Sorensen, District Capital Manager, also provides a significant amount of operational and capital project delivery support.

The customer service center for Hawthorne is located at 2632 West 237th Street, Torrance, California. This office handles district operations, including applications for service, collections, and other service-related matters. Customers' accounts are billed, and payments are processed by Cal Water's Information Technology Department located in San Jose, California. Third party contractors perform the majority of construction, including installation of water main pipelines (Mains), services, and large meters, as well as other major construction projects.

### **B. TERRITORY SERVED**

The Hawthorne water system serves approximately one half of the City of Hawthorne comprising roughly 6,400 connections. One pressure zone is required to supply service to an estimated population of 44,729.

### **C. WATER PRODUCTION**

Two water sources supply the portion of the Hawthorne system operated by Cal Water. One source is water purchased through two connections from the West Basin Municipal Water District (West Basin). The other source is groundwater produced from the City of Hawthorne's single active well. Water from this well is treated at the treatment plant located on Ramona Avenue. By operating the treatment plant, the quantity of water purchased from West Basin (and associated costs) has decreased significantly and this trend is incorporated into the forecast. Additionally, Cal Water will be working to get a currently inactive well back online to maximize the cost savings of using groundwater versus purchased water.

During the 12-month period ended June 2022, overall groundwater production was recorded to be 58.4 acre-feet (AF) due to operational and equipment challenges at the drinking water treatment plant. Production for the 2022 water year (July 2022 – June 2023) to date are recorded to be 238.8 AF due to capital improvement projects at the drinking water treatment plant. Cal Water estimates the capital improvements will be completed in late 2023, resulting in a substantial increase in the overall production capacity.

Cal Water projects a future water demand of approximately 3,617 AF for Hawthorne. Of this amount, the City of Hawthorne owns 1,882 AF of West Coast Basin water rights which will be exercised by pumping groundwater for delivery to customers following extensive treatment. Additionally, Cal Water can lease water rights from other West Coast Basin pumpers to maximize the productivity of the system’s wells should we exceed the existing adjudicated allocation.

#### **D. DISTRIBUTION AND STORAGE**

As of August 1, 2014, there are five storage facilities and four booster pumps. The five storage facilities, which have a total capacity of 7.5 million gallons, are identified in the following table:

**Table 1**

Designation	Type	Capacity (Gallons)
Reservoir No. 1	Steel	1,800,000
Reservoir No. 2	Steel	1,800,000
Reservoir No. 3	Steel	1,800,000
Reservoir No. 4	Steel	1,800,000
High Tank No. 5	Steel - elevated	250,000
	<b>TOTAL</b>	<b>7,450,000</b>

### **III. SALES, AND SERVICES**

#### **A. SERVICES**

As of December 2022, there are 6,216 metered customers, 22 recycled water customers, and 195 flat-rate services. The total customer count is 6,433. Cal Water

estimates a minimal increase in the customer count to 6,439 in 2023 based on adjusted three-year average historical growth rate.

## **B. SALES**

In 2023 water sales are projected to be 1,575,778 Ccf<sup>4</sup> or 3,617 AFY, based on customer demand.

## **IV. EXPENSES**

Cal Water has seen its total operations and maintenance expenses increase since the last requested rate change. Rising inflation has increased the costs of operating and maintaining the water system as well as general and administrative costs.

One major factor affecting the requested increase is the rising cost of purchased water. West Basin Municipal Water District's (West Basin) purchased water rates continue to increase approximate 5 percent-7 percent annually. West Basin's rates have increased an average of 6 percent annually over the last 2 years. The increase in 2023 expenses is partially attributable to increases in costs related to higher purchased water prices from West Basin and higher purchased power costs. However, in 2024 with the reinstatement of an offline well, expenses will be partially offset by lower purchased water costs due to reduced purchase water volumes when the additional groundwater well source comes online.

Other increases include higher purchased power costs, chemical costs due to use of the water treatment plant at full capacity due to wells coming online, rent paid to the City of Hawthorne and other administrative and general and operating and maintenance expenses.

The primary drivers of the revenue increase proposal are based on the items below.

- a. Higher purchased water cost based on higher wholesale costs in the amount of approximately \$2,195,473.
- b. Higher O&M expenses in the amount of approximately \$59,375.
- c. Higher rent expense in the amount of approximately \$120,670.

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<sup>4</sup> A ccf is one hundred cubic feet or 748.5 gallons. It is the industry standard for billing units of water.

Furthermore, all operating expenses that are dependent on how much revenue is collected, such as taxes, uncollectibles, and rent are based on the annual revenue generated by the traditional rate-setting approach.

## V. CAPITAL INFRASTRUCTURE IMPROVEMENTS

Cal Water added \$7.4 million in plant improvements from 2020-2022. These include distribution Mains, large meters, booster pumps, and water treatment equipment. Listed below are several of the more impactful projects that Cal Water completed for the Hawthorne system since 2019:

	<b>Project Description</b>	<b>Amount (in \$s)</b>
1	Main replacement project, Prairie Ave: Rosecrans to El Segundo Blvd	\$2,790,349
2	Water treatment plant aeration basin replacement	\$324,043
3	Water treatment plant backwash tank replacement	\$276,673
4	Water treatment plant filtration media replacement	\$240,811
5	Station 8 booster pump D replacement	\$136,773
6	Station 8 booster pump E replacement	\$119,553
7	Hawthorne office safety improvements	\$151,366
8	Well 13 flowmeter replacement	\$80,672
9	Water treatment plant aeration basin scrubber media replacement	\$38,552

Hawthorne system improvements will continue with an additional \$7.3 million of capital projects slated for 2023 through 2026. These projects will continue to strengthen the Hawthorne system and improve water quality, operations efficiency, and fire flow availability for customers. Notably, Cal Water intends to install approximately 8,000 feet of new water Main, conduct a comprehensive water treatment plant optimization project, reactivate well #12-01, replace one booster pump at Station 8, rehabilitate well #13-01, and complete necessary building safety renovations.

Main replacements, such as those completed on Hawthorne Boulevard in 2013 and more recently in Prairie Avenue, and the upcoming 133<sup>rd</sup> Street project, improve the reliability of the distribution grid and service to customers. The stronger the backbone the

more resilient the system is during unforeseen events like Main breaks, broken fire hydrants, or natural disasters.

**VI. REQUESTED REVENUE INCREASE**

This section discusses Cal Water’s proposed revenue requirement with the expense updates and capital improvements discussed in the previous sections. Below is summary Table 2 of the rate impact.

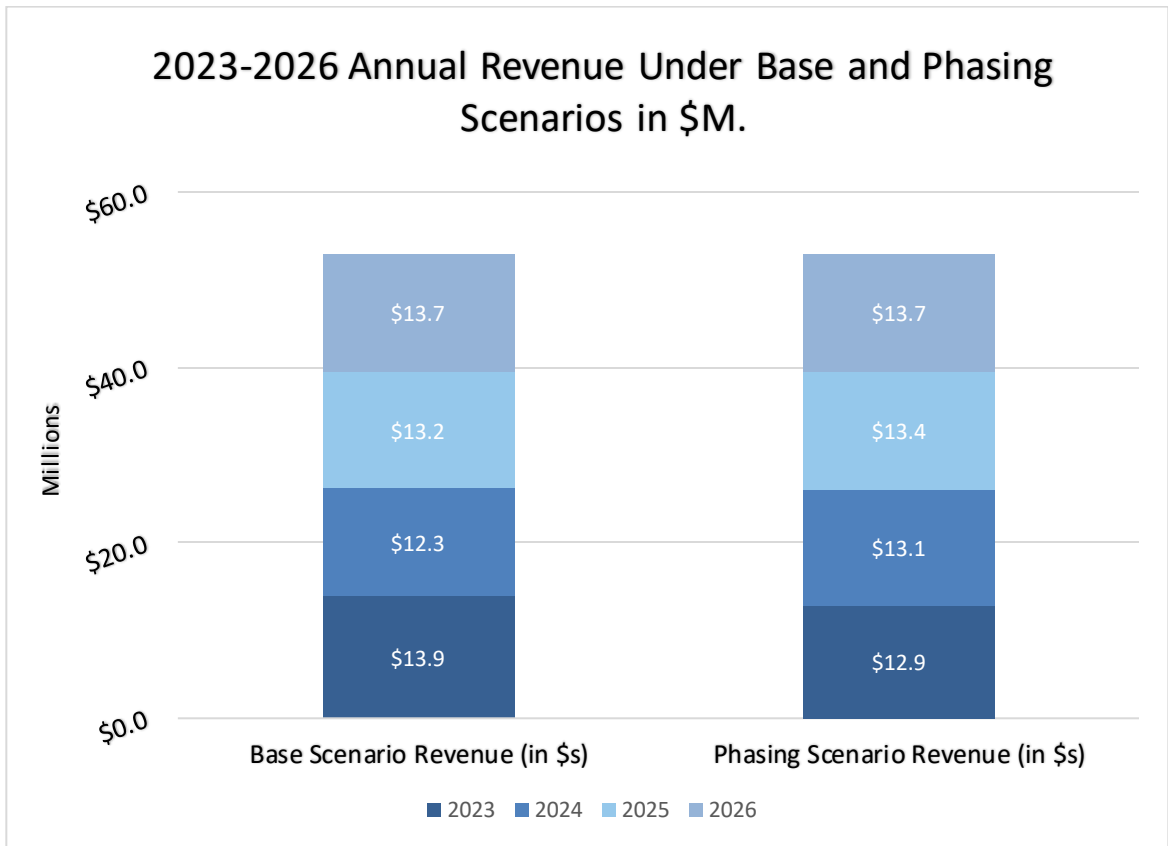
**Table 2 – Summary of Estimated Revenue and Rate Impacts**

	Present Revenue calculated based on 2023 Estimated usage and customer counts	Revenue Increase over 4 Years				Four Years (2023-2026) Total
		2023	2024	2025	2026	
New Revenue Requirement	12,701,118	12,893,847	13,135,665	13,350,616	13,653,713	53,033,841
Total Operating Expenses (Incl. Taxes)	12,368,339	12,814,947	11,078,267	11,998,371	12,431,010	48,322,595
Net Operating Revenue	332,779	78,901	2,057,397	1,352,244	1,222,703	4,711,246
Rate of Return	2.32%	0.55%	12.96%	8.24%	7.49%	7.48%
<b>Rate Impact</b>		<b>1.5%</b>	<b>1.9%</b>	<b>1.6%</b>	<b>2.3%</b>	

**A. Revenue Increase Proposal**

The annual revenue needed to fund current and future operations is \$13.9 million in 2023, \$12.2 million in 2024, \$13.2 million in 2024 and \$13.6 million in 2026. Under the traditional rate-setting approach, the total requested revenue increase is \$950 thousand or 8.7 percent increase from 2023 through 2026. The primary drivers of the revenue increase proposal are based on the items listed below in Graph 2 and Table 3. However, Cal Water is proposing to phase-in the increase evenly over the four-year period to mitigate the first-year rate impact. The phased approach increases revenues by \$192 thousand or 1.5 percent in 2023, \$241 thousand or 1.9 percent in 2024, \$214 thousand or 1.6 percent in 2025, and \$303 thousand or 2.3 percent in 2026 as shown on Table 3. While the expected revenue under the phased scenario varies on an annual basis compared to the annual revenue projected under the traditional approach, the total revenues over the four years is \$53.0 million in both cases as shown in Graph 1.

Graph 1



Below Graph 2 shows how each expense category contributes to 2023 total proposed revenue.

**Graph 2 – Expenses as a Percentage of Total Revenue**



**Table 3**

2022 (Adopted) and 2023 to 2026 (Proposed) Summary of Earnings					
	2022 Adopted	2023 Proposed	2024 Proposed	2025 Proposed	2026 Proposed
<b>Operating Revenue Under Standard Approach</b>					
Total Base Revenue	13,219,627	13,889,647	12,265,665	13,225,746	13,652,783
Revenue \$ Increase <sup>(2)</sup>		1,188,529	(1,624,839)	959,324	427,038
Revenue % Increase		9.4%	-11.7%	7.8%	3.2%
<b>Operating Revenue Under Phasing Option #1: Even Phasing</b>					
Base Revenue Under Phasing		13,889,647	12,265,665	13,225,746	13,652,783
Phased Revenue Adjustment		(995,800)	870,000	124,870	930
Total Phased Revenue		12,893,847	13,135,665	13,350,616	13,653,713
Revenue \$ Increase		192,729	241,022	214,140	303,098
Revenue % Increase		1.5%	1.9%	1.6%	2.3%
<b>Operating Expenses</b>					
Revenue Sharing <sup>(1)</sup>	761,964	711,042	776,216	829,488	829,456
Purchased Power	324,057	197,187	216,906	238,597	260,287
Purchased Water	3,743,664	5,939,137	3,240,735	3,564,484	3,888,233
Pump Taxes	827,733	621,005	1,023,960	1,105,877	1,187,794
Payroll	786,413	696,018	725,250	755,711	786,171
Benefits	713,276	631,288	657,802	685,430	713,057
Postage	-	21,896	21,900	21,903	21,906
Other Operations and Maintenance	527,591	565,070	565,070	565,070	565,070
Conservation	20,000	15,000	15,000	15,000	15,000
Purchased Chemicals	112,545	79,742	150,000	200,000	250,000
Lab Fees	66,516	38,466	38,466	38,466	38,466
Uncollectibles <sup>(1)</sup>	24,449	56,583	49,967	53,879	55,618
Other Administrative and General	341,970	180,044	196,711	200,579	204,448
Rent <sup>(1)</sup>	1,406,328	1,526,998	1,448,187	1,513,466	1,578,744
Taxes other than Income <sup>(1)</sup>	79,208	71,917	72,727	76,224	79,188
Depreciation	1,092,448	1,045,956	1,140,591	1,169,415	1,198,239
Tank Painting	-	-	277,388	487,859	284,585
Sub-total Operating Expenses	10,828,161	12,397,347	10,616,877	11,521,447	11,956,262
Income Taxes <sup>(1)</sup>	472,063	417,599	461,390	476,924	474,748
<b>Total Operating Expenses with Taxes</b>	<b>11,300,224</b>	<b>12,814,947</b>	<b>11,078,267</b>	<b>11,998,371</b>	<b>12,431,010</b>
<b>Net Operating Revenue</b>	<b>1,919,403</b>	<b>78,901</b>	<b>2,057,397</b>	<b>1,352,244</b>	<b>1,222,703</b>
Rate Base	16,248,513	14,361,740	15,880,198	16,403,680	16,331,055
<b>Rate of Return</b>	<b>11.81%</b>	<b>0.55%</b>	<b>12.96%</b>	<b>8.24%</b>	<b>7.49%</b>
Notes:					
1) Based on the annual revenues calculated under the standard approach.					
2) The 2023 revenue increase is based on the 2022 rates and 2023 sales and services.					

## VII. REQUESTED RATE INCREASE

### A. Rate Design

Cal Water proposes to maintain the current rate design and senior discount program for its 2023 to 2026 rate proposal. The rate design for each customer class is as follows:

- a. General Metered Connections: Monthly service charge plus a single quantity rate applied to consumption.
- b. Senior Metered Connections: Discounted monthly service charge for 5/8-inch and 3/4-inch services plus a discounted two-tiered quantity rates applied to consumption.
- c. Recycled Water Metered Connections: Discounted monthly service charge plus a discounted single quantity rate applied to consumption.
- d. Private Fire Protection: Discounted monthly service charge.

#### i. PROPOSED RATES

The four tables below depict the proposed rates over the next four years, 2023, 2024, 2025, and 2026.

**Table 4  
General Residential Metered Service**

	General Service				
	Present 2023	Proposed 2023	Proposed 2024	Proposed 2025	Proposed 2026
	<b>Quantity Rates</b>				
Price per Ccf	\$5.8117	\$5.8999	\$6.0102	\$6.1082	\$6.2468
	<b>Monthly Metered Service Charge</b>				
5/8-inch	\$23.85	\$24.21	\$24.67	\$25.07	\$25.64
3/4-inch	\$23.85	\$24.21	\$24.67	\$25.07	\$25.64
1-inch	\$48.54	\$49.28	\$50.20	\$51.02	\$52.17
1-1/2 inch	\$96.51	\$97.97	\$99.81	\$101.43	\$103.73
2-inch	\$124.01	\$125.89	\$128.24	\$130.33	\$133.29
3-inch	\$240.57	\$244.22	\$248.79	\$252.84	\$258.58
4-inch	\$402.60	\$408.71	\$416.35	\$423.13	\$432.74
6-inch	\$709.79	\$720.56	\$734.02	\$745.99	\$762.93
8-inch	\$1,080.13	\$1,096.52	\$1,117.01	\$1,135.22	\$1,160.99
10-inch	\$2,742.41	\$2,784.03	\$2,836.06	\$2,882.30	\$2,947.73
12-inch	\$3,934.75	\$3,994.45	\$4,069.12	\$4,135.45	\$4,229.33
14-inch	\$5,365.56	\$5,446.98	\$5,548.79	\$5,639.25	\$5,767.27

**Table 5  
Senior Residential Metered Service**

	<b>Senior Service</b>				
	<b>Present 2023</b>	<b>Proposed 2023</b>	<b>Proposed 2024</b>	<b>Proposed 2025</b>	<b>Proposed 2026</b>
	<b>Quantity Rates</b>				
Tier 1: Price per Ccf (0-10 ccf)	\$4.6494	\$4.7199	\$4.8081	\$4.8865	\$4.9975
Tier 2: Price per Ccf for 10+ ccf	\$5.8117	\$5.8999	\$6.0102	\$6.1082	\$6.2468
	<b>Monthly Metered Service Charge</b>				
5/8-inch	\$19.09	\$19.38	\$19.75	\$20.07	\$20.52
3/4-inch	\$19.09	\$19.38	\$19.75	\$20.07	\$20.52
1-inch	\$48.54	\$49.28	\$50.20	\$51.02	\$52.17
1-1/2 inch	\$96.51	\$97.97	\$99.81	\$101.43	\$103.73
2-inch	\$124.01	\$125.89	\$128.24	\$130.33	\$133.29
3-inch	\$240.57	\$244.22	\$248.79	\$252.84	\$258.58
4-inch	\$402.60	\$408.71	\$416.35	\$423.13	\$432.74
6-inch	\$709.79	\$720.56	\$734.02	\$745.99	\$762.93
8-inch	\$1,080.13	\$1,096.52	\$1,117.01	\$1,135.22	\$1,160.99
10-inch	\$2,742.41	\$2,784.03	\$2,836.06	\$2,882.30	\$2,947.73
12-inch	\$3,934.75	\$3,994.45	\$4,069.12	\$4,135.45	\$4,229.33
14-inch	\$5,365.56	\$5,446.98	\$5,548.79	\$5,639.25	\$5,767.27

**Table 6  
Recycled Water Service**

	<b>Recycled Service</b>				
	<b>Present 2023</b>	<b>Proposed 2023</b>	<b>Proposed 2024</b>	<b>Proposed 2025</b>	<b>Proposed 2026</b>
	<b>Quantity Rates</b>				
Price per Ccf	\$3.3650	\$3.4160	\$3.4799	\$3.5366	\$3.6169
	<b>Monthly Metered Service Charge</b>				
5/8-inch	\$16.94	\$17.19	\$17.51	\$17.80	\$18.20
1-inch	\$46.12	\$46.82	\$47.69	\$48.47	\$49.57
1-1/2 inch	\$63.05	\$64.01	\$65.21	\$66.27	\$67.78
2-inch	\$89.13	\$90.49	\$92.18	\$93.68	\$95.81
3-inch	\$137.77	\$139.86	\$142.48	\$144.80	\$148.09
4-inch	\$215.31	\$218.58	\$222.67	\$226.30	\$231.43
6-inch	\$347.25	\$352.52	\$359.11	\$364.97	\$373.25
8-inch	\$514.19	\$522.00	\$531.75	\$540.42	\$552.69
10-inch	\$639.44	\$649.14	\$661.28	\$672.06	\$687.31

**Table 7  
Fire Protection Service**

	<b>Private Fire Protection</b>				
	<b>Present 2023</b>	<b>Proposed 2023</b>	<b>Proposed 2024</b>	<b>Proposed 2025</b>	<b>Proposed 2026</b>
	<b>Monthly Metered Service Charge</b>				
1-1/2 inch	\$25.24	\$25.63	\$26.11	\$26.53	\$27.13
2-inch	\$33.66	\$34.17	\$34.81	\$35.38	\$36.18
3-inch	\$50.50	\$51.27	\$52.23	\$53.08	\$54.28
4-inch	\$67.34	\$68.36	\$69.64	\$70.78	\$72.38
6-inch	\$101.00	\$102.54	\$104.45	\$106.16	\$108.57
8-inch	\$134.67	\$136.71	\$139.27	\$141.54	\$144.75
10-inch	\$168.33	\$170.89	\$174.08	\$176.92	\$180.93
12-inch	\$202.01	\$205.07	\$208.91	\$212.31	\$217.13
14-inch	\$235.67	\$239.25	\$243.72	\$247.69	\$253.32

ii. 2023 RATE COMPARISON

The below Graph 3 compares the average bill for Cal Water’s proposed rates to the rates of utilities in the surrounding communities for a residential customer who uses 13 hundred cubic feet.

Graph 3

