

CALIFORNIA WATER ASSOCIATION

Working Together. Achieving Results.

www.calwaterassn.com

IN THIS ISSUE:

- CWA Participates In Cpuc's Water-Energy Cost-Effectiveness Initiative......7
- California Water Service Group Announces Leadership Changes9

MESSAGE FROM THE PRESIDENT

California's investor-owned water utilities represent their customers in a variety of venues to ensure that they receive the benefit of the highest quality of both safe and reliable water services. Whether working with the California Public Utilities Commission (CPUC) or meeting with policymakers at the local, state and federal levels, California Water Association (CWA) members and leaders keep their customers at the forefront of their deliberations, debates and dialogues.

This edition of On Tap newsletter highlights the outcomes and benefits of the successful relationships CWA members build with regulatory agencies, legislators and suppliers. The articles in this edition include:

- Regulatory Compliance and Use of Local Water Sources Drive San Jose Water Company's Water Treatment Plant Improvement Project
- The CPUC's Water Quality Regulatory Responsibilities Discussed at National Legal Forum
- Public-Private Collaboration: Working Together in Sacramento
- CWA Participates in CPUC's Water-Energy Cost-Effectiveness Initiative
- Investor-Owned Water Utilities Represented at Supplier Diversity Forum
- California Water Service Group Announces Leadership Changes

To view On Tap in PDF format, click here, or access the online version on CWA's website at www.calwaterassn.com.

Sincerely,

Post W. Winkolm

R.W. Nicholson San Gabriel Valley Water Company 2013-2014 CWA President

QUESTIONS?

Contact the CWA office at: 1215 K Street, Suite 940 Sacramento, CA 9514 Phone: 916.231.2147 E-mail: jhawks@calwaterassn.com mdixon@calwaterassn.com

For instant California Water Association news:





MEMBER SPOTLIGHT

REGULATORY COMPLIANCE AND USE OF LOCAL WATER SOURCES DRIVE SAN JOSE WATER COMPANY'S WATER TREATMENT PLANT IMPROVEMENT PROJECT





fter а lengthy regulatory process, the California Public Utilities Commission (CPUC), on July 25, 2013, approved a series of needed upgrades to San Jose Water Company's (SJWC) Montevina Water Treatment Plant (Montevina WTP). The final decision approved a settlement between SJWC and the CPUC's Division of Ratepayer Advocates. Key terms of the settlement require the costs of the project to be included in SJWC's rate base through the filing of annual advice letters and total project costs to be limited to \$62 million. SJWC may request additional funding if project costs exceed the \$62 million cap.

The Montevina WTP is the primary supply source for the Town of Los Gatos and surrounding communities, producing an average of 10 percent of the total supply for Silicon Valley's largest water retailer. The plant treats local precipitation collected in the Santa Cruz Mountains watershed where a series of dams and automated intakes collect water from local creeks and from water released from SJWC's reservoirs.

The Montevina WTP, originally commissioned in 1970, has a hydraulic capacity of 30 million gallons per day. Although several upgrades have been made to the plant since that time, the treatment process – direct filtration and chlorination – remains unchanged. State and federal regulatory requirements for sediment and particle (turbidity) removal, disinfection and disinfection byproducts have become significantly more stringent since 1970. Additionally, SJWC has historic water rights on Los Gatos Creek and its tributaries, and limitations in the existing treatment process often result in loss of this low cost water supply.

In 2008, SJWC prepared a Facilities Plan to evaluate and recommend the necessary process and infrastructure upgrades for the Montevina WTP. The Facilities Plan served as the key document in SJWC's September 2010 application to the CPUC seeking approval of project costs and recovery for plant upgrades to meet water quality regulations and maximize use of the local water supply. Microfiltration (MF) membrane technology was ultimately chosen after evaluating the water quality data, regulatory drivers and condition of the infrastructure as well as pilot testing available technologies. MF was selected because of its ability to effectively remove turbidity while requiring lower disinfection for eliminating pathogens. Also, the technology's compact footprint is key to constructing upgrades on the small site. SJWC's experience with MF technology dates back to 1994 when the company commissioned the first full-scale MF plant in the United States at its Saratoga WTP.

Preparations are well underway to move the project forward. In addition to using state-of-the-art treatment technology, SJWC also is employing a progressive design-build project delivery method.

SPOTLIGHT NEMBER

REGULATORY COMPLIANCE AND USE OF LOCAL WATER SOURCES DRIVE SAN JOSE WATER COMPANY'S WATER TREATMENT PLANT IMPROVEMENT PROJECT*continued*

The small, constrained plant site, combined with the need to control costs, streamline the time to completion and operate the existing plant during construction, led to selecting this method. Progressive design-build offers the advantages of having a single point of contact for the owner, involving the construction team early in the design process and allowing greater input by SJWC in process-design decisions. The company anticipates awarding the progressive design-build contract to one of three prequalified teams by the end of 2013.

"This decision by the CPUC is really a win-win for our customers" stated Palle Jensen, Senior Vice President of SJWC. "In addition to new water quality regulations, Montevina is currently challenged by aging infrastructure. Many of its key components are at or beyond their useful lives, and the concrete structures do not meet current structural or seismic standards. Additionally, SJWC's other water supplies are highly dependent on the fragile Sacramento Delta. Therefore, maximizing the use of a low cost, gravity fed supply from the local watershed, as we will be able to do once the Montevina upgrades have been completed, is a tremendous benefit to our customers."

THE QUALITY & SERVICE FOCUS

THE CPUC'S WATER QUALITY REGULATORY RESPONSIBILITIES DISCUSSED AT NATIONAL LEGAL FORUM

awn White, Water Quality Manager for Golden State Water Company (GSWC) and chair of California Water Association's Water Quality Committee, explained the unique role of the California Public Utilities Commission in water quality regulation to the attendees at the annual meeting of the National Conference of Regulatory Attorneys (NCRA), held in San Francisco on June 17, 2013. NCRA, consists primarily of attorneys who practice as consumer advocates, either as part of the CPUC or as an independent entity. NCRA meets annually to discuss a myriad of regulatory issues facing energy, water, telecommunications and rail/transportation utilities and companies.

Unlike government-owned water utilities in the public sector, which are exclusively regulated for drinking water quality by the California Department of Public Health's (CDPH) Drinking Water Program, the state's investor-owned water utilities are jointly regulated by CDPH and the CPUC for compliance with applicable drinking water



quality standards. White drew on the judicial history of water quality regulation affecting CPUC-regulated water utilities to explain the importance of this shared jurisdictional regulatory responsibility.

Basically, the CPUC's role in water quality regulation came to prominence with a 2002 California Supreme Court decision, Hartwell Corporation et al v. the Superior Court of Ventura County (27 Cal. 4th 256, February 4, 2002), in which the Court held that Public Utilities Code Section 1759 precluded superior courts from interfering with the CPUC in the performance of its official duties. In this case, plaintiffs had sued certain regulated water companies for damages alleging that the utilities had caused harm and personal bodily injury by providing unsafe drinking water, although the water utilities contended they had complied with all applicable water quality standards.

In its deliberations, the Court recognized that the CPUC had adopted General Order No. 103, which established uniform standards of water quality service for regulated utilities, including "...that '[a] ny utility serving water for human consumption or for domestic uses shall provide water that is wholesome, potable, in no way harmful or dangerous to health'..." The Court determined that the CPUC's active regulatory role foreclosed an award of damages as long as the regulated utilities had complied with applicable water quality standards, based on the relevant, existing judicial test, specifically:

• "The Legislature has vested the [C]PUC with general and specific powers to ensure the health, safety, and availability of the public's drinking water."

THE CPUC'S WATER QUALITY REGULATORY RESPONSIBILITIES DISCUSSED AT NATIONAL LEGAL FORUM continued

- The [C]PUC has exercised and continues to exercise its jurisdiction to regulate drinking water quality."
- "An award of damages on the theory that the public utilities provided unhealthy water, even if that water actually met DHS [now CDPH] and [C]PUC standards, would interfere with a 'broad **and continuing** supervisory or regulatory program' of the [C]PUC."

This holding creates a **"safe harbor"** from tort liability if the utility has met CDPH standards. As noted by the Court, "DHS standards have been used by the [C]PUC in its regulatory proceedings for many years as an integral part of its broad and continuing program or policy of regulating water utilities. As part of that regulatory program, the [C]PUC has provided a safe harbor for public utilities if they comply with the DHS standards." However, a toxic tort claim may still be shown if the water utility has not complied with a CPUC or CDPH water quality standard.

White went on to summarize the water quality provisions of General Order 103 (now G.O. 103-A) and to emphasize the compelling need for the CPUC to exercise its continuing jurisdiction in water quality in order for the *Hartwell* decision to remain in effect. White concluded her remarks with a preview of the coming California regulations on hexavalent chromium, 1,2,3-trichloropropane and nitrosamines, plus a review of how her own company, GSWC, successfully managed a water quality emergency that occurred in its Barstow District. Just before Thanksgiving 2010, it was discovered that the actions of an outside party led to perchlorate contamination that leeched into the groundwater and subsequently made its way into GSWC's wells and distribution system.

Fortunately, GSWC was able to initiate its Emergency Operations Center immediately, including expeditiously notifying its customers, local officials and the general public; initiating "do not drink and boil water" notices through the media and reverse 911 calls; coordinating the remedial action with the CDPH; flushing its distribution system of the contaminated water; and lifting the public notices on November 24, 2010. The utility was commended by CDPH and local officials in Barstow and San Bernardino County for its timely response to the emergency.

LEGISLATIVE AND REGULATORY UPDATE

PUBLIC-PRIVATE COLLABORATION: WORKING TOGETHER IN SACRAMENTO





Catzen Brown

s with any industry, the water industry has multiple players, including investorowned water utilities, municipal water departments, and other public wholesale and retail water agencies and districts. Some of the individuals and faces are more well-known than others, but the defining characteristic is working together on water policy legislation that benefits the customers and utilities of all segments in the water industry's urban sector. Such is the case with Meg Catzen-Brown, Senior Policy Advisor for Nossaman LLP and Kathy Cole, Executive Legislative Representative with the Metropolitan Water District of Southern California (Metropolitan).

Both Catzen-Brown and Cole have been working in the water industry for more than 20 years. Catzen-Brown has represented the California Water Association's (CWA) investor-owned members for 25 years, and Cole began working with MWD in February 1992 when her mentor, long-time legislative representative Ray Corley, asked her to join the Metropolitan ranks as a legislative analyst. It was Corley who introduced Cole to Catzen-Brown, and the two grew together in their respective jobs, developing a collaborative working relationship that has benefitted their clients, the industry and water customers statewide.

Over the years, Catzen-Brown and Cole have worked on numerous legislative and policy issues, including conservation and Bay-Delta initiatives. One notable issue that is still working its way to a final conclusion was the 2009 water bond, which brought together cross-sections of the water industry, including public and private perspectives, as well as environmental perspectives. Multiple issues needed to be resolved, but Cole and Catzen-Brown described it as a time when the two worked in sync to bring about a suitable legislative outcome, which was crafting bond language that was inclusive and available to all water suppliers. According to Cole, "I came from the public side on the 2009 water bond issue, and Meg came from the private side. We identified our sectors' mutual needs and were able to pull people together to craft a water and funding policy that worked for CWA's members and for Metropolitan."

Catzen-Brown described working with Cole this way, "Kathy and I have worked on every big-picture water issue that the state has considered, particularly pertaining to water supply, conservation and reuse." Catzen-Brown further commented that, "Working with Kathy is great fun because she is incredibly smart and trustworthy. I like to say that working with Kathy does wonders for MY reputation because she is well respected, well connected and well informed."

When asked why their collaboration has worked, both Catzen-Brown and Cole said the same thing. They start from a similar place, digging for details to understand all sides of an issue and identify potential questions that may need to be answered. "We tend to get more into the weeds," said Cole. "And, when you're working side-by-side with someone who appreciates that approach, we double our efforts on behalf of the organizations we represent."

Catzen-Brown concurred. "We trust one another and communicate exceptionally well. There are no large egos in the room; we speak the same language and are interested in a constructive result

PUBLIC-PRIVATE COLLABORATION: WORKING TOGETHER IN SACRAMENTO continued

where no one person has to have the glory." Cole believes she and Catzen-Brown see the world similarly in that it is critical to be effective communicators, particularly with legislative term limits and the turnover at the Legislature. "We both believe we have to be well prepared and go back to the basics on water to educate legislators and their staff to help them understand this complex business."

Depending on the issue, the leadership role is shared by both women. Either Catzen-Brown or Cole readily assumes the responsibility of putting issues or concerns on the table, identifying what information is needed to reach a resolution and communicating consistently with one another to create the best possible outcome -- Catzen-Brown from the statewide and private enterprise perspective and Cole from the public and regional perspective.

And, to ensure CWA and MWD continue with the same quality of representation, Catzen-Brown and Cole are mentoring others to take the lead in the future, which begs the question, what will happen to them when that time comes? Cole responded by stating, "We are in the business of developing relationships, and sometimes you are lucky enough to develop a relationship with a colleague that will last a lifetime. Meg and I will always be close, wherever our paths take us." Catzen-Brown summed it up by saying, "Kathy and I are very close friends, and this duo will live on even after we retire!"

CWA PARTICIPATES IN CPUC'S WATER-ENERGY COST-EFFECTIVENESS INITIATIVE

n March 2013, the Energy Division of the California Public Utilities Commission (CPUC) hosted workshops on combined water use efficiency and energy efficiency programs. The programs are intended to further the CPUC's ongoing Energy Action Plan by directly reducing energy usage and indirectly through water conservation applications that simultaneously reduce water and energy usage. Known as the "embedded energy" in water, these savings estimate the amount of energy that potentially can be saved through programs that save water.

The CPUC has spent many years developing a cost-effectiveness framework for energy that has been used to assist decisionmakers in determining which energy-efficiency programs should be approved. This framework is defined by the California Standard Practice Manual, which outlines four cost-effectiveness tests (e.g., Total Resource Cost, Program Ratepayer Administrator Cost, Impact Measure and Participant) with different cost and benefit inputs depending on each test's perspective. Because the inputs and associated savings are estimated



continued on next page

CWA PARTICIPATES IN CPUC'S WATER-ENERGY COST-EFFECTIVENESS INITIATIVE continued



(since they occur in the future and must be projected for each year of the life of the equipment and of the anticipated number participating of customers), there is a continuing need to refine the mathematical models and techniques to optimize the accuracy of the cost-benefit analysis. Additionally, since the benefits from conservation programs that save both water and energy are not captured in the current tests, attempting to include water in the costeffectiveness framework further complicates the effort.

The CPUC's Energy Division formed a Project Coordination Group (PCG) for Water-Energy Cost-Effectiveness that serves as an interface among staff, consultants, utilities (both investor-owned and government-owned) and other stakeholders. The goal of the PCG is two-fold: (1) to develop methods for quantifying the embedded energy in water and the associated energy savings when water use efficiency programs reduce this embedded energy; and (2) to create a method that allows for analysis of all demand-side programs in the water sector and calculates the value of the embedded energy savings to utility customers (including allocation of those savings to energy and water customers).

The PCG includes representatives from academia, non-governmental organizations, ratepayer advocate groups, consulting firms, energy and water investor-owned utilities (IOUs) and municipal or government-owned water utilities. At its initial meetings in May through July, the PCG organized itself into four teams focusing on these questions:

1. Cost-Benefit Valuation and Assignment

- a.What additional costs and benefits to IOU customers should be considered when analyzing the cost-effectiveness of water-energy programs?
- b. What types of benefits, in the form of avoided costs, would result from joint water-energy programs, and to whom would these benefits accrue?
- c. How could costs be allocated in proportion to the benefits received by energy and water customers?
- 2. Is it feasible to divide avoided costs related to water savings programs into those avoided costs related to embedded energy savings versus avoided "water capacity" costs? If so, how? If not, how should the CPUC separate benefits to energy IOU customers?
- 3. Are publicly available sources of data and information available from which values for avoided costs can be derived? What are they?
- 4. Should the PCG establish avoided energy values based on marginal water supplies?

Representing the California Water Association (CWA) on the PCG are Patrick Pilz of California American Water, Bob Kelly of Suburban Water Systems and Jack Hawks of CWA.

POINTS OF INTEREST

INVESTOR-OWNED WATER UTILITIES REPRESENTED AT SUPPLIER DIVERSITY FORUM

va Tang, Golden State Water Company's (GSWC) Chief Financial Officer and Senior Vice President of Finance, represented investor-owned water utilities (IOUs) at the California Utilities Diversity Council's Consulting Services Forum on June 14. The Forum was designed to share best practices, advance a collaborative approach to increase the number of Diverse Business Enterprises (DBEs) included in consulting services and encourage DBEs and consulting firms to partner and subcontract with one another. Participants at the Forum included multi-disciplinary consulting firms, California utilities and DBEs.

After providing an overview of seven of the Class-A IOUs' supplier diversity procurement activities, Tang outlined several steps GSWC is taking to increase participation with DBEs such as encouraging non-diverse firms to subcontract with DBEs; and requiring all prime contractors to report the level of spending with diversity subcontractors. Among Tang's recommendations were getting buy-in from top-level management as well as forming a diversity committee and having a full-time diversity manager on staff.

CALIFORNIA WATER SERVICE GROUP ANNOUNCES LEADERSHIP CHANGES





Peter C. Nelson

Marin A. Kropelnicki

n July 31, California Water Service Group (Cal Water) announced several leadership changes beginning with the retirement of Chief Executive Officer Peter C. Nelson effective September 1. After his retirement, Nelson will continue to serve as Chairman of Cal Water's Board of Directors, and Chief Operating Officer Martin A. Kropelnicki will become President, Chief Executive Officer and a board member.

Under Nelson's leadership, the company expanded into three new states, more than tripled

its utility plant to \$1.45 billion, achieved consistently high service marks from customers and made continuous improvement a part of daily operations resulting in Cal Water being named one of the top 95 workplaces in the San Francisco Bay Area for the last two years.

Kropelnicki has been employed at Cal Water since 2006 and was named Bay Area Chief Financial Officer of the Year in 2009. He has more than 25 years of experience and has held executive and management level positions at several firms, including Deloitte & Touche Consulting Group and Pacific Gas & Electric Company.

Cal Water also selected Michael B. Luu as Vice President of Customer Service and Information Technology, a role he has filled in an interim capacity since February 2013. Luu is a Certified Project Manager, Certified Software Quality Engineer and Certified Water Treatment Operator. Luu has proven to be a top performer and excellent leader.

Finally, Timothy D. Treloar was appointed Vice President of Operations. He has worked for Cal Water since 1994 in various capacities and distinguished himself as manager of one of Cal Water's largest service areas. With both water quality and operations expertise, Treloar holds the most advanced certification available from the state of California in both water treatment and distribution.