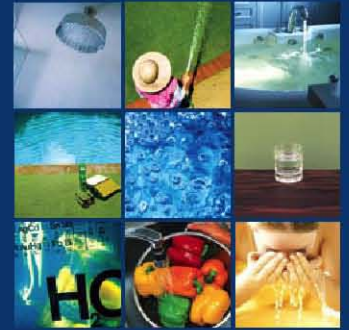


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# The Weekly Wrap



**January 20-27, 2012**

**No. 2012-3&4**

TO: CWA Member Companies  
FROM: Jack Hawks, Executive Director  
SUBJECT: Highlights for the Weeks Ending January 20 and 27, 2012

**Florio, Sandoval Unanimously Confirmed for Full Terms**—After a smooth, friendly and constructive hearing before the Senate Rules Committee on Jan. 18<sup>th</sup>, California PUC Commissioners Mike Florio and Catherine Sandoval were confirmed unanimously on Jan. 23<sup>rd</sup> for the full State Senate. I joined with about 20 others in testifying in support of both commissioners. I said they have both taken an active and affirmative interest in water issues and that CWA was pleased that Comr Sandoval had agreed to become the “Water Commissioner.”

In fact, Comr Sandoval, in her opening statement, said how pleased she was to be the Water Commissioner, as well as the lead on the Commission’s Small Business Council activities. Florio also mentioned water issues several times during his statement and responses to the questions asked by the five senators. Not surprisingly, most of the questions directed at Florio and Sandoval centered on the San Bruno accident, natural gas pipeline safety regulation and PG&E’s safety record. They were asked what the culture of the CPUC would be post-San Bruno; how they could verify the truth and accuracy of what PG&E says; how the PUC will ensure gas safety going forward; and why PG&E didn’t spend the money it was authorized in previous rate cases.

The commissioners were ready for all these questions and had detailed, specific and persuasive responses. For instance, on the last question, Comr Sandoval said there would be no more piecemeal consideration of utility capital/project spending; rather, the Commission will make sure each utility undergoes a trend analysis on its spending, which the PUC will evaluate in each rate case. Among the non-PG&E questions they received was one on how the PUC evaluates the effect (economic and otherwise) of the rate increases it grants. Florio handled this one adroitly, explaining how DRA and TURN analyze rate increase requests and how he does it himself.

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The only question that gave them pause was one from Senate President Pro Tem Daryl Steinberg, who asked why they voted differently on PG&E's long-term power purchase agreement with the huge Mojave Solar Project (Sandoval voted yes, and Florio voted no; the contract was approved on a split vote). Steinberg prefaced the question by noting that the contract was "\$1.25 billion over market," erroneously comparing it to the current spot market price for electricity, but it put Sandoval on the defensive. Still, she handled it well, saying that hers and Florio's analyses led them to different conclusions, and that she voted for it because it provided both capacity and ancillary services benefits, in addition to energy.

Both were asked about the PUC's stance on not subjecting itself to the state's Public Records Act, and both agreed that there's an "overclassification" on information that is intended to be confidential. They dodged an outright agreement with the senators by saying the Commission is "looking to see how far it can go administratively before coming to the Legislature." We'll need to pay attention to this one; it was obvious there is no sympathy in the Senate for keeping any document confidential that any utility gives to the Commission.

**Water Utilities Respond Forcefully at Troubling COC Hearing**—California PUC Administrative Law Judge (ALJ) Karl Bemdeserfer held a short hearing Jan. 23<sup>rd</sup> in the 2012-14 Cost-of-Capital (COC) applications for California American Water (CAW), California Water Service (CWS), Golden State Water (GSW) and San Jose Water (SJW), taking testimony on three questions raised in a Nov. 28<sup>th</sup> Ruling about the settlement reached with the Division of Ratepayer Advocates in the proceeding. Palle Jensen (SJW), Tom Smegal (CWS), Dave Stephenson (CAW), and Keith Switzer (GSW) testified for the companies, as did expert witness Mike Vilbert of the Brattle Group. Richard Rauschmeier testified for DRA. I call this a "troubling" hearing because of the questions asked by the ALJ. Instead of asking for details on the agreed-upon settlement, he asked a number of questions about risk. Among them were:

- What proportion of the equity risk premium represents liquidation risk that the utility will fail? Is there some risk a utility won't make enough money to pay its dividends?

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- Is it possible to separate market risk from regulatory risk and how would you do that? How can a utility's risk exposure change from a change in its regulatory environment? What are the actual risks faced by an investor in utility stocks after the effects of the PUC's policies (e.g., WRAMs, water COC adjustment mechanism) are taken into account? What risk does a stock purchaser actually face?
- What percentage of your revenues is subject to balancing accounts?
- How much does a 100 basis point reduction in the cost of capital impact the average bill? What is the impact of a 100 basis point decline on your utility's profitability and that of your parent company?
- Why is it appropriate to use a 30-year Treasury bond for reference purposes rather than one of a shorter term, given that the PUC is setting rates for only three years?
- In bad financial times, aren't investors seeking safe returns in utility stocks with relatively lower risks and stock betas?
- How does the trend in water utility actual returns on equity compare with authorized levels, and how do they compare with the actual returns experienced by comparable firms in the water utility sector?
- What's the objective of regulatory ratesetting? Is it to mimic the risk premiums found in the private market? If so, shouldn't the Commission eliminate all balancing accounts, the WRAM and any other mechanisms that provide a cushion for regulated utilities and that aren't available in non-regulated markets?
- If the return on equity in this proceeding were set at 8% instead of the 9.99% in the settlement (and the current ROE of 10.2%), what effect would it have on the ability of your company to operate, to attract new capital, and to borrow money?

As you can see, ALJ Bemesderfer started with questions on risk (apparently trying to elicit testimony that water utility risk is somehow much less than other utilities) and then moved to the real purpose of the hearing – the impacts of a 100 basis point reduction and then a 220 basis point reduction. Fortunately, Palle, Tom, Dave, Keith and Mike came with their "A games" and were able to blunt the implications of the judge's questions with specific financial, operational and regulatory details that support the companies' position in the settlement.

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For instance, they disabused the notion that you can parse certain risks in the equity risk premium, and explained how changes in regulatory policies will increase risks for utilities. Significantly, they pointed out a major risk not mentioned by the judge – the risk of not recovering expenditures that were either approved by the PUC or were above the forecasted levels. They explained the consequences of this risk in terms of greater debt levels and equity dilution.

They further explained that certain regulatory policies such as required forecasting methodologies and regulatory lag that limit timely recovery or the ability for full cost recovery. Another risk not mentioned by the judge was the fact that certain regulatory assets are long-term in nature because they aren't permitted recovery in 12 months, yet they are treated by the Commission as short-term in nature because they can only earn short-term commercial paper rates. The ALJ and the companies agreed to have written responses to some of the questions in a supplemental filing.

For the 8% ROE question, all of the representatives explained how such a decline would have dramatic adverse impacts on their companies, particularly in terms of reduced credit ratings, and much less ability to raise equity, issue debt and finance necessary infrastructure investments. They noted that a 10% ROE is the minimum expected by the financial community for the purpose of evaluating utility stocks. The hearing ended on this question, although there was brief testimony from Rauschmeier whose most important statement was that DRA fully supports the proposed settlement. I am hopeful that ALJ Bemserderfer and Assigned Commissioner Mark Ferron will end the flirtation with an 8 percent ROE as they move forward with the Proposed Decision. The tenor of this hearing certainly suggests that they should.

**Water Recycling Workshop Explores Rate Designs**—The California PUC's senior water analyst in its Policy & Planning Division, Cindy Truelove, hosted the third workshop Jan. 19<sup>th</sup> and 20<sup>th</sup> in the ongoing water recycling Order Instituting Rulemaking (OIR). The focus this time was on ratemaking. Cal Water's John Tootle moderated the IOU water panel, which featured Palle Jensen (San Jose Water), Leigh Jordan (Park Water) and Tom Smegal (Cal Water). They were asked to address these questions:

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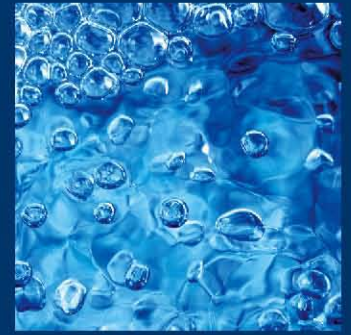
For current (or planned) recycled water sales by investor-owned water utilities, please characterize the cost of wholesale water purchased by your company; the distinct customer classes for this recycled water; the differential rates paid for recycled water by customer class; the volume of water sold by customer class; the factors employed to design class-specific rates; and any sources of non-utility financing used for the recycled water projects (e.g., public grants, loans, etc.)

John opened the panel with a discussion of recycled water's role in the PUC's Water Action Plan and a review of the pertinent statutes related to ratemaking in the Water Recycling Act of 1991. Leigh explained that while potable water is now generally priced with increasing block rates, recycled water can have decreasing block rates in order to promote sales. He said Park basically has one reclaimed water tariff for irrigators, which is the main customer class in its service territory.

Palle explained that San Jose Water is part of the South Bay Recycled Water Project's (SBRWP) scope of activity and that SJW's tariff employs uniform rates for recycled water. The service charge is the same as for potable water, while the quantity rate is the potable rate minus the water treatment charge plus any discounts received from the SBRWP. The math results in an 18% discount for irrigation customers and 38% for agricultural and industrial customers. Tom reviewed the rates paid for by Cal Water's recycled water customers in its service territories, primarily in the West Basin where Cal Water partners with the West Basin MWD and where the wholesale rates for Title 22 recycled water are \$500/af, while the "designer" recycled water that is more pure than potable water is priced at \$1,200/af.

All of the IOU panelists did a convincing job of explaining that Commission policy on recycled water resulting from this OIR will need the flexibility to accommodate the companies' differing operational, partnership, financing and customer requirements. Importantly, Assigned Commissioner Mike Florio, his chief advisor Matthew Tisdale and ALJ Weatherford attended the entire workshop and asked numerous questions throughout.

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The consumer/environmental panel consisted of the Division of Ratepayer Advocate's Max Gomberg (whose last day at DRA was Jan. 20<sup>th</sup> – he is now an analyst at the State Water Resources Control Board), Eric Rosenbloom of Envirospectives and Conor Everts of the Southern California Watershed Alliance. They also addressed the same issues as the IOU panel, but from their perspective.

And Max, indeed, has an interesting perspective. His main point was that it's time to start removing the discounts that recycled water customers now receive and that recycled water should move toward cost of service pricing. Max said Sec. 13550 of the Water Code considers potable water use to be unreasonable when an adequate source of recycled water is available. I got the impression that Max believes that such recycled water customers should be responsible for financing their own retrofits to receive the water, as well. It will be interesting to see if he changes his views after a few months at the SWRCB. Incidentally, Max also espoused DRA's position that the Water Revenue Adjustment Mechanism/Modified Cost Balancing Account should not apply to recycled water.

Both Eric and Conor approached recycled water from the overall supply and sustainability viewpoints, emphasizing the need for greater reliance on local sources to sustain supply in an environmentally responsible manner that minimizes social impacts and externalities. The third panel featured municipal water agency representatives from the Dublin-San Ramon Services District, the SBWRP, East Bay MUD, and West Basin MWD.

Dave Requa gave an excellent presentation, while Eric Hansen reaffirmed all the points that Palle made. In fact, he was very complimentary of San Jose Water's recycled water commitments. Given that the municipal panel complemented the IOU panel nicely, and in effect marginalized the DRA comments, this workshop turned out to be very productive from CWA's standpoint.

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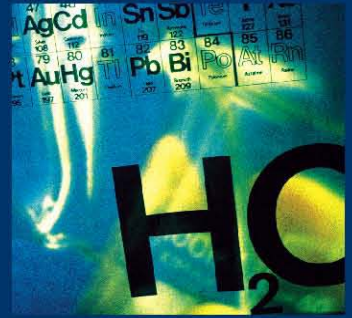
**Draft Financing Rule Issued for Comment in CBR Rulemaking**—On Jan. 20<sup>th</sup>, as directed by ALJ Sean Wilson in the Competitive Bidding Rule OIR, Southern California Gas Co., San Diego Gas & Electric Co., Pacific Gas and Electric Co., Southwest Gas Corp. and Southern California Edison Co. filed a report on the Jan. 9<sup>th</sup> workshop and a draft rule for future utility financings. As I suggested in the Jan. 13<sup>th</sup> *Weekly Wrap*, the Joint Utilities draft does track the issues discussed in the workshop. Specifically, the Draft Rule replaces the outdated competitive bidding process with a more general principles-based approach that seeks the lowest cost of capital and that:

- Requires utilities to conduct financings in a competitive and transparent manner;
- Reflects current market practices and standards (i.e. competitive negotiations instead of competitive bidding);
- Provides utility flexibility to take advantage of market opportunities and adjust pricing accordingly; and
- Facilitates utility efforts to provides diverse business enterprises with meaningful opportunities to participate in utility financings

The General Order 156-related provisions state that utilities with \$25 million or more in annual revenues shall use their best efforts to encourage, assist and recruit DBEs in being appointed as lead underwriter, co-manager or other roles in debt securities offerings. They also stipulate that utilities shall report on their DBE financing efforts in their GO 156 annual reports with information on the number of DBE firms used, the positions held by DBEs in the financings, the percentage of each debt issue allocated to DBE firms and the dollar amount of the debt issuances. They note that the appointment of DBE firms shall be cost-effective and that utilities shall retain the authority to use their business judgment in selecting firms for particular debt offerings.

The Draft Rule also proposes rules for debt enhancement features (risk management tools). Additionally, the Joint Utilities proposed revisions to the GO 24-B (actually 24-C) reporting requirements that 1) extend the time by which utilities must file G) 24-C statements to coincide with their SEC disclosure requirements; 2) modify the language to reflect current market terms, practices and standards; and 3) that modify the language to reflect current utility maintenance practices.

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CWA's Regulatory Committee reviewed the Draft Rule and GO 24-C revisions in a conference call on Jan. 25<sup>th</sup> and agreed that if the Commission adopts the new financing rule, the need for exemptions to the CBR will no longer be necessary. Also, CWA will provide comments suggesting a few editorial changes to the Draft Rule that will make them more applicable to utility needs (e.g., the goal will be to achieve the lowest long-term cost of capital for the utility and its ratepayers, not just the latter, as stated now).

**CAW Withdraws Support for Regional Desalination Project**—A lot has been happening in Monterey on the desalination front recently; unfortunately, none of it is constructive or conducive to getting a project built. In fact, the local delays and disruptions caused California American Water (CAW) to announce Jan. 17<sup>th</sup> that it has withdrawn its support of the three-party agreements behind the Regional Desalination Project that CAW had with Marina Coast Water District (MCWD) and the Monterey County Water Resources Agency (MCWRA).

As you know, the State Water Resources Control Board has imposed limitations on the Monterey Peninsula's water supply that will require CAW to significantly reduce its withdrawals from the Carmel River by 2016. The Regional Project was supposed to be the solution, and CAW, MCWD and MCWRA have been engaged in mediation since August 2011. Unfortunately, they have been unable to reach agreement on how to address the multiple challenges facing the Regional Project.

"Desalination will be part of the Monterey Peninsula's future water supply, but the Regional Desalination Project will not be the vehicle to deliver it," said California American Water President Rob MacLean in the company's news release. "Recognizing the severity of the state's cutback order, we must now move forward on an alternative water supply project as quickly as possible."



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CAW and the County have agreed to continue discussions over resolving remaining project issues and finding a water supply solution, and stated that they encourage Marina Coast Water District to participate in these talks. “Everyone is committed to finding a water supply solution for the Monterey Peninsula,” said Monterey County Supervisor Dave Potter. “With mediation ending and the Environmental Impact Report stalled, we have an opportunity to more broadly engage the public and fix the Peninsula’s water problem.”

Meanwhile, the California PUC is considering CAW’s request to continue work toward the design and construction of the pipeline and water storage facilities that were previously approved by the Commission and that will be required for any of the 11 contemplated water projects. CAW prepared a study of water supply alternatives capable of meeting the area’s water shortage late last year that identified 11 physical solutions, all of which require additional transmission and storage infrastructure. Obtaining Commission approval to proceed is necessary to ensure progress on a water supply project while the company determines its next steps.

In the news release, Rob added that any new water project will require permits or approvals from the CPUC, the California Coastal Commission and the County of Monterey. The Cease and Desist Order issued by the State Water Resources Control Board in 2009 set a schedule for pumping reductions on the Carmel River, which will cut the area’s water supply by more than half in 2017 unless a new water project is developed. CAW notes that CAW customers on the Monterey Peninsula already have among the lowest per capita water consumption in the state at less than 60 gallons per resident per day.

**CAW Responds to *Monterey Herald’s* Falsehoods on Rates**—Even as it struggles with the looming extreme water supply constraints, California American Water continues to deal with the nonsense emanating from the local newspaper, the *Monterey Herald*, which allowed a guest editorial recently to state that CAW’s rates were the highest in the country. In a Jan. 24<sup>th</sup> response, CAW Director of Rates Dave Stephenson called the newspaper on the lie it is perpetrating.

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Dave, of course, was much more polite than I am, saying that CAW is concerned by "repeated inaccurate statements that have appeared in the editorial pages of *The Herald*, which in a little over a year, has published 16 letters to the editor and commentaries by Ron Weitzman of WaterPlus." Speaking to the most recent guest editorial on Jan. 5<sup>th</sup> where Weitzman said that CAW's customers pay more for water than almost anywhere else in the world, Dave noted that the charge was completely untrue.

He explained that the Monterey Peninsula was among the first areas to adopt increasing tiered water rates, which is a necessity for this community, given the severe restrictions the state has placed on our primary water supply. He then pointed to CAW's extensive research on rates, which reveals that of the 665 water providers in California that do not charge flat rates, the cost for 10 Ccf of water for customers with a typical residential-inch meter ranges from \$9 to \$314. The average cost is \$43, and CAW's Monterey Peninsula District ranks 168th on the list, at \$48.

Dave's response also noted that the *San Diego Union Tribune* recently conducted an investigation into water rates in that region, finding that residential bills for 10,500 gallons of water among 23 water providers, including CAW, ranged from \$50 to \$85 per month to \$50. CAW's service area in San Diego County, which includes the cities of Coronado, Imperial Beach and part of San Diego, was third lowest at \$54/month.

Finally, Dave noted that *Global Water Intelligence* recently published a comparison of water rates throughout the world. According to that study, the average U.S. price for 1 Ccf is \$2.10. The United States ranked below Poland, Canada, the Czech Republic, the United Kingdom, France, Germany, Australia, and Denmark, which had the highest average price per Ccf at \$8.54. On the Monterey Peninsula, the average price per Ccf is \$2.82; obviously CAW's rates are nowhere near the highest in the country or the world. Congratulations to CAW for getting this response published. I hope it shuts up Weitzman for a few weeks (not likely, but at least he'll have to harp on something else).

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**California Water Law Symposium Explores Human Right to Water**—The UC Berkeley School of Law hosted the 8<sup>th</sup> Annual California Water Law Symposium in Boalt Hall on the Berkeley campus Saturday, Jan. 21<sup>st</sup>, and it featured panels around the theme, “Water and Growth: The Imperative for Sustainable Approaches to Uncertainty.” State Water Resources Control Board Vice-Chair Fran Spivy-Weber gave the keynote address, and she did a nice job of describing the requirements of the modern water lawyer of the future – knowledge of water law and regulations; understanding of the context in which future water law must operate (economics, sustainability, climate/energy, research, performance); and facility with the “people factor” (negotiations, contracts, temperament). She also reviewed the current priorities of the State Board and the Regional Boards (Delta in-stream flows, stormwater permits, groundwater, desalination, among others).

This year, there were eight panels (two each concurrently). Along with California PUC Administrative Law Judges Sean Wilson and Melisa Semcer, Commissioner Mark Ferron’s Chief of Staff Charlotte TerKeurst and Water Advisor Michael Colvin, and Cindy Truelove of the Policy & Planning Division, I attended the following:

- California Water Management Success Stories: The Portfolio Management Approach and Other Advances in Sustainability;
- The Water-Energy Nexus: Integrated Water Resource Management;
- Smart Water Planning for Development and Growth; and
- Can California Afford to Declare a Human Right to Clean Drinking Water?

As you can imagine, the last panel, which focused on AB 685, the human right to water bill, AB 685, drew the largest and most vocal audience. Vern Goehring of Food & Water Watch opened the panel with a review of the nitrate contamination problem in the Central Valley. He then drew in the philosophers John Locke and Immanuel Kant to dramatize the point that a social contract exists between government and its citizens to protect natural rights such as access to safe drinking water. He then reviewed AB 685 and the fate of all the human rights bills from the 2011 session. I will say that Goehring behaved himself – no criticism of private water utilities.

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He was followed by the bill's principal authors, Laurel Firestone and Rose Francis of the Community Water Center, which is based in Visalia. They explained that the concerns of the Association of California Water Agencies (ACWA) and other opponents were misplaced because the bill is only directed toward state agencies, not water providers. This was disingenuous, of course, because the bill states it is the policy of California that every human being has the right to safe, clean, affordable and accessible water adequate for human consumption, cooking and sanitary purposes. Further, those same state agencies, which have regulatory authority over retail water purveyors, are charged with advancing "the implementation of this policy ..."

ACWA's Whitney Henderson provided ACWA's perspective on the bill, noting the substantial fiscal impact on the state, the fact that Water Code Section 106 already declares that domestic water use has the highest priority, and that the affordability provision would establish a new requirement to provide service regardless of affordability. She was in a tough position because she had to adopt a politically incorrect position with a largely unsympathetic audience.

During the Q&A, I brought up the problem with the affordability provision and asked whether a customer could sue a private utility if they were upset about rates and AB 685 becomes law. Laurel replied that someone could file a law suit, but it would be dismissed because the policy paragraph in the bill cannot be enforced and because the bill is only directed at state agencies, not utilities. I was not mollified and said that utilities still didn't want to be bothered with wasting the time and money addressing such lawsuits, even if they will ultimately be dismissed. She also said that Sec. 106 is not enough because it doesn't have a clear legal standard of prioritizing marginalized and disadvantaged communities in particular." Clearly, while the bill's intent is laudable and no one can fault the intent, the water community will have to work to ensure that these unintended consequences don't materialize.

If you would like to see the other presentations, they can be accessed at:  
[www.waterlawsymposium.com](http://www.waterlawsymposium.com)

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**NWRI Releases White Paper on Benefits of Direct Potable Reuse**—The National Water Research Institute (NWRI) has published a new report titled “Direct Potable Reuse: Benefits for Public Water Supplies, Agriculture, the Environment, and Energy Conservation.” The 20-page White Paper focuses on the role that direct potable reuse (DPR) could have in the management of water resources in the future. The paper defines DPR as the introduction of purified municipal wastewater into a water treatment plant intake or directly into the water distribution system. It states that water researchers and practitioners are interested in DPR because it can provide a reliable and sustainable local water supply.

The NWRI White Paper was prepared by Edward Schroeder, George Tchobanoglous, Harold L. Leverenz, and Takashi Asano of the University of California, Davis. In it, the authors point out that the potential benefits accrued for agriculture, environmental preservation and enhancement, and energy conservation through the application of DPR may be even more important than its ability to provide an alternative supply of water. They illustrate these benefits with a case study based on Southern California, which demonstrates that DPR can stabilize water supplies for a large urban population and major agricultural region, as well as result in energy savings ranging from \$50 to \$87 million per year.

To download the NWRI White Paper, please visit [www.nwri-usa.org](http://www.nwri-usa.org).

**Agenda Highlights for the February 1<sup>st</sup> California PUC Open Meeting**—The California PUC has posted its agenda for [Wednesday's](#) Open Meeting, which starts at 9:00 a.m. Relevant water agenda items are summarized below. If you want to view any of the related documents, just copy and paste the website link into your Internet browser.

### **Consent Agenda**

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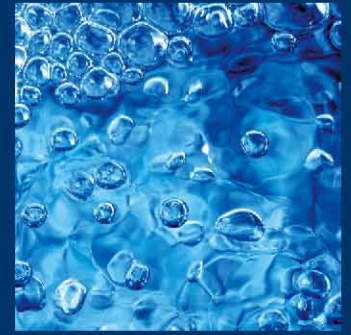
**Item 3 – A11-02-002; Revenue Requirements for Test Year 2012 and Post-Test Year Ratemaking Adjustments for 2013 and 2014.** Application of Suburban Water Systems for Authority to Increase Rates Charged for Water Service by \$19,234,576 or 35.85% in 2012, by \$3,032,827 or 4.18% in 2013, and by \$1,973,200 or 2.61% in 2014. Proposed outcome: Adopts a partial settlement with the Division of Ratepayer Advocates and resolves all other issues. Estimated cost: Rates will increase by 24.74% in 2012. (Comr Sandoval - ALJ Long)  
[http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC\\_ID=572810](http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=572810)

**Item 4 – C09-11-019; Setting of Water Rates and Conditions of Water Service at MobileHome Park.** Lucas D. Hernandez, Martha Amezcuita, Daniel Gonzalez, Gabriel Cabrera, Severo Rosa, Celia Ruiz, Martha Alvarado, Maria Palma, Federico Garcia, Luis Morales vs. Sunbird Mobile Home Park, Hawkeye Asset Management, James Martin and Betty Martin. Proposed outcome: Sets MobileHome Park water rates and conditions of water service; Approves partial settlement agreement. Estimated cost: Nominal, for changing water rates and providing point-of-use filtered water. (Comr Sandoval - ALJ Weatherford)  
[http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC\\_ID=573039](http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=573039)

**Item 5 – A10-04-019; California-American Water Company's Recovery of Cost for the Lease of the Sand City Desalination Plant.** Application of California-American Water Company for an Order Authorizing Recovery of Costs for the Lease of the Sand City Desalination Facility and Associated Operating and Maintenance Costs. Proposed outcome: Denies approval of the Sand City Desalination Plant Lease, but creates a purchased water option based on the alternative ratemaking methodology proposed by California-American Water Company. Estimated cost: \$779,900 per year. (Comr Florio - ALJ Bushey)  
[http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC\\_ID=573120](http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=573120)

**Item 9 – Res W-4900; Timberland Water Company, Inc.'s General Rate Increase for Test Year 2011.** Proposed outcome: Grants Timberland Water Company, Inc., the authority to file:

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- A supplemental advice letter to make effective revised rate schedules attached to this resolution as Appendix B.
- A Tier 1 advice letter within 30 days from the effective date of this resolution correcting its service area map to clearly identify the low pressure zone.
- A Tier 1 advice letter within 30 days from the effective date of this resolution to revise its Title Page, Schedule UF, Surcharge to Fund Public Utilities Commission Reimbursement Fee and Rule 3, Application for Service.

Estimated cost: \$14,359 or 14.4%.

[http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC\\_ID=573814](http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=573814)

**Item 10 – A11-07-004; California Water Service Company to Buy James Water Company, Inc.** Joint Application of James Water Company, Inc. and California Water Service Company, a Californian corporation, for an order authorizing (1) the sale and transfer of ownership to California Water Service Company of the James Water Company Inc. Systems, and (2) the discontinuance of service by James Water Company, Inc. in the territories now served by them, and the commencement of service in said territories by California Water Service Company at the rates then effective in the Kern River Valley service area. Proposed outcome:

- Grants James Water Company, Inc. (James Water) authority to sell and California Water Service Company (Cal Water) authority to buy James Water pursuant to Public Utilities Code Sections 851-854.
- After the sale is final, the current owners of James Water are no longer required to provide regulated water service to customers of James Water.
- Cal Water must initially charge currently authorized tariffed rates of James Water.
- Cal Water may request a change to these rates as part of its next company-wide General Rate Case, which it plans to file in 2012.
- In its operation of James Water, Cal Water is bound by all Commission decisions, rules, and regulations applicable to regulated water utilities.
- Closes the proceeding.

Estimated cost: None. (Comr Ferron - ALJ Wilson)

[http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC\\_ID=E52646](http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=E52646)

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**Item 12 – Res W-4901; California Hot Springs Water Company for a General Rate Increase for Water Services and for Sewer Services for Test Year 2011.**

Advice Letter (AL) 10 filed on August 13, 2010 and AL 7-S filed on August 20, 2010 - Related matters. Proposed outcome: Grants California Hot Springs Water Company the authority to:

- File supplemental advice letters incorporating the Summary of Earnings and the revised rate schedules for the water and sewer services.
- Delete Schedule No. 1, General Metered Service.
- Remain on a flat rate structure until it submits 12 months of actual water consumption for the 27 water system connections and the Commission has the opportunity to review and design a quantity rate.
- To file a Tier 3 advice letter proposing a revised rate design to the adopted flat-rate service on a monthly meter charge and a quantity rate once it has 12 months of actual consumption data.
- To file a Tier 1 advice letter within 30 days to revise its rules and forms for its water service.
- To file a Tier 1 advice letter within 30 days to revise its rules and forms for its sewer service.

Estimated cost: \$8,118 for water service and \$8,784 for sewer service.

[http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC\\_ID=571513](http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=571513)

**Item 20 - Res W-4903; Del Oro Water Company, Inc. for a General Rate Increase for Test Year 2011.**

Advice Letter 306 filed on August 18, 2011 - Related matters. Proposed outcome:

Grants Del Oro Water Company, Inc. the authority to:

File a supplemental advice letter to make effective the revised rate schedule attached to this resolution as Appendix B.

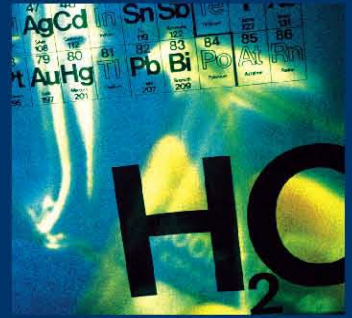
File two Tier 2 advice letters within 30 days of the effective date of this resolution to collect from its Strawberry District customers a one-time surcharge for the under-collected revenues from the interim rate date to the effective date of the new rates.

Estimated cost: \$36,508 or 10.45%.

[http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC\\_ID=573857](http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=573857)



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### Regular Agenda - Water/Sewer Orders

**Item 32 – A10-09-018; Approval to Implement the Carmel River Reroute and San Clemente Dam Removal Project.** Application of California-American Water Company for Authorization to Implement the Carmel River reroute and San Clemente Dam Removal Project and to Recover the Costs Associated with the Project in Rates. Proposed outcome:

- Approves California-American Water Company's (Cal-Am) request to implement the Carmel River Reroute and San Clemente Dam Removal Project (Project) in partnership with the California State Coastal Conservancy and the National Marine Fisheries Service.
- Authorizes ratepayer recovery of Cal-Am's funding portion of the Project, \$49 million, to be paid through a volumetric surcharge on customers' bills over the next 20 years.
- Opens an adjudicatory phase of this proceeding to consider an order to show cause as to why applicant should not be fined or otherwise sanctioned for a failure to comply with Rule 1.1 of the Commission's Rules of Practice and Procedure, and Sections 2107 and 2108 of the Public Utilities Code.

Estimated cost: \$49 million. (Comr Peevey - ALJ Walwyn)

[http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC\\_ID=572809](http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=572809)

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### **Upcoming Industry Meetings/Conferences/Events:**

- February 1, 2012 – California PUC Open Meeting (9: 00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- February 2, 2012 – Dept. of Water Resources – Water Plan Update 2013 Public Advisory Cte. Meeting (9:00a-4:30p; Cal EPA Building, 1001 I St., Sacramento 95814); J. Hawks will attend.
- February 2, 2012 – CII Task Force Metrics Subcommittee (1:00-4:00p; CUWCC Office – 716 10<sup>th</sup> St., Suite 200, Sacramento); J. Hawks will attend.

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- February 5-8, 2012 - National Association of Regulatory Utility Commissioners – Annual Winter Committee Meetings (8:45a-5:15p; Renaissance Hotel; 999 9<sup>th</sup> St., N.W., Washington, DC 20001); J. Hawks will attend.
- February 8, 2012 – California Urban Water Conservation Council Board of Directors Meeting (9:30a – 5:00p; East Bay MUD – 375 11<sup>th</sup> St., Oakland); J. Hawks will attend.
- February 9, 2012 – Urban Water Institute Conference (9:00a-5:00p; Hilton Hotel - 400 East Tahquitz Canyon Way, Palm Springs); J. Hawks is a panelist.
- February 10, 2012 - CWA Directors Meeting (9:30a-2:30p; California Water Association, 601 Van Ness Ave., Suite 2047, San Francisco 94102).
- February 15, 2012 – California Water Awareness Campaign Board of Directors Meeting (10:00a-noon; ACWA – 910 K St., Sacramento); J. Hawks will participate by phone.
- February 15, 2012 – CWA USDP Committee Meeting (10:00a-2:30p; San Jose Water – 110 W. Taylor St., San Jose); J. Hawks will attend in part.
- February 16, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- February 24, 2012 – Dept. of Water Resources – CII Task Force Meeting (9:30a – 3:30p; San Diego County Water Authority; 4677 Overland Ave., San Diego 92123); J. Hawks will attend.
- March 5, 2012 – National Association of Water Companies – Government Relations Committee Meeting (10:30a – 2:30p; Hotel George, Washington, DC); J. Hawks will attend.
- March 6-7, 2012 – NAWC/CWA – Annual Congressional Fly-In; Capitol Hill, Washington, DC; J. Hawks will participate.
- March 8, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- March 8-9, 2012 – Annual California Water Policy Conference – “From Water Woes to Water Wise” (Westin Hotel – LAX; 5400 West Century Blvd., Los Angeles, CA 90045)
- March 9, 2012 – CWA Legislative Committee Meeting (10:00a-3:00p; Nossaman LLP Office – 915 L St., Suite 1000, Sacramento); J. Hawks will attend.

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- March 14, 2012 – California Urban Water Conservation Council Plenary Meeting (9:30a-3:00p; Northern California location TBD); J. Hawks will attend.
- March 15, 2012 – CWA Directors Meeting (9:30a-2:30p; Manhattan Beach Club; 1330 Parkview Ave., Manhattan Beach 90266)
- March 22, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- March 25-27, 2012 – Water Reuse Association - 2012 WaterReuse California Annual Conference (Sheraton Grand Hotel; 1230 J St., Sacramento, CA 95814; [http://www.watereuse.org/sites/default/files/u8/calicon2012\\_registration.pdf](http://www.watereuse.org/sites/default/files/u8/calicon2012_registration.pdf))

—CWA—