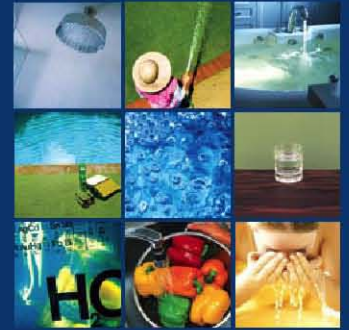


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The Weekly Wrap



January 4, 2013

No. 2013-1

TO: CWA Member Companies
FROM: Jack Hawks, Executive Director
SUBJECT: Highlights for the Week Ending January 4, 2013

First Snowpack Survey of Water Year Yields Plentiful Results—What a difference a year makes. A year ago at this time, the first snowpack survey taken by the California Department of Resources (DWR) showed the driest conditions ever for this time of the water year. In contrast, DWR's snow surveyors reported on Jan. 2nd that water content in California's mountain snowpack is well above average for the first survey of the 2012-13 water year. Both the manual and electronic readings recorded the snowpack's statewide water content at 134 percent of average for this time of year, already reaching 49 percent of the average April 1 measurement, when the snowpack is normally at its peak before the spring melt.

As you know, the snowpack normally provides about a third of the water for California's homes and businesses when it melts into streams, reservoirs and aquifers in the spring and early summer. As always, DWR's public stance was cautionary. "We are off to a good water supply start for the new year, but we have to remember that we have seen wet conditions suddenly turn dry more than once," said DWR spokesman Ted Thomas in a news release. "We know from experience that California is a drought-prone state, and that we must always practice conservation."

The electronic readings indicate that the water content in the northern mountains is 133 percent of normal for the date and 50 percent of the April 1 seasonal average; 133 percent of normal in the central Sierra for the date and half the April 1 average; and 131 percent of average in the southern Sierra for the date and 44 percent of the April 1 average.

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DWR and cooperating agencies conduct manual snow surveys around the first of the month from January to May. The manual measurements supplement and check the accuracy of real-time electronic readings from sensors up and down the state.

As noted last week, DWR currently estimates that it will be able to deliver 40 percent of the slightly more than 4 million acre-feet of State Water Project (SWP) water requested for 2013 by the 29 SWP contractors. The delivery estimate is expected to increase as more winter storms develop. The final allocations of SWP water in calendar years 2012 and 2011 were 65 and 80 percent of requested deliveries, respectively. The last 100 percent allocation was in 2006.

Also as noted last week, the major reservoir levels are exceptional. Lake Oroville, with a capacity of 3.5 million acre-feet, is at 71 percent of capacity, 113 percent of average for the date. Shasta Lake, with a capacity of 4.5 million acre-feet, today is at 73 percent of capacity, 115 percent of normal for the date.

Electronic reservoir level readings are available on the Internet at:

<http://cdec.water.ca.gov/cgi-progs/products/rescond.pdf>

Electronic snowpack readings may be found at:

<http://cdec.water.ca.gov/cgi-progs/snow/DLYSWEQ>

NAWC Reports Success on Dividend Tax Rate in Fiscal Cliff Deal—The National Association of Water Companies (NAWC) was justifiably pleased in reporting to its members that H.R. 8, the "American Taxpayer Relief Act of 2012" (aka the "fiscal cliff" legislation), contained two important provisions for publicly traded investor-owned water companies: (1) Rather than forcing shareholders of publicly traded corporations to treat dividend income as ordinary income to be taxed at the highest marginal rates, H.R. 8 "modestly" increased the tax rate on dividend income to 20% from 30% for incomes over \$400,000 (individual filers), \$425,000 (heads of households) and over \$450,000 (married filing jointly); and (2) these new rates are permanent instead of temporary.

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In her e-mail notice to member companies, NAWC Director of Government Relations Petra Smeltzer noted that in a perfect world, rates would have remained at 15% for taxpayers at all income levels, but (given the politics involved) it's still a win for the industry because the new 20% rate is permanent and because there is no more uncertainty (at least until Congress can reach consensus on any global tax reform measures that might be forthcoming).

A favorable resolution of this dividend tax rate issue has been a top priority for NAWC for the past few years, because companies like water utilities who have a relatively high proportion of shareholders who place a premium on dividend-oriented income had the most at risk and the most to lose. As Petra stated, the fact that the dividend rates are now permanently tied to the preferential rate of capital gains is a huge win even at the modestly higher rate for higher income levels. Congratulations to NAWC on this important victory.

New EPA View on CCR Rule Allows Electronic, Online CCR Distribution—

The U.S. Environmental Protection Agency (EPA) has moved the needle on public notices associated with the annual Consumer Confidence Report (CCR). On Jan 3rd, EPA published an "interpretative memo" on its website, along with an attachment, "Consumer Confidence Report Electronic Delivery Options and Considerations," which provides an overview of electronic delivery methods for CCRs.

Most important, it describes approaches for community water systems (i.e., any public water system that serves at least 15 service connections used by year-round residents or regularly serves at least 25 year-round residents) that may want to implement electronic delivery of the CCR.

As you may know, EPA has been undertaking a CCR Rule Retrospective Review since August 2011 that was examining five areas in the CCR Rule in which EPA could potentially improve the effectiveness of communicating drinking water information to the public or reduce the burden of community water systems and primacy agencies. One of those areas was electronic delivery of the CCR.

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The interpretive memorandum clarifies the requirements of the CCR Rule associated with the delivery of the CCR. The attachment provides a framework of information, recommendations and interpretations of existing CCR Rule provisions. It appears that EPA has concluded that since its expansion options for electronic delivery is not a rulemaking action and does not add to or replace any existing CCR Rule requirements, new legislation enabling electronic delivery is not needed.

As you also know, the CCR requires community water systems to include the following information (and more) in their annual water quality report:

- The regulated contaminants detected during the community water system's most recent round of monitoring (within five years), and the concentrations of these contaminants compared with maximum contaminant levels (MCLs);
- Health effects information related to violations of MCLs and treatment technique requirements, and
- For immunocompromised persons, specific health information about arsenic and nitrate when detected at certain levels, in addition to lead and its effects on children.

The current requirement in the CCR Rule that community water systems mail or otherwise directly deliver these reports to bill-paying customers. EPA has determined that certain electronic delivery options comport with the concept of "directly deliver," and the memorandum includes a framework for what forms of electronic delivery are and are not acceptable under the CCR Rule.

In the attachment, EPA first outlined two implementation approaches for electronic delivery:

1. Paper CCR delivery with an option to request an electronic CCR, or
2. Electronic CCR delivery with an option to request a paper CCR.

EPA then outlined five electronic delivery methods:

1. CCR embedded in an email message;
2. CCR sent as an attachment to an email;

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3. Uniform Resource Locator (URL) linked directly to the CCR sent via email;
4. URL linked directly to the CCR mailed to customers (e.g., via water bill itself, water bill enclosure, separate mailing, etc.); and
5. Additional electronic delivery methods that meet the definition of direct delivery.

Based on EPA's analyses, plus input provided by stakeholders throughout the CCR Rule Retrospective Review, the agency does not intend to revise the CCR Rule now. It did conduct a cost estimate analysis, which found that community water systems may find the greatest cost savings in the fewest years by providing a URL that links directly to the CCR on customers' water bills.

EPA will host a webinar on CCR Electronic Delivery on January 17, 2013, from 2–4 p.m. ET. Its announcement said space is limited so if you are interested in participating in the webinar, you should reserve your webinar seat now at: <https://www3.gotomeeting.com/register/888824022>.

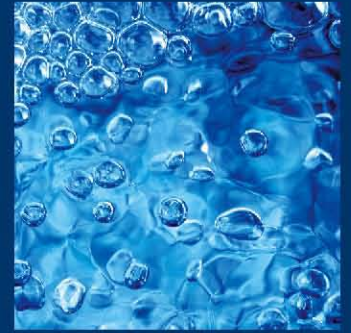
In response to the other four topic areas explored during the CCR Rule Retrospective Review, the EPA may host another webinar training to review some of the best practices community water systems may want to incorporate into their own CCRs. As resources allow, the EPA may also update guidance, templates and factsheets to reflect what was learned during CCR Rule Retrospective Review.

For more information, you can access the documents mentioned above at: <http://water.epa.gov/lawsregs/rulesregs/sdwa/ccr/regulations.cfm>.

Senate Committee Chairs, Assembly Committee Rosters Announced—

California State Senate President Pro Tem Darrell Steinberg (D-Sacramento) announced the leadership lineup for the new session Dec. 21st, and the major news for the water utility industry was that there was no change from 2012: Alex Padilla (D-Pacoima) remains as chair of the Energy, Utilities and Communications Committee and Fran Pavley (D-Agoura Hills) continues as chair of the Natural Resources and Water Committee. Other appointments of note are as follows:

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Majority Leader: Ellen Corbett (D-San Leandro)
Democratic Caucus Chair: Jerry Hill (D-South San Francisco)
Rules: Darrell Steinberg (Chair), Jean Fuller (Vice Chair; R-Bakersfield), Bill Emerson (R-Riverside), Hannah-Beth Jackson (D-Santa Barbara), Ricardo Lara (D-Long Beach)
Appropriations: Kevin de León (D-Los Angeles)
Budget Subcommittee #2 - Resources, Environmental Protection, Energy and Transportation: Jim Beall (D-San Jose)
Environmental Quality: Michael J. Rubio (D-Fresno)
Governance and Finance: Lois Wolk (D-Davis)
Health: Ed Hernandez, O.D. (D-Los Angeles)

We're still waiting for the Senate Committee assignments for 2013. On Jan. 3rd, Assembly Speaker John Pérez confirmed the full committee lineups for the Assembly. Here are the committees most pertinent for CWA members:

Utilities and Commerce

Steven Bradford, Chair (D-Inglewood); Jim Patterson, Vice Chair (R-Fresno); Travis Allen (R-Westminster); Susan Bonilla (D-Concord); Joan Buchanan (D-San Ramon); Paul Fong (D-Mountain View); Beth Gaines (R-Roseville); Cristina Garcia (D-Downey); Jeff Gorell (R-Westlake Village); Roger Hernández (D-West Covina); Brian Jones (R-Santee); Bill Quirk (D-Hayward); Anthony Rendon (D-Lakewood); Nancy Skinner (D-Oakland); Das Williams (D-Santa Barbara)

Water, Parks and Wildlife

Assemblymember Ben Hueso, Chair (D-Chula Vista); Franklin Bigelow, Vice Chair (R-Auburn-South Lake Tahoe); Bob Blumenfield (D-Van Nuys); Raul Bocanegra (D-San Fernando); Rocky J. Chávez (R-Carlsbad); Brian Dahle (R-Redding); Paul Fong (D-Mountain View); Jim Frazier (D-Antioch); Beth Gaines (R-Roseville); Mike Gatto (D-Burbank); Jimmy Gomez (D-Los Angeles); Adam Gray (D-Merced); Jim Patterson (R-Fresno); Anthony Rendon (D-Lakewood); Mariko Yamada (D-Vacaville)

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Environmental Safety and Toxic Materials

Assemblymember Luis A. Alejo, Chair (D-Salinas); Brian Dahle, Vice Chair (R-Redding); Richard Bloom (D-Santa Monica); Tim Donnelly (R-Hesperia); Bonnie Lowenthal (D-Long Beach); Mark Stone (D-Santa Cruz); Philip Ting (D-San Francisco)

Local Government

Assemblymember Katcho Achadjian, Chair (R-San Luis Obispo); Marc Levine, Vice Chair (D-Petaluma); Luis A. Alejo (D-Salinas); Steven Bradford (D-Inglewood); Richard S. Gordon (D-Los Altos); Ben Hueso (D-Chula Vista); Melissa A. Melendez (R-Murrieta); Kevin Mullin (D-San Mateo); Marie Waldron (R-Escondido)

Wolk Introduces Bill to Repeal Existing Water Bond, Adopt New One—

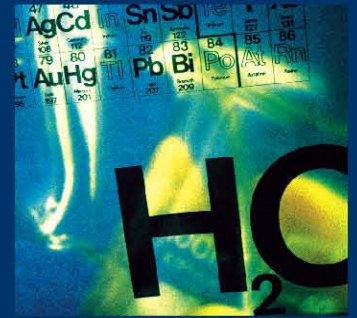
State Senator Lois Wolk (D-Davis) introduced Senate Bill 42, “The California Clean, Secure, Water Supply and Delta Recovery Act of 2014” on Dec. 11th. This bill would repeal the much delayed existing water bond now slated for the 2014 ballot and put a new water bond before voters to address the Delta and other critical water issues facing California.

In her news release, Senator Wolk, who chairs the Senate Select Committee on Delta Stewardship and Sustainability, said, “There are pressing water challenges facing the state that require funding in the next five to ten years. The Delta crisis demands immediate action. Many communities throughout the state face water contamination, flood risk, and diminishing water reliability.”

Wolk continued, “Some of these issues are regional and have regional solutions. Others will require a statewide approach. This new bond will focus on effective and timely solutions to these problems.”

SB 42 will provide funding for ecosystem restoration and levee stability projects. The bond, for which the funding amount has not yet been determined, also would provide funding to communities that currently do not have access to clean, affordable drinking water. Her news release reference the State Water

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Resources Control Board's recent assessment that the major source of drinking water for more than 2 million Californians is contaminated. SB 42 also is designed to help address the growing flood risk in the Delta, which affects more than 1 million Californians.

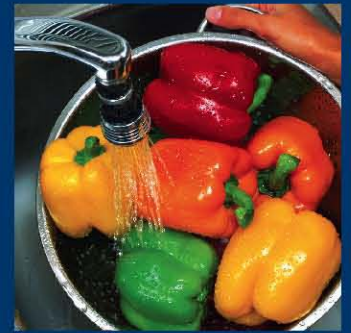
"This new water bond represents a fresh start on funding the state's water infrastructure, not a rehash of the \$11 billion bond currently on the 2014 ballot. That bond, passed in 2009, and since delayed twice, has proven to be too expensive, too unpopular, and too outdated to garner voter support," said Wolk. "Times have changed. California has a new Governor, almost an entirely new legislature--only 13 current members of the Assembly were here back in 2009--and we have new information on pressing problems and viable solutions. I am confident we can build a broad consensus for a more focused and affordable bond measure to address today's most urgently-needed water projects."

EPA Releases Update on Ongoing Hydraulic Fracturing Study— The U.S. Environmental Protection Agency (EPA) provided an update in late December on its ongoing national study that seeks to better understand any potential impacts of hydraulic fracturing on drinking water resources. Requested by Congress, the study's final results expected to be released in a draft for public and peer review in 2014. The update outlines work currently underway, including the status of research projects that will inform the final study. At this point, the progress report does not draw conclusions about the potential impacts of hydraulic fracturing on drinking water resources. Those will be made in the final study.

EPA made clear in its news release that natural gas is a critical domestic energy resource with extensive economic, energy security, and environmental benefits, and that the hydraulic fracturing study's focus is to ensure that the Obama Administration "continues to work to expand production of this important domestic resource safely and responsibly."

Among the information released were updates on 18 research projects and details on the agency's research approach, as well as next steps for these ongoing projects and analyses. EPA has engaged stakeholders, including industry, to ensure that the study reflects current practices in hydraulic

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fracturing. EPA continues to request data and information from the public and stakeholders and has put out a formal request for information via the Federal Register (<https://www.federalregister.gov/articles/2012/11/09/2012-27452/request-for-information-to-inform-hydraulic-fracturing-research-related-to-drinking-water-resources>)

EPA also expects to release a draft report of results from the study in late 2014. The study has been designated a Highly Influential Scientific Assessment, meaning it will receive the highest level of peer review in accordance with EPA's peer review handbook before it is finalized. The 2014 draft report will synthesize the results from the ongoing projects together with the scientific literature to answer the study's main research questions.

Among other things, EPA's Science Advisory Board (SAB) is forming a panel of independent experts that will review and provide their individual input on the ongoing study to EPA. The SAB will provide an opportunity for the public to offer comments for consideration by the individual panel members.

More information on the study can be accessed at www.epa.gov/hfstudy.

Agenda Highlights for the January 10th California PUC Open Meeting—

The CPUC has posted its agenda for the Dec. 20th Open Meeting, which will be held from 9:00 a.m. to noon in the Commission Auditorium. 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. You can listen to meeting by dialing **1-800-857-1917**. When prompted to enter a passcode, dial **92105**. You can also view the meeting at [video webcast](#).

Consent Agenda

Item 3 – Res W-4935; Apple Valley Ranchos Water Company to Permit Payment of Water Bills Using Credit or Debit Card. Advice Letter No. 171-W filed on May 17, 2012 - Related matters. Proposed outcome:

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- To file a supplement to its approved Advice Letter 171 within five days of the effective date of this Resolution that includes tariff language consistent with Appendix A of the Resolution.
- Approves the utility to continue to allow customers to pay their water bills by credit or debit card on an optional basis and the charge for the service shall not exceed \$2.50 per transaction to be paid by those customers who use this service.
- Within 30 days, the utility is ordered to file a Tier 2 advice letter to establish a credit card memorandum account authorized by this Resolution to record all costs and savings associated with providing credit/debit card payment services.
- For its next general rate case, utility shall remove all ongoing costs associated with providing credit/debit card payment options from its base rates consistent with Public Utilities Code Section 755.

Estimated cost: None.

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=39593594>

Item 9 – Res W-4936; Park Water Company to Permit Payment of Water Bills Using a Credit or Debit Card. Advice Letter No. 231-W filed on May 10, 2012 - Related matters. Proposed outcome:

- To file a supplement to its approved Advice Letter 231-W consistent with directions provided in Ordering Paragraph 1. The supplement shall be filed within five days of the effective date of this resolution.
- Approves the utility to continue to allow customers to pay their water bills by credit or debit card on an optional basis and the charge for the service shall be \$2.50 per transaction to be paid by those customers using this service.
- Within 30 days, utility is ordered to file a Tier 2 advice letter to establish a credit card memorandum account to record all costs associated with providing credit/debit card payment services.
- For its next general rate case, utility shall remove all ongoing costs associated with providing credit/debit card payment options from its base rates consistent with Public Utilities Code Section 755.

Estimated cost: None.

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=40638991>

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Item 11 – Res W-4940; Division of Water and Audits Disposition Regarding California American Water Company's Advice Letter; Advice Letter (AL) No. 923 filed on November 15, 2011 and AL No. 932 filed on February 27, 2012 - Related matters. Proposed outcome:

- Affirms the Division of Water and Audit's letter of disposition rejecting California American Water Company's (Cal-Am) Advice Letter 923.
- Any future claims by Cal Am pursuant to Decision (D)10-12-016 should be accompanied by appropriate supporting documentations and mapping to the authorized projects in D10-12-016.
- Cal Am's claim for \$236,516 including \$4,011 for Allowance for Funds Used During Construction (AFUDC), to be added to rate base is disallowed without prejudice.
- Cal Am may transfer to rate base \$480,105 which includes AFUDC of \$8,152 within 5 days after effective date of this Resolution.
- Authorizes Cal Am to file a supplement to Advice Letter 932 to modify the tariff sheets (6284-W through 6288-W) for the Monterey Tariff District and to reflect the transfer to rate base of the amount authorized in Ordering Paragraph No. 3.
- New rates to be effective 5 days after filing of the supplement to AL 932 subject to approval or rejection by DWA consistent with this Resolution.

Estimated cost: \$480,105.

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=39009421>

Regular Session – None

Closed Session

Item 37 – A10-01-012; Conference with Legal Counsel - Application for Rehearing. Disposition of the application for rehearing of Decision (D) 11-03-035 (Decision) filed by the Monterey Peninsula Water Management District (the District). In D11-03-035, the Commission considered a California-American Water Company (Cal-Am) application, and subsequent proposed settlement agreement between Cal-Am, the District, and the Division of Ratepayer Advocates (DRA).

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Both the application and proposed settlement recommended approval of a District User Fee set at 8.325% of Cal-Am's total revenue. Cal-Am would collect the User Fee in its Monterey customer rates and remit those costs to the District for its cost to implement the Carmel River Mitigation and Aquifer Storage and Recovery Programs. The Decision rejected the proposed settlement and authorized Cal-Am to amend its application with additional information to support the proposal.

Gov. Code § 11126(e)(2)(B)(i), allows this item to be considered in Closed Session.

Upcoming Industry Meetings/Conferences/Events:

- January 7, 2013 – CWA Regulatory Committee Conference Call on Res L-436 Comments (2:30-3:30p; 1.800.308.1304; Passcode 4154387273).
- January 10, 2013 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- January 11, 2013 – CWA Directors and Executive Committee Meeting (9:30a – 2:30p; Park Water Company - 9750 Washburn Road; Downey, CA 90241-7002)
- January 14, 2013 – California Urban Water Conservation Council Governance and Finance Committee Meetings (9:30a – 3:00p; 716 10th Street, Suite 200, Sacramento, CA 95814); J. Hawks will attend.
- January 15, 2013 – Various Sponsors – “Introduction to Budget-Based Water Rates (1:00p – 3:00p; City of Redwood, City Council Chambers; 1017 Middlefield Road, Redwood City, CA 94063).
- January 24, 2013 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- February 1, 2013 – CWA Public Information Committee Monthly Conference Call (1:30p – 2:30p; 1.888.398.2342; 6868916#)
- February 3-6, 2013 – National Association of Regulatory Utility Commissioners Winter Committee Meetings (9:00a – 5:00p, Feb. 3-6; Renaissance Washington Hotel; 999 9th St., N.W., Washington, DC 20001); J. Hawks will attend.

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- February 12, 2013 – CWA Directors and Executive Committee Meeting (9:30a – 2:30p; California Water Association; 601 Van Ness Ave., Suite 2047, San Francisco 94102).
- February 13, 2013 (Wednesday)– California PUC Open Meeting (9:00a–12 :00p; 505 Van Ness Ave., San Francisco 94102)
- February 13, 2013 – California Urban Water Conservation Council Board of Directors Meeting (9:30a – 3:00p; MWD of Orange County - 18700 Ward St., Fountain Valley, CA 92708); J. Hawks will attend.
- February 14, 2012 – California Water Plan Update 2013 Advisory Committee Meeting (8:45a – 4:30p; Department of Public Health, East End Complex Training Rooms, 1500 Capitol Avenue, Sacramento 95814); J. Hawks will attend.
- February 20-22, 2013 – Urban Water Institute Spring Conference (Hilton Hotel, 400 East Tahquitz Canyon Way, Palm Springs 92262); J. Hawks may attend.
- February 28, 2013 – California PUC Open Meeting (9:00a–12 :00p; 505 Van Ness Ave., San Francisco 94102)

—CWA—