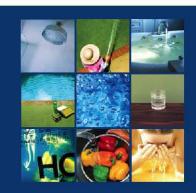


The Weekly Wrap



January 6, 2012

No. 2012-1

TO: CWA Member Companies

FROM: Jack Hawks, Executive Director

SUBJECT: Highlights for the Week Ending January 6, 2012

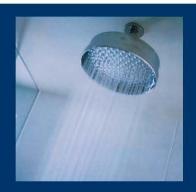
First Snow Survey of 2012 is Ugly: Driest Conditions on Record—The California Dept. of Water Resources (CDWR) conducted its first snow survey of the season on Jan. 3rd, and the results were not pretty. DWR's surveyors reported that California's mountain snowpack is among the driest for the date on record. The manual and electronic readings recorded the statewide snowpack water content at 19 percent of the normal January 3rd average. The results were only 7 percent of the average April 1st measurement, when the snowpack is normally at its peak before the spring melt.

DWR Director Mark Cowin put up a brave front in DWR's news release and expressed his "cautious optimism" about this year's water supply. "Fortunately, we have most of winter ahead of us, and our reservoir storage is good," he said.

Electronic readings indicate that water content in the northern mountains is 21 percent of normal for the date and 8 percent of the April 1 seasonal average. The electronic readings for the central Sierra show 13 percent of normal for the date and 5 percent of the April 1 average. The numbers for the southern Sierra are 26 percent of average for the date and 9 percent of the April 1 average.

Statewide, the snowpack water content is 19 percent of normal for today's date and 7 percent of April 1. As you know, DWR and cooperating agencies conduct manual snow surveys around the first of the month from January to May. The manual surveys supplement and check the accuracy of real-time electronic readings from sensors up and down the state.





DWR's initial estimate is that the State Water Project (SWP) will be able to deliver 60 percent of the slightly more than 4 million acre-feet of water requested by the 29 public agencies that supply more than 25 million Californians and nearly a million acres of irrigated farmland. The 60 percent delivery estimate is largely based on the known quantify of carryover reservoir storage. Unknown, of course, is how much snow and rain the state will get the rest of this winter.

The initial 2011 estimate was that the SWP would be able to deliver 25 percent of the slightly more than 4 million acre-feet requested. However, the massive storms that swept the state last year created a near-record snowpack, resulting in deliveries of 80 percent of requests in 2011. The final allocation was 50 percent in 2010, 40 percent in 2009, 35 percent in 2008, and 60 percent in 2007. The last 100 percent allocation – difficult to achieve even in wet years because of Delta pumping restrictions to protect threatened and endangered fish – was in 2006.

Lake Oroville in Butte County, the SWP's principal storage reservoir with a capacity of 3.5 million acre-feet, is still 72 percent full thanks to last winter's heavy storms. That is 114 percent of average for the date. Lake Shasta north of Redding, the federal Central Valley Project's (CVP) largest reservoir with a capacity of 4.5 million acre-feet, is 68 percent full (106 percent of average). San Luis Reservoir in Merced County is 95 percent full (137 percent of average for the date).

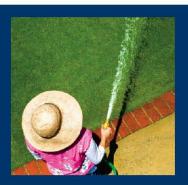
Statewide snowpack water content readings are available at:

http://cdec.water.ca.gov/cgi-progs/snow/DLYSWEQ. The electronic reservoir level readings may be found at:

http://cdec4gov.water.ca.gov/cdecapp/resapp/getResGraphsMain.action. Historic readings from snowpack sensors are posted at these sites:

http://cdec.water.ca.gov/cgi-progs/rpts1/DLYSWEQ and http://cdec.water.ca.gov/cgi-progs/rpts_archived1/DLYSWEQ.





Park Water Completes Ownership Transfer to The Carlyle Group—You'll recall that I reported on Dec. 2nd that the California PUC approved the acquisition of Park Water Co. and Apple Valley Ranchos Water Co. by affiliates of The Carlyle Group, a well-known global asset manager. I am very pleased to report that on Dec. 20th, the actual financial closing occurred and the transaction was completed. In a news release, Park Water announced the completion of the sale and transfer of ownership from the Wheeler family to Carlyle Infrastructure Partners, a \$1.1 billion fund managed by The Carlyle Group. In addition to the California PUC's regulatory approval, the Montana Public Service Commission also gave its approval earlier in December.

Park Water CEO Chris Schilling said, "This transaction marks 75 years of ownership and effective stewardship of Park Water by Henry H. Wheeler Jr. and his family. Mr. Wheeler has made tremendous positive contributions to the Company and, as a result, to our customers and our employees. We look forward to continuing in the same tradition and commitment to safety and service working with our new shareholder, The Carlyle Group. We greatly appreciate the support we received on this ownership change from our employees and so many of our stakeholders."

As you know, Park Water serves communities in southeast Los Angeles County, while its two wholly owned subsidiaries, Apple Valley Ranchos Water and Mountain Water Co., respectively, serve Apple Valley, California, and Missoula, Montana. Together, the three entities provide service to more than 225,000 people. The Carlyle Group is a global alternative asset manager with \$148 billion of assets under management.

Congratulations to Chris, Sam Wheeler, Leigh Jordan and the rest of the Park Water/Apple Valley Ranchos Water team. As I mentioned in an e-mail to Chris over the holidays, I think people tend to underestimate the challenges involved in getting regulatory approval for transactions like this one – something that should never be taken for granted. They did a great job, and I know this made the holiday a real treat for the Park Water family.





Coalition Sends Letter Opposing Legislative Threat to Delta Conveyance—A group of 62 public water agencies and local chambers of commerce sent a strongly worded letter January 4th to Assembly Member Alyson Huber (D-El Dorado Hills) opposing her bill, Assembly Bill 550, which would prohibit the construction of a peripheral canal around or through the Sacramento-San Joaquin Delta unless expressly authorized by the Legislature. Representing both urban and agriculture water interests, the coalition letter bluntly stated "your legislation will undermine water supply reliability throughout California and will threaten jobs and the economic health of three quarters of the state's population residing south of the Delta."

Continuing its attack on the bill, which will be heard on Jan. 10th at an Assembly Water, Parks & Wildlife Committee hearing, the letter said AB 550 is a "blatant repeal of the historic Delta/water management legislation enacted in November 2009 that created a path towards new Delta conveyance." The letter continued by noting that AB 550 also "seeks to interject the Legislature into the intricacies of designing a new water conveyance system in the Delta." It explained that a new Delta canal or tunnel will likely involve multiple intakes, a forebay and other infrastructure and that the Legislature "has no expertise for designing roadways, electrical conveyance or other vital pieces of state infrastructure. It is a dangerous precedent to interject the Legislature into the role of water infrastructure design."

The letter concluded by saying that under the Bay Delta Conservation Plan, the State Water Resources Control Board must consider appropriate flow criteria for operation of a conveyance facility, prior to authorizing a change in place of use for any new conveyance system. It said, "Mandating a redundant review by the Legislative Analyst's Office would represent a misuse of this vital organization in the midst of the worst fiscal crisis in state history."

Unfortunately, I only learned about this letter the evening before it went out. Although CWA's Legislative Committee approved our inclusion into the letter the next morning, it was sent to the Assembly just before I got my signature to the drafters. Still, we got credit with Metropolitan Water District and other entities involved for our willingness to join the effort.





<u>CWA files Pre-Workshop Statement on Competitive Bidding</u>—CWA filed a preworkshop statement Jan. 4th in advance of the Jan. 9-10 workshop on the Competitive Bidding Rule (CBR) rulemaking (R.11-03-007), which involves changes to the CBR related to California PUC approval for the long-term financing needs of all investorowned utilities. Prepared by CWA Regulatory Attorney Mari Lane, the statement focused on the draft rules circulated in a Nov. 28th Ruling from Assigned Commissioner Timothy Simon and Administrative Law Judge Sean Wilson, but in the context of a series of recommendations Southern California Edison (SCE) sent to Commissioner Simon on Dec. 21st.

Among other things, SCE recommended that: the CBR be repealed; the General Order 24-B requirements for separate bank accounts for proceeds, as well as for detailed reporting related to the issuance of financial instruments be repealed; and the scope of this Rulemaking be amended to focus on the Commission's G.O. 156 objectives. CWA's statement expressed its support for the SCE Proposal as "a reasoned approach to updating and modernizing the Commission's requirements with respect to the competitive marketplace for regulated-utility debt issuances."

Specifically, CWA said that merely revising the CBR to, for example, authorize public notice by electronic communication and/or narrow the circumstances under which debt issuances must be competitively bid, would not address the changed financial and economic conditions that render the 1946 CBR (as updated only as recently as 1986) obsolete. Accordingly, CWA supported the recommendation that the CBR be repealed as part of a comprehensive evaluation of the rule, G.O 156 and G.O. 24-B.

Alternatively, we said, if the Commission desires to retain the CBR in some modified form, CWA strongly urged the Commission to modify Exemption No. 3 to exempt issuances of \$200 million or less. The Commission last raised the exemption limit in 1986 (from \$5 million to \$20 million), reasoning that utilities had difficulty generating sufficient interest among investment bankers for issuances of such a relatively small size. Should the Commission decline to repeal the CBR entirely, this same rationale amply justifies an increase in the size of issuances exempt from the CBR.





CWA also supported modifications of G.O. 24-B that would lessen its associated costs and administrative burdens, specifically agreeing with the SCE Proposal to repeal the detailed reporting and accounting requirements contained in G.O. 24-B. In the alternative, CWA recommended that the reporting under G.O. 24-B simply be on an annual basis.

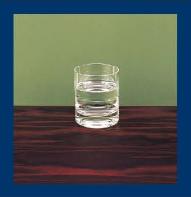
Further, CWA agreed with the SCE Proposal urging the Commission to consider developing a stand-alone rule that requires the utilities to report on their efforts to include diverse business enterprises in their financing efforts. CWA said a major focus, going forward, in reaching a decision in this proceeding should be to determine how to institutionalize G.O. 156's goals in the context of financial services procurements and supports Edison's conceptual approach.

<u>Large Coalition Sends Letter to EPA Administrator Supporting Water Sense</u>—More than 100 WaterSense Partners and other supporters of water efficiency, including CWA and the National Association of Water Companies, joined together Jan. 5th in a letter to U.S. Environmental Protection Agency (EPA) Administrator Lisa Jackson urging that EPA allocate an additional \$500,000 to the agency's WaterSense Program.

As you know, the WaterSense program helps people save water with a product label and tips for saving water around the house. WaterSense partners with manufacturers, retailers and distributors, and utilities to bring WaterSense labeled products to the marketplace and make it easy to purchase high-performing, water-efficient products. WaterSense also partners with irrigation professionals and irrigation certification programs to promote water-efficient landscape irrigation practices.

The final decisions regarding the allocation of funds appropriated to EPA for Fiscal Year 2012 are coming up now, and the coalition letter urged Jackson to provide a small increase of \$500,000 in funding for the WaterSense program. Such an increase in this fiscal year will increase the program by nearly 20%, allowing additional product specifications, market research, partner collaboration, and program documentation.





The letter acknowledged the challenging fiscal times, but it argued that the productivity and success of WaterSense argued for additional support. It said "a small shift in funding within EPA can yield substantial additional water and energy savings over time – savings that will be even more valuable to consumers and communities facing the uncertainties of a changing climate on the nation's supply of drinking water."

A funding decision should be made within the next several weeks, and I'll let you know when we hear of a result.

Agenda Highlights for the January 12th California PUC Open Meeting—The California PUC has posted its agenda for next Thursday's Open Meeting, which will be held in the Commission Auditorium, starting 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

Item 7 – Res W-4895; Del Oro Water Company's General Rate Increase to Produce Additional Annual Revenue of \$40,544 or 13.67% for Test Year 2011. Advice Letter 310 filed on August 22, 2011 - Related matters. Proposed outcome:

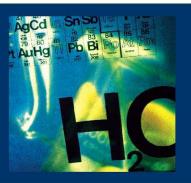
- File a supplemental advice letter with the revised rate schedule attached to this resolution as Appendix B and cancels the presently effective rate Schedule No. LS-1A, General Metered Service.
- Adopts the quantities used to develop the Division of Water and Audits' recommendations in Appendix D.

Estimated cost: 40,544 or 13.67%.

http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=568665

Item 8 – Res W-4896; Del Oro Water Company, Inc.'s General Rate Increase to Produce Additional Annual Revenue of \$222,853 or 13.54% for Test Year 2011. Advice Letter 304 filed on July 29, 2011 - Related matters. Proposed outcome:





- To file a supplement to make effective the revised rate schedule attached to this resolution as Appendix B.
- To file a Tier 1 advice letter within 30 days from effective date of this resolution to update Schedule LC, Late Payment Charge.
- To file a Tier 2 advice letter within 30 days from the date of this resolution to collect from its Paradise Pines 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: \$222,853 or 13.54%.

http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=568856

Item 9 – 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=E51086

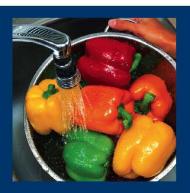
Item 13 – A11-08-015; Extension of WaterSmart Allocation Pilot Program to Dedicated Irrigation Meter Customers. In the Matter of the Application of Valencia Water Company, a Corporation, for Authorization to Implement WaterSMART program and Tiered Rates for Dedicated Irrigation Meter Customers in Compliance with Decision No. 10-12-029. Proposed outcome:

- Grants relief requested.
- Closes the proceeding.

Estimated cost: None. (Comr Florio - ALJ Farrar)

http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=E571165





Item 14 – C09-11-019; Setting of Water Rates and Conditions of Water Service at MobileHome Park. Lucas D. Hernandez, Martha Amezquita, 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=E51654

Item 16 – Res W-4898; Finds Del Oro Water Company in Compliance with the Ordering Paragraph No. 3 of Decision 10-05-004, Effective Retroactively as of May 19, 2011. Advice Letter 300 (May 19, 2011). Proposed outcome:

 Del Oro Water Company (Del Oro) has prepared and filed with the Commission as directed in Decision 10-05-004, plans to augment the water supply of the River Island District.

- Del Oro must file Tier 3 advice letters for approval from the Commission of its Phase I and II plans.
- Del Oro should file the advice letter seeking approval of the Phase I plan as soon as possible.

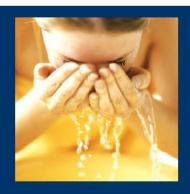
Estimated cost: None.

http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=569713

Item 17 – 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=E51670





Item 31 – Res W-4899; San Gabriel Valley Water Company's Request to Permit Payment of Water Bills Using a Credit or Debit Card or Electronic Check as Bill Payment Options. Advice Letter No. 394 (March 7, 2011). Proposed outcome: Rejects without prejudice the utility's Advice Letter No. 394 requesting authorization to allow customers the option to pay their water bills by credit and debit card or by electronic check. The utility may seek authorization in a future Tier 3 advice letter or application pursuant to the guidance provided in this Resolution. Estimated cost: None. http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=570388

Item 36 – A08-05-019; Order Extending Statutory Deadline. Application of California Water Service Company for an order confirming its discontinuance of the ESP program as provided in D.07-12-055, Ordering Paragraph 19, approving accounting for the residual affiliate transaction, and confirming under D.07-12-055, Ordering Paragraph 16 that Applicant's residual services to its affiliate CWS Utility Services comply with applicable law. Proposed outcome: Extends statutory deadline under Decision 11-11-016 until March 28, 2012. Estimated cost: None. (Comr Florio - ALJ Walwyn).

http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=571435

Item 48 – Res W-4902; Point Arena Water Works, Inc's \$120,000 Loan for System Improvements and the Encumbrance of Utility Assests. Advice Letter No. 65 (Nov. 29, 2011). Proposed outcome: Authorizes Point Arena Water Works, Inc. to borrow \$120,000 from financial institutions. Encumbers its assets in connection with the loan. Estimated cost: \$120,000 and interest at approximately 6% to 7% over approximately 5 years.

http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=571646

Item 56 – R09-07-027; Compensation to the California Asian Pacific Chamber of Commerce. Order Instituting Rulemaking for the Purpose of Reviewing and Potentially Amending General Order 156 and to Consider Other Measures to Promote Economic Efficiencies of an Expanded Supplier Base and to Examine the Composition of the Utilities' Workforce. Proposed outcome: Awards the California Asian Pacific Chamber of Commerce \$107,382 for substantial contribution to Decision 11-05-019.





Estimated cost: The California Public Utilities Commission's Intervenor Compensation Fund will pay \$107,382, plus interest. (Comr Peevey - ALJ Darling) http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=572225

Item 57 – R09-07-027; Compensation to The California Hispanic Chamber of Commerce. Order Instituting Rulemaking for the Purpose of Reviewing and Potentially mending General Order 156 and to Consider Other Measures to Promote Economic Efficiencies of an Expanded Supplier Base and to Examine the Composition of the Utilities' Workforce. Proposed outcome: Awards The California Hispanic Chamber of Commerce \$133,904.17 for substantial contribution to Decision 11-05-019. Estimated cost: The California Public Utilities Commission's Intervenor Compensation Fund will pay \$133,904.17, plus interest. (Comr Peevey - ALJ Darling) http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=571463

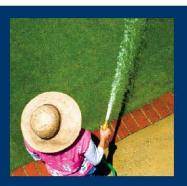
Regular Agenda - Water/Sewer Orders

Item 66 (Rev.) – 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=57150





Closed Session - Applications for Rehearing

Item 78 – A10-01-006; Conference with Legal Counsel - Application for Rehearing. Disposition of Application for Rehearing of Decision (D) 10-12-029, filed by the Division of Ratepayer Advocates (DRA). In D10-12-029, the Commission approved two settlement agreements between DRA and Valencia Water Company (Valencia), and provided, inter alia, for the disposition of approximately \$3.6 million in total gross contamination proceeds from Valencia's settlement of perchlorate contamination claims.

Upcoming Industry Meetings/Conferences/Events:

- <u>January 9-10, 2012</u> California PUC Workshop on the Competitive Bidding Rulemaking, R.11-03-007 (10:00a 3:30p both days; CPUC Hearing Room A; 505 Van Ness Ave., San Francisco 94102).
- <u>January 10, 2012</u> CWA Public Information Cte. (10:00a–1:30p; California Water Service; 2632 W. 237th St., Torrance 90505); J. Hawks will attend.
- <u>January 11, 2012</u> California Water Awareness Campaign Board of Directors Meeting (10:00a-2:00p; 910 K St., Sacramento 95814); J. Hawks will attend.
- January 12, 2012 California PUC Open Meeting (9: 00a 12:00p; 505 Van Ness Ave., San Francisco 94102)
- <u>January 12, 2012</u> CWA Directors Meeting (9:30a-1:30p; California Water Service Co., 1720 North First St., San Jose 95112); J. Hawks will attend.
- <u>January 12, 2012</u> Dept. of Water Resources Public Stakeholders Workshop on CII Task Force Draft Report (1:00p-4:00p; DWR HQ; 1416 9th St., Sacramento 95814).
- <u>January 18, 2012</u> California Water Commission Public Benefits of Water Storage (9:30a-11:30a; Natural Resources Building; 1416 9th St., Sacramento 95814); J. Hawks may attend.





- <u>January 18, 2012</u> Senate Rules Committee Confirmation Hearing for PUC Commissioners Ferron, Florio and Sandoval (1:30p-4:30p; State Capitol, Room 113, Sacramento 95814); J. Hawks will attend.
- <u>January 19-20, 2011</u> Recycled Water OIR Workshop #3 (10:00a-3:00p; CPUC Auditorium; 505 Van Ness Ave., San Francisco 94102); J. Hawks will attend.
- January 19, 2012 CUWCC/DWR CII Task Force Meeting (9:30a-3:30p; 815 S St., Sacramento 95811).
- <u>January 23-25, 2012</u> Evidentiary Hearings in Water Utility Cost-of-Capital Proceeding (10:00a – 4:00p; Commission Hearing Room; 601 Van Ness Ave., San Francisco 94102).
- January 27, 2012 Southern California Water Cte. Quarterly Meeting (10:00a 1:30p; Pacific Palms Hotel; 1 Industry Hills Parkway, Industry, CA 91744).
- <u>February 2, 2012</u> 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.
- <u>February 2, 2012</u> California PUC Open Meeting (9: 00a 12:00p; 505 Van Ness Ave., San Francisco 94102)
- <u>February 5-8, 2012</u> National Association of Regulatory Utility Commissioners Annual Winter Committee Meetings (8:45a-5:15p; Renaissance Hotel; 999 9th St., N.W., Washington, DC 20001); J. Hawks will attend.
- <u>February 9, 2012</u> 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.
- <u>February 10, 2012</u> CWA Directors Meeting (9:30a-2:30p; California Water Association, 601 Van Ness Ave., Suite 2047, San Francisco 94102); J. Hawks will attend.
- <u>February 16, 2012</u> California PUC Open Meeting (9: 00a 12:00p; 505 Van Ness Ave., San Francisco 94102)

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