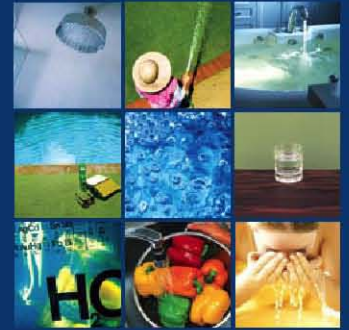


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The Weekly Wrap



October 19, 2012

No. 2012-42

TO: CWA Member Companies
FROM: Jack Hawks, Executive Director
SUBJECT: Highlights for the Week Ending October 19, 2012

CWA Discusses Current Water Policy Issues at CCPUC Annual Meeting—

Representing CWA on Oct. 16th at the 2012 Annual Meeting of the Conference of California Public Utility Counsel, incoming CWA Regulatory Chair Dave Stephenson of California American Water participated in a panel with representatives from Pacific Gas and Electric Co., Southern California Edison, Greenlining Institute and the Cooper White & Cooper law firm titled "Good Intentions, Mixed Results: The Unintended Consequences of Achieving Public Policy Goals." With so many California PUC legal staff and administrative law judges in the audience, I expected some hedging from the panelists, but they were pretty straightforward.

In his remarks, Dave focused on two areas where the public policy water initiatives of the Commission of resulted in some unintended consequences: (1) conservation and rate design and (2) low-income information-sharing with the energy utilities. He covered the primary impacts of the conservation rate designs and programs for the companies with full decoupling water revenue adjustment mechanisms and modified cost balancing accounts – California American Water, Cal Water, Golden State Water and Park Water – notably the large, undercollected WRAM/MCBA balances; the fact that consumption forecasts were not historically reduced to reflect expected reduced usage (until recently).

Dave put these consequences into context by showing how water utilities are the most capital-intensive of all utilities (something PG&E has a hard time accepting) and how their rate structures are the inverse of their cost structures, with the attendant increases in risk profiles. He also showed the growth in WRAM balances for the four companies, their recent (precipitous) declines in sales since 2007 and their surcharge totals (to recover these balances) as a percentage of each company's total revenue. Dave provided substantive information that I think was pretty eye-opening for the audience.

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Dave covered the low-income data sharing programs with the energy utilities in a similar manner, first describing the program and the intent to align the water utilities' low-income rate assistance (LIRA) programs with the energy utilities' California Alternative Rates for Energy (CARE) programs, and the overall objective to increase participation in the water utilities' LIRA programs (by matching and adding customers who are in the CARE programs, but not yet in the LIRA programs. Here again, Dave described the issues that have arisen with the first exchanges in September:

- The unusually large increase in the number of water LIRA participants after just one exchange (upwards of 300-400% for some water utilities);
- The relatively low revenue base water utilities have to spread the increased costs for subsidizing the LIRA programs;
- The fact that water utilities are relatively residential revenue-driven, meaning that the residential customer class absorbs a much larger portion of the subsidy than the energy utilities, which have much larger commercial/industrial customer classes to help with the subsidy; and
- The need for dramatically larger surcharges on water utility customer bills to cover the increases in participation.

Dave did a nice job of presenting the facts without any overt or implied criticism of the Commission. The presentation was a good dress-rehearsal for CWA's more detailed presentation on the Class A water utilities' low-income assistance programs to the Commission's Low-Income Oversight Board on Oct. 29th in Sacramento, at which Commissioners Sandoval and Simon will both be in attendance. If you're interested in getting a copy of Dave's presentation, let me know and I'll send it to you.

SWRCB References AB 685 in Approving \$2 Million for Disadvantaged Communities—At its Board meeting on Oct. 16th, the State Water Resources Control Board (SWRCB) approved a \$2 million allocation to assist the California Department of Public Health (CDPH) in providing interim replacement drinking water for economically disadvantaged communities. The funding will be provided to CDPH from the Cleanup and Abatement Account (CAA), which is administered by the State Water Board and will be granted to severely disadvantaged communities that are working with CDPH to achieve a long-term solution to address contaminated drinking water supplies.

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The funds will be used to provide these communities with safe drinking water in the interim, as long-term plans are developed. The funding will be administered by CDPH in accordance with the emergency drinking water criteria and will be targeted toward 168 small water systems identified by CDPH that serve less than 1,000 service connections and that rely on groundwater that consistently exceeds a primary safe drinking water standard (MCL).

Interestingly, in the resolution adopted by the Board (http://www.waterboards.ca.gov/board_info/agendas/2012/oct/101612_5.pdf), it referenced the recently passed "Human Right to Water" bill, AB 685 (Eng) as partial justification for its approval. The resolution stated: "Assembly Bill (AB) 685 (Eng), State Water Policy, also known as California's 'Human Right to Water' bill, was signed by the Governor on September 27, 2012. This law establishes a policy that all residents of the State have a right to clean, affordable, and accessible water for human consumption. This law also directs relevant state agencies to implement the policy."

The resolution then noted the State Water Board's recognition of the need to provide safe drinking water to assist severely disadvantaged communities on an interim basis until a long-term solution can be achieved to address the contaminated water supply. Accordingly, it approved the staff recommendation to allocate \$2 million from the CAA. CDPH will make funding available to those public water supply systems in severely disadvantaged communities whose existing water supply is affected by a waste.

Funding would be limited to \$50,000 per public water system. For bottled water, the maximum eligible amount of funding per project for an interim water supply would not exceed \$30/service connection for a period up to three years or until the completion of a project to resolve the drinking water standard exceedance(s), whichever comes first, unless the applicant otherwise justifies the cost. This funding would be available only to those public water systems that are addressing their long-term need by having a project ranked on CDPH's priority list pursuant to Health and Safety Code section 116760.70.

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In other action at the Oct. 16th Board meeting, the SWRCB postponed a decision on a proposed amendment to its Recycled Water Policy that would recommend monitoring for specific Constituents of Emerging Concern (CECs) in recycled water used for groundwater recharge reuse. The State Water Board members agreed to allow staff more time to finalize its response to written comments it has received regarding the amendment. A date for reconsideration has not yet been set.

New Report on Water Infrastructure Recommends Federal Action—The Center for American Progress, an independent nonpartisan educational institute in Washington D.C., founded by former Clinton White House Chief of Staff John Podesta, released a report Oct. 11th titled *How to Upgrade and Maintain Our Nation's Wastewater and Drinking Water Infrastructure*. The report notes that the average American family of four uses roughly 400 gallons of water a day for drinking, washing, cooking, cleaning, etc., and then catalogues the many decades of “insufficient or misdirected investment” in water distribution and sewer systems.

Fortunately, the report focuses on the state of disrepair in larger urban areas throughout the country, citing examples such as these:

- Baltimore (“aging pipes now burst approximately 1,000 times per year, and every day an incredible 20 percent of the water drawn from nearby reservoirs is simply lost in transmission before ever making it to homes and businesses);
- Houston (“an estimated 40 percent of the city’s water pipes have already reached the end of their intended operational lives, and last summer’s heat wave and drought conditions caused the city’s aging water system to sprout an overwhelming 11,000 leaks, resulting in a quarter of the city’s water being lost or unaccounted for in September and October 2011);
- Miami (“the dilapidated sewer system that serves Miami was recently found to have ruptured some 65 times in just the past two years, discharging more than 47 million gallons of untreated sewage into waterways and streets”)

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The report acknowledges the contribution that Federal assistance has made in the form of grants to drinking-water and clean-water state revolving loan funds—"certainly helps many communities across our country finance thousands of projects that might not have been completed otherwise." But, it says, this source of funding alone will not be sufficient to meet projected needs and may become less so, especially given the proposed 36 percent budget cut in fiscal year 2013 for federal grants to state revolving loan funds for drinking water and wastewater recently approved by the House Appropriations Subcommittee on Interior, Environment and Related Agencies.

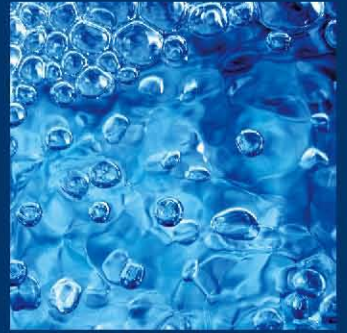
I was pleased to note that the report affirmatively stated that significant additional public *and private* (my emphasis) investment will be required to address these deteriorating drinking-water and wastewater systems, along with "the political will to put in place reforms that make better use of the money already being invested."

The reforms the Center has in mind are:

- Increase annual grant appropriations to state revolving loan funds by \$2 billion for the next 20 years
- Transition all remaining non-leveraged drinking-water and clean-water state revolving loan funds into leveraged funds
- Encourage states to adopt superior investment strategies
- Promote the adoption of more energy-efficient technologies and practices at drinking-water and wastewater facilities
- Push for lower-cost solutions for water-quality and treatment challenges

Not the most profound recommendations I've ever read, but it's nice to see an organization that rarely strays from other more prominent public policy issues get into the needs of the water industry. If you are interested, you can access the report at: <http://www.americanprogress.org/wp-content/uploads/2012/10/MillerWaterInfrastructureReport.pdf>

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Renner Pens Excellent Article on Water Utility Challenges— Rob Renner, executive director of the Water Research Foundation (WaterRF; www.waterRF.org), published an excellent article on Oct. 10th in Water Technology titled “Water Utility Industry Facing Challenges and Opportunities in Next 20 Years,” highlighting the results of WaterRF’s recently completed research project, *Forecasting the Future: Progress, Change and Predictions for the Water Sector*.

The intent of the study was to help water utilities and others involved in the industry understand what the future may hold by identifying and analyzing societal, political, economic, environmental and business trends impacting the water sector over the next 20 years. The project included the direct involvement of 20 North American and seven international water/wastewater utilities and four larger water organizations.

Renner identified four broad trend categories (environmental, technological, economic and societal/political), along with critical topic areas for each, as well as 10 key trends that stood out as critical for the entire industry:

1. Uncertain economy and financial instability
2. Decreased availability and adequacy of water resources
3. Aging water infrastructure with increasing capital needs
4. Shifting water demands with personal/industrial use declining, but population shifting to the South and West.
5. An aging workforce and worldwide competition for skilled resources
6. Expanding technology applications
7. Customer and media engagement have become increasingly important
8. Increasing and expanding regulations
9. Efficiency drivers and resource optimization will become increasingly important.
10. Climate uncertainty negatively impacting water resources

The remainder of his article concentrated on WaterRF’s vision for the future and the strategic imperatives required to realize that vision. He articulated 12 components of the water utility’s future (e.g., efficient providers, trusted guardians of public health, financially viable utilities, proactive open communicators, advocates for community quality of life, etc.) and then outlined seven strategic imperatives that demand action:

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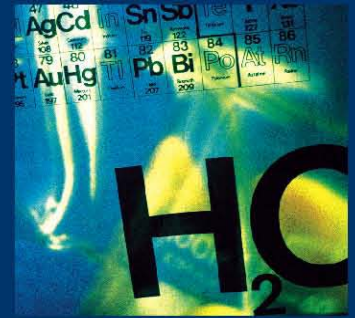
- Communication (Multi-faceted engagement; multi-stakeholder process, broad participation)
- Collaboration/partnerships (Municipalities and utilities must consider alternative models such as private-sector participation, public-public (PUP) partnerships and regional partnerships)
- Total systems view (A holistic approach that considers all of the technological, financial, physical and regulatory practices affecting water resources)
- Rate making/financing (Utility financial planning must include all cost factors; rate structures must place a larger charge for capital funding relative to the traditional volume charge used by most utilities)
- Applied technology (Utilities must foster innovation and the use of new information, communication, water system and water treatment technologies)
- 21st century leadership skills (Water sector leaders must acquire three clusters of leadership knowledge and skills, including: context, complexity and connectedness)
- Adaptive planning (Strategic planning must facilitate the development of strategies under various levels of uncertainty and volatility)

What I like most about this article is that it lends itself to a nice overview presentation of the water utility industry. I plan to incorporate many of these points in future generic presentations about water IOUs in California. You can access the article at: <http://www.watertechonline.com/articles/165462-water-utility-industry-facing-challenges-and-opportunities-in-next-20-years>.

Agenda Highlights for the October 25th California PUC Open Meeting—The CPUC has posted its agenda for the October 25th Open Meeting, which will be held from 9:00 a.m. to noon in Irvine, CA at its City Hall Council Chambers. 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 7 – Resolution 4933; Del Oro Water Company's (River Island and Strawberry Districts) Quantity Surcharge for Twelve Months. Advice Letter (AL) 340 and AL 341 filed on June 8, 2012 - Related matters. Proposed outcome:

- Authorizes Del Oro Water Company (DOWC) to collect a surcharge of \$0.041 per 100 cubic feet over a period of twelve months for its River Island District.
- Authorizes DOWC to collect a surcharge of \$0.300 per 100 cubic feet over a period of thirty six months for its Strawberry District.

Estimated cost: \$4,129.14 for River Island District; \$9,098.00 for Strawberry District.

Item 17 – A.12-04-019; Declaring Preemption of County Ordinance and the Exercise of Paramount Jurisdiction. Application of California-American Water Company for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates. Proposed outcome: Declaration that Monterey County Ordinance, Title 10, Chapter 10.72, is preempted by Commission authority. Estimated cost: None. (Comr Peevey - ALJ Weatherford).

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=28955747>

Closed Session - Applications for Rehearing

Item 35 – A09-09-001; Conference with Legal Counsel - Application for Rehearing. Disposition of the Application for Rehearing of Decision (D) 10-11-034 filed by Great Oaks Water Company. D10-11-034 resolved the general rate case for Great Oaks for test year July 1, 2010 to June 30, 2011 and the following two escalation years.

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Item 42 – A.10-01-012; 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 (CAW) application, and subsequent proposed settlement agreement between CAW, the District, and the Division of Ratepayer Advocates (DRA). Both the application and proposed settlement recommended approval of a District User Fee set at 8.325% of CAW 's total revenue. CAW 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 CAW to amend its application with additional information to support the proposal.

Upcoming Industry Meetings/Conferences/Events:

- October 23-24, 2012 – California Public Utilities Commission Recycled Water OIR Workshop (10:00a – 4:00p; CPUC Auditorium, 505 Van Ness Ave., San Francisco, 94102)
- October 24, 2012 – Dept. of Water Resources – California Water Plan Update 2013 – Advisory Committee Meeting (9:00a – 4:30p; Cal EPA Building; 1001 I St., Sacramento, CA 95814); J. Hawks will attend
- October 25, 2012 – California PUC Open Meeting (9: 00a–12 :00p; **Irvine City Hall, Council Chambers, 1 Civic Center Plaza, Irvine, CA 92606**)
- October 25, 2012 – Water Education Foundation 35th Anniversary Reception and Dinner (5:00p – 9:00p; Vizcaya Pavilion & Mansion; 2019 21st St., Sacramento, CA 95814); J. Hawks will attend.
- October 29, 2012 – CPUC Low-Income Oversight Board Meeting (10:00a – 4:00p; Sacramento New City Hall; Council Chambers; 915 I Street-First Floor; Sacramento, CA 95814); Water utility presentation on customer information data-sharing program with energy utilities will begin at 10:00 a.m.)
- October 30-31, 2012 – CWA 71st Annual Conference (8:45a-4:45p; Monterey Plaza Hotel - 400 Cannery Row, Monterey, CA 93940); J. Hawks will attend.

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- November 1, 2012 – CWA Annual Directors Meeting (8:00a – 11:00a; Monterey Plaza Hotel - 400 Cannery Row, Monterey, CA 93940); J. Hawks will attend.
- November 8, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- November 9, 2012 – California Utility Diversity Council Meeting (CWA is hosting; 10:30a – 2:00p; Los Angeles location TBD);
- November 11-14, 2012 – National Association of Regulatory Utility Commissioners Annual Meeting (Hilton Hotel; 401 West Pratt St., Baltimore, MD 21201); J. Hawks will attend.
- November 14-15, 2012 – California Urban Water Conservation Council Board of Directors Meeting and Workshop (9:00a – 3:30p both days; San Diego County Water Authority; 4677 Overland Avenue, San Diego, CA 92123); J. Hawks will attend the second day.
- November 29, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- December 4-7, 2012 – Association of California Water Agencies Fall Conference (Manchester Grand Hyatt; One Market Place San Diego, California 92101); J. Hawks plans to attend.
- December 11, 2012 – CWA Executive Committee Meeting (10:00a – 2:00p; Golden State Water Company; 2143 Convention Center Way, Suite 110, Ontario, CA 91764); J. Hawks will attend.
- December 12, 2012 – California Urban Water Conservation Council Plenary Meeting (9:30a – 3:00p; Metropolitan Water District of Southern California; 700 North Alameda St., Los Angeles, CA 90012); J. Hawks will attend.
- December 13, 2012 – California Dept. of Water Resources – California Water Plan Update 2013 Advisory Committee Meeting (9:00a – 4:30p; Cal EPA, 1001 I St., Sacramento, CA 95814); J. Hawks will attend.
- December 20, 2012 – 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); J. Hawks will attend.

—CWA—