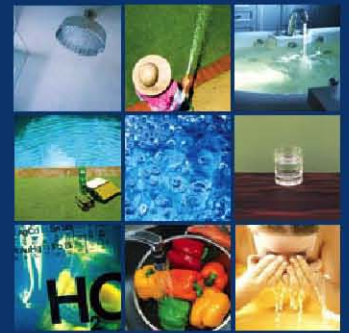


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# The Weekly Wrap



**November 9-16, 2012**

**No. 2012-45 & 46**

TO: CWA Member Companies  
FROM: Jack Hawks, Executive Director  
SUBJECT: Highlights for the Weeks Ending November 9 and 16, 2012

**CPUC Adopts California American Water Rate Design Settlement**—In what must have been a pleasant surprise (because there was no controversy), the California PUC approved a rate design decision for California American Water (CAW) at its Nov. 8<sup>th</sup> Open Meeting – on the Consent Agenda, no less, with nary any comment from the Commissioners. I’m quite sure previous decisions involving CAW’s rates (at least since I moved to California in 2005) were a contested matter involving lots of discussion on the Regular Agenda. The times are definitely changing for CAW.

Here, the Commission, in Decision 12-11-006, adopted a settlement agreement between CAW, the Division of Ratepayer Advocates (DRA), The Utility Reform Network (TURN), and the Natural Resources Defense Council (NRDC) on a conservation rate design for CAW’s Larkfield, Los Angeles County, San Diego County, and Ventura County Districts, and the Toro service area of the Monterey County District for the years 2011 through 2014.

NRDC was so proud of the Decision that it issued a news release praising the new rate design. “Water in California is a precious resource and should be treated that way,” said Ed Osann, NRDC senior policy analyst. “California American Water Company’s new rate structure rewards customers who are smart about their water use, and incentivizes heavy users to make their water habits more efficient. This four-tier rate structure is a good model for helping California meet state water efficiency goals and we encourage other water utilities around the state to consider adopting similar structures.”

Ed went on to say in his NRDC blog:

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“The first gallon of water we use for cooking or bathing is far more important (and valuable) to us than the last gallon that sprays from our lawn sprinkler, drifting across the sidewalk and running into the street. As a nation, we have plenty of fresh water for drinking. But the day is fast approaching when we will no longer be able to afford to run drinking water into the gutter. So it was welcome news this week when the California Public Utilities Commission approved a new structure for residential water rates used by the California-American Water Company, an affiliate of American Water Works, Inc., and one of the largest investor-owned water companies in the state.”

The PUC was equally pleased that the parties agreed on so many points. It explained that the conservation rate design establishes the number and break points for consumption tiers, the percentage of fixed costs included in the service charge, and the distribution of the rate in each tier based on the single quantity rate for each district. The parties agreed on seven guiding principles for developing the parameters for each district’s rate design. In their words, the rate design should:

1. Encourage water conservation and efficient use;
2. Maintain affordability for essential levels of indoor use;
3. Be practical, easy to implement, and understandable for customers;
4. Maintain revenue neutrality;
5. Adhere to the principle of gradualism, giving residential customers the opportunity to adjust to new price signals from the rate design, in addition to higher rates due to increased revenue requirements;
6. Bear a reasonable relationship to the cost of service; and,
7. Be fair in the treatment of diverse groups of customers.

The parties also recognized in the settlement that:

- The Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) track a large portion of the revenue requirement;
- CAW needs to comply with the 2009 Water Conservation Act; and,
- Possible reductions to CAW’s wholesale water supply may necessitate further reductions in consumption.

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With these principles in place, the parties agreed to these parameters:

- Service charges in each district are set so that the total annual service charge revenues equal 25% of total applicable fixed costs;
- The four-tiered rate design limits consumption and projected revenues in the highest-priced tier (thus making the 25% limitation on fixed costs in the service charge much more palatable from a revenue stability standpoint – JH). This structure minimizes the impact on WRAM balances.
- Since less consumption is priced above the single quantity rate, where customer response (reduced consumption) is mostly likely to occur:
  - Break points used between tiers. Tier 1/Tier 2 – the winter median serves as a proxy for indoor use, approximating statewide indoor water consumptions goals of 50 to 70 gallons per day.
  - Tier 2/Tier 3 – the higher summer median was used to include a moderate amount of irrigation and other outdoor use.
  - Tier 3/Tier 4 – a break point that results in 3-5% of water usage occurring in the top tier. This captures consumption by highest-use customers and provides them an incentive to locate and correct leaks and invest in more water efficient landscaping and outdoor use practices.
- The parties agreed to set each tier's rates at a percentage of the single quantity rate to generate the previously approved revenue requirement authorized by the Commission in D.12-06-016.
  - Tier 1 rates are 70-90% of the single quantity rate. The current Tier 1 rate is used as the floor, and customers will not see a rate decrease below that level as a result of the Tier 1 rates proposed in the rate design settlement.
  - Tier 2 rates are equal to the single quantity rate.
  - Tier 3 rates are 115-150% of the single quantity rate.
  - Tier 4 rates are 170-200%+ of the single quantity rate, ensuring that no more than 10% of consumption revenue is recovered in Tier 4.

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The Commission continued its praise during the discussion of the reasonableness of the settlement agreement. It said, "The settling parties represent the interests of the utility and a broad spectrum of ratepayer interests. There were no challenges to the settlement ... The rate design settlement is practical and understandable for ratepayers, yet allows [CAW] to recover its revenue requirement while encouraging water conservation and maintaining affordability and revenue neutrality. Therefore, we may conclude that the settlement is in the public interest."

Congratulations to California American Water on D.12-11-006. It must have been nice to see this Decision go out unanimously on the Consent Agenda. In other actions taken at the Nov. 8<sup>th</sup> Open Meeting, the Commission:

- Approved **Resolution W-4934**, which grants Sonora Water Company an increase in gross annual revenues of \$84,352, or 43.8% over current rates, for Test Year 2012. This was a GRC prepared under CWA's small company regulatory assistance program by consultant Edmund Viray.
- Approved **D.12-11-005**, which extends the statutory deadline in a formal complaint involving Big Oak Valley Water District to May 24, 2013.
- Approved **D.12-11-012**, which extends the statutory deadline in the long-running California Water Service application (filed in May of 2008!) involving discontinuance of its ESP program to January 25, 2013.

**City of Claremont Offers \$54 Million for GSWC's Local Assets**—The City of Claremont made good on a June 26<sup>th</sup> decision to appraise Golden State Water Company's (GSWC) Claremont assets by making an offer of \$54,067,000 to GSWC on Nov. 6<sup>th</sup>. And once again, an investor-owned water company (IOWC) is going to have to waste its time and money fending off a hostile takeover.

In a news release, city officials said, "The offer made by the City is based on an inspection of the Claremont water system and an independent appraisal that was prepared in accordance with State law and accepted appraisal procedures," said Claremont Mayor Larry Schroeder. "The offer made to Golden State Water is for the full amount of the current fair market value of the utility system and its assets."

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The news release contained the requisite number of self-serving quotes from city officials, and while it was carefully written, it was disingenuous in a number of ways. First and foremost, the offer itself apparently values GSWC's water rights at zero, which of course is nonsense. Second, it inferred (see following quote) that GSWC and the California PUC do not treat Claremont ratepayers "fairly," when of course, that's exactly how they are treated in a Commission-approved cost-of-service ratemaking proceeding.

"Our Council remains committed to ensuring that Claremont ratepayers are treated fairly when it comes to water service and rates. As we move forward, City staff will continue to evaluate and examine a variety of options to cost-effectively manage and finance the potential water system purchase," said Mayor Pro Tem Opanyi Nasiali.

Third, the release dismissed GSWC's legitimate property rights ownership by asserting that, effectively, it is GSWC's obligation to engage in negotiations to give up its property. "We are looking forward to meeting with representatives from Golden State regarding our offer. It's time for a meaningful discussion regarding the future of water service in Claremont," said Councilman Corey Calaycay. "To merely claim the water system is not for sale will not serve the best interests of ratepayers in Claremont."

Fourth, the news release noted that the City's offer included information on California's eminent domain process, making an obvious condemnation threat even while stating that "... the appraisal of the water system and offer made to Golden State Water does not trigger the eminent domain process which would require separate Council authorization."

Fifth, the news release implied that GSWC's water rates were not fair, transparent and reasonable, when, of course, their rates (basically, by definition) are fair, transparent and reasonable. "Our entire Council is committed to ensuring that ratepayers in Claremont have access to water at rates that are fair, transparent and reasonable. The offer to purchase Golden State Water is a key step in ensuring that Claremont residents will have control over the future of water service for their community," said Councilman Sam Pedroza.

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Finally, the news release erred when it said GSWC has “profit guarantees” that are not available to government-owned utilities (GOUs). “Golden State Water recently submitted a rate increase application to the California Public Utilities Commission (PUC) seeking a 24.54% increase in 2013 with additional increases in 2014 and 2015. The PUC enables private water companies to receive a rate of return on their investment. Such profit guarantees are not available to municipally-owned water systems, nor do they pay dividends to stockholders.”

Of course, there is no guarantee that GSWC or any other IOWC will earn its return on equity. It would have been nice, as well, if the release noted that GOUs do not have to pay taxes, enjoy large connection fees not available to investor-owned systems, and are able to use the taxpayer to subsidize the ratepayer, but that would have been too much to ask.

And of course, the news release had to pander to the anti-business bias in California by ending with a “bite the hand that feeds me” cheap shot against the state’s business community (which I thought provided a large portion of the tax revenues so desperately needed by state and local governments). “Today is an exciting day for current and future generations of water users in Claremont. I believe that decisions regarding water rates and system maintenance should be made locally, not by corporate executives interested only in maximizing the rate of return for private investors,” said Councilman Joe Lyons.

Let’s hope this hostile offer doesn’t go anywhere.

**CWA Files Comments on Recycled Water Workshop Documents**—CWA and the rest of the parties in the Recycled Water Order Instituting Rulemaking (R.10-11-014) filed comments Nov. 14<sup>th</sup> on the issues raised during the OIR’s fifth workshop held on Oct.23-24, which was convened to consider an advice letter template and protocol for proposed recycled water projects, as well as a set of policy guidelines developed by staff of the California PUC’s Division of Water & Audits (DWA).

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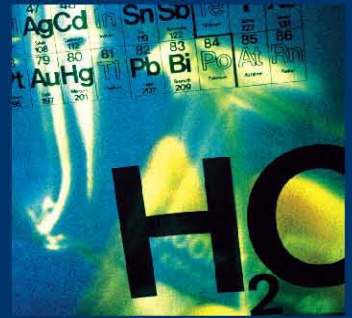


CWA's goals for the comments were two-fold: (1) to encourage the Commission to adopt guiding policy principles and project proposal criteria that, by their flexibility and attainability, facilitate the efficient development of an important water resource; and (2) to convey CWA's support for policies that further the Commission's Water Action Plan objective to expand recycled water supply to meet California's ever-increasing water demands.

CWA suggested a number of changes to the guidelines, as follows, and recommended that the staff-drafted minimum criteria and Advice Letter template documents be combined into a template for Tier 3 Advice Letters.

- With respect to the policy guidelines, CWA noted that a general statement of policy promoting the implementation of recycled water projects by the Commission should recognize that recycled water projects must necessarily be presented, analyzed and approved (or rejected) on a case-by-case basis.
- The Commission must necessarily consider a balancing of the project's non-economic, non-monetized costs and benefits as part of its cost effectiveness analysis because these non-monetized, non-economic costs and benefits reflect environmental and social values that cannot be disregarded and that should be reflected in the Commission's cost effectiveness analysis.
- Any policy promulgated by the Commission must ensure compliance with the Service Duplication Law. Accordingly, CWA recommends that the Draft Guidelines be modified to: (1) strengthen the Commission's commitment to protecting the "substantial obligation" undertaken by the investor-owned water companies to provide utility service against the potential loss of revenues and value of facilities resulting from service duplication; and (2) clarify that the Service Duplication Law addresses redundancy well beyond the circumstance presented by two competing recycled water service providers by affirming that the Service Duplication Law prohibits the extension of recycled water service into the service territory of an investor-owned water company by another entity seeking to displace potable water services provided by said IOU.

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- CWA disagrees with the suggestion that a memorandum account should be established to record either “cost savings resulting from the replacement of potable water use by recycled water use” and/or “incremental costs and revenue requirement associated with the recycled water project that has been allocated to pre-existing customer base.” There are too many variables and questions involved with the efficacy of memorandum accounts, not the least of which is undue burden on customers. Therefore, a requirement that each investor-owned water utility set up such a memorandum account should not be incorporated into the Guidelines.
- CWA is very concerned that the minimum criteria for projects proposed outside the time frame of a general rate case (GRC) are also proposed to be required in the context of a company’s GRC. If adopted, this would create a double standard for capital projects requests, with a more detailed, rigorous showing required for recycled water projects than for other capital projects. Doing so would undermine the Commission’s efforts to encourage the development and speedy review of recycled water projects. Further, such treatment would have the indirect effect of modifying the Rate Case Plan without adequately addressing the implication of such changes. Therefore, CWA requested that the CPUC refrain from implementing criteria that would apply in a GRC context.
- CWA proposes that the two documents be combined into one master “Proposal Template” containing one basic set of “minimum criteria” to be addressed, to the extent applicable, in proposals made in between GRCs. This approach is consistent with the discussion during the Commission’s fifth workshop about developing a more user-friendly template.
- In order to more appropriately reflect and account for variations in the size of the investor-owned water companies, CWA recommended modifying the cap on Tier 3 Advice Letter projects from a \$5 million rate base increase to a revenue impact of less than 5% of the proposing IOWSU’s revenue requirement in the associated ratemaking area.
- CWA recommends that, rather than concluding that recycled water projects involving advanced treatment technology are inherently incompatible with the limit on Tier 3 Advice Letter treatment, the CPUC should adopt a more appropriate threshold requirement for inclusion; for example, whether the proposed Project involves direct potable reuse.



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- CWA disagrees with the premise that further conservation efforts should be employed before a recycled water project can be approved because recycled water provides an essential reliability benefit that conservation and demand-side management cannot provide, especially when the dimension of time is included.

As you might have guessed, the Division of Ratepayer Advocates, The Utility Reform Network and the Consumer Federation of California disagreed with many of CWA's proposals. Reply Comments are due on Nov. 30<sup>th</sup>. We'll keep you posted.

**Fontana Water Breaks Ground on Recycled Water Project**—Fontana Water Company, the City of Fontana and the Inland Empire Utilities Agency (IEUA) joined together Nov. 2<sup>nd</sup> at Fontana's Southridge Community Park to break ground on a new recycled water distribution system that will save more than 550 million gallons of drinking water annually. The recycled water will be used for landscaping and commercial uses.

"This switch to recycled water will help us ensure the residents and businesses of Fontana will have ample water supplies well into the future," said Fontana Mayor Acquanetta Warren at the event. "Nothing is more basic or important to our lives and our economy than water and this project is a step in the right direction toward building a bright and prosperous future for our community."

State Senator Gloria Negrete McLeod also attended and praised it, as well, saying, "This is a very important project for Fontana and for the entire Inland Empire. We are saving water here in Fontana and that will help make the most of a precious, renewable drinking water resource that supports the entire region. We must stretch our supplies farther than ever before, and using recycled water is one of the best ways to do that."

The high quality recycled water will come from IEUA's Regional Plant No. 4 and is completely safe for use on landscaping and in commercial and industrial uses. During the past 10 years, IEUA has been promoting recycled water aggressively to improve the sustainability of the region's water supply. Now, there are more than 600 customers connected to recycled water throughout its service area.

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This project is Fontana Water's first for recycled water, although parent San Gabriel Valley Water is the largest retail supplier of recycled water in the San Gabriel Valley. Fontana Water and the City have been working on the project for more than a year, which was recently approved by the California PUC. The City owns the rights to the treated water, which will be delivered by a regional pipeline being built by IEUA.

Fontana Water is now set to build the distribution system that will deliver the recycled water directly to schools, parks, and businesses in the south end of Fontana. The distribution system will include approximately 18,000 feet of purple piping and is expected to cost about \$6.3 million, but will not be added to customer water bills. In addition to saving needed drinking water supplies, the project will save money for the City and School District because they will pay about half of what they now pay to irrigate landscape with drinking water.

"With a growing population, changing rainfall patterns and the likelihood of reduced supplies from Northern California and the Colorado River, it is vital that we stretch our local water supplies as far as possible," said Robert Young, Fontana Water General Manager. "Projects like this one will help us conserve our local renewable water supplies for their highest and best use."

Fontana Water is scheduled to begin construction of its portion of the recycled water system almost immediately and it should be complete by mid-2013. The IEUA portion will be under construction by April 2013 and is scheduled for completion by late 2014. Recycled water should be flowing by December 2014.

**NARUC Annual Meeting Features Full Plate of Water Issues**—The National Association of Regulatory Utility Commissioners (NARUC) held its annual meeting Nov. 11-14 in Baltimore, and water issues populated the agenda throughout the conference, whose theme was "Effective Regulation Takes Teamwork." Among the concurrent sessions were panels on electricity and water interdependencies, lessons and best practices for small-scale water systems, and a debate on hydraulic fracturing ("fracking") and its impact on water. Commissioner Catherine Sandoval, alone, participated in three different panels during the conference.

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The fracking debate, which was moderated in part by California PUC Commissioner Timothy Alan Simon, was very interesting because it pitted a Cornell University Professor (Robert Oswald, Professor of Molecular Medicine, who took the anti-fracking, anti-industry position) against a North Carolina State Professor (Steven Sexton, Professor of Environmental and Resource Economics, who took the pro-fracking, pro-industry position).

Sexton won the debate hands down, effectively refuting every point Oswald made. Not only was he more persuasive with the risk and economic analyses favoring fracking, but also he was able to demonstrate that the only adverse effects on drinking water occurred when there was an accident or malfunction with the drilling equipment, not during normal operations. The irony was that Sexton grew up in California and got his Ph.D. from UC Berkeley, and he was taking the conservative, pro-industry position.

Small water assistance got full attention at the conference because a second session on best practices took place at the Committee on Water meeting on Nov. 12<sup>th</sup>. Additionally, there were presentations on rate stabilization plans for water utilities and the continuing discussion on the gap analysis between authorized returns on equity vs. actual ROEs. Golden State Water President and CEO Bob Sprowls participated on this panel.

On Sunday, Nov. 11<sup>th</sup>, CWA's Sharun Carlson and Golden State Water's Emma Maxey represented CWA at the Utility Marketplace Access (UMA) Subcommittee meeting, at which Commissioner Simon, whose term expires on Dec. 31<sup>st</sup>, was honored for his service and contributions to the UMA Subcommittee by Maryland Commissioner Harold Williams.

In honor of Veteran's Day, Ed Hirsh, President of the National Association of Service Disabled Veterans, spoke glowingly about returning veterans and job opportunities for them. He pointed out that many of these returning veterans have excellent skills and know how to work collectively in the workplace.

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A panel on “The Economic Case for Supplier Diversity” offered an overview of programs that have brought diversity into workplace opportunities. Laurie Dowling, Interim Executive Director for the National Utilities Diversity Council, spoke about its UMA Toolkit Project and what they hope to supply to Commissioners and staff with this collective data. Commissioner Simon urged all the Commissions to cooperate with this project.

Michele Ruiz, CEO, Ruiz Strategies, shared a program on advancing digital communication strategies and technology to utility customers. Already, more than 45% of today’s utility customers are using smart phones with applications. She discussed how utilities can deploy an app for these customers to help improve customer notification, customer education and customer satisfaction. She also emphasized the importance for utilities to make sure their websites comport to the digital format so that smart phone users can get the information and use it effectively.

**CPUC Hosts Workshop on Balanced Water Rates OIR**—The California PUC hosted its second workshop on the Commission’s balanced water rates rulemaking (R.11-11-008). The affected utilities in this proceeding are California American Water, California Water Service, Golden State Water and Del Oro Water. This has been a difficult rulemaking and will continue to be so because one of the threshold principles is no cross-district subsidies, which of course runs counter to the goal of attempting to balance or consolidate rates among the multi-district companies. Nonetheless, the proceeding has moved forward, beginning in the first workshop on July 17-18, 2012, with an examination of the variants of high-cost funds that exist.

This workshop concentrated on a draft “High Cost and Affordability Integrative Framework” from Commission staff that contains a flowchart on screening requirements for districts, customer service areas or ratemaking areas to determine whether they should be designated for a “High-Cost Track” or an “Affordability Track.” Each track contains recommendations on cost reductions, efficiencies, mitigation, expansion of low-income programs, targeted high-cost funds, targeted low-income conservation programs, etc.

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If additional mechanisms are needed, the framework extends to things like rate consolidation, cost consolidation, rate base consolidation, operational consolidation, physical consolidation, intra-company funding pools, balanced payment plans, budget plans and phased-in rates. There was considerable discussion on all of these options.

Presiding Administrative Law Judge Gary Weatherford presented a new schedule for the participants, as follows:

- The workshop comments will be due on Nov. 28<sup>th</sup>
- The Draft Staff Workshop Report will be available by Feb. 12, 2013
- Comments on the Workshop Report will be due on March 14, 2013, with Reply Comments due on March 30<sup>th</sup>
- The final Workshop Report will be available on May 1, 2013
- The Proposed Decision will be issued in July 2013, and the PD will be on the Commission's Open Meeting Agenda in August 2013.

#### **Disadvantaged Communities Hearing Looks at Nitrate Contamination—**

Nossaman Senior Policy Advisor Jennifer Capitolo, who serves with Meg Catzen-Brown as Legislative Advocate for CWA, attended an oversight hearing Nov. 14<sup>th</sup> of the Assembly Committee on Environmental Safety and Toxic Materials that focused on strategies to address contaminated drinking water in California's disadvantaged communities. The hearing was attended by Assembly Members Luis Alejo (D-Salinas; Committee Chair), Henry Perea (D-Fresno), Das Williams (D-Santa Barbara) and Mariko Yamada (D-Davis/Vacaville). Jennifer provided the following report:

The first panel at the hearing consisted of Thomas Harter and Jay Lund, both professors at UC-Davis, who presented findings of a commissioned study on nitrate levels in California groundwater that include:

- The range of nitrate sources includes: agriculture, urban areas with leaky sewer lines, semi-urban areas with faulty septic systems, and wastewater treatment plants and food processors that create organic waste.

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- Agriculture is by far the greatest source of nitrate contamination, accounting for 95 percent of nitrates that leak into groundwater.
- Nitrate levels in groundwater wells represent decades of accumulation, suggesting remediation efforts would likely take decades.
- Because remediation has never been tested on a groundwater source as large as the Tulare Basin, it is unclear which techniques should be deployed or how effective they will be.

Chair Alejo asked whether consolidation of clean water funds is an appropriate approach to remediation. Dr. Lund responded consolidation may present a dilemma because the funds were established at different times and for different purposes. The benefits of consolidation are unclear.

Dr. Harter stated that organizational consolidation of local water systems may yield better efficiencies than consolidation of state funds, indicating that small disadvantaged communities lack the institutional memory or competencies to implement state funds. He also recommended greater portions of state funds for public outreach activities to educate small disadvantaged communities.

The second panel made presentations on state programs to protect and advance clean drinking water, with attention to disadvantaged communities:

- Donna Campbell (Deputy Director, California Health and Human Services) outlined efforts CHHS is making with CalEPA, the Office of Environmental Health Hazards Assessment, California Department of Food and Agriculture, the Department of Water Resources (DWR), and State Water Resources Control Board. Among them are the Drinking Water Stakeholder Group which has identified \$2-\$4 million for emergency funding for interim drinking water supplies in 63 eligible disadvantaged communities, and an interagency enforcement group, including CHHS, CalEPA, and DWR.

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- Mark Starr (Deputy Director for Environmental Health, California Dept. of Public Health) outlined CDPH's approach to regulatory and financial assistance (via Prop 50 and Prop 84) and focused his remarks on the serious nitrate and arsenic problems in the Central Valley and Salinas. He noted that regulations, particularly arsenic standards, have been getting increasingly stricter, with disproportionate impacts on small water systems in disadvantaged communities. He said 98 percent of Californians are served by large water systems and 2 percent are served by small systems.
- Kathleen Billingsley (CDPH Chief Deputy Director of Policy and Programs) explained how small water systems face different challenges, e.g., because small water systems serve disadvantaged communities, their water rates are often insufficient to finance necessary upgrades and maintenance. As a result, CDPH supports consolidation of water systems and funding sources.
- Tom Howard (Executive Director, State Water Resources Control Board) reported on a recent State Water Board study showing that for communities relying on groundwater, the most common groundwater pollutants are arsenic and nitrates. He said that most communities address the problems posed by these pollutants with deeper wells or water treatment, but disadvantaged communities can neither afford nor manage such solutions. Between 2000 and 2010, the Board identified 265 water systems with contamination that are regulated by DPH, but many systems have fewer than 15 connections and therefore are not regulated by DPH – so the total rate of contamination is unknown.

Assembly Member Yamada made a comment about Cal Water's rate case in Lucerne (Lake County), calling for a new Proposition 13 because residents here are being asked to absorb a 77% rate increase to upgrade operations to meet water quality standards. Yamada said she will be presenting opposing comments to the California PUC in opposition to the rate case. Both the CDPH representatives and Assembly Member Perea responded to Yamada's comments, but they focused on private well owners, making it clear that they did not understand the difference between private water companies and private well owners.

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Consolidation was an important theme of the hearing. CDPH said that it and the local communities need to be proactive in consolidating and regionalizing water systems to have enough economies of scale to secure the revenues for the necessary O&M work. Assemblyman Perea said talked about the bill he carried last year to force consolidation, but it was held after opposition surfaced from CDPH. CDPH urged that Perea work with the Governor's Drinking Water Stakeholder Group next year to draft a workable bill on consolidation.

The third panel featured the two Co-Chairs of the Governor's Drinking Water Stakeholder Group: Dave Orth-- General Manager, Kings River Conservation District and Laurel Firestone-- Co-Executive Director of the Community Water Center in Visalia. They presented drinking water contamination solutions for needy communities, while a fourth panel focused on both success and hardship stories related to water quality in communities across the state. No issues related to IOUs were discussed in these latter panels.

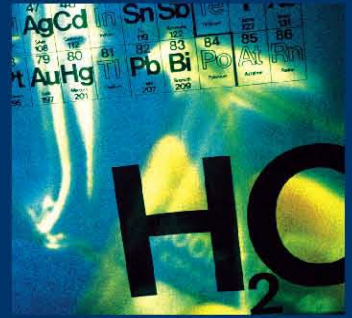
### **L.A. Regional Board Approves Updated Storm Water Runoff Regulations—**

There has been a lot of activity on discharge requirements for municipal separate storm sewer system (MS4) permit holders in recent days. First, the Los Angeles Regional Water Quality Control Board (L.A. Regional Board) approved updated municipal storm water runoff regulations on Nov. 8<sup>th</sup> that are designed to prevent trash, metals, bacteria, chemicals and pesticides from being washed into storm drains and into creeks, rivers and the ocean.

The regulations, called an MS4 Permit Order, are a renewal of a permit last issued in 2006, and it covers municipalities in Los Angeles County, except for Long Beach, which has its own storm water permit. You'll recall that there was great consternation earlier this year among public and community water systems that non-storm water (i.e., potable water) discharges would now be required to comply with the National Pollutant Discharge Elimination Systems (NPDES) requirements in the MS4 permits. However, the original draft was changed last May to "conditionally exempt" non-storm water discharges as long as they followed newly prescribed Best Management Practices.



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This language carried over into the revised tentative MS4 Permit Order released on Oct. 23<sup>rd</sup> and on which the Board voted on Nov. 8<sup>th</sup>. The main issue for community water systems now is going to be the development and implementing procedures for the BMPs and the non-storm water dischargers. David Kimbrough of Pasadena Water & Power has been convening a stakeholder group in L.A. County (on which all affected CWA members have been participating), and he reported on Oct. 24<sup>th</sup> that the group would likely have to take some initiative “to make this happen in the best possible fashion.”

In a news release, the L.A. Regional Board said storm water runoff remains a major water quality problem in the Los Angeles region, posing a threat to human health and water ecosystems. “Clean water is vitally important for our health and for the environment,” said Regional Water Board Executive Officer Samuel Unger. “The new regulations are designed to give municipalities the flexibility to design a strategy that meets clean water goals in the most cost effective way.”

The MS4 Permit requires cities and towns in the county to develop a plan to reduce the pollutants in storm water, to monitor the results and take corrective action when goals are not met. You can access the MS4 Permit Order at: [http://www.waterboards.ca.gov/losangeles/water\\_issues/programs/stormwater/municipal/index.shtml](http://www.waterboards.ca.gov/losangeles/water_issues/programs/stormwater/municipal/index.shtml).

Meanwhile, the State Water Resources Control Board announced on Nov. 16<sup>th</sup> that a third draft of the Phase II Small MS4 General Permit has been released and that all interested parties are invited to participate in the process either by submitting comments on the draft permit and through testimony at public hearings and meetings. Written Comments are due no later than Noon on Monday, December 17, 2012 (12:00 Noon).

Further, the State Water Board will consider the adoption of the Revised Draft Phase II Small MS4 Permit at its regularly scheduled Board meeting, beginning at 9:00 a.m. on Tuesday, February 5, 2013 (Cal/EPA Headquarters Building; Coastal Hearing Room; 1001 I Street, Second Floor; Sacramento, CA 95814).

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The Revised Draft Phase II Small MS4 Permit, with revisions made since May 21, 2012, is posted at: [www.waterboards.ca.gov/phaseIIpermit](http://www.waterboards.ca.gov/phaseIIpermit). Responses to comments received on the May 21, 2012, draft of the Revised Draft Phase II Small MS4 Permit are expected to be posted at the same Web address on or about November 28, 2012.

### **Agenda Highlights for the November 29<sup>th</sup> California PUC Open Meeting—**

The CPUC has posted its agenda for the November 29<sup>th</sup> 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 19 – A04-09-019; California American Water Petition to Modify Decision 12-07-008.** In the Matter of Application of California-American Water Company for a Certificate of Public Convenience and Necessity to Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present and Future-Costs in Connection Therewith in Rates. Proposed outcome: Grants in part and denies in part petition to modify Decision 12-07-008. Closes the proceeding. Estimated cost: None. (Comr Peevey - ALJ Weatherford)  
<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=31748742>

**Item 23 – A12-07-011; Golden State Water Company's New Debt and Equity Securities.** Application of Golden State Water Company for authorization to issue and sell additional debt and equity securities not exceeding the aggregate amount of \$225,000,000 and other related requests. Proposed outcome:

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- To issue and sell new debt securities, common equity securities, and preferred equity securities not exceeding \$177,100,000, pursuant to Public Utilities Code Sections 816-830.
- Guarantee the securities or other obligations of governments or agencies that issue securities on behalf of Golden State Water Company (GSWC).
- Issue short-term debt securities for as much as 24 months.
- Execute and deliver one or more indentures, supplemental indentures or board resolutions and/or loan, credit or note purchase agreements or other agreements.
- Utilize selected debt securities enhancement and interest rate management features to improve the terms and lower the cost of new securities.
- In compliance with the New Financing Rule, these features are not counted against GSWC's authorized amount of new securities.

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

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=31881058>

**Item 26 – 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:

- 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=33963306>

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**Item 27 – 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.

**Item 28 – Res W-4937; Park Water Company's Surcharge to Recover Balance in the Cost of Capital Memorandum Account.** Advice Letter 233-W filed on July 6, 2012 - Related matters. Proposed outcome:

- Authorizes Park Water Company to collect a surcharge of \$0.025 per hundred cubic feet over a period of twelve months for residential and non-residential metered water service.
- Authorizes Park Water Company to collect a surcharge of \$0.014 per hundred cubic feet over a period of twelve months for reclaimed water service.

Estimated cost: \$152,846.

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=33904706>

**Regular Agenda - Legal Division Matters**

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**Item 49 – Res L-436; New Regulations Regarding Disclosure of Records and Requests of Confidential Treatment of Records.** Interim Resolution regarding adoption of new regulations regarding public access to records of the California Public Utilities Commission and requests for confidential treatment of records.

#### **Closed Session – Applications for Rehearing**

**Item 52 – 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 (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.

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

- November 29, 2012 – California PUC Open Meeting (9: 00a–12 :00p; 505 Van Ness Ave., San Francisco 94102
- November 29, 2012 – Public Policy Institute of California Luncheon – “California’s Water Market” (12:00 – 1:30p; CSAC Conference Center; 1020 11th Street, Second floor; Sacramento); J. Hawks may attend.
- December 4-7, 2012 – Association of California Water Agencies Fall Conference (Manchester Grand Hyatt; One Market Place San Diego, California 92101); J. Hawks will attend.
- December 7, 2012 – CWA Public Information Committee Conference Call Meeting (1:30p – 3:00p; 1.888.398.2342; 6868916#).

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- December 10, 2012 – CA Dept. of Public Health Infrastructure Funding Stakeholder Committee Meeting (10:00a – 4:00p; 1616 Capitol Mall, Sacramento).
- 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 – CUWCC 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—