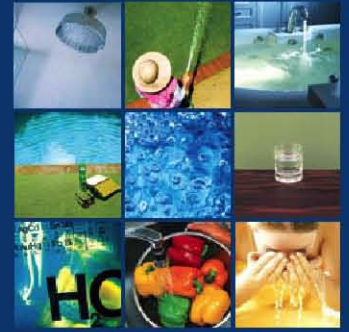


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# The Weekly Wrap



**December 21-28, 2012**

**No. 2012-50**

TO: CWA Member Companies  
FROM: Jack Hawks, Executive Director  
SUBJECT: Highlights for the Weeks Ending December 21 and 28, 2012

**Castaic Lake Water Agency Buys Valencia Water Co. for \$73.8 Million**—A negotiated settlement between Castaic Lake Water Agency (CLWA) and Valencia Water Company (VWC) owner Newhall Land Company has resulted in \$73.8 million transaction in which CLWA purchased the stock of VWC. CLWA and Newhall Land closed the acquisition on Dec. 21<sup>st</sup> after the CLWA Board of Directors voted Dec. 12<sup>th</sup> initiate the purchase of VWC. The acquisition price includes \$24 million in debt assumption by CLWA.

“This is an outstanding opportunity to ensure local public ownership of a water company that has always been privately held,” said CLWA General Manager Dan Masnada in a news release. “The acquisition would result in future cost savings and enhance water supply reliability for the entire Santa Clarita Valley.”

According to local newspaper reports, the acquisition combines VWC’s 29,022 customers with the Santa Clarita Water Division’s 21,437 service connections, giving CLWA ownership of two of the Santa Clarita Valley’s (SCV) four water retailers and control of 59,306 out of 70,327 retail connections valleywide. The other two retailers are Newhall County Water District (approx. 9,600 connections) and L.A. County Waterworks District No. 36 (approx. 1,300 connections).

Of significance to VWC’s employees and the California PUC, VWC will remain a PUC-regulated utility for the time being. When Assembly Bill 134 was enacted in 2001, giving CLWA the statutory authority to serve retail customers in the SCV, that authority was limited to Santa Clarita Water Co.’s (acquired in 1999) service territory. Apparently, CLWA will have to get new legislation passed to allow it to serve VWC’s retail customers directly. So, while CLWA will own VWC, it will not be able to operate it as a retail water utility until new legislation is enacted.

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In a Dec. 16<sup>th</sup> guest editorial in the Santa Clarita Valley Signal, CLWA Board Members Thomas Campbell and Bill Cooper said, “We believe it’s important for Valencia Water Co. and its vital resources to remain under local control, and as such it only makes sense for it to be consolidated with a local public agency such as CLWA.”

They outlined the benefits of the acquisition in four categories: financial, water resources management water conservation, and legislative outreach. The financial benefits stemmed from the economies-of-scale generated “that will help keep rates low,” they said. They also pointed to the ability to spread fixed costs over a larger base, increased service reliability and access to lower-cost financing.

The other benefits identified by Campbell and Cooper were:

- Consolidation of VWC and SCWD under CLWA ownership will promote more efficient long-term planning;
- The shared resources of CLWA, SCWD and Valencia Water Co. will more effectively promote a consistent conservation message;
- CLWA’s [legislative] influence [will] increase as a result of owning both Valencia Water Co. and Santa Clarita Water Division; and
- As part of a consolidated regional public water agency, Valencia Water Co. will be eligible for future grants not made available to private water utilities.

Upon the execution of the settlement agreement, CLWA elected a new five-member board of directors for VWC: That board will consist of Mashada; Valerie Pryor, CLWA administrative services manager; Mauricio Guardado, the Santa Clarita Water District retail manager; and VWC’s general manager and senior vice president, respectively, Keith Abercrombie and Greg Milleman, senior vice president at VWC.

On behalf of CWA, I am, of course, very sorry to see VWC leave the ranks of the private sector. We wish Keith, Greg and all the VWC employees the very best as they transition into the public water agency world. Good luck, everyone.

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**Comr Simon Gets Nice Send-off at Last CPUC Meeting**—Outgoing California PUC Commissioner Timothy Alan Simon received a number of warm accolades from his fellow commissioners at the Commission’s final Open Meeting of 2012 on Dec. 20<sup>th</sup>. Comr Mark Ferron said he learned a lot from Comr Simon on how to be an effective commissioner. Comr Sandoval said it was a “pleasure and honor” to work with Comr Simon, that he had “tremendous speaking skills and dedication,” and that “our debates were always in good spirit,” working toward the best policy decision. Comr Florio said he wished he could be “half as eloquent” as Comr Simon, and President Peevey noted his “intensity and feelings” on the issues, as well as how “incredibly well” he worked with Comr Simon on inclusion and diversity issues.

In his closing remarks, Comr Simon discussed how important it was for California officials to participate in national events and dialogues, promote the California example and represent the state’s citizens. We must do this, he said, “because they are all talking about us.” He reciprocated the kind words of the other commissioners and noted how much he learned from them, especially President Peevey. He said Peevey “was about as close to God, as possible, in this building,” and thanked him profusely for all his assistance. He did say he sought a reappointment from Gov. Brown, and he thanked Brown for giving him an audience the previous day. He said he had a great meeting with Gov. Brown and a good discussion, and he understood that a reappointment was not in the cards. At the conclusion of his remarks, he got a standing ovation.

Comr Sandoval also announced at the meeting that her Water Advisor, Steve St. Marie was “rotating” out of her office in January and returning to the Policy & Planning Division. She commended Steve on his water knowledge and his counsel to her for the past two years on water cases. Although she did not announce who her new Water Advisor will be, CWA understands that Steve’s replacement will be Allison Brown from the Commission’s Legal Division who most recently has been an attorney for the Division of Ratepayer Advocates. I will be working with CWA Regulatory Committee Chair Dave Stephenson of California American Water to set up meetings with Allison as soon as her appointment is official.

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The water agenda at the meeting was light, but the Commission did take the following actions:

**Held Resolutions W-4935 and W-4936** (until Jan. 10<sup>th</sup>), which would permit Apple Valley Ranchos Water and Park Water, respectively, to allow customers to pay their bills by credit card or debit card.

**Approved Resolution W-4938**, which authorizes Park Water to amortize \$185,661 in its Cost of Capital Memorandum Account through a 12-month surcharge.

**Approved Resolution W-4939**, which approves a general rate increase of \$1,955 (11.99%) for Del Oro Water Co.'s Metropolitan District for Test Year 2012.

**Approved Decision 12-12-034** on the energy utilities' 2013 Cost-of-Capital Applications, which established the following returns on equity for:

- Southern California Edison – 10.45% (down from 11.6%)
- Pacific Gas and Electric Co. – 10.40% (down from 11.35%)
- San Diego Gas & Electric Co. – 10.3% (down from 10.8%)
- Southern California Gas Co. – 10.10% (down from 10.82%)

**Held** the Monterey Peninsula Water Management District's application for rehearing of Decision 11-03-035, which rejected a proposed settlement between California American Water, the District and the Division of Ratepayer Advocates on CAW's collection from its customers of the District's User Fee.

**Carla Peterman Appointed as New CPUC Commissioner**—Gov. Jerry Brown appointed Carla Peterman, 34, of Sacramento, to the California Public Utilities Commission on Dec. 21<sup>st</sup>, replacing Comr Timothy Simon, whose term ends on Dec. 31<sup>st</sup>. Peterman has served as a member of the California Energy Commission since 2011, where she was lead commissioner for renewables, transportation, natural gas and the 2012 Independent Energy Policy Report.

She also served as a committee member in a number of power plant siting cases and was the Energy Commission's representative on the Western Interstate Energy Board, the Western Interconnection Regional Advisory Board and the State Assistance Fund for Enterprise, Business and Industrial Development Corporation Board.

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Previously, Peterman conducted research at the University of California Energy Institute from 2006 to 2011 and the Lawrence Berkeley National Laboratory from 2008 to 2010. She also served on the board of directors for **The Utility Reform Network** from 2008 to 2011. Peterman was an environmental business analyst at Isles Inc. from 2004 to 2005 and an associate focused on energy financing in the investment banking division at Lehman Brothers from 2002 to 2004.

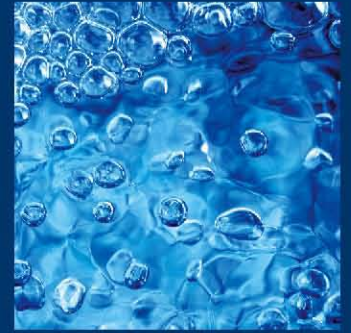
Comr Peterman will complete her doctoral studies this year in energy and resources at the University of California, Berkeley. She earned a Master of Science degree in environmental change and management and a Master of Business Administration degree from Oxford University, where she was a Rhodes Scholar.

“On behalf of my fellow Commissioners and the staff of the CPUC, I welcome Commissioner Peterman to the CPUC,” said CPUC President Michael R. Peevey in a news release. “As we look toward 2013, the CPUC has many important issues to tackle. Commissioner Peterman is well-suited to jump right in with both feet to work on behalf of the State of California and its consumers.”

As soon as Comr Peterman gets settled in and appoints a Water Advisor, I will set up an introductory meeting with her and executives from CWA’s member companies.

**CPUC Issues Revised Draft of Resolution L-436**—The California PUC’s Legal Division issued a 200-page revised version of the Resolution L-436 late on Dec. 14<sup>th</sup>, asking for comments by Dec. 28<sup>th</sup> (the deadline has since been moved to Jan. 11<sup>th</sup>). You’ll recall that this Resolution is the CPUC’s response to the public criticism of the Commission’s restrictions of public disclosure or records under the California Public Records Act (CPRA) and its application of regulations under General Order 66-C. This resolution converts the longstanding policy of a presumption of confidentiality to a presumption of automatic public disclosure (unless a party can demonstrate the public interest in requesting confidential treatment). It also creates a new, revised General Order 66-D.

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CWA Regulatory Attorney Marty Mattes reported in his initial review of the draft that the latest version suggests a “serious attempt” to address issues raised by various parties, but without reaching any very satisfactory conclusions. Marty notes that L-436 includes an extended discussion of “well-established exceptions” from disclosure (pages 63-78), including security-related information, market-sensitive information, and utility employee and customer information. The draft indicates that at least the first two categories will be subject to consideration in the planned workshops.

Further topics said to be subject to consideration at the workshops will be how to apply the new GO 66-D to records previously filed with the CPUC and when and how to provide pre-disclosure notice (pages 91-94). Unfortunately, the “possible topics” listed for the “Procedural Issues workshop” don’t seem to include any of these items. Worse, there isn’t any other workshop planned of particular interest to water utilities (see pages 106-07).

Marty is planning to send CWA’s Regulatory Committee an initial draft of comments on Jan. 4<sup>th</sup>. The Committee has its first conference call on the comments scheduled for Jan. 7<sup>th</sup> at 2:30 p.m. The call-in number is 1.800.308.1404, and the pass code is 4154387273.

**New Report: Condemnation of GSWC District Is ‘Economically Perilous’—**

A new report issued Dec. 17<sup>th</sup> by Rodney T. Smith, President of Stratecon Inc., an economics and consulting firm specializing in water resources, concludes that, from a municipal finance perspective, the City of Claremont’s pursuit of Golden State Water Co.’s (GSWC) Claremont Water System is “not prudent.” He suggests that even considering the City’s low estimate of \$54 million for the system, Claremont will need to borrow more than \$72 million from the municipal capital market. Of course, he notes that it would be “extremely unwise” to assume that the City’s estimate of the price will end up being the actual price. A price of roughly double the City’s estimate, Smith says, will result in borrowing about \$130 million, and even that amount could be insufficient. “In short, the takeover of the water system is an enormous financial risk for the City,” Smith reports.

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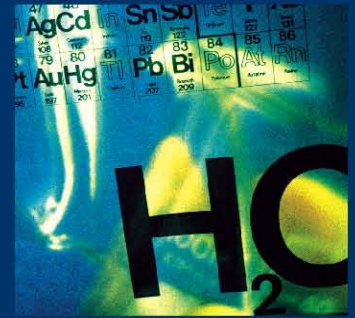
Smith, who has been a resident of Claremont since 1982, was a Professor of Economics at Claremont McKenna College for 15 years, Director of the Lowe Institute of Political Economy, and a member of the editorial board of *Economic Inquiry*, the professional economics research journal of the Western Economics Association. He provides a detailed look at GSWC's operations in Claremont, its cost and revenue requirement elements, and what the financial structure of a city-owned utility would look like. He demonstrates that under all possible ownership options, the revenue requirement would be lower under GSWC's continued operation than any city-owned alternative.

Titled *The Economics of Claremont's Attempt to Buy the Water System*, the report states: "From an operational standpoint, there appears to be no justification for the takeover. Golden State Water has long experience operating the system, has resources from its companywide operations to draw upon when needed, and has regularly used its shareholder equity to fund capital improvements to the system. The City, by contrast, has no experience in the operation of the system and has put forth no plan for how it will do so. The City would need to acquire or outsource the necessary operational capability, including the expertise to comply with myriad State regulations concerning water quality and environmental standards, and the managerial competence to oversee all such operations. The City would no longer benefit from the economies and depth of experience Golden State Water provides as a result of its companywide assets."

In buttressing his arguments, Smith notes these facts:

- Because the City of Claremont lacks sufficient reserves for the inevitable capital expenditures that are required to maintain a reliable system, the City will be forced to pass through to residents the expenses of capital improvements on a "pay as you go" basis.
- Claremont's municipal finances will be strained by the indebtedness necessary to pay for the system, limiting Claremont's ability to enter the capital markets for other purposes, such as public works investments.

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- Operationally, the size of City government will have to expand rapidly in an effort to meet the significant technical and managerial demands of operating the system, none of which the City possesses.
- The City has submitted no analysis that addresses these challenges, and no plan for how it will fund or operate the system.

"Given these facts," Smith writes, "it would be an economically perilous risk for the City to condemn the Claremont Water System ... From a consumer's perspective, the vision of lower water rates is a mirage. The City's need to finance the acquisition and then fund operations and capital improvements on a "pay as you go" basis will necessarily result in a Revenue Requirement for the system that is higher than Golden State Water's requirements, thus resulting in higher water rates for decades."

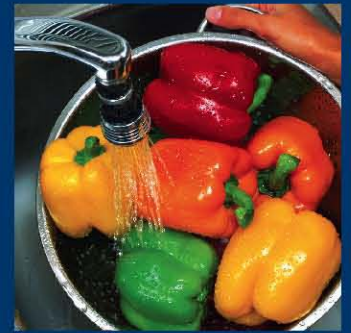
It is nice to see a report such as this surface in the Claremont eminent domain threat. I, for one, will try to get maximum mileage out of it in any discussions I have on the public-private debate. Let me know if you would like me to send you a PDF file of the document.

**City of Davis Approves Consumption-Based Fixed Cost Recovery**—Davis Resident Matt Williams, who presented his new approach on consumption-based fixed revenue (CBFR) service charges at CWA's Regulatory Committee Seminar on Oct. 30<sup>th</sup> in Monterey, reports that the Davis City Council decided on Dec. 18<sup>th</sup> to phase in the CBFR model over a two-year period. Initially, the city will bill customers using the traditional fixed rate methodology based on meter size, with inclining block rates for variable charges.

After two years, and once the city educates the community about the forthcoming CBFR structure, the city will switch to that model, which tracks water use over a six-month summer peak period and charges customers the majority of their fixed fees based on that usage. By 2018, under CBFR, residents using 18 Ccf per month may see their monthly service charges rise to nearly \$120.00. While the council members appeared to acknowledge that the CBFR model was the most advantageous for the majority of customers, they also agreed that the hybrid structure is the only fair way to implement it.



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The newspaper report describing the Council's action noted that the city's financial consultant said the CBF model actually was an attractive structure to creditors, possibly meaning advantageous financing terms for the city and subsequently lower rates for residents.

The council's decision included a structure that will reduce the fixed cost component of customer bills from 50 to 40 percent for the first two years "in order to reduce the impact on lower water users." If creditors balk at the 40 percent, the city still has the opportunity to move back up to 50 to satisfy any concerns.

**CDWR Raises Estimate of SWP Allocation to 40 Percent**—The steady stream of snow and rain storms in recent weeks has prompted the California Department of Water Resources (DWR) to increase its estimate of water deliveries from the State Water Project (SWP) in 2013. In its Dec. 21<sup>st</sup> announcement, DWR said it is increasing its delivery estimate – or allocation – from 30 to 40 percent of requested SWP water for calendar year 2013.

DWR officials also said they expect to further increase that estimate as more winter storms roll in. Normally, California receives more than 90 percent of its snow and rain from December through April. DWR said the November-December storms thus far have replenished reservoirs and established a nice early-season mountain snowpack. The mountain snowpack is currently estimated to hold 93 percent of average water content for this time of year.

The State's reservoirs also are faring well. The SWP's primary storage reservoir, Lake Oroville in Butte County, is at 67 percent capacity, which is 107 percent of normal to date. Lake Shasta, the federal Central Valley Project's principal storage facility, is at 68 percent of capacity (109 percent of normal to date).

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The final SWP allocation in calendar year 2012 was 65 percent of requested deliveries. The final allocation was 80 percent in 2011, up considerably from the initial allocation estimate of 25 percent. The last 100 percent allocation occurred in 2006.

**Agenda Highlights for the January 10<sup>th</sup> California PUC Open Meeting—**

The CPUC has posted its agenda for the Dec. 20<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 3 – Res W-4935; Apple Valley Ranchos Water Company to Permit Payment of Water Bills Using Credit or Debit Card.** Advice Letter No. 171-W filed on May 17, 2012 - Related matters. Proposed outcome:

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

Estimated cost: None.

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

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

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

Estimated cost: None.

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

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

- Affirms the Division of Water and Audit's letter of disposition rejecting California American Water Company's (Cal-Am) Advice Letter 923.
- Any future claims by Cal Am pursuant to Decision (D)10-12-016 should be accompanied by appropriate supporting documentations and mapping to the authorized projects in D10-12-016.
- Cal Am's claim for \$236,516 including \$4,011 for Allowance for Funds Used During Construction (AFUDC), to be added to rate base is disallowed without prejudice.
- Cal Am may transfer to rate base \$480,105 which includes AFUDC of \$8,152 within 5 days after effective date of this Resolution.
- Authorizes Cal Am to file a supplement to Advice Letter 932 to modify the tariff sheets (6284-W through 6288-W) for the Monterey Tariff District

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and to reflect the transfer to rate base of the amount authorized in Ordering Paragraph No. 3.

- New rates to be effective 5 days after filing of the supplement to AL 932 subject to approval or rejection by DWA consistent with this Resolution.

Estimated cost: \$480,105.

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

#### **Regular Session – None**

#### **Closed Session**

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

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

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

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

- January 4, 2013 – CWA Public Information Committee Monthly Conference Call (1:30p – 2:30p; 1.888.398.2342; 6868916#)
- January 7, 2013 – CWA Regulatory Committee Conference Call on Res L-436 Comments (2:30-3:30p; 1.800.308.1304; Passcode 4154387273).

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- January 10, 2013 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- January 11, 2013 – CWA Directors and Executive Committee Meeting (9:30a – 2:30p; Park Water Company - 9750 Washburn Road; Downey, CA 90241-7002)
- January 14, 2013 – California Urban Water Conservation Council Governance and Finance Committee Meetings (9:30a – 3:00p; 716 10th Street, Suite 200, Sacramento, CA 95814); J. Hawks will attend.
- January 24, 2013 – California PUC Open Meeting (9:00a–12 :00p; 505 Van Ness Ave., San Francisco 94102)
- February 1, 2013 – CWA Public Information Committee Monthly Conference Call (1:30p – 2:30p; 1.888.398.2342; 6868916#)
- February 3-6, 2013 – National Association of Regulatory Utility Commissioners Winter Committee Meetings (9:00a – 5:00p, Feb. 3-6; Renaissance Washington Hotel; 999 9<sup>th</sup> St., N.W., Washington, DC 20001); J. Hawks will attend.
- February 12, 2013 – CWA Directors and Executive Committee Meeting (9:30a – 2:30p; California Water Association; 601 Van Ness Ave., Suite 2047, San Francisco 94102).
- February 13, 2013 (Wednesday)– California PUC Open Meeting (9:00a–12 :00p; 505 Van Ness Ave., San Francisco 94102)
- February 13, 2013 – California Urban Water Conservation Council Board of Directors Meeting (9:30a – 3:00p; MWD of Orange County - 18700 Ward St., Fountain Valley, CA 92708); J. Hawks will attend.
- February 14, 2012 – California Water Plan Update 2013 Advisory Committee Meeting (8:45a – 4:30p; Department of Public Health, East End Complex Training Rooms, 1500 Capitol Avenue, Sacramento 95814); J. Hawks will attend.
- February 20-22, 2013 – Urban Water Institute Spring Conference (Hilton Hotel, 400 East Tahquitz Canyon Way, Palm Springs 92262); J. Hawks may attend.
- February 28, 2013 – California PUC Open Meeting (9:00a–12 :00p; 505 Van Ness Ave., San Francisco 94102)

—CWA—