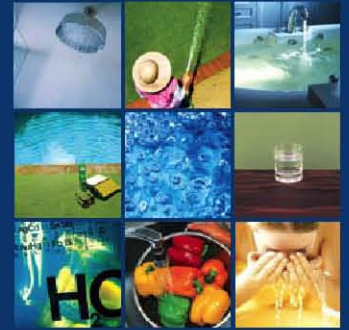


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The Weekly Wrap



February 24, 2012

Nos. 2012-8

TO: CWA Member Companies
FROM: Jack Hawks, Executive Director
SUBJECT: Highlights for the Week Ending February 24, 2012

Senate Republican Leader Huff Introduces Punitive, Hostile Water IOU Bill—

The deadline for new bills to be introduced in the state legislature was Friday, and unfortunately the investor-owned water company (IOWC) community in California did not escape unscathed as Senate Republican Leader Bob Huff (R-29; Arcadia, Chino, Claremont, Diamond Bar, Duarte, Glendora, San Dimas, Yorba Linda and other cities) introduced a hostile, damaging and completely unnecessary bill (Senate Bill 1364) that looks like a sop to the City of Claremont, which is evidently the bill's sponsor. It's a shame the City was able to prevail upon Sen. Huff to introduce this bill as a way to stoke its anti-private sector fervor and condemnation agitation against Golden State Water. Here are the more disturbing elements of SB 1364:

- The bill would add water corporations to an existing California PUC authorization that enables "the PUC, each commissioner, and each officer and person employed by the PUC at any time to inspect the accounts, books, papers, and documents of any business that is a subsidiary or affiliate of, or a corporation that holds a controlling interest in, an electrical, gas, or telephone corporation." Not realizing that only four IOWCs are publicly traded, the author fails to realize the potential damage and mischief this provision will create for other privately owned water companies, especially those whose affiliates are not utility-related.
- The bill incorrectly states that customer noticing of rate increases "does not apply to any rate change proposed by a corporation pursuant to an advice letter submitted to the PUC filed pursuant to PUC established procedures for advice letters." Then, it goes on to state that while the noticing requirement does not apply to advice letter filings, it "does apply to a rate increase proposed by a water corporation in an advice letter."

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- Not realizing that existing California PUC policy already requires IOWCs to adhere to the same strict affiliate transactions rules (ATRs) by which energy utilities abide, SB 1364 would require that the ATRs requirements be made applicable to water corporations.
- Continuing its unnecessary attack on transactions between an IOWC and its affiliates, SB 1364 would now include water corporations under the PUC's authority "to levy a penalty against the corporation not to exceed [three] times the required or prohibited payment if the PUC finds that the payment was made or received by the corporation for the purpose of benefiting its subsidiary, affiliate, or holding corporation."
- As you know, CWA and its members, some years ago, got a statutory requirement that a water corporation's petition for a writ of review of an order or decision of the PUC within 30 days after a Commission decision on a rehearing request be brought directly to the California Supreme Court, bypassing the court of appeal level. SB 1364 would eliminate this requirement.
- In an attempt to generate a new revenue source for a municipality, SB 1364 would extend definition of a customer of a water corporation to include a local government agency, thus granting cities the ability to obtain intervenor compensation when they intervene in an IOWC's rate-setting proceeding.
- Like other bills that impose mandates, this bill points out that it "would impose a state-mandated local program by extending the application of a crime" (violations of the Public Utilities Act) to water corporations, and that the "California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state." Then, SB 1364 concludes by saying that this bill "would provide that no reimbursement is required by this act for a specified reason."

An early draft of this bill had language that appeared to exempt public agencies involved with recycled water facilities from any liability associated with the service duplication law. However, the final version of the introduced bill does not have any reference to the service duplication law. CWA's Executive Committee and Government Relations Committee will be having a conference call on Feb. 28th at 11:00 a.m. to discuss the strategy for getting this bill killed or at least weakened considerably.

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Golden State Water Responds to Claremont Rate Increase Opposition—In an editorial titled “How Water Rates Are Set” and bylined by American States Water Co. President and CEO Bob Sprowls that was published Feb. 16th in the *Inland Valley Daily Bulletin* (Ontario, CA), Golden State Water Co. (GSWC) took the high road in responding to criticism by the City of Claremont of its current general rate application (where much of its rate increase request is due to lost revenues during the past three years, not new costs and project requests). Bob began by saying that “Claremont is a great city,” and that GSWC has taken “great pride” in serving its residents since 1928. He noted the residents’ deep involvement in civic issues, including water and that GSWC values this interest.

“It’s important for customers to be engaged about water, even when they’re angry,” Bob said, and that it was fair criticism to say that GSWC has fallen short in communicating with customers. This editorial did a nice job of addressing the criticisms. He began by noting that GSWC has “a great team, including some of the best and brightest water professionals. Ph.Ds help ensure water quality, infrastructure experts maintain the system, and District Manager Ben Lewis and Superintendent Tom Traffas are tireless advocates for Claremont. But that doesn’t matter if people don’t feel like they can talk to us or that we’re listening. We’re not perfect, but we do care deeply about Claremont. We’re going to work hard in the future to restore a strong dialogue with the community.”

The editorial went on to explain that rates reflect the cost to provide service and maintain infrastructure, that GSWC recovers operating expenses on a dollar-for-dollar basis, that it earns a rate of return (ROR) only on capital investments in system improvements, and that the ROR must be approved by the California PUC. With respect to Claremont, Bob explained that there are approximately 11,000 connections in Claremont, that customers with a 5/8-inch connection use an average of 9,724 gallons of water per month (about the statewide norm) and they pay approximately \$62 using January 2012 rates. Customers with 1-inch connections use an average of 19,448 gallons (26 Ccf) per month and pay approximately \$141. A distinction between Claremont and other communities is that a larger percentage of homes have 1-inch connections that are designed to support larger homes, lot sizes and landscaping.

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The editorial then went on to describe the details of monthly service charges, how GSWC's tiered rates are based on consumption, and the minor surcharges related to other water issues that make up the monthly bill. It explained that the service charge is not for the meter itself, but helps fund the cost of operating and maintaining the entire system. The meter charge is standard throughout the water industry, it said.

Bob addressed the issue of why GSWC is spending money during tough economic times, especially when some agencies and municipalities have put off system improvements. He said, "Our concern is that delays today could result in more expensive infrastructure replacement in the future, although we have prioritized our plans to be sensitive to economic conditions." Specifically, he noted that GSWC invested approximately \$5 million in Claremont in 2010 and 2011 to replace more than one mile of pipeline to reduce water leaks, improve quality and enhance fire protection. In 2012, 2013 and 2014, he said GSWC believes "it is prudent to invest approximately \$10.7 million for additional pipeline replacement, a new well, and other improvements."

Bob continued by explaining the regulatory process used by the CPUC, including public meetings, stringent audits and oversight by the Division of Ratepayer Advocates. Claremont customers have input and influence in the process. Also, he noted that GSWC "has acted independently to be accountable. We've reformed our pension system to reduce expenses and we're aggressively looking for other ways to be more efficient and save customers' money."

The editorial concluded by saying GSWC may not be the least expensive provider, but it is committed to providing Claremont customers with value. It said GSWC will continue to deliver water quality, customer service and prudent investments to protect the water system. Further, it "will be more accessible and informative." An ongoing series of community meetings is being planned, and GSWC will work closely with city officials and local leaders to keep customers informed.

Congratulations to Bob and GSWC for getting the editorial published.

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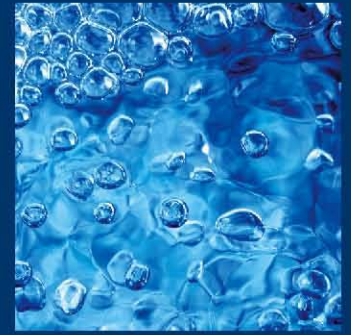


New Bill Introduced to Create Water Recycling Act of 2012—Assembly Member Ben Hueso (D-29/Chula Vista) introduced a new bill, Assembly Bill 2398, Feb. 24th that would enact the Water Recycling Act of 2012. In so doing, it would revise and consolidate certain provisions in the Health & Safety Code, the Water Code and the Public Utilities Code dealing with the following existing requirements for the Department of Public Health (DPH) and the State Water Resources Control Board (SWRCB):

- DPH must adopt uniform water recycling criteria for indirect potable water reuse for groundwater recharge, as defined, by December 31, 2013.
- DPH must develop and adopt uniform water recycling criteria for surface water augmentation, as defined, by December 31, 2016, if a specified expert panel convened by the department finds that the criteria would adequately protect public health.
- DPH must investigate the feasibility of developing uniform water recycling criteria for direct potable reuse, as defined, and to provide a final report on that investigation to the Legislature by December 31, 2016.
- DPH, in consultation with the SWRCB, must report to the Legislature from 2011 to 2016, inclusive, as part of the annual budget process, on the progress towards developing and adopting the water recycling criteria for surface water augmentation and its investigation of the feasibility of developing water recycling criteria for direct potable reuse.
- The SWRCB must enter into an agreement with the department to assist in implementing the water recycling criteria provisions.

The 44-page bill contains many amendments and new additions to the three statutory codes. Among the main ones are that the new act would establish a statewide goal to recycle a total of 1.5 million acre-feet of water per year by the year 2020 and 2.5 million acre-feet of water per year by the year 2030. It would require the SWRCB, the regional boards, DPH, the Public Utilities Commission, the Department of Water Resources, and other state agencies to exercise the authority and discretion granted to them by the Legislature to encourage the use of recycled water and meet the goals of the act.

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The act also would state that it is the intent of the Legislature that DPH permit potable reuse projects using advanced treated purified water and that the SWRCB and regional boards permit nonpotable reuse projects and potable reuse projects using potable water other than advanced treated purified water. Further, because certain reports submitted as part of the permit application process would be submitted under penalty of perjury, the bill would impose a state-mandated local program by creating a new crime.

The new act would establish the Water Recycling Research Fund and would require that certain civil penalties be deposited into the fund, to be expended by the SWRCB to conduct or fund research necessary to support the continued and safe use of recycled water in the state. The bill would also authorize the department to issue permits for raw water augmentation projects utilizing advanced treated purified water in conformance with the uniform drinking water criteria established pursuant to the act.

CWA Legislative Advocate and Nossaman Senior Policy Advisor Meg Catzen-Brown will be hosting a meeting of CWA's Legislative Committee in Sacramento on Monday, March 12th to review the dozens of new bills related to water, the California PUC and utilities and to adopt initial positions.

DWR Reduces State Water Project Allocation—The Department of Water Resources (DWR) announced Feb. 22nd that it had reduced its estimate of the amount of water the State Water Project (SWP) will deliver in 2012. DWR dropped its projected delivery total, or allocation, from 60 percent to 50 percent of the requested amount of slightly more than 4 million acre-feet.

"Stubbornly dry conditions this winter give us no choice but to roll back our water supply estimate," said DWR Director Mark Cowin in a news release. "We continue to hope, however, that wetter conditions in the remaining winter weeks will allow us to boost deliveries back up."

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DWR noted that precipitation so far this winter has been only about half of normal and the mountain snowpack is less than a third of normal. Water Year (Oct. 1-Sept. 30) runoff from rain and snow is forecasted to be far below average in both the Sacramento River and San Joaquin River systems. The median runoff forecast of 9.4 million acre-feet for the Sacramento River system would be the 16th driest in 106 years. The February 1 median water year runoff forecast of 3.2 million acre-feet for the San Joaquin River system would be the 21st driest in 111 years. Average runoff is 18.3 million acre-feet for the Sacramento system, and 5.9 million acre-feet for the San Joaquin.

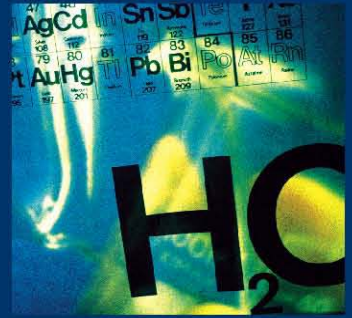
DWR's eight precipitation gages covering Shasta Lake in the north to the American River basin in the south recorded 130 percent of average rainfall and snow in October, but only 43 percent in November, four percent of average in December, 84 percent of average in January, and 18 percent of the normal February total to date this month. Overall, this "Eight-Station Index" area to date is at 51 percent of its seasonal precipitation average.

Similarly, precipitation gages in the San Joaquin basin recorded 125 percent of the average monthly precipitation for October, 32 percent for November, zero percent for December, 80 percent for January, and 20 percent of a normal February to date. The "San Joaquin Five-Station Index" to date is at 47 percent of its seasonal average.

Initial State Water Project allocations have seldom been reduced. Previous times were in 2001 (from 40 percent to a final allocation of 39 percent of requests); 1991 (85 percent to 30 percent), and 1977 (100 percent to 90 percent). In 2000, the initial Allocation of 50 percent was increased to 100 percent, but finally dropped to 90 percent.

Water content in the statewide snowpack is only 30 percent of normal for the date, a mere 25 percent of the average April 1 measurement, when the snowpack is normally at its peak before the spring runoff. Mountain snow normally provides approximately one-third of the water used in California as it melts in spring and early summer.

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New Report Discounts Decline in California Snowfall—Despite what you just read above, a new report titled “Search for Information in 133 years of California Snowfall Observations” suggests that more than 130 years of snow data show that over time snowfall in California is neither increasing nor decreasing. The analysis, conducted by John Christy, director of the Earth System Science Center at The University of Alabama in Huntsville, AL, found that snowfall data from as far back as 1878 indicates no long-term trend in how much snow falls in the state, especially in the critical western slope of the Sierra Nevada mountains.

"There isn't a trend significantly different from zero for the whole period," Christy said in a news release. "I also looked at just the past 50 years and there is no trend over this recent stretch either." Christy, who is a native of Fresno and graduate of Fresno State University, relied on years of data on snow measurements at stations along the Southern Pacific Railroad. Details of his research have been accepted for publication and released on-line by the American Meteorological Society's "Journal of Hydrometeorology."

The railroad data was coupled with data from other sources, including hydro-power and regional water systems vitally interested in knowing how much water would be available from snow melt. Other data was collected from logging and mining companies, as well as National Weather Service stations and volunteers. That data had already been digitized by the National Climatic Data Center.

Christy divided the state into 18 regions, based on the amount of snow that falls and on the quality of the records for that region and noted there are six or seven regions with good, robust data going back to the late 1800s. "California has huge year-to-year variations and that's expected to continue," he said. "California is having a snow drought so far this winter, while last year the state had much heavier than normal snowfall. But over the long term, there just isn't a trend up or down.

You can read more at <http://nsstc.uah.edu/essnews/stories/02142012.html>.

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New PPIC Report: CA Faces Growing Water Management Challenges—A new report from Ellen Hanak of the Public Policy Institute of California (PPIC), released Feb. 22nd, says that California faces growing water management challenges and that the largest and most difficult challenge is the instability in the Delta, which she says, means that the physical and ecological problems there pose serious risks to the economies of the Bay Area, Southern California and the San Joaquin Valley.

Beyond the Delta, the report catalogs other challenges on the horizon. For example, the report notes, even if current efforts to reduce per capita water use are successful, population growth is likely to increase water demand in urban areas. At the same time, conflicts are growing between human water uses and water necessary to support fish and other wildlife. In addition, California faces serious and growing threats to life and property from flooding, particularly in the Central Valley.

Additionally, climate change remains an ever-present, if uncertain, role. Hanak says California's natural variability is likely to increase, accentuating droughts and floods. Rising air temperatures are expected to significantly reduce the Sierra Nevada snowpack (note the contradiction with Christy's conclusions above), affecting water storage as well as winter and spring flood flows. Higher water temperatures may make it harder to maintain aquatic habitats for native fish species.

All of these challenges will require difficult and costly tradeoffs, as well as legal and political changes in the future, PPIC says. PPIC offers some hope, however. It notes that "[a] peripheral canal or tunnel has the best potential for safeguarding the Delta's environment while maintaining water supply reliability. But this solution requires solid policies on governance, finance, and mitigation for Delta landowners and residents. Given the extreme environmental degradation of this region, water users must be prepared to take less water from the Delta, at least until endangered fish populations recover."

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The report says California is fortunate to have a variety of supplemental supply sources and technologies for strengthening water supply and that a portfolio approach to supply management is a must. "California has the tools to help secure a safe and reliable water supply, improve conditions for aquatic species, and reduce flood risks," the report says. "In recent years, water managers have made significant progress toward these goals. But the challenges are increasing with population growth and climate change."

The PPIC report (<http://www.ppic.org/main/publication.asp?i=902>) is part of a PPIC briefing kit on some of the most pressing issues in the state, including the economy, the state budget, education and housing.

Upcoming Industry Meetings/Conferences/Events:

- February 29, 2012 – National Regulatory Research Institute – Webinar/ Teleconference on Small Water Systems (11:00a-12:30p;
- March 3, 2012 – "A Primer on Water and the Delta" (8:30a-12:00 Noon; Stockton Civic Auditorium; 525 N. Center St., Stockton CA 95202)
- March 5, 2012 – NAWC Government Relations Committee Meeting (10:30a – 2:30p; Hotel George, Washington, DC); J. Hawks will attend.
- March 6-7, 2012 – NAWC/CWA – Annual Congressional Fly-In; Capitol Hill, Washington, DC; J. Hawks will participate.
- March 8, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- March 8-9, 2012 – Annual California Water Policy Conference – "From Water Woes to Water Wise" (Westin Hotel – LAX; 5400 West Century Blvd., Los Angeles, CA 90045)
- March 12, 2012 – CWA Legislative Committee Meeting (10:00a-3:00p; Nossaman Office – 915 L St., Suite 1000, Sacramento 95814); J. Hawks will attend.

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- March 14, 2012 – California Urban Water Conservation Council Plenary Meeting (9:30a-3:00p; SF State University; 865 Market St., San Francisco 94102); J. Hawks will attend.
- March 15, 2012 – CWA Directors Meeting (9:30a-2:30p; Manhattan Beach Country Club; 1330 Parkview Ave., Manhattan Beach 90266)
- March 22, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- March 25-27, 2012 – Water Reuse Association - 2012 WaterReuse California Annual Conference (Sheraton Grand Hotel; 1230 J St., Sacramento 95814).
- March 26, 2012 – Annual Report of CPUC President Peevey to Assembly Utilities & Communications Committee (3:00p-5:00p; Room 437, State Capitol, Sacramento); J. Hawks will attend.
- March 27-28, 2012 – Water Education Foundation – 29th Annual Executive Briefing (8:30a-4:30p; Doubletree Hotel; 2001 Point West Way; Sacramento); J. Hawks will attend.
- March 28, 2012 – California Urban Water Conservation Council – CII Task Force Meeting (9:30a – 3:30p; 815 S St., Sacramento 95814); J. Hawks will attend.
- April 3, 2012 – California PUC – Water Recycling Workshop (9:00a – 4:00p; 505 Van Ness Ave., San Francisco 94102); J. Hawks will attend.
- April 4, 2012 – Department of Water Resources – Water Plan Update 2013 Public Advisory Committee (9:00a – 4:30p; Cal EPA Building, 1001 I St., Sacramento 95814); J. Hawks will attend.
- April 19, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102).

—CWA—