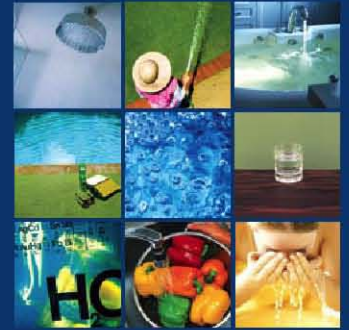


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The Weekly Wrap



March 30, 2012

No. 2012-13

TO: CWA Member Companies
FROM: Jack Hawks, Executive Director
SUBJECT: Highlights for the Week Ending March 30, 2012

Peevey Skates Through Annual Legislative Testimony—California PUC President Michael Peevey gave his annual state of the PUC testimony to the California Assembly Utilities & Commerce Committee on March 26th, and his straightforward approach to discussing the Commission's shortcomings apparently had a salutary effect because the questions and comments he received from the committee members were constructive, business-like and muted in their criticism. His presentation covered the following subject areas, and I was pleased to see that water prominently displayed:

- Helping Customers and Promoting Diversity
- Safety and Enforcement
- Implementing Energy Priorities and Overseeing Key Issues
- Encouraging Broadband and Promoting Universal Service
- Protecting Water Customers

In the first area, Peevey covered the improvements the Commission has made in handling customer complaints and in the supplier diversity program. He was very enthusiastic about telling the legislators that PUC-regulated utilities' diverse spend is now over \$7 billion annually. He spent the most time, of course, on the Commission's new safety priorities and implementing the recommendations that came out of the reports on the San Bruno tragedy. Among the energy priorities, he emphasized the success of the California Solar Initiative and the energy efficiency programs. For water, he emphasized the Commission's policies on water conservation and supply, the low-income rate assistance program and water quality interface with the Dept. of Public Health. He spoke without notes and I'm sure he impressed (intimidated?) the Committee members with his knowledge and facility with facts and figures.

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Surprisingly, most of the questions did not focus on San Bruno and safety. Rather, they concentrated on the current problems at the San Onofre Nuclear Generating Station (SONGS), specifically, how will supply and price be affected if the current outage extends through the summer. Interestingly, the most controversy occurred when several legislators asked about low-income CARE customers being adversely affected by the net metering program associated with the solar initiative.

The issue is that when solar customers (who are usually wealthier residential customers and business customers) sell electricity back to the grid, they are billed on their "net" meter charges (the difference between the tariff rate and what they receive for selling back to the grid), which is a discount to what non-solar (i.e., less wealthy) customers pay. Since these net meter customers are paying less for the system expenses, the legislators were concerned with the perverse situation of lower income customers subsidizing higher income customers. Peevey expressed sympathy to the problem, and said the Commission continues to work on a solution. The legislators did get after Peevey a little for allowing the energy utilities to receive revenues for maintenance work that ultimately wasn't done. Peevey said PG&E has and will be fined heavily for this. He also assured the legislators that customers are not going to pay for new maintenance now if the utilities already received approval to spend money in those areas.

I was pleased that there were no questions on water rates. The one question Peevey received on water came from Assm. Nestande, who asked if the PUC was considering a public goods charge (PGC) for water. Peevey said, "No, not at this time." He did use the opportunity to explain what the Commission was doing on the energy side in the absence of the PGC for energy, which expired in December.

There were also few public comments. The only one of note came from former California Energy Commission Commissioner John Geesman, who criticized the PUC on what he called "nuclear regulatory neglect by the PUC": 1) rubberstamping SoCal Edison's seismic studies for SONGS; and 2) there has been no Plan B developed if one or more nuclear plants are out of service for any extended period of time. Other than this, there was nothing. As I say, Peevey skated right through this year's testimony.

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WEF Explores BDCP, Water Bond and Water Rates at Annual Meeting—The Water Education Foundation held its 29th annual “Executive Briefing – Decision Points 2012” meeting in Sacramento March 27-28, and the program was devoted to the Delta Plan and Delta Habitat Restoration, the Water Bond and its fate this year, the Colorado River Quantification Settlement Agreement and the San Joaquin River Restoration. David Nawi of the Dept. of the Interior and Delta Stewardship Council Chair Phil Isenberg covered the Delta Plan, while David Aeaulak of the Dept. of Fish and Game, Campbell Ingram of the Delta Conservancy, Leo Winternitz of the Nature Conservancy, and the ubiquitous Jason Peltier of Westlands Water District covered habitat restoration.

All of these were the usual menu items at a WEF meeting; however, the major departure this year was a panel titled “Water Rates on the Rise,” which featured Robert Roscoe of the Sacramento Suburban Water District (and formerly of California American Water, Brandon Goshi of Metropolitan Water District, Patricia Tennyson of Katz & Associates, David Sunding of UC Berkeley, and Cindy Truelove, Senior Water Policy Analyst at the California PUC.

Cindy noted that the conservation rates problem (sales and revenues go down, while rates go up) is unavoidable, and that the CPUC’s decoupling WRAM has been one way the Commission has attempted to keep the utilities whole, even as sales decline. Her other main point was that customers must be assured that they are not being penalized for conserving or for the utility’s investment in conservation. She also mentioned that an ongoing challenge for the CPUC was to design rates to incent both water and energy savings.

Patricia Tennyson’s admonition to the utilities in the audience was to do everything possible in customer communications to make sure that a proposed rate increase is not the first thing the served community hears from the utility. She reviewed all the preconditioning tools utilities should deploy in their customer communications before a rate increase is proposed or announced. She was a big proponent of communicating the value of water first before saying anything about rate increases.

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Speaking of the value of water, the most gratifying aspect of the WEF meeting was the presentation of former U.S. EPA Assistant Administrator for Water Ben Grumbles. He explained the mission of his new organization, Clean Water America Alliance, which was to “change water from being invisible to being invaluable.” He reviewed the latest numbers on the infrastructure gap and discussed the various programs for communicating the value of water. The best part of his presentation, though, was his endorsement of private sector involvement in water solutions, especially public-private partnerships.

He spent most of his time on the private sector contribution and the need to pass the current private activity bond legislation in Congress. He was especially complementary of the National Association of Water Companies and its slogan, “Water is Your Business.” He said the United States really needs a P3 world and full-cost pricing of water utility service to align water’s price with its value. He thinks customers will be more amenable to rate increases if they know they’ll have more control over their usage. I think this was an indirect plug for AMI, but regardless, I was pleased to see such a strong private-sector message before this group of predominantly public agencies.

Rialto City Council Reverses Course; Votes for PPP with AWE—Reversing a vote earlier this year that prevented the City of Rialto from bringing in a private company to help solve its massive water and sewer infrastructure problems, the Rialto City Council voted 4 to 1 on March 27th in favor of a controversial 30-year contract with American Water subsidiary, American Water Enterprises (AWE). The vote follows a failed 2-2 vote last June, and approves a 30-year water and wastewater operations and maintenance contract with AWE. Under the terms of the contract, AWE will provide approximately \$41 million for upgrades to Rialto’s water and wastewater systems and \$30 million in financing of commercial development and other public works projects. Needless to say, this was quite a turnaround for the City; clearly, it reflects just how dire the situation was in Rialto for water and wastewater service.

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These investments will be funded by a 114.8 percent increase in water and wastewater rates by 2016. Unfortunately, the local press coverage gave the impression that AWE will be responsible for the rate increases, when the truth is that the investments were going to be needed whether a private company was involved or not. Nonetheless, the local newspaper couldn't bring itself to tell the truth; rather it was compelled to use a quote from one "No" vote first, rather than the four "Yes" votes. Council Member Joe Baca Jr. opposed the AWE contract in June and did again on March 27th, saying that "city residents should not pay for a company's profits and that the rate increases are too steep."

On the other hand, the quotes from the pro-contract voters were all positive. Prior to his vote, Mayor Pro Tem Ed Scott was quoted as saying, "We have been at this for three years now. We have to do something to bring this city forward." Likewise, and surprisingly, Council Member Deborah Robertson, who voted against the measure last summer, said, "We need to take charge of our destiny." She also said support of the labor unions for the agreement was a big part of her "yes" vote.

The articles I saw said Mayor Grace Vargas was out on medical leave during last June's vote, which explained the 4-4 tie. She was quite forceful in her remarks, however. "You people in Rialto elected me for a reason," she said before the vote. She also predicted that residents eventually would thank the Council for moving forward with the contract. It was noted that the decision can only be overturned now if the majority of Rialto property owners file a written protest to the decision.

Good News on the MS4 Permit Front—David Kimbrough of Pasadena Water, who is going to represent CWA, ACWA and AWWA at the April 5th Los Angeles Regional Water Quality Control Board workshop on the MS4 permit issue discussed last week, reported some very good news on March 28th. He said the LA Regional Board staff has released draft language for non-stormwater discharges and that everything the retail water purveyors want is in the draft. Specifically, the regulatory relief we are seeking is in Sections 8 and 9, while the best management practices and accompanying MOU being sought are in Sections 5 and 6. David reports that "the game is now ours to lose." I'll let you know next week how the April 5th workshop goes.

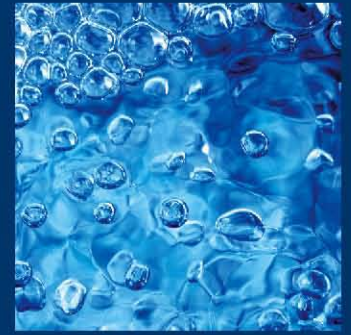
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Upcoming Industry Meetings/Conferences/Events:

- 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 5, 2012 – Los Angeles Regional Water Quality Control Board – Workshop on MS4 permits and potable water discharges (1:30p – 4:00p; Metropolitan Water District; 700 North Alameda St., Los Angeles).
- April 6, 2012 – Northern California Minority Supplier Diversity Council Annual Awards Dinner (5:30p-10:00p; Westin St. Francis Hotel, Post & Powell Sts., San Francisco); J. Hawks will attend.
- April 12, 2012 - CWA Directors Meeting (9:30a-2:30p; Golden State Water; 2143 Convention Center Dr., Suite 110, Ontario, CA 91764); J. Hawks will attend.
- April 12-13, 2012 – Water Resources Investor Event – American Water Intelligence/West Water Research (8:00a – 5:30p; Bacara Resort; 8301 Hollister Ave., Santa Barbara, 93117; 877.422.4245); J. Hawks would like to attend - ☺.
- April 13, 2012 – Upper District-Suburban Water Systems Recycled Water Dedication (9:00a – 11:00a; 2100 S. Azusa Ave., West Covina, CA 91792); J. Hawks will attend.
- April 17, 2012 – SB 1364 (Huff), SB 981 (Yee), SB 1000 (Yee), SB 1403 (Yee) Hearings (9:30a – 1:30p; State Capitol-Room3191; Sacramento; J. Hawks will attend and CWA will testify.
- April 19, 2012 – Ventura 20th Annual Water Symposium (8:00a – 2:00p; Marriott Courtyard; 600 E. Esplanade Dr., Oxnard, CA 93036); J. Hawks is a panelist.
- April 19, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102).
- April 25, 2012 – Groundwater Resources Association – Annual Legislative Symposium and Lobby Day (8:00a – 4:30p; Citizen Hotel; 926 J St., Sacramento 95814); J. Hawks may attend.
- April 27, 2012 – CA Water Plan Update 2013 Groundwater Caucus (9:30a – 4:00p; Cal EPA Building, 1001 I St., Sacramento 95814); J. Hawks will attend.

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- April 30, 2012 – California PUC – Water Recycling Workshop (9:00a – 4:00p; 505 Van Ness Ave., San Francisco 94102); J. Hawks will attend.
- May 8-11, 2012 – Association of California Water Agencies – Spring Conference & Exposition (Portola and Marriott Hotels, Monterey, CA); J. Hawks will attend.
- May 10, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- May 13-18, 2012 – Center for Public Utilities Advanced Regulatory Training for Water and Wastewater Utilities (8:00a – 5:00p each day; Sheraton Uptown Hotel; 2600 Louisiana NE, Albuquerque, NM).
- May 15, 2012 – CWA Directors Meeting (9:30a-2:30p; Valencia Water; 24631 Avenue Rockefeller, Valencia, CA 91355); J. Hawks will attend.
- May 16, 2012 – California Urban Water Conservation Council Board of Directors Meeting (9:30a – 3:00p; Kennedy Jenks, 2775 Ventura Blvd., Suite 100, Oxnard, CA 93036; J. Hawks will attend.
- May 24, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- May 30-31, 2012 – CUWCC NorCal Water Conservation Coordinator I/Water Use Efficiency I Workshop (9:00a–3:00p; San Francisco PUC; 1000 El Camino Real, Millbrae 94030); <http://www.cuwcc.org/WorkArea/showcontent.aspx?id=18714>.
- June 6-8, 2012 – CWA Annual Spring Conference/Regulatory, Small Company Seminar/Directors Meeting (1:00p on June 6; adjourns at 11:00a on June 8; Citizen Hotel; 926 J St., Sacramento 95814)
- June 11-13, 2012 – Western Conference of Public Service Commissioners Annual Meeting (8:00a – 5:00p; Sunriver Resort; 17600 Center Dr., Sunriver, OR 97707); J. Hawks will attend.
- June 19, 2012 – California Urban Water Conservation Council Advanced Metering Infrastructure Symposium (8:30a – 4:30p; LA Dept. of Water & Power; 1350 S. Wall St., Los Angeles, CA 90021); J. Hawks may attend.
- June 20, 2012 – CUWCC Plenary Meeting (9:30a – 3:00p; LA Dept. of Water & Power; 1350 S. Wall St., Los Angeles, CA 90021); J. Hawks will attend.
- June 28, 2012 – California Water Association Annual Northern California Contractors-Vendors Meeting (7:30a – 11:30a; location TBD).

—CWA—