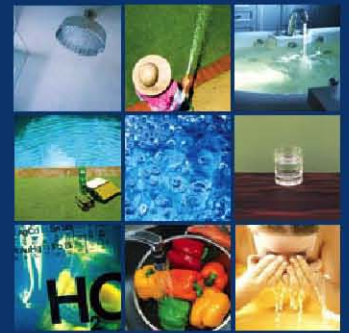


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The Weekly Wrap



March 9, 2012

No. 2012-10

TO: CWA Member Companies
FROM: Jack Hawks, Executive Director
SUBJECT: Highlights for the Week Ending March 9, 2012

Joint Legislative Audit Committee Approves Audit of Water Rates— As you may know, Assemblymember Ricardo Lara (D-Bell Gardens) submitted a letter Feb. 15th to the members of the Joint Legislative Audit Committee (JLAC), requesting that the State Auditor select two public wholesale water districts and three retail water suppliers for an audit designed to give policymakers a clear understanding of what contributes to water rates from the source of production until the customer turns on the tap. He expressed his wish that the audit “provide an understanding of what customers are being charged, the entities that contribute to the water delivery service, the rates charged by each entity and the factors that contribute to these rates.”

Assm. Lara’s letter mentioned explicitly the criticism Central Basin Municipal Water District (CBMWD) had received in recent months for its administrative fees, surcharges, costs of projects and the costs of legal actions. Among other things, the letter asks the State Auditor, Elaine Howle, to review and evaluate:

- The process and basis each supplier uses for establishing water rates;
- The factors that contribute to the rates of each water supplier;
- The changes in rates over a five-year period, and the reasons for those changes;
- A sample of expenditures for each supplier over the five-year period;
- Any increases in respective administrative costs and reserve amounts over the five-year period (plus the reasons for them and whether they were reasonable and necessary; and
- Recommendations for streamlining and making water delivery more cost-effective for the customers.

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The JLAC convened on March 7th and approved Assemblymember Lara's request for an audit of two water wholesalers and three water retailers serving in southeast Los Angeles County. The committee sought testimony from Metropolitan Water District, Water Replenishment District and CBMWD. Public testimony included comments supporting the audit proposal from mayors and city council members of various southeast cities, water district general managers, a representative from the SouthEast Water Coalition, and Golden State Water's Paul Rowley, who spoke on behalf of the Central Basin Water Association.

Additionally, California PUC Water & Audits Division Director Rami Kahlon made himself available for questions (since the audit includes the CPUC regulation of water companies' rates), although no one posed any questions to him. The motion for the audit was passed unanimously by the 14-member joint committee.

When asked how she would select which public agency and CPUC-regulated water suppliers to audit, Elaine Howle said that she wasn't sure at this point, although she said she would try to choose retailers that were of roughly equal size (by service connections, mix of residential & commercial, etc). Unfortunately, Golden State Water was the only retailer besides the Los Angeles Department of Water & Power that was mentioned by name during the hearing, so at least one of the CPUC-regulated water utilities is on her radar screen.

Still, I talked with Rami after the hearing, and he is confident that the PUC will be able to satisfy the audit requirements should an investor-owned water utility be selected. Also after the hearing, CWA Legislative Advocate Meg Catzen-Brown offered CWA as a resource, mentioning the availability of CWA's 2010 report on how investor-owned and government-owned water utilities develop rates.

In a newspaper interview, Lara said, "There is minimal understanding of why water rates are increasing at such a dramatic rate, the factors that contribute to monthly charges and the reasons for significant variations in rates by neighborhood," Lara said. "In the last few months, water districts have faced mounting criticism for

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monthly fees, surcharges, costs of projects and their benefits to the communities they serve, as well as the costs associated with legal actions."

Lara's other quote was more ominous because it suggested legislative interference with regulatory decisions, a theme that is already the subject of at least two bills introduced in February: "The crux of the issue is to investigate everything from legal fees, consulting fees, lobbying fees, infrastructure projects, all the things that contribute to water rate increases," Lara said. "And frankly, to get answers about where the money is going. This should be a good framework to see if there's any policy work or regulatory work we can do at the state level to make sure the fees being collected go to what they're intended for."

We'll keep you apprised of where this entire effort goes.

Infrastructure Financing, CCR Bills Highlight Congressional Fly-In—I was pleased to join representatives from California Water Service, Park Water and Suburban Water Systems for the first of two Congressional "Fly-Ins" March 5-7 in Washington, DC. This first Fly-In was largely a California effort and coincided with the American Water Works Association's Annual Fly-In, where we made some joint visits to members of the California delegation with AWWA's California-Nevada section. The second Fly-In will be the traditional National Association of Water Companies' (NAWC) annual event and is scheduled for June 28-30.

For this first effort, the California utilities met with 31 of the 53 members/staff of the California delegation, plus the staff of Senators Barbara Boxer and Dianne Feinstein. Among the actual Congressional Members with whom we met were John Garamendi (D-10th District), Wally Herger (R-2nd); Dan Lundgren (R-3rd); and Dana Rohrabacher (R-46th). Garamendi, whose new district (if he wins in November) will encompass Dixon, Marysville and Lucerne, was especially eager to talk water issues with us. He was knowledgeable about Lucerne's water situation and expressed a willingness to work with the water utilities serving that area.

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The primary purpose of the Fly-In was to express and seek support for private-sector investment in water utility infrastructure and to solicit support for making private participation in water infrastructure more viable. Fortunately, we had a vehicle in the form of two bills on the subject H.R. 1802 and S. 939, the "Sustainable Water Infrastructure Investment Act of 2011," which include a section that would exempt water and wastewater facilities from the state volume caps on private activity bonds. Both bills are in committee, but interestingly, a version of this bill found its way into the Senate version of the massive highway/transportation bill, S. 1813 ("The Moving Ahead for Progress in the 21st Century Act"), which passed the Senate on March 14th.

House Speaker John Boehner (R-Ohio) is pushing the House to either pass a transportation bill of its own or take up the more limited Senate-approved version of the measure before a March 31 deadline when the current highway funding expires. While not likely, if the latter happens, there's a good chance this language will remain. If there is an extension on the current highway funding, and the House passes a different version, there will still be a conference committee to reconcile the bills, and we'll still have a chance to keep this language intact.

The other bill we pushed at the Fly-In was H.R. 1340/S. 1578, the "End Unnecessary Costs Caused by Report Mailing Act of 2011." This bill, which is in committee in both chambers, would amend the 1996 Safe Drinking Water Act Amendments by allowing drinking water utilities to distribute their annual water quality Consumer Confidence Reports over the Internet, rather than the hardcopy mailings now, if they haven't had an MCL violation in the previous year. Paper copy mailings would still be required if the utility has had an MCL violation and if a customer requests a hardcopy version. Although the current bill has a number of Republican cosponsors and some Democratic cosponsors, none of the Dems are from California. We did, however, receive some encouraging feedback from the California delegation.

For the AWWA representatives, their primary objective was to seek an author and sponsors for its "Water Infrastructure Finance and Innovation Act of 2012 (WIFIA). As noted last week, this bill would offer loans, loan guarantees and other credit support for large water infrastructure projects, as well as leverage SRF program dollars by lending

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directly at Treasury bond rates. We took the opportunity to make some of the points that American Water CEO Jeff Sterba made on this bill during his Feb. 28th testimony before the House Water Resources & Environment Subcommittee.

We also used these meetings to continue pushing for private water utility inclusion in the Clean Water State Revolving Fund Program, as well as to request that the current tax rate for income derived from utility dividends remain at 15% when the current tax rates expire at the end of 2011. Also, a special highlight of the trip was an NAWC-hosted dinner honoring Cal Water's Chairman Bob Foy who is retiring in May. Bob was saluted by NAWC as its Government Relations Committee's (GRC) "greatest champion," who is a great example of the winning combination of dedication and motivation. Congratulations to Bob for all his contributions to NAWC's government relations effort.

One last thing: NAWC Executive Director Michael Deane introduced NAWC's new Director of Government Relations, Petra Smeltzer, at the GRC meeting on March 5th. In a coincidence straight from the "small world" category, Petra and I worked together for two years in 2003-04 at the Electric Power Supply Association, and I was happy to get reacquainted with her again. Congratulations to both Petra and Michael on this successful transition for NAWC.

CPUC Acts on Small Company Items; Continues Holds on Class A Issues—At its Open Meeting on March 8th, the California PUC approved **Decision 12-03-009**, which will enable East Pasadena Water Co. to borrow \$1,150,000 and issue two notes under Sections 816 - 830 of the Public Utilities Code, and to encumber utility property under Section 851 of the Public Utilities Code. In other actions, the Commission:

- **Held A.11-02-002**, the general rate case application of Suburban Water Systems until April 19th.
- **Held Resolution W-4908**; Valencia Water Co.'s request to permit payment of water bills using a credit or debit card.
- **Held A10-02-006**, Alco Water Service's request for modification of D.11-09-040.
- **Approved D.12-03-012**, which approved the application of Patricia Heimer, doing business as Redwood Lodge Water Co., for a Certificate of Public

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Convenience and Necessity to operate as a water public utility in Santa Cruz County near Los Gatos; and to establish water rates.

- **Approved D.12-03-019**, which extends the statutory deadline for completing the complaint proceeding (C.11-03-020) of Wendy Wood and Robert F. Spohr vs. Tahoe Park Water Company until September 25, 2012.
- **Approved D.12-03-025 and I.12-03-008**, which opens an Order Instituting Investigation on the Commission's own motion into the operations and practices of Golden Hills Sanitation Company.

SDCWA Takes on MWD in New Website—A new website launched on March 7th by the San Diego County Water Authority (SDCWA), www.MWDFacts.com, and titled “Get the Facts about the Metropolitan Water District of Southern California,” is another example of how city water authorities and other retail water agencies in Southern California are expressing displeasure with the wholesale water districts in the region that provide much of their water supply. This new website, ostensibly designed to provide information for water users and ratepayers, pulls no punches, describing in its announcement that its purpose is to “provide greater information and transparency into the powerful and secretive Metropolitan Water District of Southern California (MWD).”

As you know, SDCWA is a member agency of MWD and has had a long, contentious history with MWD. The website epitomizes the ill will between the two water districts with headlines like these in the current view: “Public records detailing MWD’s Secret Society’s inner workings posted on line,” MWD’s Board is planning to raise your water rates on April 10,” and “Public Records reveal shadow government controlling the Metropolitan Water District.”

And SDCWA’s own announcement didn’t mince words: “MWD has too often kept critical information clouded in secrecy, misdirection and obfuscation” said Dennis Cushman, assistant general manager of the Water Authority. “MWD’s finances, rates, governance, ethics and other policies need to be discussed and debated in an open, transparent, accessible forum – not behind closed doors in an ‘invitation-only,’ ‘pay-to-play,’ ‘secret society,’” he added.

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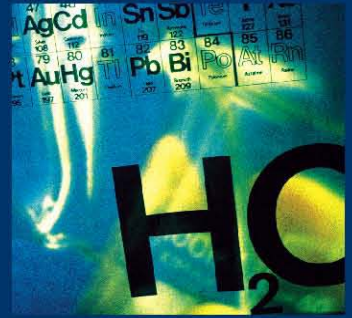
NRRI Hosts Nationwide Webinar on Small Water Systems—The research arm of the National Association of Regulatory Utility Commissioners (NARUC), the National Regulatory Research Institute (NRRI) hosted a webinar Feb. 29th designed to help regulators address the existing challenges and suggest solutions for ensuring their future viability. The webinar was moderated by NRRI's Ken Costello and the presenters were Phillip S. Teumim, a management and regulatory consultant formerly with the New York Public Service Commission; Carolyn Glick, Hearing Examiner for the New Mexico Public Regulation Commission; and David Monie, President, G.P.M. Associates Inc., a water engineering and management consultant firm. He is a past chair of the National Association of Water Companies' Small Company Committee.

The moderator explained how many small water systems are especially challenging because they don't respond well to traditional regulatory processes, because they have fewer management and operating personnel, and because they lack the necessary scope or scale to be sufficiently viable, either operationally or financially. Costello said small systems require a unique set of tools and approaches to manage. He offered regulators and attendees several options addressing these issues:

- How to assess the financial and operational viability of existing systems.
- How to develop a template for classifying systems.
- Specific strategies for each system classification.
- How to implement a ratemaking process that recognizes the realities of small water systems.
- A methodology that prevents new systems from being built if they aren't financially and operationally viable.
- Evaluating a commission's internal staffing, policies, procedures, and ability to coordinate with other state agencies.

The presenters all did a good job providing different perspectives on small company issues, looking for practical solutions that would provide a path to sustainability, and offering options for regulatory commissioner consideration. Among them were:

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- Streamlined regulation (e.g., simplified filing requirements; short time frame proceedings; standard allowances for management expenses, operations expenses and professional services; sustainable rates; and ratemaking tools such as California's rate of margin approach.
- Sustainable rate levels; and
- Ratemaking tools (e.g., operating cushion in lieu of rate base; depreciation expense even for contributed capital; ROI even with contributed capital; surcharges; infrastructure adjustment clauses; escrow or operating reserve accounts; and phase-ins for new systems.

Despite my skepticism going in, this turned out to be a worthwhile seminar, and I was glad NRRI focused its efforts on water. I have the 51-page seminar working document if anyone's interested. Just send me an e-mail and I'll send you the PDF version.

EPA Provides Nearly \$15 Million for Small Water/Wastewater Systems—The U.S. Environmental Protection Agency (EPA) announced March 2nd that it will provide up to \$14.5 million in funding for training and technical assistance to small drinking and wastewater systems, defined as systems that serve fewer than 10,000 people, and private well owners. The funding will help provide water system staff with training and tools to enhance system operations and management practices, and will support EPA's efforts to promote sustainability in small communities.

Most of the funding will provide training and technical assistance to small public water systems to achieve and maintain compliance with the Safe Drinking Water Act and to small publicly owned wastewater systems, communities served by on-site systems, and private well owners to improve water quality. I would like to think that the funding would be available to small privately owned wastewater systems, as well, but I'll have to check on whether EPA meant the distinction or not.

EPA noted in its announcement that more than 97 percent of the nation's 157,000 public water systems serve fewer than 10,000 people, and that more than 80 percent of these systems serve fewer than 500 people. EPA expects to make available up to

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\$500,000 to provide training and technical assistance to tribally-owned and operated public water systems, as well.

Applications must be received by EPA by April 9, 2012. EPA expects to award these cooperative agreements by Summer 2012. For more information about these competitive announcements, visit:

http://water.epa.gov/grants_funding/sdwa/smallsystemsrfc.cfm. For more information on EPA's programs and tools to help small water systems, visit:

<http://water.epa.gov/type/drink/pws/smallsystems/index.cfm>

Upcoming Industry Meetings/Conferences/Events:

- March 12, 2012 – CWA Legislative Committee Meeting (10:00a-3:00p; Nossaman Office – 915 L St., Suite 1000, Sacramento 95814); J. Hawks will attend.
- 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 20, 2012 – California Assembly Committee on Water, Parks and Wildlife - Oversight Hearing: Untapped Potential of Water Reuse for California's Future Water Supply Reliability (9:00a-12:00n; Room 437; State Capitol, Sacramento); J. Hawks will attend.
- March 21, 2012 – CWA Public Information Committee and CWA USDP Committee Meetings (10:00a-1:30p; Suburban Water Systems; 1325 N. Grand Ave., Suite 100, Covina, CA 91724); J. Hawks will attend.
- March 22, 2012 – CWA Long-Term Strategic Plan Meeting (9:30a-4:00p; California Club; 538 S. Flower St., Los Angeles 90071); J. Hawks will attend.
- March 22, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)

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- 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 in part.
- 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 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 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 19, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102).
- 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 in part.
- May 10, 2012 – California PUC Open Meeting (9:00a – 12:00p; 505 Van Ness Ave., San Francisco 94102)
- May 15, 2012 – CWA Directors Meeting (9:30a-2:30p; Valencia Water; 24631 Avenue Rockefeller, Valencia, CA 91355); J. Hawks will attend.

—CWA—