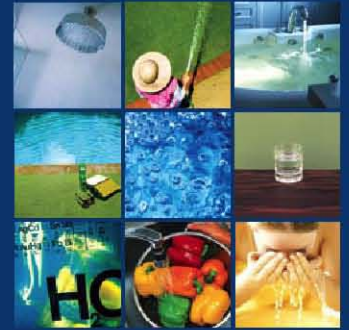


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The Weekly Wrap



July 6-13, 2012

No. 2012-27&28

TO: CWA Member Companies
FROM: Jack Hawks, Executive Director
SUBJECT: Highlights for the Week Ending July 13, 2012

CPUC Quietly Passes COC Decision; Financial Community Reacts Favorably—

With nary a comment at its Open Meeting on July 12th, the California PUC approved **Decision 12-07-009**, the 2012 Cost-of-Capital (COC) settlement agreement that California American Water (CAW), California Water Service (CWS), Golden State Water (GSW) and San Jose Water (SJW) reached the Division of Ratepayer Advocates. As reported in the June 29th *Weekly Wrap*, the decision and settlement agreement:

1. establishes the costs of capital (both debt and equity);
2. establishes the capital structures;
3. establishes the rates of return on rate base;
4. eliminates the Temporary Interest Rate Balancing Accounts that were previously authorized for CAW, CWS and GSW; and
5. continues the Water Cost of Capital [Adjustment] Mechanism.

For the four companies, their ROEs will be 9.99%, a 21-basis point decline from their authorized ROEs during the 2009-2012 time frame. The overall rates of return for the four companies will range from 8.24 percent to 8.64 percent.

The only difference between the final decision and the Proposed Decision from ALJ Karl Bemdesderfer is that San Jose Water was granted a request to delay implementing its revised rates (resulting from D.12-07-009) until September 1, 2012, so as to allow for rate changes associated with two other advice letters to have been fully implemented in customer bills before the company renders any bills reflecting the change of rates pursuant to this decision.

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CAW and GSW (through its parent, American States Water) both issued news releases on the decision. CAW reviewed its specific COC parameters and noted that rates will increase by \$4.5 million in 2012 (because of the approved increase in the equity component of its capital structure from the previous authorized 42 percent to 53 percent, which increased its overall cost of capital to 8.41 percent from 8.04 percent. CAW also noted that this was the third meaningful CPUC decision for California American Water in 2012, following the June CPUC decisions on its 2012-2014 general rate case and on the San Clemente Dam Removal Project in Monterey County.

Likewise, American States Water reviewed GSW's new COC components and explained that the new authorized rate-of-return will be implemented into water rates on a company-wide basis retroactive to January 1, 2012. GSW President and CEO Bob Sprowls said, "We are pleased with the CPUC's approval of our cost of capital filing and believe this is a fair resolution for our shareholders and customers."

Sprowls also added that GSW "has invested approximately \$225 million in its distribution infrastructure over the past three years and plans to continue making significant investments in the future. We are pleased that the CPUC recognizes that California's investor-owned water utilities require a fair return in order to finance these investments."

As with the proposed decision, the financial community's reaction was generally favorable. In its July 13th report on the COC decision, Baird Equity Research said, "CPUC approval of the joint cost of capital settlement as filed supports our view that the perception of elevated regulatory risk for California water utilities has been overdone. We maintain our "Generally Constructive-Declining" assessment of the California regulatory climate. This decision should help allay investor concerns surrounding California water utility ROE risk and increase longer-term earnings visibility for [CAW, CWS, GSW and SJW]."

In other action at the Open Meeting, the Commission:

- **Approved D.12-07-004**, which dismissed a complaint (C.11-03-020) that Wendy Wood and Robert F. Spohr brought against Tahoe Park Water Co.

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- **Approved D.12-07-005**, which dismissed a complaint case (C.12-01-010) that BudSco Chemical Enterprises, Inc. brought against Alisal Water Corporation.
- **Approved Resolution W-4924**, which grants Erskine Creek Water a general rate increase of \$182,930 for Test Year 2012 and Escalation Year 2013.
- **Approved Resolution W-4925**, which among other things, authorizes California American Water to transfer \$1,146,053.61 from its Water Contamination Litigation Memo Account to a balancing account for recovery over a period of twelve months.
- **Approved D.12-07-008**, which grants California American Water's motion to withdraw its Petition for Modification of D.10-12-016, a Commission decision involving the now-defunct Regional Desalination Project partnership with Marina Coast Water District and the Monterey County Water Resources Agency (MCWRA).
- **Approved D.12-07-014**, which extends the statutory deadline to September 26, 2012 for California Water Service Co.'s application for an order confirming the discontinuance of its ESP program, as provided for in D.07-12-055.
- **Approved D.12-07-017**, which awards Disability Rights Advocates \$14,390.00 for its substantial contribution to Decision 11-05-004 involving Phase 2 of the Water Conservation Policies OII (I.7-01-022).
- **Approved D.12-07-018**, which awards The Utility Reform Network \$46,288.07 for its substantial contribution to Decision 11-05-004 involving Phase 2 of the Water Conservation Policies OII (I.7-01-022).
- **Approved** the CPUC's Legislative Subcommittee's recommendation to oppose **AB 1541 (Dickinson)** unless it is amended to satisfy the PUC's concerns.

Legislature Passes, Brown Signs Extension for Water Bond Ballot Measure—

Gov. Jerry Brown signed Assembly Bill 1422 into law on July 9th, moving the 2012 water bond to the November 2014 ballot. Previously, the bill cleared both houses on fast-tracked, bipartisan, two-thirds votes, without making any changes to the bond's targeted programs, originally developed in 2009. The move was supported by a broad coalition of water utilities, agencies and districts, as well as conservation, business, labor and agricultural groups.

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The California State Assembly and Senate approved AB 1422 on July 5th, by votes of 72-7 and 34-2, respectively. Originally titled the *Safe, Clean, and Reliable Drinking Water Supply Act of 2012*, AB 1422, by Assembly Member Henry Perea (D-Fresno), was designed to finance a safe drinking water and water supply reliability program. Now, the fate of the measure and the issuance of the \$11.14 billion in bonds rest on the approval by those who vote in the November 4, 2014, statewide general election.

Earlier during the committee consideration of the bill, the Senate Natural Resources & Water Committee rejected a motion by Sen. Lois Wolk (D-Davis) to repeal the bond measure entirely. She cited a long list of issues with the bond in its current form on the floor, saying it should be repealed entirely. But she also said she decided to support the move because keeping it on this year's ballot would be "disastrous" for Gov. Jerry Brown's tax measure, which will also be up for in November.

The bond measure has faced long odds since its 2009 passage. The Legislature voted in August 2010 to move the bond to the November 2012 ballot, citing the state's economic woes and the need to focus on budget issues this year. That rationale remains as the reason for the new delay to 2014. Senate President Pro Tem Darrell Steinberg said while the bond itself is being delayed, work on a deal to trim the size of the current bond should happen sooner rather than later. "If we're really serious about passing a bond measure in 2014, which I fully support, if we're serious about it, get to work now," Steinberg said. "With human nature, inertia and politics being what they are now, this is merely a band aid and we need the water investment, that's the key. We need to pass a bond. Let's get to it."

Legislature Recesses Until August 6th; Several Bills Die in Appropriations—CWA Legislative Advocate Meg Catzen-Brown reported in her monthly legislative briefing that the Senate and Assembly Appropriations Committees again cratered much of the fiscal legislation introduced in 2012 by holding many of the bills CWA and others have been following. Among the casualties were two bills that CWA wasn't sorry to see fail: Senator Rod Wright's SB 1165, which would have extended intervenor funding to school districts; and SB 981 (Yee), which would have created a two-year cooling off period before a CPUC employee could go to work for a utility, and vice versa.

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Another casualty was AB 1514 (B. Lowenthal), which among other things, would have increased the maximum penalties for violation of the state's excavation laws, and would have required the CPUC to adopt rules and procedures for obtaining information from utilities that have sub-surface facilities and installations. Also, AB 1843 (Hill), which would have required the CPUC to establish a "whistleblower protection program" to protect public utility employees, former employees, contractors and subcontractors from retaliation for disclosing information pertaining to public safety to the CPUC or any other government agency, failed to move out of the Senate Appropriations Committee.

Other bills of interest to CWA that survived were Senate Minority Leader Bob Huff's SB 1364, which as introduced would have imposed a number of burdens on water companies – but which as amended is now much more palatable for us – cleared the Senate floor unanimously. AB 1650 (Portantino), which would require electric and water utilities to file emergency response plans with the CPUC, also passed unanimously, 78-0. Because AB 1650 imposes the same requirements on Class C & D companies as Class As and Bs, without regard to the resource constraints, CWA will continue to work for amendments in August that will reduce the burden on small companies.

As reported in the June 29th Weekly Wrap, Assembly Member Roger Dickinson (D-Sacramento) did indeed remove the remove the subsections exempting security-related information, proprietary business information, market-sensitive information and labor communications in the surviving bill that would subject the CPUC to the state's Public Records Act, AB 1541, when it was heard July 3rd by the Sen. Judiciary Cte. We'll now see if he's able to reinsert them when the bill goes to the Senate Appropriations Committee on August 6th.

Upcoming Industry Meetings/Conferences/Events:

- July 17-18, 2012 – California PUC Workshop; Rulemaking 11-11-008, Consolidated Rates for Multi-District Companies (10: 00a–4 :00p; 505 Van Ness Ave., Courtyard Room, San Francisco 94102)

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- July 18, 2012 – California Water Awareness Campaign Board of Directors Meeting (10:00a–12:00n; ACWA HQ; 915 K St., Sacramento, CA 95814)
- July 22-25, 2012 – National Association of Regulatory Utility Commissioners – Annual Summer Committee Meetings (10:45a–5:15p Committee on Water Meetings; Hilton Hotel - Broadway Room; 921 SW 6th Ave, Portland, OR 97204); J. Hawks is presenting CWA's Small Company Assistance Program to the Water Committee on July 24th).
- July 25, 2012 – CWA USDP Committee Meeting (10:00a–2:30p; California American Water; 1033 B Ave., Suite 200, Coronado, CA 92118)
- August 2, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- August 8, 2012 – California Urban Water Conservation Council Board of Directors Meeting (9:30a–3:00p; Regional Water Authority, 5620 Birdcage Street, Ste 180, Citrus Heights, CA 95610); J. Hawks will attend.
- August 8, 2012 – California Water Awareness Campaign Board of Directors Meeting (10:00a–12:00n; ACWA HQ; 915 K St., Sacramento, CA 95814)
- August 9, 2012 – CWA Directors Meeting (9:30a-2:30p; California American Water; 1033 B Ave., Suite 200, Coronado, CA 92118); J. Hawks will attend.
- August 15, 2012 – ACWA Annual Regulatory Summit (8:00a–5:00p; Doubletree Hotel, 1 Doubletree Dr., Rohnert Park, CA 94928); J. Hawks is participating on the conservation rate design panel.
- August 23, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- August 24, 2012 – SL Hare Capital, Inc. Gala Dinner for Gwen Moore (6:30p–9:30p; Langham Huntington Hotel, 1401 South Oak Knoll Avenue, Pasadena, California 91106); CWA is hosting a table, and J. Hawks will attend.
- September 6, 2012 – CWA Directors Meeting (9:30a-2:30p; California American Water; 4701 Beloit Dr., CA 95838); J. Hawks will attend.
- September 12, 2012 – California Urban Water Conservation Council Plenary Meeting (9:30a–3:00p; City of Napa – Actual site TBD); J. Hawks will attend.
- September 12, 2012 – California Water Awareness Campaign Board of Directors Meeting (10:00a–12:00n; ACWA HQ; 915 K St., Sacramento, CA 95814)

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- September 12-13, 2012 – California Water Plan 2013 Plenary Meeting (9:00-4:30p; Doubletree Hotel, 2001 Point West Way, Sacramento, CA 95815); J. Hawks will attend the second day.
- September 13, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- September 27, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- October 3, 2012 – CWA Directors Meeting (9:30a-2:30p; Fontana Water Co.; 15966 Arrow Route, Fontana 92335); J. Hawks will attend.
- October 4, 2012 – California PUC Annual GO 156 En Banc Hearing (8:30a–3:45p; USC Bovard Auditorium; 3551 Trousdale Pkwy, Los Angeles 90089); J. Hawks will attend.
- October 7-10, 2012 – National Association of Water Companies Annual Water Summit (8:30a–5:00p; Turnberry Isle Resort; 19999 W. Country Club Drive, Aventura, FL 33180); CWA will host the CA Chapter Luncheon on 10/8; J. Hawks will attend.
- October 10, 2012 – California Water Awareness Campaign Board of Directors Meeting (10:00a–12:00n; ACWA HQ; 915 K St., Sacramento, CA 95814)
- October 11, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- October 24, 2012 – Dept. of Water Resources – California Water Plan Update 2013 – Advisory Committee Meeting (9:00a – 4:30p; Cal EPA Building; 1001 I St., Sacramento, CA 95814); J. Hawks will attend
- October 25, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- October 30-31, 2012 – CWA 71st Annual Conference (8:45a-4:45p; Monterey Plaza Hotel - 400 Cannery Row, Monterey, CA 93940); J. Hawks will attend.
- November 1, 2012 – CWA Annual Directors Meeting (8:00a – 11:00a; Monterey Plaza Hotel - 400 Cannery Row, Monterey, CA 93940); J. Hawks will attend.

—CWA—