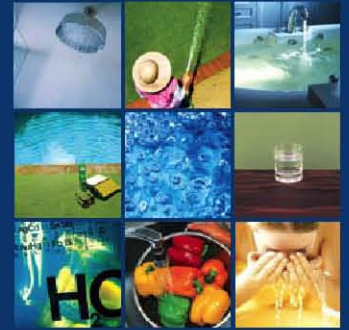


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# The Weekly Wrap



**July 20, 2012**

**No. 2012-29**

TO: CWA Member Companies  
FROM: Jack Hawks, Executive Director  
SUBJECT: Highlights for the Week Ending July 20, 2012

**Workshop on Consolidated Rates Stimulates Dialogue on 'High-Cost' Areas—**

As you know, there has been a California PUC Order Instituting Rulemaking (OIR), precipitated by CPUC President Peevey, under way since last November to examine the rates of multi-district water companies and attempt to find a balance between two conflicting goals: the “just and reasonableness” of rates in “high-cost areas” of a utility’s service territory and the PUC Water Action Plan objective of setting rates that “balance investment, conservation and affordability.” Among other things, the OIR is considering policies that would “subsidize high-cost areas, either through some variation of a high-cost fund [HCF] or through consolidation of districts and rates.”

The OIR acknowledges that the significant differences in providing water in different geographical areas on a traditional cost-of-service basis “could result in either rates that are unaffordable to many customers in the region or in rate shock were the price increases by a large amount.” It described the current 1992 policy guidelines that the CPUC should consider in district rate consolidations. Four criteria predominate:

1. Proximity (non-contiguous districts should be within 10 miles of each other);
2. Rate Comparability (rate disparity between districts should be less than 25%);
3. Water Supply (the mix and/or sources of supply should be similar); and
4. Operations (the candidate districts should be operated in a similar manner).

The respondents to the proceeding, California American Water, California Water Service, Del Oro Water, Golden State Water and San Gabriel Valley, along with the Division of Ratepayer Advocates (DRA), filed opening and reply comments earlier this year. They answered a series of questions about the current policy, their existing mechanisms for subsidizing rates, and their views on the efficacy of an HCF for water.

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Generally, the parties' comments (including DRA's) were lukewarm, at best, on full and complete consolidation and on more comprehensive rate subsidies. There was some support for not having equal weight for the four criteria or not being so strict on the first one regarding proximity.

The tenor of the comments prompted Administrative Law Judge Gary Weatherford to schedule a prehearing conference (PHC) for May 23<sup>rd</sup>, along with PHC statements from the parties. Following the PHC, Assigned Commissioner Catherine Sandoval issued a scoping memo and ruling in late June that converted the proceeding from rate-setting to quasi-legislative, dispensed with the need for evidentiary hearings, and concluded that a workshop on July 17-18 was warranted in order to (1) examine the different types of consolidation mechanisms and variants of high-cost funds and (2) identify relevant factors, definitions, mitigation potential and possible alternate mechanisms that can be considered moving forward.

The workshop was held, and the agenda consisted principally of presentations from staff (the existing California High Cost Fund-A and HCF-B), Cal Water (Tom Smegal and Darin Duncan on the company's Rate Support Fund, experience with consolidation, and ideas for cost areas that could be consolidated), Golden State Water (Keith Switzer on GSW's past consolidation efforts) and DRA (Diana Brooks on the PUC's history with consolidation, variations on HCF mechanisms, and DRA's recommendation for updating the consolidation policies with a "targeted" HCF).

While there was a lot of discussion on these subject areas, the workshop did not yield definitive conclusions, especially on basic concepts like the definition/parameters of high-cost geographic areas, what constitutes acceptable HCF mechanisms, where the line is drawn between violating cost-of-service principles and acceptable subsidy approaches, etc. In all, the workshop was designed to analyze 23 questions associated with these subject areas, but the surface was only scratched. Commissioner Sandoval, who attended much of the first day, agreed with ALJ Weatherford that at least one additional workshop will be scheduled after the parties have the opportunity to review, digest and comment on the report for this first workshop. Stay tuned.

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**DWR, CWC and OAL Adopt Long-Awaited Ag Measurement Regulations**—Part of the comprehensive water legislation in 2009 (California Water Code section (§)10608.48(i)) required the Department of Water Resources (DWR) to adopt an agricultural water measurement regulation. DWR conducted many agricultural stakeholder committee meetings and public hearings through the first half of 2012 in developing the regulation and presented it to the California Water Commission, which adopted it on July 6<sup>th</sup>. The Regulation was approved by the Office of Administrative Law on July 11, 2012 and is now in effect.

§10608.48(b) of the Water Code states that agricultural water suppliers shall implement all of the following critical efficient management practices: (1) Measure the volume of water delivered to customers with sufficient accuracy to comply with subdivision (a) of Section 531.10 and to implement paragraph (2); and (2) Adopt a pricing structure for water customers based at least in part on quantity delivered. Additionally, §531.10(a) of the Code requires that: (a) An agricultural water supplier shall submit an annual report to the department that summarizes aggregated farm-gate delivery data, on a monthly or bi-monthly basis, using best professional practices.

The new regulation applies, as follows, to:

- (a) An agricultural water supplier providing water to 25,000 irrigated acres or more, excluding acres that receive only recycled water;
- (b) A wholesale agricultural water supplier providing water to another agricultural water supplier (the receiving water supplier) for ultimate resale to customers at the location at which control of the water is transferred to the receiving water supplier. (However, the wholesale agricultural water supplier is not required to measure the receiving agricultural water supplier's deliveries to its customers.)
- (c) A water supplier providing water to wildlife refuges or habitat lands where (1) the refuges or habitat lands are under a contractual relationship with the water supplier, and (2) the water supplier meets the irrigated acreage criteria of Water Code §10608.12(a).

There are two categories not subject to the new regulation:

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- (d) An agricultural water supplier providing water to less than 10,000 irrigated acres, excluding acres that receive only recycled water.
- (e) An agricultural water supplier providing water to 10,000 or more irrigated acres, but less than 25,000 irrigated acres, excluding acres that receive only recycled water, unless sufficient funding is provided specifically for that purpose, as stated under Water Code §10853.

It's not clear to me yet how compelling the new regulation is for ag water suppliers and users, but it does require those subject to it to measure surface water and groundwater that it delivers to its customers pursuant to the accuracy standards in this section. The supplier may choose any applicable single measurement option or combination of options listed in paragraphs (a) or (b) of the section, and measurement device accuracy and operation shall be certified, tested, inspected and/or analyzed, as described in §597.4 of the regulation.

An agricultural water supplier shall measure water delivered at the delivery point or farm-gate of a single customer using one of several measurement options. The stated numerical accuracy for each measurement option is for the volume delivered. If a device measures a value other than volume, for example, flow rate, velocity or water elevation, the accuracy certification must incorporate the measurements or calculations required to convert the measured value to volume as described in §597.4(e). There are also measurement options at a location upstream of the delivery points or farm-gates of multiple customers (and it goes into some detail).

With respect to reporting in their Agricultural Water Management Plans, ag water suppliers are required to include documentation demonstrating compliance; a description of best professional practices used in the collection of water measurement data, frequency of measurements, method for determining irrigated acres, and quality control and quality assurance procedures. Again, there is significant detail for and conditions associated with volumes, flow rates, velocity, duration of delivery, water elevation, etc.

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**Pacific Institute Seeks Survey on Water Rates; Will Host Workshops**—The Pacific Institute is undertaking a survey on California water utility rates and finances that will seek to provide them with information on addressing the financial challenges posed by strong conservation programs, decreased revenues, rising costs and the like. Heather Cooley at the Institute has asked me to encourage CWA members to take the survey. You can access it at:  
[http://www.pacinst.org/reports/water\\_rates/workshops.htm](http://www.pacinst.org/reports/water_rates/workshops.htm).

In addition, the Institute is hosting two workshops on the subject in Davis and Carson on Sept. 11<sup>th</sup> and 13<sup>th</sup>, respectively. The workshops are designed to give utility managers the tools and contacts to help make changing water rates more manageable. Here are the topics that will be covered:

- Results of the water rates and finances survey.
- Overview of capital finance elements.
- Strategies for addressing specific revenue challenges:
  - Consistent undercharging and/or operating losses
  - Revenue vulnerability
- An introduction to rate design.
- Rate design pitfalls and best practices.
- And break-out sessions for urban and agricultural water suppliers to address key challenges with the experts.

Here are the location particulars:

- Davis – September 11, 2012; 9:00am to 4:00pm; University of California, Davis; Buehler Alumni and Visitors Center; Alumni Lane & Mrak Hall Drive
- Los Angeles – September 13, 2012; 9:00am to 4:00pm; West Basin Municipal Water District; 17140 South Avalon Blvd, Ste. 210; Carson, CA 90746-1296

Registration fee is \$20 and includes a continental breakfast and full lunch. To register, email Kristina Donnelly at [kdonnelly@pacinst.org](mailto:kdonnelly@pacinst.org)

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**BDCP Push-Back Prompts New Fact Sheet to Educate Public**—A new fact sheet produced by several Bay Area water agencies outlines key functions the Bay Delta Conservation Plan (BDCP) and its importance to the state's water future. Compiled by Santa Clara Valley Water District, Zone 7 Water Agency and Alameda County Water District, the four-page "Restoring the Delta: Protecting Our Future" pamphlet provides a nice summary of the BDCP, and why it's important to Bay Area water users. It tries hard for a consumer friendly look at the BDCP and attempts to dispel common misunderstandings and myths about the process.

The first page contains a map of the Delta and the service areas of the three agencies and summarizes the Bay Area's reliance on the Delta (approximately 2/3 of its drinking water supply). It notes that the Delta's "150-year old man-made network of levees is old and fragile" and that "without an effective conservation and renewal strategy, the Delta's sensitive ecosystem and water transport system will continue to deteriorate, threatening the delivery of safe, reliable drinking water to the nearly 2.5 million residents ... in the East Bay and Silicon Valley."

The rest of the document describes the BDCP's efforts to achieve water supply reliability and ecosystem restoration for the Delta and how it is seeking to employ the balanced solution for Delta ecosystem restoration and long-term sustainable water supplies. It also highlights the three water agencies' water use efficiency measures and their efforts to manage their integrated water systems, as well as water shortages, droughts, earthquakes and floods.

The rest of the brochure is dedicated to the agencies' efforts to develop new technologies and best practices around water storage and groundwater banking, conservation and water recycling, stormwater-capture and desalination. They note, though, that "as important as these local measures are, they do not eliminate the need for a workable Delta solution that restores the health of the Delta ecosystem and assures sustainable water supplies."

You can access the fact sheet at:

[http://www.zone7water.com/images/pdf\\_docs/delta/7-19-12\\_bay-area-delta.pdf](http://www.zone7water.com/images/pdf_docs/delta/7-19-12_bay-area-delta.pdf).

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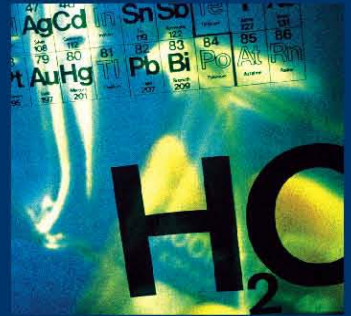
**Food & Water Watch Publishes New “Water Municipalization Guide”**—I would like to resist paraphrasing President Reagan’s famous quote by saying “There they go again” but ... there they go again. The anti-private sector group, Food & Water Watch, published a new report July 12<sup>th</sup> titled *Water Municipalization Guide: How U.S. Communities Can Secure Local Public Control of Privately Owned Water and Sewer Systems*. It would have been nice if F&WW had acknowledged that few, if any, municipalities in the country have the financial resources necessary to undertake a government takeover of a private water system or to acknowledge the immoral nature of such an assault on private property and property rights, but that, of course, would have been too much to ask.

The guide begins by noting that 82 percent of public water systems are government-owned, while 18 percent are privately owned (12%), public-private partnerships (2%) or individual wells (4%). It also notes that 95 percent of wastewater systems are government owned. With such a large market share for the public sector, I wonder why F&WW is so paranoid about the private-sector threat. But no matter ... F&WW soldiers on with the primary reasons to confiscate these private systems: (1) gain local control; (2) improve service; and (3) lower water bills. As we all know, all three reasons are nonsense. All systems, public and private, are managed locally; there is no evidence that public systems provide better service; and of course, no water bills are going down anywhere in the country for the foreseeable future.

The guide then describes the logistical considerations involved in government “purchases” of privately owned water and sewer systems, noting the differing regulatory frameworks at the state level. F&WW posits four basic phases in a public acquisition of a privately owned water system:

1. Study and planning
2. Negotiation
3. Condemnation (if negotiation fails)
4. Sale and transition

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During the description of each phase, F&WW has the gall to say that “Municipalization is fairly straightforward unless the company owning the system refuses to come to the bargaining table. Certain large water companies frequently spurn negotiation and aggressively resist local-control efforts. In these instances, strong community organization is essential to counter the opposition from special corporate interests and to see the municipalization through the condemnation process.”

You know how disingenuous F&WW is when it claims that the private property owner is the product of “special corporate interests.” It goes on to urge that “[f]ederal and state policies should support public ownership of community water and sewer systems. Legislators should streamline the municipalization process and forestall unnecessary and wasteful legal challenges from large water corporations.” Let’s see ... the private water system owners are largely satisfied with the legislative status quo as long as their private property rights aren’t threatened. It is entities like F&WW who are advocating legislative changes that are injurious to property rights. I don’t for a minute doubt who the special interest really is.

California was not spared the sophistry, either. There is a whole page of the guide devoted to California American Water (CAW) and Felton titled, “Setting the Record Straight: American Water’s Spin About Felton, California.” It states that “public ownership saved a typical Felton household about 44 percent or \$518 a year on the total cost of water service,” and shows a chart depicting that Felton’s annual water bill under CAW would have been \$1,705, while the annual bill under San Lorenzo Water District in 2011 was \$624 (plus the “estimated special tax” of \$563). Of course, there is nary a word about the rate increases in Felton since the acquisition in 2008.

Not that you want to, but just in case you want to review the full propaganda piece, you can access it at: <http://www.foodandwaterwatch.org/reports/water-municipalization-guide/>.



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**DWR Releases State Water Project Delivery Reliability Report**—The Department of Water Resources (DWR) has released the 2011 State Water Project (SWP) Delivery Reliability Report. The 2011 report is the latest in a series of reports on the delivery reliability of the SWP, which is called "the largest state-built and operated water and power system in the United States." "California faces a future of increased population growth, coupled with the potential for water shortages and pressures on the Delta," the summary states.

The report updates estimates of current (2011) and future (through 2031) SWP deliveries, taking into account pumping restraints to protect Delta smelt, salmon, and other fish species as well as variations in precipitation and impacts of climate change. The perspective applied assumes no significant changes will be made to convey water past the Sacramento-San Joaquin Delta or to store the more variable runoff expected with climate change.

"This report is written primarily with the public in mind," stated DWR Director Mark Cowin. "As a result, it not only provides updated information about the SWP's water delivery reliability, but is also designed to educate Californians about the SWP and its operations." The SWP provides at least some of the water consumed by 25 million Californians and used to irrigate about 750,000 farmland acres. Of SWP water deliveries, about 70 percent goes to cities and 30 percent to farms.

Due to increased public interest in pumping water from the Delta, Cowin noted that a new chapter focuses specifically on SWP exports at the system's Harvey O. Banks Pumping Plant in the Delta. The report documents that the SWP continues to be subject to delivery reductions caused by fishery agency Biological Opinions intended to safeguard threatened and endangered fish.

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Analysts noted that population growth and recent-year legislation on water conservation are among key factors underscoring the importance of accurately assessing the SWP's reliability of deliveries. California's population has grown rapidly in recent years and could exceed 47.5 million by 2020. By 2050, the population could rise to nearly 60 million -- virtually double the 1990 population -- according to trends cited in the 2009 Update to the California Water Plan.

The 2011 State Water Project Delivery Reliability Report is available online at <http://baydeltaoffice.water.ca.gov>. DWR has issued these reliability reports since 2002. DWR is legally required to prepare and distribute this report to all SWP contractors (those with contracts to purchase SWP water), city and county planning departments, and regional and metropolitan planning departments in the SWP's service area.

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

- 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 24<sup>th</sup>).
- 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)

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- 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 11, 2012 – Pacific Institute Workshop on Conservation Rates and Declining Revenues (9:00am to 4:00pm; University of California, Davis; Buehler Alumni and Visitors Center; Alumni Lane & Mrak Hall Drive; Davis, CA 95616); 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)
- 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 13, 2012 – Pacific Institute Workshop on Conservation Rates and Declining Revenues (9:00am to 4:00pm; West Basin Municipal Water District; 17140 South Avalon Blvd, Ste. 210; Carson, CA 90746-1296).
- 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.

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- 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 71<sup>st</sup> 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—