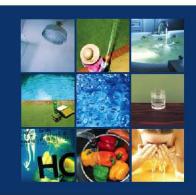


TO:

The Weekly Wrap



No. 2012-33

August 17, 2012

CWA Member Companies

FROM: Jack Hawks, Executive Director

SUBJECT: Highlights for the Week Ending August 17, 2012

NRDC, EWG File Suit Against CDPH on MCL for Hexavalent Chromium—

Apparently lacking the patience to allow scientific, technical and economic feasibility to lead the way on the proper maximum contaminant level (MCL) for hexavalent chromium (Chromium 6), the Natural Resources Defense Council (NRDC) and the Environmental Working Group (EWG) filed suit Aug. 14th against the California Department of Public Health (DPH) "for failing to protect millions of Californians from hexavalent chromium." Filed in the California Superior Court of Alameda, NRDC and EWG's suit contends that DPH's "delay is unjustified and it must rapidly proceed to finalize the standard."

"Millions of Californians are drinking toxic water today due to government neglect," NRDC Attorney Nicholas Morales said in a news release. "The State has not protected our drinking water supply from this carcinogen, so we're going to the courts to put a stop to it. Clean drinking water is a precious resource, and it's about time it's treated as such."

The law suit notes that in 2001, the California State Legislature mandated that DPH adopt a standard by January 1, 2004. Further, it states that eight years past its legal deadline, DPH still hasn't made any visible progress and says it could take several more years before a final standard is completed. Somehow, it neglects to note that the Office of Environmental Health Hazard Assessment (OEHHA) wasn't able to establish a public health goal (PHG) for Chromium 6 until 2011 and that state law says that DPH must set an MCL as close to the PHG as "technologically and economically feasible" – therefore, DPH cannot begin its technical evaluation of the MCL before OEHHA establishes the PHG.





As you know, the PHG identifies the level of a contaminant that in OEHHA's view, does not pose a significant public health risk if consumed over a lifetime. In contrast, the MCL must take into account whether laboratories can detect a contaminant in water at the PHG level, whether it can actually be reduced to the PHG, and how much its removal will cost the water utility its customers.

When the 2001 legislation was passed, not only was there no corresponding PHG in place, but also there was no statewide data on where and how much chromium 6 was in California's water supply. Accordingly, California's water systems spent two years sampling their water sources and providing that information to DPH. The draft PHG was not released by OEHHA until 2009, and the final PHG, which is 0.02 parts per billion, was not published until 2011. This was the reason for the delay from the 2004 deadline, but EWG and NRDC rejected it.

"You'd think the state of California would have moved quickly to protect its citizens from this carcinogen, which, sadly, still flows from the taps of millions of residents," Renee Sharp, a senior scientist and director of EWG's California office said. "It's absolutely unacceptable that at this minute countless children in California are likely drinking a glass of water laced with unsafe levels hexavalent chromium."

NRDC and EWG pulled out all the stops, inviting Erin Brockovich to participate in the news release. She said, "Communities all over California and the U.S. are being poisoned by this dangerous chemical. "We have waited long enough and the people of California should not continue to be exposed to unsafe levels of this toxin in their tap water. The California Department of Public Health needs to do its job and adopt a strong standard for hexavalent chromium in drinking water."

According to the AWWA's Cal-Nevada Section, the news release had several factual errors, including the statement that "[h]exavalent chromium usually enters the drinking water supply by running off from industrial operations into surface waters or leaching from soil into groundwater." Executive Director Tim Worley sent an e-mail to its Chromium 6 Advisory Group documenting the false and misleading assertions in the NRDC-EWG news release, including:





- 1. The statement that California's water has "levels that exceed safe limits," an assertion that exploits the lack of understanding between the difference between a PHG and an MCL.
- 2. "Contamination" implies that hexavalent chromium in water is the result of pollution, i.e. by bad or careless actions of individuals or companies. Some basic facts on chromium include that in its most common forms of trivalent and hexavalent chromium, it is a prevalent, naturally occurring element on the earth. Actual contamination from industrial sources is typically many thousands of times in higher concentration levels.
- 3. "Unjustified delay in adopting a drinking water standard" as noted above, there are legitimate reasons why DPH did not (and could not) adopt an MCL in the period since legislation was first passed. However, DPH should speak to this assertion. What water utilities should note is that they, individually and through support of the Water Research Foundation, have been instrumental in funding and conducting research to find out how to remove hexavalent chromium from water, and how to safely handle disposal of it. DPH has announced a deadline of July 2013 for promulgating a draft MCL for public review and comment.
- 4. According to toxicologists, hexavalent chromium is most dangerous to public health when inhaled. When swallowed (ingested), the health risks are quite different. Published research using laboratory tests on rats and mice have shown toxicity at high levels of exposure, yet newer research is also refining the understanding of the "mode of action" what actually happens to produce a toxic effect in the human body and resulting health risks at levels that might be actually found from ingestion. The Environmental Protection Agency has delayed its regulatory action on Chromium 6 to evaluate this new evidence, which is being published in numerous peer-reviewed articles and has been provided to California and US environmental health agencies. In California, OEHHA has not agreed to expedite its review of new information about the health effects of Chromium 6.





DPH has a lot of information on the subject that can be accessed at http://www.cdph.ca.gov/certlic/drinkingwater/Pages/MCLprocess.aspx and http://www.cdph.ca.gov/certlic/drinkingwater/Pages/Chromium6timeline.aspx. Additionally, AWWA Cal-Nevada Section has prepared talking points that can be accessed at www.ca-nv-awwa.org. More general information can be found at http://www.drinktap.org/consumerdnn/Home/WaterInformation/WaterQuality/HexavalentChromium/tabid/262/Default.aspx.

AB 1541 Enters Life Support on Appropriations Suspense File—Assembly Bill 1541 (Dickinson), the second of two prominent bills in the 2012 legislative session that would subject documents filed with and produced by the California Public Utilities Commission (CPUC) to the California Public Records Act (CPRA), appears to have met the same fate of its Senate counterpart, SB 1000 (Yee), when the Senate Appropriations Committee failed to move it off its Suspense File on August 16th. Barring a special waiver before Aug. 31st, the bill is on life support and is likely dead for the remainder of the session.

According to those closest to the action, Assemblymember Dickinson's staff spent too much time massaging the amendments involving the five categories of exemptions contained in the Assembly-passed version (which were taken out of the Senate version when it passed the Judiciary Committee, but were being reinserted for the Appropriations Cte.). As a result, they were not submitted to Appropriations in sufficient time. Assm. Dickinson (D-Sacramento) continues to work with stakeholders on finalizing language to the bill in the hope that Senate President Pro Tempore Darrell Steinberg (D-Sacramento) will help him get the bill off Suspense.

While the bill's passage would have given the CPUC direction to keep certain utility records confidential, the bill's failure will preserve current state law, which permits a presumption of confidentiality for all information submitted to the CPUC. The word is that Commissioner Mike Florio had been lobbying Appropriations Committee Chair Christine Kehoe (D-San Diego) to keep the bill on suspense and allow the CPUC to modify its confidentiality procedures and issue a new General Order (GO) 66-D. CWA will turn its attention now to the CPUC, which should resume its work on the GO soon.





Meanwhile, AB 1650 (Portantino), the bill that would require electric and water utilities to develop and adopt emergency and disaster preparedness plans, did pass the Senate Appropriations Committee on Aug. 16th and is moving to the Senate floor. CWA was successful in getting an amendment to the bill that would provide the CPUC discretion in the requirements for small water companies (i.e., not make them as stringent as those for the Class A water companies). CWA will continue to work with the author next week on amendment language that soften the meeting requirement with local government entities such that a water company "shall be available to make a presentation at a regularly scheduled public meeting of local agencies or disaster councils within their service areas."

CWA Files Opposition Letter to AB 2408—On Aug. 13th, CWA sent a letter to Senate President Pro Tempore Steinberg opposing AB 2408 (Skinner), a technical tax bill that would change the state's Personal Income Tax Law and the Corporation Tax Law, which allows individual and corporate taxpayers to utilize net operating losses and carryovers and "carrybacks" of those losses for purposes of offsetting their individual and corporate tax liabilities. Assm. Skinner (D-Berkeley) has proposed to disallow the use of net operating loss carrybacks by individual and corporate taxpayers, amending what had previously been a spot bill and creating an essentially new bill on Aug. 6th.

In its letter, CWA stated that the bill "will unduly penalize the customers of [the CPUC-regulated] regulated water utilities." CWA explained that unlike municipally owned water utilities, investor-owned water utilities pay a variety of taxes in California, including corporate income taxes and that because of unpredictable weather cycles, water utility annual revenues can vary greatly from year to year, as can taxable income (or losses). Accordingly, this change in law would cause water utility investors to view California's taxing environment as unpredictable, thus adding risk and resulting in increased cost of capital for these water utilities. "Ultimately," CWA said, "this will mean a perverse outcome if AB 2408 passes – higher rates for their customers."

Unfortunately, this is one of those "politically correct" bills that will be difficult to defeat, although the California Chamber of Commerce is trying hard to do so. I'll keep you posted.





DRA Takes Public Shot Energy Companies' Cost-of-Capital Requests—As you may know, the four largest energy utilities (Pacific Gas and Electric, San Diego Gas & Electric and Southern California Edison, Southern California Gas), like the Class A water utilities, have a consolidated cost-of-capital (COC) proceeding every three years. The Class A water utilities have two separate proceedings: California American Water, California Water Service, Golden State Water and San Jose Water, which received their decision on their 2011 applications on July 12th; while Apple Valley Ranchos Water, Great Oaks Water, Park Water, San Gabriel Valley Water and Suburban Water all filed their 2012 COC applications on May 1st (Valencia Water will join these utilities for the 2015 proceeding). Likewise, PG&E, SDG&E and SCE filed their COC applications in mid-April, with final decisions effective on January 1, 2013.

Both proceedings are moving through the legal phase now where the parties, including the Division of Ratepayer Advocates (DRA), are presenting evidence and testimony to establish the record upon which the administrative law judges (Linda Rochester for the water utilities, Mike Galvin for the energy utilities) will base their proposed decisions. Interestingly, DRA's primary witness in both the energy and water proceedings is the same person, Penn State Professor of Finance J. Randall Woolridge.

On Aug. 7th, DRA issued four nearly identical news releases in the energy COC proceeding with much the same headline: "DRA Finds [PG&E's, SDG&E's, SCE's, SCG's] Cost of Capital Request is Out of Line with Today's Market and Unfair to Customers." Specifically, DRA attacked the utilities' requested returns on equity (ROEs) as "far [exceeding] both the company's revenue needs and market standards."

In their applications, three of the four energy utilities requested downward adjustments to their existing ROEs: PG&E from 11.35% to 11.0%; SDG&E from 11.1% to 11.0%; and SCE from 11.5% to 11.1%. SCG requested a slight increase from 10.82% to 10.9%. In contrast, DRA asserted that the "requested [ROEs are] too high by today's market conditions, given that interest rates are currently at low levels and cost of capital rates have significantly declined since the CPUC's last Cost of Capital proceeding in 2007."





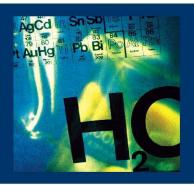
DRA has recommended ROEs of 8.75% for PG&E and SCE, and 8.50% for SDG&E and SCG. For comparison purposes, the approved ROE for the water utilities with the pending 2012 applications is 10.2%; the 2011 water utilities were granted a 9.99% ROE. DRA based its conclusion on three financial models used to compute ROE, using current interest rates, risk premium, and reasonable growth forecasts. Its news release stated that "even a nationwide market analysis comparing [the four energy utilities'] request to thirty four electric utilities demonstrates that [the energy utilities'] ROE request of [10.9% to 11.1%] far exceeds the median ROE of 9.9% of the thirty four comparable investor-owned utilities."

Speaking to the PG&E application, DRA Acting Director Joe Como said, "While DRA does not object to PG&E's proposed capital structure or forecasted cost of long-term debt, it is unwarranted for PG&E to charge its customers a Rate of Return for its investors that is out of line with the current market conditions. PG&E should be passing those hundreds of millions of dollars in savings onto its customers."

The CPUC's schedule for the energy utilities is about six weeks ahead of the water utilities. The PUC will hold evidentiary hearings in the energy COC case in September, while the water utility hearings will be in late October. Final decisions are scheduled for the end of the year. For more information, you can access DRA's COC webpage at http://www.dra.ca.gov/COC.aspx.

Conservation Issues Front and Center at ACWA Regulatory Summit—The focus moved from technical water quality issues to water rate structures, drip irrigation and water conservation outreach in tough economic times for attendees at the Association of California Water Agencies' (ACWA) second annual Regulatory Summit, held this year on Aug. 15th in Rohnert Park. Approximately, 100 attendees this year were treated to presentations on the technical aspects of measuring agricultural water use and on meeting the state's mandate of achieving a 20% reduction in urban water use by 2020. In the latter subject area, they got an earful on conservation water rate structures, effective messaging on the value of water and the link between on-farm efficiencies and groundwater recharge.





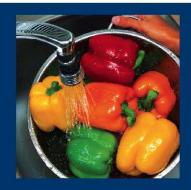
I was privileged to participate on the conservation rate design panel with Chris Brown, Executive Director of the California Urban Water Conservation Council (CUWCC); Ed Osann, senior analyst with the Natural Resources Defense Council; and John Farnkopf of HF&H Consultants. In my presentation, I documented the inconsistency and conflict between a water utility's cost structure (65% fixed vs. 35% variable cost) and its rate structure under the CUWCC's Best Management Practice 1.4 (30% of revenues derived from fixed monthly service charges; 70% of revenues derived from variable quantity rates).

I then discussed the options for resolving the conflict: moving more revenue recovery into the fixed charge or adopting the California PUC's approach – combine tiered or allocation-based rates with the revenue adjustment mechanism balancing account. I explained how decoupling works for the PUC-regulated water utilities and closed my presentation with an explanation of the differences between investor-owned water utilities and public water agencies in terms of revenue requirements and rate design. Chris covered the CUWCC' plans for possibly revising BMP 1.4, while Ed summarized California American Water's new settlement on rate design with DRA and NRDC, which calls for four rate tiers in most of CAW's districts, with fairly steep price break points between three upper tiers. John presented his strategies for conservation rates and achieving stable revenue streams, while maintaining compliance with Prop 218.

Luncheon speaker Craig Miller, senior editor of KQED's Climate Watch, did an excellent presentation on a recent multi-part series on the link between water and power in California. Prepared, of course, from the viewer's standpoint, the KQED series skillfully draws viewers into the learning process and makes them an interactive participant. Given my own recent difficult experience getting KQED to correct a misstatement about CWA's position on a legislative issue, I was pleasantly surprised.

The final session focused on ways to communicate to customers on why their rates and bills are increasing even as they conserve water. Abby Figueroa of East Bay MUD gave an especially effective presentation titled "Why am I using less water and paying more for it?" Feel free to send me a note if you'd like any of the presentations.



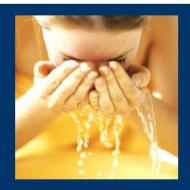


DWR Hosts Provocative Webinar on Water Rate Design—Along with a number of other industry representatives, I was invited Aug. 17th to participate in a Department of Water Resources (DWR) webinar on a new rate design proposal from a Professor at UC-Davis, Frank Loge, and a resident of Davis who's very involved in community issues named Matt Williams (who has been active in Prop 218 campaigns). They have created a rate design for the city of Davis (not yet approved) that would allow all fixed costs to be recovered in a meter charge, but that meter charge would be consumption-based and calculated on each customer's pro-rated contribution to fixed costs (via their actual annual consumption as a percentage of the total annual water consumption by all customers), not on meter size). They contend that since customers will still be incented to reduce consumption (in order to minimize their meter charge), their approach will still conform to BMP 1.4, even though all fixed costs would be recovered through the meter charge.

I had the opportunity to discuss this proposal with Suburban Water Vice President Bob Kelly, who attended the ACWA Regulatory Summit (and helped me finalize my presentation there), and Bob notes that the proposal would run afoul of AWWA's M1 Manual definition of the meter charge because it would no longer be strictly a fixed charge. Bob also had the same reaction I did about potentially very large meter charge increases without commensurate declines on the quantity charges, even with steeply tiered rates (because most customers will still be in Tiers 1 and 2 and near to what the uniform quantity rate would normally be).

Nonetheless, the idea has traction with DWR and ACWA, so it's worth it for CWA to explore, as well. Matt Williams contacted me on Friday afternoon in an e-mail, saying that he and Frank would like to present their concept to CWA's members. I'll work with CWA Regulatory Committee Chair Tom Smegal on a possible date, and I'll make their slide presentation available to you as soon as possible.





Agenda Highlights for the August 23rd California PUC Open Meeting—The CPUC has posted its agenda for the August 23rd Open Meeting, which starts at 9:00 a.m. Relevant water agenda items are summarized below. If you want to view any of the related documents, just copy and paste the website link into your Internet browser.

Consent Agenda

Item 13 – A11-01-001; Apple Valley Ranchos Water Company for a General Rate Case. In the Matter of the Application of Apple Valley Ranchos Water Company for Authority to Increase Rates Charged for Water Service by \$3,896,586 or 20.0% in 2012, \$547,241 or 2.35% in 2013, and \$786,254 or 3.32% in 2014. Proposed outcome:

- Adopts a proposed partial settlement between Apple Valley Ranchos Water Company and the Division of Ratepayer Advocates and resolves all other litigated disputed matters necessary to adopt the revenue requirement for a test year 2012 and two years of subsequent adjustments.
- Closes the proceeding.

Estimated cost: 14.7% increase in 2012 base rates. (Comr Peevey - ALJ Long) http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=E63652

Item 17 – A12-04-014; Modification of Resolution W-4858; Application of Fruitridge Vista Water Company for Modification of Resolution W-4858, Dated December 16, 2010.

Proposed outcome:

- Modifies Resolution W-4858 to provide that the product of the application of an 11% rate of return factor to the \$1.98 million buy-in fee for the right to purchase water from the City of Sacramento, as required by Decision 06-04-073, shall be treated as a line item adjustment of \$217,800 to operating revenues and excluded from the cost of capital calculation.
- Closes the proceeding.

Estimated cost: None. (Comr Sandoval - ALJ Yacknin) http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=584831





Item 32 – A08-05-019; Order Extending Statutory Deadline. Application of California Water Service Company for an order confirming its discontinuance of the ESP Program as provided in D.07-12-055, Ordering Paragraph 19, approving accounting for the residual affiliate transaction, and confirming under D.07-12-055, Ordering Paragraph 16 that Applicant's residual services to its affiliate CWS Utility Services comply with applicable law. Proposed outcome: Extends statutory deadline in Application 08-05-019 to November 26, 2012. Estimated cost: None. (Comr Florio - ALJ Walwyn)

http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=586511

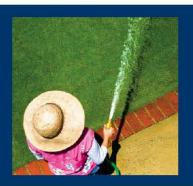
Item 36 – A05-10-035; California Water Service Company's Petition to Modify Decision 06-11-053. In the Matter of the Application of California Water Service Company, a corporation, for authority to Implement a Low-Income Ratepayer Assistance Program in compliance with Decision 03-09-021 in Application 01-09-062. Proposed outcome: Adopts All-Party Settlement Agreement modifying collection of surcharge for Low-Income Ratepayer Assistance program. Closes the proceeding. Estimated cost: None. (Comr Sandoval - ALJ McKinney) http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=587136

Regular Agenda - Water/Sewer Orders

Item 51 – A10-11-009; Southern California Edison Company's Catalina Water Company Seeks to Increase Rates by 80%. Application of Southern California Edison Company for Authority to, Among Other Things, Increase Its Authorized Revenues for Santa Catalina Island Water Operations, and to Reflect that Increase in Rates. Proposed outcome:

- Disallows approximately \$1 million of operating expenses; approximately \$8 million in rate base; and by adopting Southern California Edison Company's alternate rate proposal, shifts \$10.7 million of the water company's increased costs as a one-time cost to electric rates.
- The result of our disallowances and adjustments makes no change in the current revenue requirement of \$3.948 million.
- Closes the proceeding.





Estimated co st: \$10.7 million. (Comr Peevey - ALJ Barnett) http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=586677

Regular Agenda - Legal Division Matters

Item 53 – Res L-436; New Regulations Regarding Disclosure of Records and Requests of Confidential Treatment of Records. Adopts new regulations regarding public access to records of the California Public Utilities Commission and requests for confidential treatment of records.

http://docs.cpuc.ca.gov/Cyberdocs/AgendaDoc.asp?DOC_ID=586099

Upcoming Industry Meetings/Conferences/Events:

- 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.
- <u>September 6, 2012</u> CWA Directors Meeting (9:30a-2:30p; California American Water; 4701 Beloit Dr., CA 95838); J. Hawks will attend.
- <u>September 11, 2012</u> 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.
- <u>September 12, 2012</u> California Urban Water Conservation Council Plenary Meeting (9:30a–3:00p; City of Napa Actual site TBD); J. Hawks will attend.
- <u>September 12, 2012</u> California Water Awareness Campaign Board of Directors Meeting (10:00a–12:00n; ACWA HQ; 915 K St., Sacramento, CA 95814)
- <u>September 12-13, 2012</u> 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.





- <u>September 13, 2012</u> California PUC Open Meeting (9: 00a–12:00p; 505 Van Ness Ave., San Francisco 94102)
- <u>September 13, 2012</u> 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).
- <u>September 27, 2012</u> 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.