

Working together.
Achieving results.

The Weekly Wrap



September 14-21, 2012

No. 2012-37&38

TO: CWA Member Companies
FROM: Jack Hawks, Executive Director
SUBJECT: Highlights for the Weeks Ending September 14-21, 2012

Commission Approves AVR Water GRC, CWS and FVW Resolutions—At its Sept. 13th Open Meeting, the California PUC took action on all the water-related items before it, including Apple Valley Ranchos Water Company's (AVR) general rate case (GRC), California Water Service Company's (Cal Water) Low-Income Ratepayer Assistance (LIRA) program, and Fruitridge Vista Water Company's (FVW) current purchased water program with the City of Sacramento.

Apple Valley Ranchos Water's GRC: The CPUC approved **Decision (D.) 12-09-004**, which adopted a partial settlement and resolved all litigated issues in AVR's 2012 GRC. AVR had originally requested a 20 percent increase in rates for Test Year 2012, and D.12-09-004 approved a 14.7 percent increase.

The partial settlement with the Division of Ratepayer Advocates (DRA) resolved issues associated with customer growth and projected sales during the next GRC cycle, as well as other pertinent details such as unaccounted for water, escalation factors, purchased power, replenishment charges, leased water rights, conservation budgets, general and administrative expenses, taxes, depreciation, capital improvements, rate base components, low-income programs and rate design.

Of particular note were the 12 litigated issues, all payroll-related. Here the CPUC:

- Approved all five new employee positions requested by AVR – assistant general manager, customer service representative, water audit conservation specialist, asset management project coordinator, and water quality control specialist (DRA had objected to the latter three positions).
- Approved AVR's request for 2 percent merit increases for 2012 above cost-of-living adjustments (DRA had objected to the merit raises).

Working together.
Achieving results.



- Approved AVR's request for a bonus allowance based on the average of the previous five years (DRA had argued for just the 2010 level, which was half the five-year average).
- Approved AVR's request for medical/dental insurance budgets (31.5% for medical and 5% for dental in 2012 over 2010 actuals) and authorized a balancing account for these costs to track and reconcile the actual expenses in 2012, 2013 and 2014 (DRA proposed a 3 percent escalator for medical and dental).
- Approved AVR's request for its 401(k) retirement cost allowance instead of DRA's requested reliance on the 2010 recorded contribution rate.
- Approved AVR's request for the forecasted 2012 group pension expense because it was deemed more consistent with the current economic environment's assumptions than DRA's request; approved AVR's request to establish a pension cost balancing account, rather than DRA's recommendation for a memorandum account.
- Approved AVR's estimate of Employee Assistance Program and Wellness costs for the GRC cycle.
- Approved AVR's request to establish Pressure Reducing Valve Memorandum Account over DRA's objection.
- Approved AVR's request to modify and expand its current office facilities, but postponed the associated adjustments to rate base until the work is completed; instead, AVR is to establish a New Office Balancing Account to record the costs, which will be subjected to a future reasonableness review. DRA had opposed the request for reconfigured office space facilities.
- Approved AVR's proposed escalation year methodology for employee and retiree health care costs, but required establishment of a balancing account to record and recover the difference between adopted forecast amounts and actual costs of these health care expenses.
- Agreed not to provide for any delay cost contingency for the Park Water-Carlyle transaction.

Working together.
Achieving results.



Based on the results in this decision, AVR obviously did a great job in presenting and justifying its positions in the GRC. Congratulations to everyone at Apple Valley Ranchos Water for this outstanding outcome.

Cal Water's LIRA Program: Here, the Commission approved **D.12-09-020**, which made five improvements in Cal Water's LIRA Program. First, Cal Water is authorized to establish a LIRA Balancing Account that will track the differences between the LIRA subsidies required for the program and the surcharges collected to recover the costs of the subsidies. The current LIRA memorandum account, in the future, will only track the administrative costs associated with the LIRA program. D.12-09-020 also establishes a temporary (36 months) surcharge that will amortize the existing balance in the memo account. The fourth action is the immediate increase in the current LIRA surcharge from \$0.01 per Ccf to approximately \$0.06 per Ccf for metered customers, and an increase ranging from \$1.41 to \$2.42 for flat-rate customers (depending on the district). Finally, there will be an annual true-up of the LIRA balances and surcharges so as to mitigate and avoid future undercollections.

Fruitridge Vista Water's Purchased Water Program: **D.12-09-005** modifies FVW's Resolution W-4858 (12/10/2010) to allow the company to recover \$217,800 in revenues from the stipulated rate of return factor of 11 percent on a previously approved buy-in fee of \$1.98 million in order to purchase water from the City of Sacramento. It turns out that the calculations and wording in Res. W-4858 were in error because they did not produce revenue of \$217,800, as directed by the administrative law judge in that case. This decision rectifies that problem by excluding the application of the 11% to the buy-in fee from the cost-of-capital calculation and treating it as a line item adjustment to operating revenues. This will allow FVW to recover enough money to pay for financing the buy-in fee and have \$80,000 left over to commit to previously authorized (and mandated) infrastructure investments.

In other action taken at the Sept. 13th Open Meeting, the Commission:

Working together.
Achieving results.



- **Approved D.12-09-016**, which authorizes The Utility Reform Network to receive \$8,921.00 in intervenor compensation funds from all the Class A water companies for its contributions to the decision involving water utility affiliate rules (D.10-10-020).
- Approved Resolution W-4929, which authorizes a rate base offset of \$85,663 to Del Oro Water's Paradise Pines District.
- **Approved D.12-09-013**, which affirms Del Oro Water's acquisition of Watertek, Inc.'s water utilities in Tulare and Fresno Counties as a result of Del Oro's receipt of permits to operate the Grand View Gardens, East Plano and Metropolitan water systems in these counties.
- **Approved D.12-09-006**, which approved interim and final rates for Golden Hills Sanitation Company, completes and Order Instituting Investigation (I.12-03-008), and petitions the Kern County Superior Court to appoint a receiver to take possession and operate Golden Hills Sanitation.
- **Held Draft Resolution L-436** for at least two Open Meetings. CWA Regulatory Attorney Marty Mattes has learned that the Legal Division will be re-circulating L-436 to narrowly focus on the safety records/database issue and that all the other issues associated with any changes to the CPUC's compliance with the California Public Records Act will be part of a subsequent resolution process.

CWA Hosts Well-Received Business Opportunity Fair—"... *The workshop you put together was the best I've attended in a long time. Thank you so much for organizing ... I was able to connect with several representatives and look forward to pursuing a partnership ... Again, thank you!*"

"It was a pleasure to meet you yesterday at the [CWA] Business Opportunity Fair. The information shared was a welcomed reminder of strategies and tactics that remain effective and useful. I appreciated the opportunity to learn more about the various associations' buying processes and to network with their representatives."

"It was a pleasure reconnecting with you at the Business Opportunity Fair today. Thanks so much for getting me processed into Golden State Water's system so quickly and for being so supportive."

Working together.
Achieving results.



These are just a sample of the emails received after CWA's Utility Supplier Diversity Program (USDPA) Committee's hosted its second Business Opportunity Fair this year on Sept. 12th in Rancho Cucamonga. An initiative begun by the USDPA Committee in 2011, the Fairs have become a key element in General Order 156 compliance.

With one each in Northern California and Southern California, the Fairs enable member companies to provide important information about their supplier diversity programs and their company's role in this initiative. The events also feature "matchmaking" between potential vendors and representatives from Cal Water, Golden State Water, Park Water, Apple Valley Ranchos and Suburban. Drisha Milton, a representative from the California PUC, was in attendance, as was Geri Willis from the Supplier Clearinghouse.

Unlike traditional events where the audience gets numerous slide presentations, this event featured CWA consultant Lily Otieno, who is an expert at creating and leveraging core relationships with diverse business enterprises (DBEs) by using a structured approach to business training and development. Her presentation on strategies for winning contracts, developing and utilizing a DBE's capability statement, and strategies for meeting industry buyers kept the 100-plus vendors and suppliers, plus our company representatives, captivated during the three-hour presentation.

The USDPA Committee this year focused on access, development, growth and outreach to DBEs, non-DBEs, Subcontractors and Prime Contractors since all of the play a role in our supplier diversity programs. These Fairs or workshops are designed to develop technical support and capacity building programs. The committee members consider the tools that participants take away from these events can translate into success, not only for doing business with water utilities, but other utilities and clients, as well.

Water Rates Workshop Addresses Revenue Challenges—The Pacific Institute, the Alliance for Water Efficiency and the Cal-Nevada Section of the American Water Works Association hosted a constructive, well-attended day-long seminar on water rates Sept. 11th at the University of California-Davis (a second workshop was hosted in Carson two days later). The entire day was devoted to designing rates in the current environment of long-term sales declines and significant revenue variability.

Working together.
Achieving results.



Of interest was the fact that the hosts brought in an expert on rate design from the East Coast to facilitate the workshop, Jeff Hughes, Director of the Environmental Finance Center at the University of North Carolina, and he presided over a series of presentations, starting with his own overview on capital finance in the water utility industry, which he called “Dealing with the New Normal” (the new normal being, of course, revenue volatility, which he said was as significant – from a financial standpoint – as revenue shortfall because of the challenge of trying to drive revenue increases with rate increases).

In total, there 11 presentations on subject areas such as forecasting water demand, affordability and low-income programs, innovative rate structures, consumption-based fixed charges, and yes, public goods charges. Most of them are worthy additions to your rate design reference files. You can access them at www.pacinst.org/reports/water_rates.

CUWCC Plenary Meeting Highlights Option 2 of Water Rates BMP—The City of Napa hosted the Sept. 12th Plenary Meeting of the California Urban Water Conservation Council, and the special agenda items for this meeting, beyond the usual Council business items, included the requisite presentation from the host water agency (Phil Brun and Pat Costello of Napa did a nice job covering the City’s operations, rates, and capital improvement projects), plus a panel on the U.S. Environmental Protection Agency’s “WaterSense” program that included a surprising critique from Ed Osann of the Natural Resource Defense Council.

There were also presentations on the current implementation of the Landscape Best Management Practice (formerly BMP 5), particularly the water budget calculations in commercial applications involved with the Maximum Applied Water Allowance formula associated with the model landscape ordinance, and the Town of Windsor’s (Sonoma County) “On-Bill Financing Pilot Program. However, the presentation that drew the most attention came from David Mitchell of M.Cubed, who did a step-by-step review of Option 2 for compliance with BMP 1.4, the rate design BMP that calls for 70 percent of a water utility’s total revenues to be derived from the customers’ quantity charges.

Working together.
Achieving results.



As you know, the second option involves application of the Canadian Water Works Association's water rate model, which decomposes capital and O&M costs into fixed and volume-related, and then allows you to calculate the percentage of your total revenue requirement that is derived from these two components added together. If it's greater than 70 percent, you're in compliance. In conjunction with this presentation, Toby Roy of San Diego County Water Authority reported that the Council's Utility Operations Committee is still reviewing this BMP and will recommend later this fall whether any revisions are warranted.

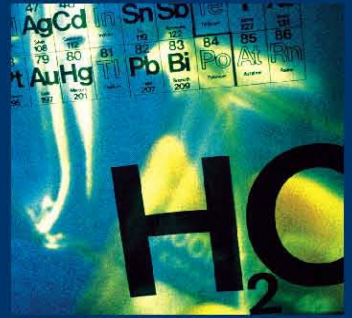
You can get more information on this topic by visiting the Council's website at www.cuwcc.org.

CA Water Plan Update Plenary Meeting Focuses on Financial Planning—The Dept. of Water Resources hosted the 2012 Plenary Meeting of the 2013 California Water Plan Update on Sept. 12-13 in Sacramento. I had a conflict on the first day, but was able to participate on the 13th, at which the Finance Plan was foremost on the agenda, specifically the principles for investment priorities and apportioning costs. Here were the primary discussion areas:

- Approach for prioritizing state integrated water management (IWM) investment;
- Estimated cost of future IWM activities;
- Available financing strategies; and
- Role of Public Funding

The urban water agency-utility sector was well-represented in these discussions as Dave Bolland of ACWA, Cindy Paulson of the California Urban Water Agencies and I all had the opportunity to lead discussion groups in these areas. In my remarks, I expressed CWA's support for private-sector financing through public-private partnerships or straight capital investments, the principle of beneficiary pays and the need to change the statutory framework to allow investor-owned water utilities fuller participation in joint powers authorities. I was pleased that the public agency representatives in the room expressed agreement on this last point. If you are interested in learning the latest on the State Water Plan Update, feel free to visit the Plan's website at <http://www.waterplan.water.ca.gov/index.cfm>.

Working together.
Achieving results.



Democratic, Republican Platforms Add Water Infrastructure Language—Petra Smeltzer, Director of Government Relations for the National Association of Water Companies, reports that both the 2012 Republican and Democratic National Platforms contain some gratifying and positive language on water infrastructure investment and the connection to job creation, economic growth, and health. Petra notes that the Republican Party Platform speaks to investment in infrastructure and Public-Private Partnerships. Here are some excerpts:

- What most Americans take for granted—the safety and availability of our water supply—is in perilous condition. Engineering surveys report crumbling drinking water systems, aging dams, and overwhelmed wastewater infrastructure. Investment in these areas, as well as with levees and inland waterways, can renew communities, attract businesses, and create jobs. Most importantly, it can assure the health and safety of the American people.
- A federal-State-private partnership must invest in the nation’s infrastructure: roads, bridges, airports, ports, and water systems, among others.
- Infrastructure builds the future: America’s infrastructure networks are critical for economic growth, international competitiveness, and national security. Infrastructure programs have traditionally been non-partisan; everyone recognized that we all need clean water and safe roads, rail, bridges, ports, and airports.

The Democratic Party Platform likewise emphasizes investment in infrastructure:

- And we continue to fight for measures that would strengthen the recovery and create jobs now, including keeping teachers and first responders on the job, putting construction workers back to work by investing in our roads, bridges, schools, and water supply ... the Obama administration has proposed a number of safeguards to protect against water contamination and air pollution ...
- We will fight for immediate investments for highways, transit, rail, and aviation and for the creation of a national infrastructure bank to help modernize our infrastructure, put hundreds of thousands of construction workers back on the job, and help businesses grow.

Working together.
Achieving results.



- We support long-term investments in our infrastructure. Roads, bridges, rail and public transit systems, airports, ports, and sewers are all critical to economic growth, as they enable businesses to grow. We will continue to partner with local communities to support their sustainable development.
- We support strengthening rural water, sewer, and broadband infrastructure to make rural businesses more competitive.

For more information on the party platforms, see the GOP Platform, *We Believe in America* at <http://www.gop.com/wp-content/uploads/2012/08/2012GOPPlatform.pdf>), and the Democratic Platform, *Moving America Forward* at <http://assets.dstatic.org/dnc-platform/2012-National-Platform.pdf>.

Food& Water Watch Attacks Private Equity Investment in Water Utilities—The anti-private sector lobbying group, Washington, DC-based Food & Water Watch (F&WW), accuses “Wall Street” of doing to the water utility industry what it did to the housing industry in a new report released in late August titled *Private Equity, Public Inequity: The Public Cost of Private Equity Takeovers of U.S. Water Infrastructure*. The report asserted that as of January 2012, “private equity players had raised \$186 billion through 276 infrastructure funds and were seeking another \$93 billion to take over infrastructure worldwide.”

Annoyingly, the report contains a chart that lists the acquisitions of Park Water Company by affiliates of the Carlyle Group in 2011 and the acquisition of Southwest Water Company (parent of Suburban Water Systems) in 2010, implying that there was something sinister and even illegal about these transactions.

Ignoring the fact that private capital is desperately needed for public water infrastructure investment, F&WW stated that “Following its disastrous foray into the housing market, Wall Street’s latest earnings scheme is as close as your kitchen sink: the finance industry is increasingly targeting public water systems ... “Like Wall Street’s manipulation of the housing market in the previous decade, private equity firms and investment bankers are increasingly looking to cash in on one of our most essential resources—water. “These deals are ultimately a bum deal for consumers, who will end up paying the price through increased water bills and degraded service.”

Working together.
Achieving results.



Even more annoying, the report contains a sidebar article titled “The Carlyle Group’s Water Strategy,” which discusses the Park Water acquisition and asserts that Carlyle’s plan is to “sell off the company after building up the company’s rate base and enterprise market value.” Further, it said “Carlyle was also targeting seven water utilities in California ... as possible add-on or tuck-in acquisitions by Park Water Company.” Accompanying the sidebar was a graph titled “Regulated Utilities Make Money by Investing in Infrastructure,” that showed a linear increase in return on equity with each dollar increase in investment. If only it was that easy ...

In its release on the report, Food & Water Watch Executive Director Wenonah Hauter said (among other things), “Private equity players aren’t investing in water out of a sense of civic responsibility. Their first and foremost motivation is profits, which has already proven incompatible with delivering an essential resource to consumers.” Hmm ... the last time I checked earning a rate of return was totally compatible with providing an essential resource to consumers.

Not that you’ll want to, but just in case you want to, you can access the report at <http://www.foodandwaterwatch.org/reports/private-equity-public-inequity/>.

Agenda Highlights for the September 27th California PUC Open Meeting—The CPUC has posted its agenda for the September 27th 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 – Resolution W-4930; California-American Water Company to Establish a Memorandum Account to Track Costs For the Main San Gabriel Groundwater Basin. Advice Letter 952 filed on June 15, 2012 - Related matters. Proposed outcome: Authorizes California-American Water Company to establish the Main San Gabriel Groundwater Basin Contamination Memorandum Account.. Estimated cost: None.

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=26531020>

Working together.
Achieving results.



Item 18 – Resolution W-4932; Golden State Water Company to Establish the Income Tax Repair Regulations Implementation Memorandum Account.

Supplemental Advice Letter 1498-WB filed on August 28, 2012 - Related matters.

Proposed outcome: Authorizes Golden State Water Company to establish the Income Tax Repair Regulations Implementation Memorandum Account for the limited purpose of tracking the necessary costs for implementing the new repair regulations incurred prior to January 1, 2013, the effective date of Golden State's current general rate case Application 11-07-017. Estimated cost: Capped at \$900,000.

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=27154719>

Item 28 – Commissioner Simon's Discussion and Action to the Low Income Oversight Board. Proposed Appointment to the Low Income Oversight Board.

<http://docs.cpuc.ca.gov/SearchRes.aspx?docformat=ALL&docid=28168115>

Upcoming Industry Meetings/Conferences/Events:

- 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)

Working together.
Achieving results.



- October 23-24, 2012 – California Public Utilities Commission Recycled Water OIR Workshop (10:00a – 4:00p; CPUC Auditorium, 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; Irvine City Hall, Council Chambers, 1 Civic Center Plaza, Irvine, CA 92606)
- October 29, 2012 – CPUC Low-Income Oversight Board Meeting (10:00a – 4:00p; Sacramento location TBD); Water utility presentation on customer information data-sharing program with energy utilities will begin at 10:00 a.m.)
- 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.
- November 8, 2012 – California PUC Open Meeting (9: 00a–12 :00p; 505 Van Ness Ave., San Francisco 94102)
- November 11-14, 2012 – National Association of Regulatory Utility Commissioners Annual Meeting (Hilton Hotel; 401 West Pratt St., Baltimore, MD 21201); J. Hawks will be attending.
- November 14-15, 2012 – California Urban Water Conservation Council Board of Directors Meeting and Workshop (9:00a – 3:30p both days; San Diego County Water Authority; 4677 Overland Avenue, San Diego, CA 92123); J. Hawks will attend the second day.
- November 29, 2012 – California PUC Open Meeting (9: 00a–12 :00p; 505 Van Ness Ave., San Francisco 94102)
- December 4-7, 2012 – Association of California Water Agencies Fall Conference (Manchester Grand Hyatt; One Market Place San Diego, California 92101); J. Hawks plans to attend.
- December 11, 2012 – CWA Executive Committee Meeting (10:00a – 2:00p; Golden State Water Company; 2143 Convention Center Way, Suite 110, Ontario, CA 91764); J. Hawks will attend.

—CWA—