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The Weekly Wrap



September 28, 2012

No. 2012-39

TO: CWA Member Companies
FROM: Jack Hawks, Executive Director
SUBJECT: Highlights for the Weeks Ending September 28, 2012

CPUC Approves CAW, GSWC Memo Accounts; LIOB Reappointment—At its Sept. 27th Open Meeting, the California PUC approved two resolutions that will allow California American Water and Golden State Water to establish memorandum accounts that will track water contamination clean-up costs and new tax-related repair regulations, respectively. The CPUC also approved the reappointment of California American Water's Dave Stephenson to the Low-Income Oversight Board as its water utility representative.

In **Resolution W-4930**, the Commission authorized California American Water (CAW) to establish the Main San Gabriel Groundwater Basin Contamination Memorandum Account, which will allow it to track costs incurred by the company to respond to, mitigate and control contamination to the groundwater in the Main San Gabriel Basin. The Commission further stipulated that if CAW receives proceeds from responsible parties to the contamination or any funding from government agencies those proceeds also will be tracked in the memorandum account.

In August, Golden State Water Company (GSWC) filed an advice letter to establish the Income Tax Repair Regulations Implementation Memorandum Account (ITRRI-MA). The ITRRI-MA will track the costs that GSWC will incur to set up the necessary accounting system to comply with new IRS regulations (issued in Dec. 2011 and March 2102) involving the tax treatment of repairs and maintenance associated with the utility's water system. The CPUC approved the new account in **Resolution W-4932**, although the costs tracked in the ITRRI-MA will be capped at \$900,000.

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Regarding Dave Stephenson's membership on the Low Income Oversight Board (LIOB), which advises the Commission on low-income electric, gas, and water customer issues, Commissioner Timothy Simon sent a letter dated Aug. 7th to the California Water Association (CWA) informing it of his intent to re-nominate Mr. Stephenson to the LIOB. On Aug. 29th, Commissioner Simon received a letter from CWA confirming Mr. Stephenson as the CWA candidate for the LIOB water representative.

The LIOB is comprised of eleven members, one of which is a representative of a water corporation. In his nomination of Dave for a second two-year term, Commissioner Simon said, "Mr. Stephenson has made valuable contributions to the LIOB's work during his two-year term. The LIOB has great confidence in his contributions and has asked Mr. Stephenson to co-lead a subcommittee tasked with issues surrounding automatic enrollment in low income programs ... Mr. Stephenson is highly qualified for the appointment to LIOB and will continue to be a valuable contributor to the LIOB." The Commission approved Dave's nomination unanimously.

Governor Brown Signs AB 1650, AB 685 into Law—Governor Jerry Brown signed **AB 1650 (Portantino)** into law on Sept. 23rd. As reported in the Sept. 7th issue of the Weekly Wrap, AB 1650 requires water companies regulated by the California PUC to develop emergency and disaster preparedness plans, and the final version passed unanimously with language that was pretty close to what CWA wanted, especially the discretion the CPUC now has for small company compliance and the revised public meeting requirement. To repeat, here's how the laws reads:

(f) (1) A water company regulated by the commission shall develop, adopt, and update an emergency and disaster preparedness plan in compliance with the standards established by the commission ... [t]his requirement shall be deemed fulfilled when the water company files an emergency and disaster preparedness plan pursuant to another state statutory requirement ... A water company developing, adopting, or updating an emergency and disaster preparedness plan ... shall hold meetings with representatives from each city, county, or city and county in the water company's service area regarding the emergency and disaster preparedness plan ...

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a water corporation may fulfill a meeting requirement ... by making a presentation regarding its emergency and disaster preparedness plan at a regularly scheduled public meeting of each disaster council created pursuant to ... the Government Code within the corporation's service area, or at a regularly scheduled public meeting of the governing body of each city, county, or city and county within the service area.

Governor Brown also signed **AB 685 (Eng)** into law on Sept. 25th. This bill establishes a state policy that every Californian has a human right to safe, clean, affordable and accessible drinking water. Basically, it requires that all relevant state agencies consider this right when creating policies and regulations. The final version of the bill reads as follows:

SECTION 1. Section 106.3 is added to the Water Code, to read:

106.3. (a) It is hereby declared to be the established policy of the state that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.

(b) All relevant state agencies, including the department, the state board, and the State Department of Public Health, shall consider this state policy when revising, adopting, or establishing policies, regulations, and grant criteria when those policies, regulations, and criteria are pertinent to the uses of water described in this section.

(c) This section does not expand any obligation of the state to provide water or to require the expenditure of additional resources to develop water infrastructure beyond the obligations that may exist pursuant to subdivision (b). (d) This section shall not apply to water supplies for new development. (e) The implementation of this section shall not infringe on the rights or responsibilities of any public water system.

In response to the nearly universal public water agency opposition to the bill (because of the nebulous statement that water be "affordable" and because of the uncertain legal implications that may result in litigation), Assemblymember Mike Eng (D-Alhambra), the bill's author, sent a letter to the Chief Clerk of the Assembly that was published on Sept. 1st. It stated in part:

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“It is well documented that many water service providers face significant challenges in providing safe and clean water, but many also lack the capacity to overcome them without assistance, especially in rural and disadvantaged communities, where enforcement actions alone are insufficient to address the root cause of persistent problems. It is my intent with AB 685 to create a state policy priority and direct state agencies to explicitly consider it within their relevant administrative processes, measures and actions ... It is not my intent that Section 106.3 alter existing statutory requirements applicable to public water systems, including ... compliance with any requirements pertaining to the Public Utilities Commission regulation of water utilities pursuant to the Public Utilities Code.”

The bottom line on this bill is that if state agency consideration of the policy when it promulgates new regulations does not impose undue burdens on public water suppliers, then it should be fairly harmless. However, if a judge accepts a lawsuit from a customer on the “affordability right” in some future rate proceeding, and if the affected public water supplier is obligated to litigate that claim, then AB 685 will be quite damaging. At that time, reconsideration by the Legislature will be warranted.

Golden State Water Responds Forcefully to “Investigative” Hit Piece—For the second time in less than a month, a water utility CEO has been “ambushed” by a local television reporter masquerading as a responsible journalist, but seeking merely to embarrass the executive on local television. This time it happened to Golden State Water Co. (GSWC) President and CEO Bob Sprowls when CBS-2 (Los Angeles) television reporter David Goldstein surprised Bob coming out of his doctor’s office, demanding that he show how the company is spending the “customers’ money.”

In the beginning of the interview, which aired the evening of Sept. 24th, Goldstein cut away before Bob could answer to a so-called outraged customer in Claremont who said GSWC’s current general rate increase request of 24 percent made him “absolutely sick to [his] stomach.” So let’s see. The average 5/8 metered customer’s monthly bill in that district (not including the City Utility Tax) is \$58.74. A 24 percent increase (which of course is not likely to be the CPUC’s final decision), would increase the bill by \$14.10 a month. For a 1-inch meter customer, the increase would be \$32/month.

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Should this make one sick to his or her stomach? Of course not. Righteous indignation can only go so far.

But wait. It turns out the customer in question is apparently using more than 3,100 gallons of water a day! So he was waving around a \$598.98 monthly bill and ranting against GSWC when he really should have been too embarrassed to go on television and admit that he used that much water. One would think a responsible journalist would pick up on this profligacy. But no, the reporter wasn't interested in this facet of the story.

Golden State Water decided to expose all this nonsense, and it published a letter from Senior Vice President Denise Kruger to its customers September 25th in the *Claremont Courier*. This is not likely to be the last time the television reporter ambush is used on a water utility executive, so it's good to be aware of the tactics being used. Here's a reproduction of Denise's excellent letter:

Golden State Water Company is committed to customers and the communities we serve throughout California. From our people to the ongoing investments we make to ensure our water systems deliver reliable, quality water; our company strives to provide the best service efficiently.

Our commitment also includes being transparent in how we operate. Regulated by the California Public Utilities Commission, we are required by law to fully disclose and justify all expenses that affect our customers and rates. Golden State's proposed rates and expenses are reviewed by the Commission's Division of Ratepayer Advocates and are part of the public ratemaking process. This ensures we are providing the best possible service at the lowest cost.

More importantly, rates are designed to promote conservation and are intended to help achieve Claremont's stated conservation goals as well as the State of California's mandated 20 percent per-capita reduction in water use by the year 2020. Sustainability is critical and we work to promote water conservation.

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CBS Channel 2 in Los Angeles aired what it called an investigative report on our company and the Claremont water system. This is the same station and reporter that has done similar stories about other public water providers serving Southern California. The reporter, David Goldstein, demanded an interview with Golden State President & CEO Robert Sprowls without offering any basic information that would allow for us to facilitate the request.

We asked the reporter to address water usage as a legitimate issue in his story, but he did not do so. He only highlighted a customer stating to have a \$598.98 monthly bill without any discussion about consumption. To reach this amount, the customer would have used an extraordinary 93,500 gallons of water, which is almost seven times the average for a Southern California family and almost five times the average Claremont customer with a 1-inch meter. Additionally, the customer would have paid approximately \$30.79 in Claremont Utility Taxes for the one-month period.

We provided Goldstein with information on rates, infrastructure investments and water consumption and offered to meet with him to review the material and to address any additional questions. We continued to try and work with him, offering an unrestricted interview with Golden State's company spokesperson. Mr. Goldstein refused.

The report that was aired did not address the issue of water consumption. We explained to Mr. Goldstein that usage drives the customers' bills, and that the average Claremont customer with a 5/8-inch meter uses approximately 9,724 gallons of water and pays \$58.74 per month. Customers with larger lots and 1-inch connections use approximately 19,448 gallons of water and are charged \$132.44 per month. We provided him with a map of the community that showed overall water usage. We disclosed that customer bills also include a City-mandated 5.5% Claremont Utility Tax, which for the average 5/8 inch customer amounts to approximately \$38 per year and \$86 for average 1-inch users.

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Based on the report, we don't believe his goal was information, as illustrated by his decision to instead film Mr. Sprowls at his home and then ambush and confront him outside his doctor's office. Despite the circumstances, Mr. Sprowls answered every question. Following the interview, at Mr. Sprowls direction, GSWC disclosed to Mr. Goldstein 2011 travel, lodging and meal expenses for the Board of Directors, confirmed Mr. Sprowls' compensation and the amount of his salary that is within the rate structure. The total for the salary and these expenses amounts to approximately \$2.00 per-customer, per year. Moreover, the company did not reimburse officers for health or country club memberships.

Ultimately, we bring this to your attention so that you can be aware of the facts. We are proud of the service we provide and the transparency with which we operate. If you have any questions, please don't hesitate to contact us. We value our relationships with customers and community leaders and want you to be informed.

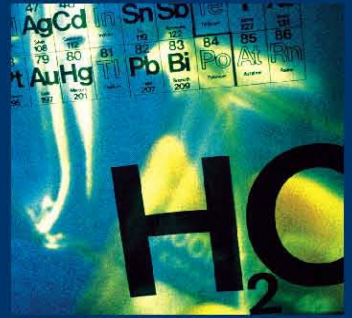
Congratulations to Bob and Denise for getting this response published so quickly. It should serve as good reference material in preparing for the next such ambush interview. This matter will be discussed at CWA's Oct. 3rd Directors Meeting, so I may have more to report to you in the future on this topic.

California Water Service Co. Names Kropelnicki, Smegal as New COO, CFO—

California Water Service Group (Cal Water) announced Sept. 26th that effective October 1, 2012, Marty Kropelnicki will assume the role of President and Chief Operating Officer, and Tom Smegal will assume the role of Vice President, Chief Financial Officer and Treasurer.

Kropelnicki joined Cal Water as Vice President, Chief Financial Officer and Treasurer in March of 2006. Previously, he held executive and management level positions at PowerLight Corporation, Hall Kinion & Associates, Deloitte & Touche Consulting Group, and Pacific Gas & Electric Company. Kropelnicki holds a B.A. and M.A. Degrees in Business Economics from San Jose State University.

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Smegal joined Cal Water in 1997 and was named Vice President, Regulatory Matters and Corporate Relations in 2008. Prior to 1997, he held positions at the California Public Utilities Commission. Smegal holds a B.S. Degree in Civil Engineering and a B.S. Degree in History from Stanford University.

Pete Nelson will continue in the role of Chairman and CEO. In the company news release, Nelson said of Kropelnicki and Smegal, "It has been a pleasure to work with Marty and Tom. The company will be well-served by having them in these key leadership positions."

Stan Ferraro will take over the regulatory matters and corporate relations responsibilities on an acting basis. Cal Water will be seeking a new Vice President of Regulatory Matters and Corporate Relations. Congratulations to Marty and Tom on their new assignments.

Delta Stewardship Council Names Chris Knopp New Executive Officer—The Delta Stewardship Council (DSC) announced Sept. 21st the appointment of Chris Knopp as its new executive officer, replacing Joe Grindstaff, who is retiring. Knopp, a recent official with the U.S. Forest Service, has extensive experience working with local, state, and federal agencies on a broad array of issues balancing ecological, social and economic concerns in California and across the country.

"The Delta Stewardship Council was formed to achieve the coequal goals of California: a more reliable water supply, and a restored and protected Delta ecosystem," said DSC Chair Phil Isenberg. "Chris is not an aging water warrior, but a smart guy who can take a fresh look at old problems. The Council is very impressed with his management style, sense of humor and judgment, as well as his ability and experience in dealing with complex natural resource issues," Isenberg said.

"The task of the Delta Stewardship Council to achieve a coequal solution is daunting, but achievable," Knopp said. "It represents the challenge of a lifetime. Success will require balance and compromise – and sound science so the nature of the compromises can be known and understood."

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Knopp retired from the U.S. Forest Service in November 2011 after a 34-year career that included leading the ecosystem conservation group at Lake Tahoe and the National Watershed Program in Washington, DC. His last appointment was as a supervisor for the Apache-Sitgreaves National Forest in Arizona, where he helped create and develop the 2.4 million acre Four Forest Restoration Initiative, the largest restoration project in the American West.

"I've worked very successfully with Chris in the past, and am particularly proud of the work we did together in the U.S. Forest Service at Lake Tahoe," said Mark Nechodom, Director of the California Department of Conservation. "Chris' knowledge of ecological sciences, his policy skills and his impressive work ethic will all be tremendous assets in his leadership role as Executive Officer at the Delta Stewardship Council. I truly look forward to working with him again."

USA Today Publishes Extensive Water Rates Article—*USA Today* published a major water story Set. 27th titled "Nation's Water Coasts Running Higher," and it featured the national newspaper's study of 100 municipalities, where prices have at least doubled in more than a quarter of the locations. Specifically, *USA Today's* study of residential water rates over the past 12 years for large and small water agencies nationwide found that monthly costs doubled for more in 29 localities.

Interestingly, the newspaper characterized water utility service as "a resource long taken for granted" that will continue to become more costly for millions of Americans. It further notes that "rates haven't crested yet because huge costs to upgrade or repair pipes, reservoirs and treatment plants loom nationwide."

In three municipalities — Atlanta, San Francisco and Wilmington, Del. — the report says that water costs tripled or more. It said the trend toward higher bills is being driven by:

- The cost of paying off the debt on bonds municipalities issue to fund expensive repairs or upgrades on aging water systems.

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- Increases in the cost of electricity, chemicals and fuel used to supply and treat water.

USA Today explained that it was documenting the rising cost of drinking water by obtaining periodic municipal water-cost surveys conducted since 2000 or 2001 by Black & Veatch and Raftelis Financial Consultants, private firms that advise water agencies on financial issues. *USA Today* verified those companies' data with each municipality and also gathered 2012 costs from the localities. Reporters then independently collected the same information from dozens of other municipalities to cover 100 in all, spanning all 50 states and Washington, D.C.

The article went into some detail explaining that local water costs vary widely because of geography, climate, population, a water company's borrowing costs and other factors. As such, the newspaper said, "it is virtually impossible to compare one city's water costs to another's. For its survey, *USA Today* defined a typical household as one using roughly 7,500 gallons (1,000 cubic feet) a month and having a meter size of about 5/8 inch, or the closest equivalent. Actual average consumption may vary. Weighted averages were used for locations where rates change seasonally. The percentage change in rates shown is based on the change from 2000 or 2001, depending on the location.

The costs continue to rise even though residential water usage dropped sharply nationwide in the past three decades amid conservation efforts. U.S. water systems will need as much as \$1 trillion in infrastructure improvements by 2035 to keep up with drinking water needs, according to a survey of industry experts released in June.

Efforts to compare water costs of any given area with another produce misleading or even false results, because of differences in population, geography, geology, bonding debt for infrastructure work and other variables. However, what most water agencies across the nation share is increasing costs that make higher bills all but inevitable.

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The article went on to explain why rates go up, even as conservation takes hold. It said, " U.S. homeowners who reduce their water consumption in an effort to save money can cut their costs. But they may end up raising the rates they're charged. Why? Because water suppliers collect less income as consumption drops, but ongoing costs -- such as bonding debt, salaries and chemicals -- either increase or, at best, remain stable."

I have the full article in my office and can send you a PDF of it. Just send me an e-mail.

Register Now for CWA's Annual Conference—As a reminder, CWA's Annual Conference will take place from Oct. 30th to Nov. 1st at the Monterey Plaza Hotel & Spa, 400 Cannery Row, Monterey, California 93940. Please register on-line at CWA's website: www.calwaterassn.com, and click on the conference logo on the home page. Also, please call the hotel now if you haven't made your reservations yet. The deadline for reservations and getting CWA's conference rate is Friday, Oct. 5th. The hotel's number is (800) 334-3999. And feel free to call Sharun Carlson at (562) 404-1993 if you have any questions.

In addition to our committee meetings on Oct. 30th, CWA's Water Quality Committee will be hosting a seminar that day, starting at 11:00 a.m. Also, there will be a Halloween Dinner Wednesday night, Oct. 31st at the Hotel, and everyone is strongly encouraged to come in a costume. There will be a prize for the Best Costume that reflects the theme ILLUSIONS, one for WATER, one for SCARY and FUNNY.

We hope you can join us for what will be an interesting and fun event.

Upcoming Industry Meetings/Conferences/Events:

- 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 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.

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- 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.
- December 12, 2012 – California Urban Water Conservation Council Plenary Meeting (9:30a – 3:00p; Metropolitan Water District of Southern California; 700 North Alameda St., Los Angeles, CA 90012); J. Hawks will attend.
- December 13, 2012 – California Dept. of Water Resources – California Water Plan Update 2013 Advisory Committee Meeting (9:00a – 4:30p; Cal EPA, 1001 I St., Sacramento, CA 95814); J. Hawks will attend.
- December 20, 2012 – California PUC Open Meeting (9:00a–12:00p; 505 Van Ness Ave., San Francisco 94102)

—CWA—