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CALIFORNIA WATER ASSOCIATION

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MESSAGE FROM THE PRESIDENT

Californians are facing the worst drought in nearly 40 years as they cope with a year that saw the lowest amount of rain and snow in California since it became a state in 1850. On January 17, California Governor Jerry Brown declared a drought emergency. That prompted President Barack Obama to visit the state and commit more than \$183 million in federal financial aid. The president also called on federal facilities in California to immediately limit water consumption.

Governor Brown subsequently proposed an emergency drought legislative package on February 19 totaling \$687 million, most of which would come from water and disaster-preparation bonds approved by voters in 2006. The Legislature passed the drought-relief legislation on February 27, and at this writing is awaiting the governor's signature, whereupon it will take effect immediately. Elected officials aren't the only ones taking action. California's investor-owned water companies (IOWCs) are staying on top of the issue to minimize current and future effects of the drought.

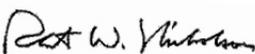
At the same time, the IOWCs are working to manage increases in cost of service and rates by finding innovative solutions to comply with water-quality regulations and maintain and upgrade infrastructure.

The following articles in this edition of On Tap highlight how IOWCs are working to provide safe, reliable and high-quality water service to their customers:

- Water Companies Meet with CPUC on Drought and Water Supply Conditions
- Commission Approves Revised Drought Management Procedures
- California Water Service Co. Testifies at Assembly Joint Oversight Hearing on Affordability and Low-Income Customer Assistance
- San Jose Water Co. Receives Award for Providing Superior Quality Drinking Water
- Innovation, Teamwork and a Little Bit of Sand Save the Day in Hawthorne
- CPUC Welcomes New Commissioner Michael Picker

Click here to view the *On Tap* online version located on CWA's website at www.calwaterassn.com.

Sincerely,


 R.W. Nicholson
 San Gabriel Valley Water Company
 2013-2014 CWA President

QUESTIONS?

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THE QUALITY & SERVICE FOCUS

WATER COMPANIES MEET WITH CPUC ON DROUGHT AND WATER SUPPLY CONDITIONS



On February 4, the California Public Utilities Commission's (CPUC) Division of Water and Audits (DWA) hosted a meeting of the 16 largest CPUC-regulated water companies to discuss their current supply conditions and supply-demand management activities in response to the ongoing drought. Representatives of the Class A (> 10,000 service connections) and Class B (> 2,000 service connections) water utilities reported on current water supply conditions affecting their respective customer service areas, including a description of the supply portfolio for each service area and if water purchased from wholesale or other water agencies was subject to any present water supply cutbacks.

Also at the meeting were DWA Director Rami Kahlon; Brian Turner, Assistant to CPUC Executive Director Paul Clanon; Cliff Rechtschaffen, Senior Advisor to Governor Brown and recently appointed head of the Governor's Drought Task Force; Tina Curry, Deputy Director of the Planning, Preparedness, and Prevention section of the Office of Emergency Services (OES); and Charles Rabamad, Assistant Director of the Recovery section of OES.

The purpose of the meeting was to assess the water companies' supply conditions and drought management plans and provide input to CPUC staff for its preparation of a resolution, approved by the CPUC on February 27, which updates the CPUC's existing drought management protocols (see next article).

In general, the water companies reported that they expect to weather the drought through the winter months without crisis-level supply shortages or health or public safety impacts. However, they remain concerned about the effect of the drought in the mid-term (the summer and future years if the winter remains dry) and about the importance of developing appropriate messages for customers.

Rechtschaffen exhorted the utilities to be "as nimble as possible" and explain their best management practices. He also encouraged the utilities to document their response costs in hopes of receiving federal disaster relief. The OES representatives described – in general terms – the types of emergency response programs and tools available through OES in the case of an emergency. OES encouraged the water companies to document program costs and expenses incurred when responding to drought-related conditions and to forward such documentation to OES on an ongoing basis. OES indicated it plans to use that information to: (1) determine eligibility for state or federal program funding; and (2) "make the case" to take certain protective measures in the future (e.g., seek assistance from the Federal Emergency Management Agency).

Rabamad explained that investments in new wells, storage or treatment facilities responsive to drought conditions are the types of costs most likely to be recoverable through federal disaster relief. He added, however, that loss of revenue, and to a lesser extent, additional operating expenses, are not likely to be eligible for federal funding because those costs are generally considered to be recoverable from ratepayers. However, OES stressed that those costs (whether already expended and expected to be incurred) with an arguable nexus to the protection of public health and safety would be considered. 

LEGISLATIVE AND REGULATORY UPDATE

COMMISSION APPROVES REVISED DROUGHT MANAGEMENT PROCEDURES



At its February 27 open meeting the California Public Utilities Commission (CPUC) approved Resolution W-4976, Drought Procedures for Water Conservation, Rationing and Service Connection Moratoria. The resolution is based on Standard Practice

U-40-W (SP-40) that prescribes the process to establish Tariff Rule 14.1 by which water utilities can introduce voluntary conservation measures. It also outlines Schedule 14.1, which provides for mandatory rationing if voluntary measures do not yield the necessary reduction in consumption or in circumstances of prolonged or severe drought.

The resolution directs all water utilities to add and activate, at a minimum, Tariff Rule 14.1 in their tariffs and to call for a voluntary 20 percent reduction in customer water use. The revised procedures now included in SP-40 have been updated with modifications from CPUC findings from previous proceedings.

In an effort to share information and promote consistency in regulatory compliance for water and sewer companies, the CPUC's Division of Water and Audits (DWA) prepares standard practices describing the regulatory background and procedures for most of its major requirements and processes. SP-40 outlines the process for a utility to establish Rule 14.1 for voluntary conservation measures and establish and activate Schedule 14.1 for mandatory rationing. SP-40 was last revised in 2009.

The substantive revisions made to SP-40 now are based on CPUC findings from previous proceedings. In preparing the draft SP-40, DWA made a concerted effort to confine the proposed changes in the draft to the issues the CPUC already has reviewed and vetted in order to expedite the adoption of the procedures contained in SP-40 in light of the drought proclamation. The major issue identified in Resolution W-4781 concerns the delegation to DWA for the approval of new Tariff Rule 14.1 and Schedule 14.1 and the approval for activating these tariffs. The resolution resolves this issue by delegating authority for both the approval of adding Tariff Rule 14.1 and Schedule 14.1 to the utilities' tariffs and the activation of these tariffs to DWA.

Those utilities with an existing Tariff Rule 14.1 were directed to immediately notify the Director of DWA of their intent to activate the voluntary conservation measures in compliance with the Emergency Drought Declaration's Order Number 2, calling on all local urban water suppliers to immediately implement local water shortage contingency plans. Further, water utilities should comply with future directives under the Emergency Drought Declaration for either additional voluntary conservation measures or requirements for mandatory rationing.

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LEGISLATIVE AND REGULATORY UPDATE

COMMISSION APPROVES REVISED DROUGHT MANAGEMENT PROCEDURES...CONTINUED

The CPUC took comments on the resolution from all interested parties, including the California Water Association and the Office of Ratepayer Advocates. The final resolution reflects most of the comments received, and the CPUC's new Resolution W-4976 contained these specific decision points:

- The Drought Procedures for Water Conservation, Rationing and Service Connection Moratoria (formerly Standard Practice U-40-W) as amended by this resolution in response to comments and attached as Attachment A is approved.
- All Class A and B water utilities that have an existing Tariff Rule 14.1 shall notify the Director of the DWA via a letter in both hard-copy and e-mailed formats within 30 days of the effective date of this resolution that they are activating Tariff Rule 14.1 calling for a 20 percent voluntary reduction in water use.
- All Class A and B water utilities that do not have an existing Tariff Rule 14.1 shall file a Tier 2 advice letter within 30 days of the effective date of this resolution requesting to add a Tariff Rule 14.1 to their tariffs. Within five days of the DWA's approval of the proposed Tariff Rule 14.1, utilities shall notify the Director of the DWA via a letter in both hard-copy and e-mailed formats that they are activating Tariff Rule 14.1 calling for a 20 percent voluntary reduction in water use.
- Water utilities shall comply with future directives under the Emergency Drought Declaration for either additional voluntary conservation measures or requirements for mandatory rationing.

The full resolution and revised Standard Practice U-40-W can be accessed [here](#). 

LEGISLATIVE AND REGULATORY UPDATE

CAL WATER TESTIFIES ON EXTENSIVE IOWC PROGRAMS AT ASSEMBLY JOINT OVERSIGHT HEARING ON AFFORDABILITY AND LOW-INCOME CUSTOMER ASSISTANCE



On February 3, California Water Service Company (Cal Water) Vice President of Regulatory Matters & Corporate Relations Paul G. Townsley testified on the success of his company's low-income rate assistance (LIRA) programs at a Joint Oversight Hearing of the California Assembly Aging and Long-Term Care and Utilities and Commerce Committees. The informational hearing explored the effects of water rates on California's aging population, low-income programs and criteria for rate assistance, as well as the California Public Utilities Commission's (CPUC) oversight role of investor-owned water companies (IOWCs) and other mechanisms to maintain water affordability.

Townsley's comments centered on the efforts to assist low-income customers in one of its distressed districts, Lucerne, in Lake County. The hearing came in the wake of Assembly Bill 1434, introduced by Assembly Member Mariko Yamada (D-Woodland) on January 7, which would require the CPUC to implement a program to provide rate relief for low-income customers of a water corporation. Specifically, the CPUC would be required to consider and possibly implement a program that would include a discount of not less than 20 percent of the low-income customer's total bill amount.

Townsley explained that Cal Water has been working to increase the discounts afforded by the company's LIRA and Rate Support Fund (RSF) programs, which provide discounts to customers who live in high-cost areas. The programs are funded through a surcharge on other customers' bills companywide. He also suggested that additional efforts to address affordability issues should be funded from the state's general revenues. He noted that a proposed settlement agreement with the Office of Ratepayer Advocates (ORA) calls for the Lucerne customers to receive a LIRA discount of up to \$30 a month while, at the same time, they would see a significant RSF rate reduction for the first 7,480 gallons of water used each month (typical monthly usage in Lucerne for a residential customer is about 3,740 gallons).

Townsley noted, "Individuals in lower-income urban areas, where the cost of water utility service is lower because of economies of scale, could end up providing significant subsidies to rural areas where the cost of water utility service is substantially higher. Establishing a statewide program funded from general revenue would work to minimize these countervailing effects."

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LEGISLATIVE AND REGULATORY UPDATE

CAL WATER TESTIFIES ON EXTENSIVE IOWC PROGRAMS AT ASSEMBLY JOINT OVERSIGHT HEARING ON AFFORDABILITY AND LOW-INCOME CUSTOMER ASSISTANCE...CONTINUED

The briefing paper for the joint hearing also supported the notion that a statewide LIRA program could be a valuable asset to California ratepayers emphasizing that “standardized discounts (to low-income ratepayers) and surcharges (to non-participating customers) would increase transparency and eliminate the convoluted patchwork of existing LIRA programs.”

Townsley referred to a report by the Pacific Institute, an environmental research firm based in Oakland, California, which found that water utilities are “a rising cost industry as a result of deteriorating infrastructure, stricter regulations and climate change.”

Also testifying was General Manager Robert S. Roscoe of Sacramento Suburban Water District. In his comments about the need for water providers to establish rates that cover the actual cost of providing high-quality water, Roscoe emphasized that for decades, water rates were artificially low and did not reflect the true cost of the services received nor were revenues sufficient to set aside funds for future infrastructure renewal and replacement.

During his comments, Roscoe referenced the American Society of Civil Engineers’ decision to drop California’s grade from a C+ to a C on its annual report card for drinking water infrastructure. The report card noted, “Significant investments are still needed to address renewal and replacement, maintenance, security and reliability for the state’s water infrastructure. The annual investment needed for each of the next 10 years is estimated to be \$4.6 billion.”

At the joint hearing, Roscoe remarked, “The water industry in California faces continuing rate pressure from ever-changing regulation. While the public expects and deserves the highest quality water possible, rate impacts from these regulatory decisions commonly have disproportionate effects on small systems where a small number of customers must bear the burden of expensive new infrastructure and economies of scale do not exist.”

Roscoe continued, “The water industry is experiencing cost increases that far exceed the normal consumer price index. The fact that water utility bills are becoming a larger and larger percentage of household income is not surprising. Unfortunately, I believe this trend will continue, and this will only add to our difficulties serving reliable water supplies that are considered affordable.”

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LEGISLATIVE AND REGULATORY UPDATE

CAL WATER TESTIFIES ON EXTENSIVE IOWC PROGRAMS AT ASSEMBLY JOINT OVERSIGHT HEARING ON AFFORDABILITY AND LOW-INCOME CUSTOMER ASSISTANCE...CONTINUED

Roscoe also cited several other avenues to address water rate affordability such as additional customer assistance with conservation efforts, more funding for next-generation meter reading and monitoring systems, working to reduce energy costs and providing additional funding to the State Drinking Water Program to assist small, disadvantaged communities with cost-effective solutions.

Townsley testified that grants and low-interest loan programs should be available to all water utilities, regardless of their ownership model. Roscoe noted that state bond funds are retired by all taxpayers of the state regardless of whether their water provider is publically or privately owned.

Because the cost of providing water service is increasing, all Californians will face higher water rates. And despite the fact that IOWCs provide LIRA programs, which are subsidized by ratepayers who don't actually participate in the program, IOWCs serve less than one-fifth of the population. Based on these observations, Townsley urged, "The time may have come for a statewide, low-income rate assistance program, applicable to all water utilities to ensure that all Californians who are struggling to pay their water bills get the help they need, whether they are served by a government- or investor-owned water provider."

Rami Kahlon, Director of the CPUC's Division of Water and Audits, and Danilo Sanchez, Program and Project Supervisor for the ORA, both testified on how the CPUC works to balance water rate increases and low-income affordability. Kahlon explained how the CPUC is addressing low-income assistance through its Water Action Plan, while Sanchez explained the general rate process and how ORA works with the utilities to integrate the LIRA programs into their rate structures while minimizing rate increases overall.

During the questioning of the witnesses by the committee members, Assembly Utilities and Commerce Chair Steven Bradford (D-Inglewood) noted that water rates are dramatically increasing, the entire rate case process is a matter of trust and IOWCs, the CPUC and ORA all must earn that trust from the customers. Aging and Long-Term Care Committee Chair Yamada said she hopes her bill will be part of a statewide solution.

Utilities and Commerce Committee member Bill Quirk (D-Hayward) noted that CPUC-regulated water utilities were in a much better position to offer LIRA programs than their public water agency counterparts. He added that the customers in the Lucerne District were fortunate to have Cal Water as their water provider because of the steep discounts afforded by the LIRA and RSF programs. 

MEMBER SPOTLIGHT

SAN JOSE WATER COMPANY RECEIVES AWARD FOR PROVIDING SUPERIOR-QUALITY DRINKING WATER



The Partnership for Safe Water, a unique alliance of the U.S. Environmental Protection Agency, American Water Works Association, Association of Metropolitan Water Agencies, National Association of Water Companies and Association of State Drinking Water Administrators, awarded San

Jose Water Company (SJWC) the Phase III Directors Award in December. The partnership celebrates award-winning utilities for their outstanding commitment to providing superior-quality drinking water. This significant award recognized SJWC's commitment and execution of programs that improve the quality and safety of water delivered to its customers.

The Program Effectiveness Assessment Committee, which reviewed the submittals, was particularly impressed by SJWC's documentation of the distribution system's current operating status, objective assessment of system optimization actions and focus on emergency response and vulnerability assessment.

"Providing customers with the highest quality water possible is our primary mission," said SJWC Director of Water Quality Francois Rodigari. "Our commitment to this mission guides our everyday decisions and investments in water production, storage and distribution facilities."

An industry leader in water quality, SJWC has maintained an exemplary water-quality compliance record since its founding in 1866. SJWC is only the fourth water utility nationwide to be recognized for this achievement. The award is a testament to the company's ongoing commitment to delivering safe and high-quality water and continuously improving water quality, treatment processes and monitoring as well as its source water protection programs.

[Click here](#) for more information on the Partnership for Safe Water. 🌍

POINTS OF INTEREST

INNOVATION, TEAMWORK AND A LITTLE BIT OF SAND SAVE THE DAY IN HAWTHORNE

When California Water Service Company's (Cal Water) Hawthorne Treatment Plant team received word that manganese levels in their discharged water exceeded the permitted 50 micrograms per liter, they knew they had a problem. Firmly committed to Cal Water's best management practices and environmental stewardship, the team rallied to find a solution.

Director of Environmental Health Dale Gonzales, along with Environmental Health Program Manager Allyson Clark and Water Resource Manager Ron Sorensen, quickly found a viable answer in a drum filled with greensand to filter out the excess manganese.

"The clock was ticking, and we didn't have time to bring in an outside firm to solve the problem," said Sorensen, who conceptualized the drum. "I knew if we handled this issue internally and repurposed materials we had onsite, we could custom engineer a solution that would immediately fit our needs."

Once the plan was in place, Hawthorne Superintendent Richard Garcia and Treatment Plant Operators Alex Ron and John Fortin gathered the materials, built and then installed the drum.

According to Clark, using an outside engineering firm to design and build a solution would have cost Cal Water as much as \$200,000 or thousands of dollars more than the actual cost.

In addition to the financial benefit and positive environmental impact, the project also brought the Hawthorne team even closer.

"This project has reinforced the strong team morale we've always had within the Hawthorne system and challenged us to think outside of the box," said Garcia. "Our collaborative thought-processes resulted in a system that was not elaborate and allowed us to use existing resources within the district to overcome an obstacle."

When asked about replicating this problem-solving process in other districts, Gonzales concluded, "We have knowledgeable and experienced people at Cal Water. Our employees can make a big difference when we work as a team and use the resources available to us to achieve cost-effective solutions."



(L-R) Allyson Clark, Dale Gonzales, Alex Ron, Ron Sorensen, John Fortin and Richard Garcia

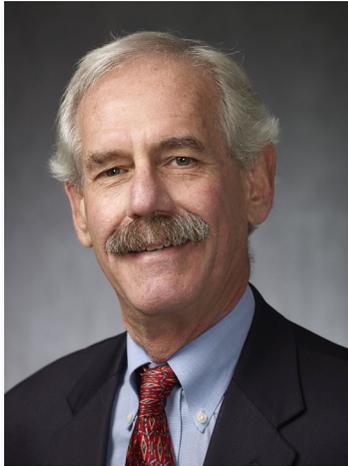


Hawthorne Treatment Plant Drum Filled with Greensand



POINTS OF INTEREST

**CPUC WELCOMES NEW COMMISSIONER
MICHAEL PICKER**



Michael Picker was appointed to the California Public Utilities Commission (CPUC) by Governor Brown on January 29. A 37-year resident of Sacramento, Picker has served two California governors as Senior Advisor for Renewable Energy Facilities since 2009. He also served on the Sacramento Municipal Utilities District Board of Directors where he coordinated the statewide effort to help reduce California’s reliance on fossil fuels.

Prior to that, Picker was a founding partner of Lincoln Crow Strategic Communications working with government agencies, businesses and nonprofit organizations on social, economic and environmental issues. He also served as a consultant at Kaufman Campaign Consultants and as deputy treasurer in the Office of the California State Treasurer as well as chief of staff to Sacramento Mayor Joe Serna, Jr.

In a recent press release, CPUC President Michael R. Peevey noted, “It is with great pleasure that I welcome Commissioner Picker to the CPUC. He is no stranger to the workings of government and is a top energy policy expert. I have no doubt that he will bring the same sharp intellect to the other industries the CPUC regulates.”

Commissioner Picker fills the vacancy left by Commissioner Mark J. Ferron who announced his resignation in January due to health reasons. 🇺🇸