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CALIFORNIA WATER ASSOCIATION

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MESSAGE FROM THE PRESIDENT

Keeping up with the ongoing legislative and regulatory changes in the water utility industry has topped the list of activities for the California Water Association (CWA) during the past two months. From submitting comment letters to testifying before legislative committees and attending conferences, CWA executives and members are staying informed to ensure customers receive reliable, high-quality water service. Member companies are also continuing their work on lead testing in public schools as well as increasing the impact of their supplier diversity programs throughout the state.

The articles in this edition of On Tap illustrate the value of regulated water companies uniting and working together to provide safe, reliable water to California’s communities:

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- NAWC Selects Robert F. Powelson as New Chief Executive Officer

To view On Tap in PDF format, [click here](#), or access the online version on CWA’s website at www.calwaterassn.com.

Sincerely,

Lawrence M. Morales
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2017-2018 CWA President

QUESTIONS?

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Association



LEGISLATIVE AND REGULATORY UPDATE

CPUC ISSUES RULEMAKING ON UTILITY SERVICE AFFORDABILITY

On July 23, 2018, the California Public Utilities Commission (CPUC) issued [Order Instituting Rulemaking](#) 18-07-006 (OIR or Rulemaking), the stated purpose of which is to develop methods to assess the affordability impacts of individual CPUC proceedings and utility rate requests. The OIR pertains to all CPUC-regulated energy, water, and telecommunications utilities. The Class A and B water utilities (those with more than 2,000 service connections) have been named as respondents (those entities required to participate in the Rulemaking), as have the CPUC's nine jurisdictional energy utilities and 26 telecommunications companies, along with a host of environmental and social justice organizations.

Given the CPUC's responsibility under Public Utilities Code Section 451 to ensure utility rates are just and reasonable, the Rulemaking specifically aims to:

- Develop a framework and a set of principles to identify and define affordability criteria for all utility services under the CPUC's jurisdiction; and
- Develop the methodologies, data sources, and processes necessary to comprehensively assess the impacts on affordability of individual CPUC proceedings and utility rate requests.

Currently, three classes of affordability metrics (defined in the Rulemaking) are employed to support the CPUC's decision-making process in many energy proceedings: rate impact metrics; household-level metrics; and market-level metrics. The goal of the Rulemaking is to develop additional categories of affordability metrics such as affordability for populations at risk and service accessibility.

The Rulemaking also is taking into account several trends, including the following that may impact water rates in the long term:

- Weather and climate change related to supply and system reliability.
- Geographical differences in demand, leading to higher utility burdens in certain regions across the state.

The scope of the Rulemaking includes the following issues:

- Identification and definition of affordability criteria for CPUC-jurisdictional utility services.
- Methods and processes for assessing affordability impacts across CPUC proceedings and across the utility sectors identified.

The OIR also requests that the respondents address a series of questions throughout the proceeding involving definitional issues, applicability to the three industries, specifics on data and metrics, challenges with assessing affordability, and methods for monitoring over time.

Affordability is a topic that has reached the front burner of regulatory concerns across the country. The American Water Works Association is hosting a [national conference](#) on affordability in Washington, D.C. on August 6-7, and the subject is top of mind at all utility regulatory conferences.



LEGISLATIVE AND REGULATORY UPDATE

CPUC ISSUES RULEMAKING ON UTILITY SERVICE AFFORDABILITY ...CONTINUED

It continues to capture the attention of California legislators, and the State Water Resources Control Board currently is tasked with proposing a statewide customer assistance program to help low-income customers pay their water utility bills.

The CPUC faces several challenges in this ambitious proceeding. One is establishing an acceptable definition of “affordable.” If the ratio of the median cost of water service to the median income in a utility’s service area is below (or above) a certain level, is the service affordable or not? A second challenge is accurately determining the conceptual framework of affordability (once an acceptable definition is established) given that the relevant factors – rates, demand, income, other household expenses, infrastructure needs, commodity costs, reliability and safety requirements, and other utility operating costs (e.g., pensions, insurance, liability) – all change over time.

A third challenge will be balancing the tradeoffs among rates, affordability, assuring sufficient investment, improving customer service, ensuring safe and reliable utility service, and maintaining the financial integrity of the utility. It promises to be an interesting proceeding and one with national implications. 

LEGISLATIVE AND REGULATORY UPDATE

CPUC AFFIRMS COST RECOVERY FOR APPROVED REVENUE REQUIREMENTS

At its regularly scheduled Open Meeting in Sacramento July 26, the California Public Utilities Commission (CPUC) agreed to permit San Gabriel Valley Water Company (SGVWC) to recover outstanding balances totaling more than \$7.1 million in its Drought Lost Revenues Memorandum Account for its two operating divisions – Los Angeles County (LA) and Fontana Water Company (FWC). These balances are part of the revenues approved for SGVWC’s previous General Rate Cases (GRC), but which were not collected from customers under the approved rates at the time because of the mandatory drought management requirements that were in place during the time in question.

Normal CPUC practice permits recovery of such balances through a surcharge on customer bills that accounts for the shortfall between the actual water sales that occur in a given timeframe (typically a calendar year) and the level of projected sales approved by the CPUC in a GRC. When the balance is less than 5 percent of the utility’s approved revenue requirement, the timeframe for amortization of the balance (through the surcharge) is usually 12 months. When the balance exceeds 5 percent, amortization occurs over 24 months. In SGVWC’s case, the balances for its LA and FWC Divisions were 4.9 percent and 5.1 percent, respectively.

1

Resolution W-5169 San Gabriel Valley Water Company Drought Lost Revenue Memorandum Account

- Under-collection Balance
 - Los Angeles: **\$3,532,149** or 4.9%
 - Fontana: **\$3,586,304** or 5.1%

Option A	Option B
Authorizes Recovery	Defers Recovery
Effective July 2018	Comprehensive review in 2019 GRC
<u>Surcharges (per ccf)</u>	Effective TY 2020
- LA: \$0.2946 for 12 mo. - Fontana: \$0.1254 for 24 mo.	<u>Interest Build-Up of 2 Years</u>
<u>Avg Monthly Bill Impacts</u>	- Balances will increase by about \$10,000 each
- LA: \$4.12 - Fontana: \$2.38	Larger rate impact from GRC
Additional rate adjustment in between GRCs	

During the processing of SGVWC’s December 2017 request to collect these outstanding balances, the CPUC considered two options (see diagram) in Proposed Resolution W-5169. The first option authorized recovery of the balances through a (monthly) 12-month surcharge for the LA Division (\$0.2946 per Ccf of water used by a customer) and a 24-month surcharge for the FWC Division (\$0.1254 per Ccf). The second option deferred recovery of the balances until SGVWC’s next GRC decision, which would be effective on July 1, 2020.

LEGISLATIVE AND REGULATORY UPDATE

CPUC AFFIRMS COST RECOVERY FOR APPROVED REVENUE REQUIREMENTS...CONTINUED

By deferring recovery for two years, the second option would include an interest charge (about \$20,000). The main difference between the two options is that Option A would include an interim rate adjustment between the 2017 and 2020 GRCs, while Option B would result in a much higher rate increase in the 2020 GRC decision (because it would include the revenue deficiency from prior GRCs, plus any rate increase that occurs in the 2020 GRC).

During the comment period on Proposed Resolution W-5169, the California Water Association (CWA) filed a letter stating its support for Option A and requested that the CPUC dismiss Option B for the following reasons:

- Option B, by deferring (and potentially denying) full recovery of previously approved costs and revenues, contravenes the CPUC’s own carefully developed drought procedures and undermines its important drought and water conservation policies.
- Option B harms customers by exacerbating intergenerational inequities; that is, forcing future customers to absorb costs incurred by past customers.
- Option B would waste limited CPUC and utility resources by duplicating CPUC’s review of SGVWC’s requested recovery.

CWA concluded its letter by noting the CPUC has twice determined that the costs at issue were reasonable and prudently incurred: first, at the time they were included in SGVWC’s authorized revenue requirement adopted in prior GRCs, and again through the memorandum account review process.

After discussion at the CPUC meeting, Commissioner Martha Guzman Aceves suggested that Option A simply be revised to allow recovery now, but to have the recovery period for both divisions spread over 24 months. The other commissioners agreed with her and directed the Water Division to revise Proposed Resolution W-5169 to conform to Option A, but with the 24-month surcharge periods. The Water Division also was directed to affirm in the revised resolution current CPUC practice that its Class A regulated water utilities will continue to list all rate adjustments that occur between GRC cycles in their next GRC applications.

The CPUC will vote on the revised resolution at its September 13, 2018, Open Meeting. 

LEGISLATIVE AND REGULATORY UPDATE

CWA FILES COMMENTS IN EMERGENCY DISASTER RELIEF RULEMAKING

The California Water Association (CWA) filed comments on July 30, 2018, on a Proposed Decision (PD) from California Public Utilities Commission (CPUC) President Michael Picker that extends the disaster relief protections for customers adopted by the CPUC last year in the aftermath of the Northern California wildfires to future disasters in all CPUC-regulated water utility service territories. These protections will remain in place on an interim basis until the rulemaking (R.18-03-011, Order Instituting Rulemaking Regarding Emergency Disaster Relief Program to Support California Residents) concludes with the establishment of a permanent customer protections program.

In its comments, CWA expressed support for the CPUC's swift action in extending last year's protections on a temporary basis but raised several procedural issues of concern. Chief among them was that an interim CPUC-ordered disaster relief program limited to wildfire disasters should not automatically become the basis to prejudge the particulars of a permanent program that encompasses all disasters and varying circumstances.

CWA also noted that the PD uses the terms "consumer" and "customer" interchangeably throughout the document and requested that all such references be to customers. The reason is that a utility "customer" is the entity of record and is the only person with whom the utility has a legal and business relationship. Accordingly, it is the customer that will be eligible for disaster relief, whether interim or permanent.

CWA also requested that the final decision include non-residential water customers as being eligible for interim disaster relief resulting from a wildfire. Currently, only electric and gas non-residential customers are eligible for CPUC-authorized relief, and CWA stressed that such water customers should be afforded the same relief opportunities.

With respect to cost recovery, CWA requested that the costs associated with post-disaster customer protection activities recorded by the water utilities in their Catastrophic Event Memorandum Accounts (CEMAs) be recoverable across each utility's entire customer base, rather than imposing that obligation on only the ratemaking area within which the disaster occurred. CWA said that if the CPUC intends to assist customers struggling with the after-effects of a devastating disaster, it should relieve those same customers of a cost-recovery burden often made acute by the mere circumstance of living in a small district (especially if that smaller district is affected by the loss of active service connections due to disaster).

The PD, if modified and approved with CWA's recommendations at the CPUC's Open Meeting on August 9, 2018, will include the following customer protections for residential water and sewer customers upon a declaration of a state of emergency for a wildfire:

Activation of the utility's CEMA;

Make insurance claims on all costs and expenses incurred as a result of the fires, and credit insurance payments to their CEMA;

- Work cooperatively with affected customers to resolve unpaid bills and minimize disconnections for non-payment;
- Waive reconnection or facilities fees for affected customers and suspend deposits for affected customers who must reconnect to the system;
- Provide reasonable payment options to affected customers; and
- Waive bills for victims who have lost their homes or businesses. Costs of lost revenues may be included in the appropriate CEMA account and recovered across the utility's entire customer base. 

LEGISLATIVE AND REGULATORY UPDATE

CWA JOINS COALITION ON CONCERNS ABOUT NEW SWRCB eAR REQUIREMENTS

A coalition of 63 water districts, utilities, municipalities, and related entities, including the California Water Association and three of its members, submitted a comment letter to the State Water Resources Control Board (SWRCB) on May 30, 2018. Expressing concerns about new content and data-collection requirements for the 2017 electronic Annual Report (eAR), the letter pointed out that the “new content was developed without an open and transparent stakeholder process and requested without the appropriate advanced notice required to collect accurate information.”

The letter went on to provide reasons why the “eAR is not currently the best vehicle to gather relevant and informative data about water rates, affordable drinking water, water loss from distribution systems, and climate change adaptation strategies and resiliency for water utilities.” Additionally, since the water suppliers did not know the type of data to collect until April 2018, many agencies did not have systems or staff in place to collect it, which will render inaccurate results for 2017 and the beginning of 2018. In the future, the coalition encouraged the SWRCB to communicate proposed changes in data requests well in advance to ensure availability and improve accuracy.



The coalition also recommended implementing a stakeholder process to help improve the acquisition of relevant and accurate data and to prevent potential duplication of efforts. Currently, water suppliers are addressing water loss, affordable drinking water issues, and climate change adaptation through other stakeholder processes. By partnering in advance with water suppliers, the SWRCB could develop stakeholder-driven processes that would improve the quality and quantity of data collected and economize staff time invested in collecting the data.

While the recommendations stated in the coalition letter were not able to be implemented in time for the initial early June filing of the 2017 eAR, CWA, which is a member of the SWRCB’s Division of Drinking Water Advisory Group (DDWAG), intends to continue pushing for these reforms at the DDWAG’s next meeting on September 7, 2018. 

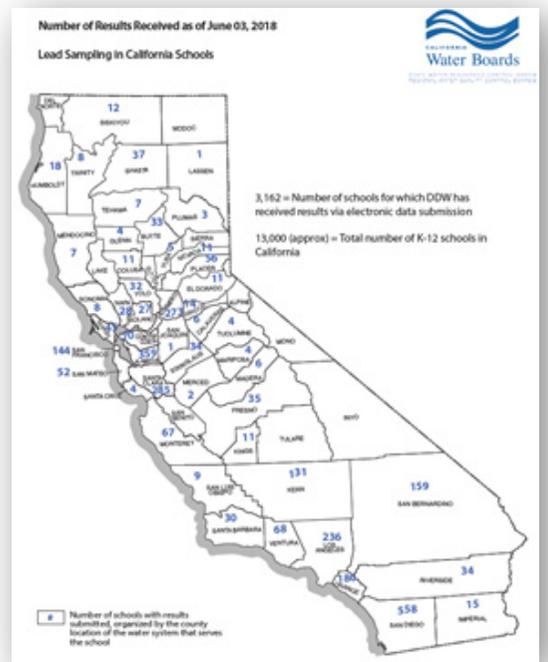
THE QUALITY & SERVICE FOCUS

REGULATED WATER COMPANIES AHEAD OF THE CURVE IN COMPLYING WITH AB 746

Assembly Bill 746 (AB 746) was signed into law by Governor Brown in October 2017 and took effect on January 1, 2018. Since childhood exposure to lead has been shown to affect cognition, ability to pay attention, and academic achievement, AB 746 aims to safeguard water quality in California’s K-12 public schools. The law requires community water systems to test lead levels in drinking water at schools built before January 1, 2010. If lead levels are found to exceed 15 parts per billion, school districts are required to take immediate steps to shut down and make inoperable all fountains and faucets where the excess lead levels may exist.



California Water Association regulated water company (RWC) members have been partnering with schools to comply with the new regulation. As a result of their successful outreach efforts, many of the RWCs have tested a much higher percentage of schools in their districts compared with the statewide average of approximately 30 percent. The RWCs expect to complete the testing well in advance of the July 1, 2019, deadline imposed by AB 746. The lead sampling results map is available on the [State Water Resources Control Board’s website](#) for schools that have been tested.



MEMBER SPOTLIGHT

U.S. VETERAN BUSINESS ALLIANCE RECOGNIZES CAL AM, CAL WATER, AND GOLDEN STATE WATER

On May 8, 2018, the [U.S. Veteran Business Alliance](#) (the Alliance) presented [California American Water \(Cal Am\)](#), [California Water Service \(Cal Water\)](#), and [Golden State Water Company \(Golden State Water\)](#) awards for their expenditures with Disabled Veteran Business Enterprises (DVBES) in 2017 in conjunction with their Supplier Diversity Programs. The awards were presented at the Alliance's signature event, [Keeping the Promise 2018](#), in San Diego. This annual exposition offers veteran business owners with disabilities the opportunity to explore new business practices and markets, participate in workshops and trainings, and network with other veterans, potential customers, and Alliance team members.



(L-R) Edward Simon, Director Business Performance and Supplier Diversity, California American Water; Leslie Marshall, Board of Directors, the Alliance; Jackie Glover, Supplier Diversity Program Manager, San Gabriel Valley Water Company (accepting for Golden State Water); and Jose Espinoza, Supplier Diversity Program Manager, California Water Service

At this year's event, Cal Am received the Alliance's 105% Award for the water utility's 6.5 percent expenditures with DVBEs. Both Cal Water and Golden State Water were recognized for exceeding the goal for DVBE spending in 2017. All three water utilities exceeded the 1.5 percent goal for utilities' procurement of goods and services from DVBEs established by the California Public Utilities Commission's [General Order 156](#) (GO 156). Golden State Water was one of only five utilities that exceeded the diverse spending targets in 2017 for all categories in GO 156.

According to its mission, the Alliance is a vibrant organization that empowers, provides resources to, and works side-by-side with veterans to promote and support them in establishing, maintaining, and growing viable business enterprises.



POINTS OF INTEREST

CAL AM HOSTS RIBBON-CUTTING CEREMONY FOR NEW ECO-RECREATION STATION

California American Water (Cal Am) hosted a community ribbon-cutting ceremony on July 12 to commemorate the opening of the eco-recreation station at Robert's Lake in Seaside. The station was funded by an American Water Charitable Foundation (the Foundation) "Building Better Communities" grant, which helps local communities develop environmentally based educational play opportunities.



Ribbon-cutting ceremony featuring Seaside city and park staff with Mayor Ralph Rubio (center wearing sunglasses) and Cal Am Vice President Kevin Tilden (far right).

The Foundation partnered with the National Recreation and Parks Association to evaluate applications and administer and disburse the grant. Seaside's application focused on building a play area and outdoor classroom centered in nature for everyone in the community to enjoy.

After the ribbon-cutting ceremony, which included Seaside Mayor Ralph Rubio and other city representatives, several children from a local summer camp explored the outdoor classroom at the station.



Children from a local camp enjoying the new eco-recreation station.

"We value our relationship with the city of Seaside and our customers who live there," said Cal Am Vice President Kevin Tilden. "Many of our employees live in this area, and we are pleased to help provide recreational space and an outdoor classroom where children can learn about wildlife in and around Robert's Lake." 

POINTS OF INTEREST

NAWC SELECTS ROBERT F. POWELSON AS NEW CHIEF EXECUTIVE OFFICER

The National Association of Water Companies (NAWC), the Washington, D.C.-based organization representing regulated water utilities and private water service companies throughout the United States, has selected Federal Energy Regulatory Commissioner Robert F. Powelson to serve as NAWC's new chief executive. In this role, Powelson will guide the strategic direction of the organization, oversee the association's operations, and work directly with the more than 220 NAWC member companies.



In August 2017, Powelson was confirmed by the United States Senate for a seat on the Federal Energy Regulatory Commission (FERC). Prior to his appointment to FERC, he served on the Pennsylvania Public Utility Commission (PA PUC) from 2008 to 2017, and he chaired the PA PUC from 2011 to 2015. While on the PA PUC, he was particularly focused on Pennsylvania's water infrastructure development, promoting the availability of safe drinking water and reducing unaccounted-for water.

"As NAWC looks to the future, Rob brings to the association tremendous experience at both the state and federal levels," said Christopher Franklin, chairman and CEO of Aqua America and president of the NAWC Board of Directors. "He is taking the helm of NAWC at an important time in the water industry. His unique skills and relationships will help to highlight the capabilities of NAWC member companies in solving some of the challenges facing many mid- and small-sized municipal water and wastewater utilities. Rob also has first-hand experience in working with utilities and regulators to encourage the investment that is critical to keep our nation's infrastructure viable."

Powelson is past president of the National Association of Regulatory Utility Commissioners (NARUC), where he also was a member of the Board of Directors. He served as chairman of the NARUC Committee on Water and represented the Water Committee on NARUC's Task Force on Climate Policy. From 2014-2015, Powelson also served as president of the Mid-Atlantic Conference of Regulatory Utilities Commissioners (MACRUC). Prior to joining the PA PUC, Powelson served as president of the Chester County Chamber of Business and Industry.

Powelson is a graduate of St. Joseph's University and received a Master of Governmental Administration degree from the University of Pennsylvania.

"As the only public utility whose product is ingested, water has always been of particular importance to me as a regulator. I'm proud of the innovative regulatory environment I helped create in Pennsylvania," remarked Powelson. "I look forward to bringing this same progressive approach to my new role with NAWC. Building on the long-time proven record of NAWC members in serving tens of millions of Americans, together we'll work toward solutions that address water and infrastructure challenges and ensure safe and reliable water service for every American." 