



## **VIA Hand Delivery and Electronic Mail**

November 23, 2005

California Public Utilities Commission  
Division of Strategic Planning  
Attention: Edward Howard  
505 Van Ness Avenue  
San Francisco, CA 94102-3298

Re: Comments on Water Action Plan

Dear Mr. Howard,

Pursuant to the invitation currently presented on the home page of the California Public Utilities Commission (“CPUC” or “Commission”) at [www.cpuc.ca.gov](http://www.cpuc.ca.gov), Valencia Water Company (“Valencia”) hereby respectfully submits its comments on the Commission’s draft Water Action Plan (“Plan”). After a brief comment supporting the general direction of the Water Action Plan, Valencia will focus its attention on the Plan’s proposal to allow utilities’ CPUC-filed Water Management Programs to serve as a basis for approval of needed infrastructure.

Valencia believes that the Water Action Plan correctly identifies water quality, reliability of supply, efficient use, and the balance between reasonable rates and financial viability as four key principles that should guide development of objectives for the Water Action Plan. Valencia also agrees that those basic principles will be well served by having the Commission and the regulated utilities strive to achieve the six stated Plan Objectives – maintaining the highest water quality standards, strengthening water conservation programs, promoting infrastructure investment, assisting low-income ratepayers, streamlining CPUC decision making, and setting rates that balance investment, conservation, and affordability.

In order to serve the objective of promoting water infrastructure investment, the Water Action Plan proposes to allow a water utility’s CPUC-filed Water Management Program (“WMP”) to serve as a basis for approval of needed infrastructure. The Plan notes that the general rate case (“GRC”) process often does not adequately address potential long-term projects and associated costs but that Decision 90-08-055 requires each Class A water utility to

file a WMP, forecasting supplies and demand side management impacts out to a 20-year horizon, with every GRC application. The Plan proposes to have the WMP serve as a basis for pre-approval of major water supply projects that require a long-term commitment – longer than the three-year time frame of a GRC. The Plan would require each WMP to include a long-term procurement plan, including infrastructure review, to enable more efficient financial planning for future investments and evaluation of alternative financing techniques. Where a specific project needs to be initiated before the next five-year planning cycle begins, the Commission would allow the utility to file a separate application to address the project and its compliance with the current long-term procurement plan. Water Action Plan, p. 10.

Valencia acknowledges that the WMP can serve as an important infrastructure planning tool within the GRC process, and that situations may arise where a separate application seeking authorization for a large-scale infrastructure project may be warranted and necessary. Valencia is concerned, however, that the proposal to have the Commission use the WMP “as a basis for pre-approval of major water supply projects that require a long-term commitment” is inconsistent with the intended purpose of the WMP as a long term planning document and may run afoul of the environmental impact review (“EIR”) requirements of the California Environmental Quality Act (“CEQA”), Cal. Pub. Res. Code Section 21000 *et seq.*

Submitted as part of its triennial GRC, the WMP should assist both the utility and the Commission in presenting and understanding the relationship between long-term resource planning and the utility’s plans for near term project investments that affect the projection of plant in service, rate base, and operating expenses during the impending test year and escalation years. The GRC decision typically does not “pre-approve” the utility’s water supply project, but rather approves a forecast of plant in service and rate base for the test year and subsequent attrition years, with projects actually constructed subject to review in succeeding GRCs. If the utility requires “pre-approval” for a particular water supply project, either due to the scale of the investment required, the need to choose among competing investment choices, or comparable issues, then a separate application for authorization of such a project is in order.

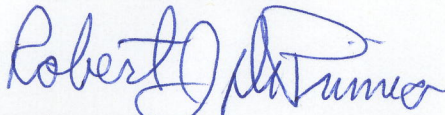
The WMP is best conceived as a mid-range to long-term planning document that enables the utility to report to the Commission on a broad range perspective on a number of water supply issues. It provides information on water use, water resources, recycled water, water quality, reliability planning, and demand management measures. The WMP is a long-term general planning document rather than a specific action plan for supply and demand management. It is not a substitute for project specific planning. When utilities require specific long term projects to be reviewed and approved, detailed project plans are prepared, environmental analysis, if required, is prepared and financial and operational plans are developed.

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If review and approval of the WMP were to become the means for obtaining pre-approval of water supply projects, then a serious risk would be presented that the WMP itself would be considered a "project" requiring evaluation and review under the EIR procedures specified by CEQA and associated regulations. Rather than assisting the project planning process, injecting CEQA review at the WMP stage would likely create greater burdens than benefits, because many of the water supply projects described or mentioned in a WMP may be at very preliminary stages of development, at which detailed CEQA review would be costly, speculative, and of little practical value. Valencia respectfully urges the Commission to preserve the WMP's role as a long-term planning document that does not signal approval of particular projects referenced in its pages. If a utility seeks pre-approval of a water supply project that requires a long term financial commitment, i.e., longer than the three year GRC time frame, a long term procurement plan should be prepared and submitted with the GRC that provides a detailed analysis and review of the financing alternatives for consideration by the Commission. As always, these projects will be subject to the full range of regulatory review as they reach the stage of actual implementation.

Respectfully submitted,



Robert J. DiPrimio  
President

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