

SECTION 12

WATER DIVISION

The **Water Division** supports the Commission by investigating water and sewer system service quality issues and analyzing and processing utility rate change requests. Water Division auditors, engineers, analysts and financial experts prepare testimony and analytical reports and work directly with utility management to track and certify compliance with Commission requirements.

The Water Division web page is:
http://www.cpuc.ca.gov/divisions/water/water_division.htm.

FIVE TO TEN YEAR OUTLOOK

Water regulation in the next century will become more professional and more contentious, and because more Californians will be served by CPUC-regulated water utilities, the Commission will have a larger influence in how they are provided with water.

Unlike other utility services, the **provision of water is becoming more strictly regulated**. Federal water quality requirements are increasing, and financial, managerial and technical standards have been added to water utility responsibilities. The Water Division does not anticipate that any form of rate or operational competition will appear in water, as it has in the other utility industries, but competition for new territories and for purchasing existing systems is increasing, and the structure of the industry is going to change significantly.

For the next two to three years, the Division will be busy processing merger, purchase and transfer applications, in addition to the existing formal and informal rate proceedings. Two companies, AquaSource, Inc. and United Water Management Co., Inc., have stated their intent to purchase investor-owned and mutual water companies, and perhaps some sewer companies, in California. AquaSource will file to acquire as many as 20 smaller water utilities (Class C and Class D) in FY 1999-2000. United Water Resources expects to file to acquire eight existing utilities and four new systems. Additionally, Del Oro Water Company will soon file to acquire an existing Class D system. Dominguez Water Company (presently proposing to merge with California Water Service Company) is also in the market for small water companies, as are other investor-owned water utilities. As these acquisitions escalate, the Division will be dealing with far fewer unsophisticated water companies in the near term, and possibly none in the long term.

Counteracting this trend, however, apartment house and mobilehome park owners are beginning to charge their tenants and lot owners for water and sewer

service. The Commission opened Order Instituting Investigation I.98-12-012 to investigate customer complaints and to ascertain whether or not these businesses

are reselling water and sewer service illegally to their tenants. While apartment house owners are charging tenants with impunity, mobilehome park owners are concerned that charging more than their actual incurred costs will lead to lawsuits. In one case, a mobilehome park applied for and received a Certificate of Public Convenience and Necessity as a water and sewer utility to get around this problem. If some resolution isn't found, the Commission may be forced to regulate mobilehome parks' and apartments' water and sewer billing.

If the apartment house and mobilehome park situation can be resolved, in the long term the Water Division sees **further consolidation in the water industry leading to a significant decrease in the number of separate water utilities the CPUC regulates, with a concurrent increase in the size of these regulated utilities.** During the next four to ten years, the number of water utilities will shrink from 175 at present to 10 very large companies with maybe 25 smaller (Class B and C) companies that have chosen to not sell. There will likely be no Class D (500 service connections or less) companies being regulated in ten years. The workload of informal cases will consequently drop.

Along with continuing acquisitions and mergers of investor-owned companies, the Division anticipates a continuing increase in public-private partnerships and privatization of municipal services. It is possible that many municipal and mutual water companies in the state will be absorbed by the investor-owned systems as well. The approximately 20% of California citizens served by Commission-regulated water utilities could swell to as much as 40% or 50%. The water utilities will also increase their unregulated service offerings, including contract operation and maintenance of municipal systems, and meter reading and billing for municipalities and other utilities.

Of the 10 Class A water utilities, only a few will be serving a single contiguous area and applying for rate increases every three years. The rest will consist of companies that have many dispersed service territories. These companies will be applying for rate increases for some of these territories every year. This will increase the number of formal proceedings. Consequently, the Division will need to put a greater emphasis on streamlining formal cases by working with the utilities and by establishing generic policies and procedures so utilities will know what to expect.

Overall, industry consolidation will result in improved service quality to the customers, as well as improved response to Department of Health Services' requirements for water testing and treatment. Coupled with the availability of Federal Safe Drinking Water Act 'State Revolving Fund' money, the outlook for customers of today's troubled small systems is much brighter than it was in the past.

The cost of water service increases faster than inflation - unless utilities experience significant customer growth. This is due to the use of original cost rate base and rate of return ratemaking. As pipes and reservoirs are replaced, the rate base increases disproportionately, because today's dollars are replacing 40 year old plant. If there is customer growth, new customers will contribute to plant development and offset this increase some, but much of California's water plant was installed just after World War II and is now reaching the end of its useful life.

Federal Safe Drinking Water Act requirements will add substantially to testing and treatment costs. The establishment of Maximum Contaminant Levels for Radon and Arsenic could dramatically increase utility costs.

The availability of water is decreasing, which will increase the cost of existing sources. California relies on surface water in those areas where groundwater is spotty, such as along the coast where most of the population resides, but almost all surface sources (dams) have been developed already and those that remain, such as California American Water Company's proposed Carmel River Dam and perhaps two new dams proposed by the CalFed proceedings addressing the Delta problems, face cost, environmental and public policy challenges. The CalFed process will result in additional Delta water being set aside for environmental needs. Water agencies are continuing to shut down existing wells due to groundwater contamination by DBCP and agricultural and industrial pollutants. The Division expects that "water wars" will break out more often in this timeframe, and due to the increase in size of CPUC-regulated utilities, may require the Commission to adjudicate them, or, at a minimum, increase costs for the customers of the utilities who have to fight those "wars" in the courts. Alternative sources, such as desalination and reclaimed water, are still quite expensive compared to groundwater.

Finally, costs will increase as investor-owned water utilities purchase other investor-owned water utilities, due to the provisions of AB 1268 (now Sect. 2718-20 of the Public Utilities Code) which revalues recently-purchased systems at fair market value every time they are sold, and passes these costs along in rates.

Customers paying these high rates will become more vocal and organized. One result of rate pressures will be the presence for the first time of intervenors such as TURN, UCAN and the Federal government in the CPUC's water proceedings.

As the population ages, there will be renewed calls for the establishment of low-income water ratepayer assistance programs (hopefully by the Legislature with statewide involvement, so that not just CPUC-regulated utilities' ratepayers contribute). Conservation efforts will also increase, and become more organized.

1999-2000 WATER DIVISION OBJECTIVES

Objective A: Protect Consumers

- Strategy 1 Assure compliance with Commission orders.** The Water Advisory Branch (WAB) keeps compliance status in a compliance report that it monitors regularly. It reviews filed advice letters for compliance and consistency with Commission policy. The Audit and Enforcement Branch (AEB) audits utilities for rate and Safe Drinking Water Bond Act Loan compliance, and processes Orders to Show Cause (OSC) to enforce compliance. The Division expects to process four OSCs in 1999-2000.
(Ongoing)
- Strategy 2 Respond to and resolve consumer complaints.** The Water Division's Ratepayer Representation Branch (RRB) monitors, and where necessary, participates in formal customer complaints to assure that existing practices are being complied with and to provide technical support. The Division expects to participate in four consumer complaint proceedings in 1999-2000. (Ongoing)
- Strategy 3 Investigate billing of tenants by apartment and mobilehome park owners for water and sewer service.** Many tenants of apartment houses and mobilehome parks are being billed by their landlords for water and sewer service. Section 2705.5 of the Public Utilities Code allows billing for water service under certain strict conditions, but there is no similar allowance for sewer service. The Commission has opened an investigation (I.98-12-012) into this practice to see if tenants are being billed improperly, and to resolve the practice if it is occurring. (June 2000)
- Strategy 4 Assist the Commission in Developing Policy Concerning Water Contamination Litigation** in Southern California and the Sacramento area. The Commission has opened an Order Instituting Investigation (I.98-03-013) into these issues. Staff is assisting in the investigation. This investigation will end in September, 1999, but subsequent proceedings are likely. (September 1999)
- Strategy 5 Establish Financial, Managerial and Technical (FMT) Criteria for Water Companies.** The 1996 amendments to the Federal Safe Drinking Water Act required each state to develop FMT criteria that would apply to water companies that changed ownership or received Federal loans. The Water Division will propose an Order Instituting

Rulemaking to modify the existing Commission General Order (G. O.) 103 to add the FMT requirements to the G. O. (2000)

Strategy 6 Investigate Meter Accuracy In 1996-97, the Commission processed a consumer complaint (C.96-12-023) into the accuracy of his water meter. By decision D.97-10-048, the Commission found that the meter was not reading accurately, and that a refund of \$119 should be made to the consumer. Subsequently, Senator Jack O'Connell and the mayor of the city of Ojai, Nina V. Shelley, requested that the Commission investigate the accuracy of utility meters. As part of the rulemaking proposed in Strategy 5 above, the Division will review the water meter accuracy standards of G.O. 103 to see if they need updating. (2000)

Objective B: Monitor and Assist Small Water Companies The Commission regulates over 160 water companies that serve less than 10,000 customers. Many of these companies have not requested a rate change in the last ten years.

Strategy 1 Expand the Outreach Program to Encourage Rate Change Filings and Provide Technical Support. If small water companies do not regularly file for needed rate increases, their systems can deteriorate quickly, reducing service quality and increasing the long-term costs to ratepayers. We will use a summer intern to calculate, using their annual reports, the rate of return small companies are achieving. For companies that need it, the Water Advisory Branch (WAB) will process an outreach rate increase. (Ongoing)

WAB is preparing rate increases based on the Consumer Price Index as authorized by decision D.92-03-093 for Class C and D water utilities that have filed annual reports. It will send the utility the Advice Letter and ask that it be signed and returned. (Ongoing)

Strategy 2 Process Small Water Company Filings Expeditiously. The Service Guarantee Plan, Standard Practice U-9-W, provides a timeline for processing small water informal General Rate Cases. The Water Division is updating this Standard Practice to provide more timely processing of rate increases. (October 1999)

Strategy 3 Monitor and Address Funding of Facilities Upgrades The Safe Drinking Water Act Amendments of 1996 (SDWA) make money available for upgrading water company facilities. Congress authorized funding for each fiscal year from 1997 to 2001 of over \$75 million for

California. AEC is working closely with the Department of Health Services (DHS) and Department of Water Resources (DWR) to develop methods to assure SDWA revenues are used for the purpose for which they are intended. (Bimonthly)

Strategy 4 Improve the CPUC / DHS Memorandum of Understanding

Water Division management will schedule meetings with DHS and with Department of Water Resources to discuss this document.

(Bimonthly)

Objective C: Address Long-term Water Supply Needs particularly as they relate to conservation, reclaimed (recycled) water, groundwater contamination, emergency needs, and investor-owned systems' physical access to larger intrastate water transmission and storage facilities.

Strategy 1 Process Applications for Additional Supply

California-American Water Company (Cal-Am) is under order of the State Water Resources Control Board to reduce its take of water from the Carmel River by 60% and to seek other, long-term, replacements. Cal-Am filed Application 97-03-052 on March 28, 1997 for a Certificate of Public Convenience and Necessity to build the Carmel River Dam. An Environmental Impact Report update is required, and expected to be completed in early 2000. Assembly Bill 1182, (Keeley), became law January 1, 1999 and requires the Commission to prepare a long-term water supply contingency plan (Plan B) in the event the dam is not built. That process will take at least one year. (2000)

Valencia Water Company is expanding rapidly. The Angeles Chapter of the Sierra Club is protesting Valencia's requests for service area extension on the grounds that the aquifer is being overdrafted because more water is being pumped than nature is replacing. Valencia has been ordered to file an application for approval of its Water Management Program to address and resolve this issue.

(2000)

Strategy 2 Assure Water Availability Section 2708 of the Public Utilities Code requires the Commission to monitor water supply availability. Staff will review all filings for service area expansion to assure that adequate water is available. As part of the update to G.O. 96, all water utilities will be required to file Water Supply Questionnaires.

(Ongoing)

Strategy 3 Work Cooperatively with Water Utilities to Maximize the Use of Recycled and Reclaimed Water Tertiary-treated water is increasingly being used in lieu of potable water for irrigation, landscape watering and some process water needs. As part of its Plan B Study for the Carmel River Dam project (see Strategy 1) Water Division will be evaluating the possibility of increasing the use of recycled water on the Monterey Peninsula. (Ongoing)

Strategy 4 Improve Supply Access The Central Valley Improvement Program authorized customers of the Federal Central Valley Project to resell federal water without losing rights to the water. These and other similar actions could potentially create a wholesale market for water. While the Commission's jurisdiction over these issues is limited, Water Division is monitoring water transfers as a result of this legislation to see if regulated utilities should be more active in identifying additional supplies. (Ongoing)

Strategy 5 Participate as a representative on the California Urban Water Conservation Council to develop and track best management practices for water conservation. (Ongoing)

Strategy 6 Work individually with the 13 Class A water companies during general rate cases to develop new cost-effective conservation projects and appropriate funding. Approximately 14 of the 54 large water districts will be examined annually. (Ongoing)

Strategy 7 Evaluate Existing Conservation Programs such as the low-flow toilet and shower-head programs that have proven successful in encouraging customer water conservation. (Ongoing)

Objective D: Process Assignments Expeditiously and Implement Streamlined Regulatory Methods

Strategy 1 Expeditiously and thoroughly process two multi-district and four single district **general rate cases** in FY 1999-2000. (Semiannually)

Strategy 2 Implement Streamlined Regulatory Procedures in General Rate Cases when all parties believe such changes would be beneficial to ratepayers, the utility and the CPUC. Simplify filing requirements for small water and sewer companies. (Semiannually)

Strategy 3 Report Controversial Advice Letter Filings to the Commission to establish early Commissioner involvement in controversial requests.

(Monthly)

Objective E: Promote Mergers and Acquisitions of Smaller Systems by Larger Systems or Districts

Strategy 1 Process Transfer Applications Expeditiously. By filing a Notice of Intent prior to filing a formal application to acquire, the acquiring utility can work out many problems with staff before the actual filing. RRB anticipates 18-20 separate applications for acquisitions this year. (Ongoing)

Strategy 2 District Consolidation: The Commission has consolidated many utility districts for ratemaking purposes. Division staff will consider further consolidation based on geographic location, source of supply, compatibility of operation, and similarity of costs of service.

[Ongoing]

Objective F: Assist the Commission with its Auditing Needs The Water Division's Auditing and Enforcement Branch will be auditing the contractor invoices on the PG&E power outage investigation for reasonableness and accuracy. It will also review the Commission's contract process for personal services for compliance and efficiency. (October 1999)

KEY PERFORMANCE INDICATORS

Management and Tracking

The Water Division has made positive progress in most areas addressed in the prior Business Plan. Applications have been processed successfully and on time. "Aged filings" have been reduced from 13 in February 1997 to two presently.

Most of the Division's intended accomplishments depend on interaction with other parties (DHS, DWR, consultants, water utilities) so tracking progress will be more appropriately provided in narrative form. Strategies, activities and due dates noted also serve as key performance indicators.

RESOURCES

Staffing

The Water Division expects to staff and process all Commission water regulatory activities and continue to adequately protect ratepayers' interests.

Water Division's Ratepayer Representative Branch will participate in all applications, primarily large water utility regulation, representing ratepayers' interests. The Auditing and Enforcement Branch will participate in enforcement OIRs and continue to audit utilities for compliance. Water Advisory Branch will handle advisory needs of the Commission or Administrative Law Judges Division.

Workshops and development and processing of Orders Instituting Rulemaking (OIRs), will be done by the Water Advisory Branch whose staff and management are independent of the project teams and perform only the advisory role.

RESOURCE ALLOCATION

Objective	Priority	Authorized	Filled	Vacancies
A - Protect Consumers	1	18	18	
B - Monitor and Assist Small Water and Sewer Companies	1	18	19	(1)
C - Address Long-term Water Supply Needs	2	5	5	
D - Consider and Implement Appropriate Alternative Regulatory Methods	2	2	2	
E - Develop Efficient Standards for Evaluating Mergers and Acquisitions	2	1	1	
F – Assist Commission with Auditing	1	2	2	
Support Staff		4	4	
Division Administration		4	4	
Totals		51	52	

7-30-99

Addressing Resource Constraints

⇒ The Water Division filled its four vacant Utility Engineer positions in 1999. One position is on loan from the Consumer Services Division. Water expects 2-3 retirements during the fiscal year, which will allow us to bring our resources back in line with our authorized positions.