Topics

- Total Water IOUs
- Acquisitions Overview
- Consolidation Policy
- SB 623
- Operations Agreements
Total Investor-Owned Water Utilities

Sewer IOUs
- Current Total: **12**
- Acquisitions since 2007: **2**
Where Did the IOUs Go?

- **17** to other IOUs
  - IOUs also acquired
    - **4** Mutuals
    - **1** New Development

- **10** to Municipals/Public Agencies

- **7** to Mutual Water Companies

In general, IOUs acquire IOUs
Size of Acquired Water Utilities

- **33** Small Class C/D
  - Class C; less than 2,000 connections
  - Class D; less than 500 connections

- **1** Large Class A
  - Valencia Water Company
  - 30,000 Connections

Small systems are ripe for acquisition
Location of Acquired Water Utilities

- **Class A**
- **Class C**
- **Class D**

*No Class B acquired…but two pending.*
Public Water System Investment and Consolidation Act of 1997

- **Public Utilities Code Sections 2718 – 2720**
  - Needs of Water Utilities
    - Infrastructure
    - Capital
    - Scale
    - Incentives
- **Use Fair Market Value**
  - As opposed to “book value”
- **Can Exceed Reproduction Cost**
  - Reliability
  - Health and Safety Regulations
  - Economies of Scale
  - Effect on customers “fair and reasonable”
Public Water System Investment and Consolidation Act of 1997

• CPUC Actions
  – Rulemaking 97-10-048
  – “Guidelines for the Acquisition and Mergers of Water Companies”
    • Filed October 22, 1997

• Decision 99-10-064
  – Issued October 21, 1999
  – Adopted a settlement between the ratepayer advocate and many of the water utilities
    • Six pages in length
    • Timelines, incentives, notices

In 1997, the CPUC regulated about 200 water utilities
CPUC Balanced Rates Proceeding

- **Water Action Plan**
  - **Objective:** Set rates that balance investment, conservation, and affordability.
  - **Issued Decision No. 14-10-047 (October 2014)**
  - Requires utilities to:
    - Assess whether high-cost and affordability problems exist in any of its districts.
    - Report on the review in next General Rate Case.
  - Propose (among other things):
    - Consolidation in some form
Pending IOU Acquisitions

• **Fruitridge Vista Water Company**
  – Class B
    • 4,800 connections
  – Service Area: Sacramento
  – California-American Water Company

• **Mesa-Crest Water Company**
  – Class C
    • 700 connections
  – Service Area: La Cañada Flintridge
  – Liberty Utilities
Pending IOU Acquisitions

• Hillview Water Company
  – Class B
    • 1,500 connections, $95 average monthly bill
  – Service Area: Oakhurst, Madera County
    • Comprised of four separate water systems
  – Recipient of significant Prop 50 and Prop 84 grants
    • To address; arsenic, uranium, manganese, and iron
  – California-American Water Company
  – Attractive Acquisition Target
    • Grant funds for capital investments
    • But on-going operational expenses remain
SB 623 - Water quality: Safe and Affordable Drinking Water Fund

• Legislative Findings and Declarations;
  – …hundreds of thousands of Californians…may be exposed to unsafe drinking water in their homes and schools…

  – the operation and maintenance costs to supply, treat, and distribute potable water…may be significant.

  – …nearly all state or federal drinking water project funding sources prohibit the use of that funding for operation and maintenance costs…

  – All public water systems…charge a schedule of rates and fees that are sufficient to recover the operation and maintenance costs.

  – Intent…to provide financial support, particularly for operation and maintenance…while also ensuring the long term sustainability of drinking water service and infrastructure.
SB 623 - Water quality: Safe and Affordable Drinking Water Fund

- Drinking water fee
  - $0.95 to $10 per month
  - Based on meter size
  - Exempts CARE customers; below 200% of federal poverty level
  - Recycled water service / fire service is exempt
  - Dedicated Safe and Affordable Drinking Water Fund
    - $100 M plus for 15 years

- Separate from dairy and fertilizer fees
- High-risk aquifer maps

While the text of the bill may change, the legislative findings and declarations will likely remain.
Operations Agreements

• Municipal Water Systems continue to seek operators for their water systems.
  – Not a core function
  – Aging infrastructure
    • Under-investment
  – Increasing water system expertise required

• Class A IOUs
  – Unregulated affiliates
  – Growth market

Reluctance to sell (consolidate) the water system remains.
Summary

- Number of Water IOUs have decreased.

- Majority of acquisitions are by other Water IOUs.

- CPUC continues to encourage acquisitions and consolidation.

- Operations and maintenance are critical.