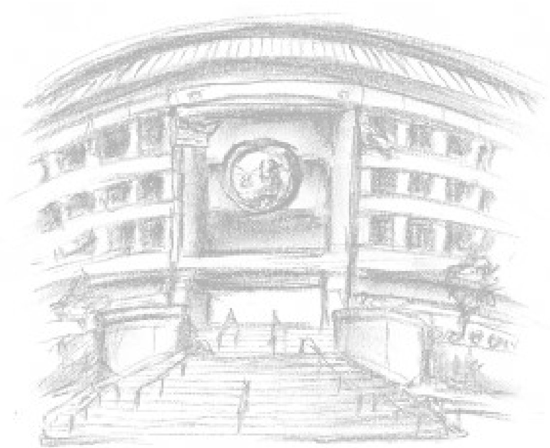
Public Workshop – R. 17-06-024
Water System Consolidation and SB 623



California Public Utilities Commission
State Water Resources Control Board

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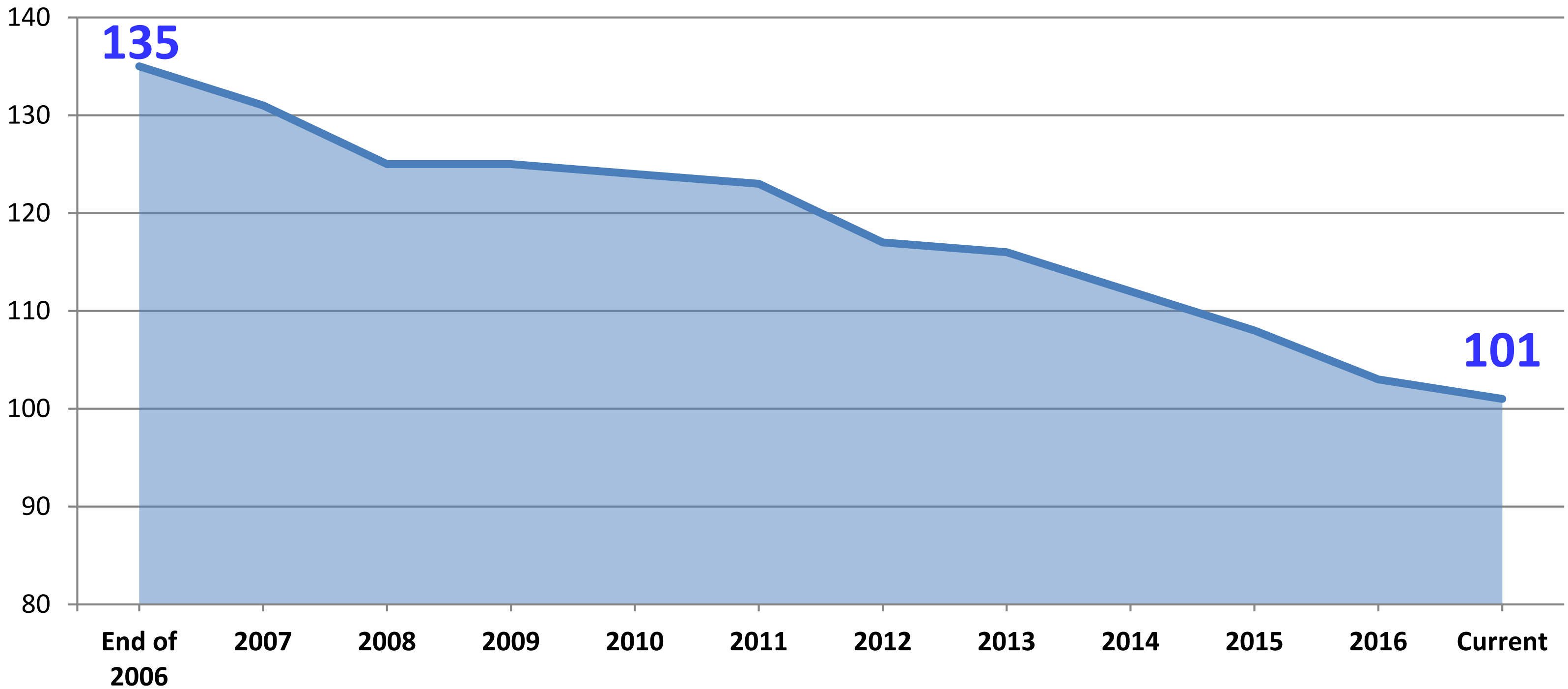
CPUC Water Division

November 13, 2017

Topics

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

Total Investor-Owned Water Utilities



Acquisitions since 2007: **34**

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

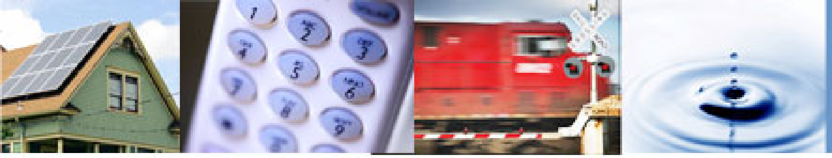
In general, IOUs acquire IOUs

Size of Acquired Water Utilities

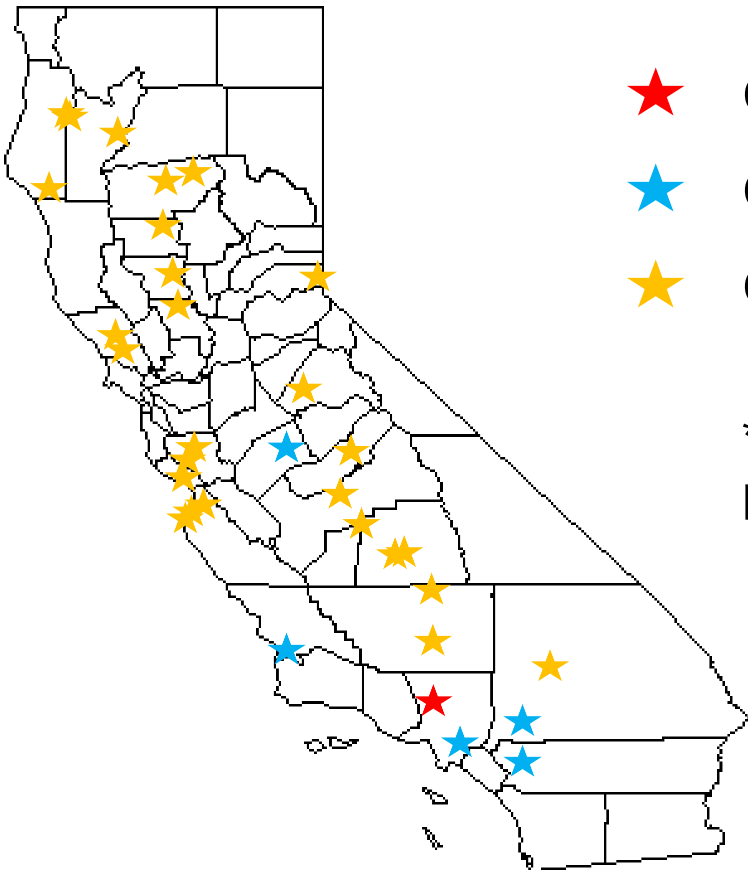
- **33** Small Class C/D
  - Class C; less than 2,000 connections
  - Class D; less than 500 connection

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

Small systems are ripe for acquisition



Location of Acquired Water Utilities

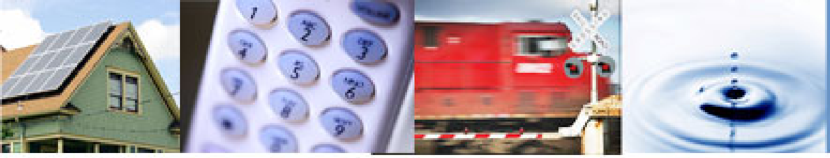


★ Class A

★ 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

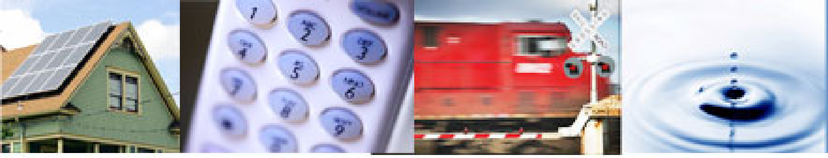
While the text of the bill may change, the legislative findings and declarations will likely remain.

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.