



July 16, 2020

Members of the California State Legislature
State Capitol
P.O. Box 942846
Sacramento, CA 94249-0115

RE: Letter to the Governor Regarding Immediate Water Service Restoration for all Californians - 06/03/2020

Dear Senator Dodd, Assemblyman Garcia, Assemblyman Chu, Assemblyman Rivas:

The California Water Association (“CWA”), the Community Water System Alliance (“CWSA”) and the California Association of Mutual Water Companies (“CalMutuals”) request your consideration of the following comments regarding your June 3, 2020 letter to the Governor RE Immediate Water Restoration For All Californians. CWA, CWSA, and CalMutuals are fully committed to the importance of the Governor’s April 2, 2020 Executive Order N-42-20 (“Order”).

CWA is the statewide association representing the interests of water utilities subject to the jurisdiction of the California Public Utilities Commission (CPUC). CWA’s member companies provide safe, reliable, high-quality drinking water to approximately six million Californians.

CWSA is a non-profit that organizes and empowers public water suppliers serving disadvantage communities, including their directors and managers, to inform legislation and regulations impacting these communities.

CalMutuals is a statewide association providing advocacy, as well as operational and educational resources, for mutual water companies. Over 1.3 million Californians are served by mutual water companies through a private, non-for-profit model.

Any proposal to expand Executive Order N-42-20 to small utilities is misguided and unfeasible given the size and scale of the smaller water utilities. The current Executive Order currently exempts small water utilities from its provisions regarding customer disconnections for nonpayment. Small water utilities with 200 or fewer service connections do not have the wherewithal to carry non-paying customers for extended periods. Most of these utilities are facing economic challenges as a result of the COVID-19 pandemic shelter in place orders. Many small water utilities are not able to pay employees, purchase supplies, or pay creditors. Without paying customers to fund operations, these water utilities may be unable to obtain a line of credit and if they are able access the credit market, they will likely be forced to accept high-cost sources of capital, such as short-term credit.

Below please find examples specific to each utility ownership model that further outline these cash flow challenges.

Special Districts:

As the COVID public health crisis has unfolded, special district revenues are likely to be much lower than anticipated. This means the district could be facing a deficit and will need to address the budget shortfall using reserves. For small special districts, reserves are much smaller, and the cash flow need may exceed available resources.

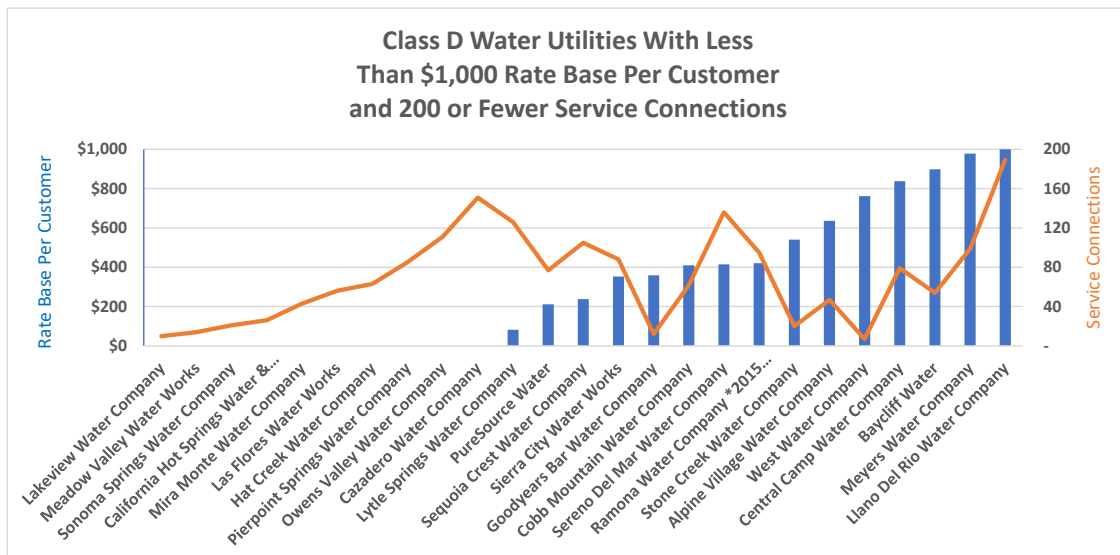
Mutual Water Companies:

The not-for-profit shareholder ownership structure of mutual water companies, requires that they charge only the cost of service placing reserves that are legislatively mandated under AB 240 in peril, putting these small water utilities at risk.

CPUC Regulated Water Utilities:

Unlike their special district and mutual water counterparts, CPUC regulated water utilities are unable to carry a reserve. Instead, these utilities rely on rate base, which is the value of property on which a public utility is permitted to earn a specified rate of return. To put things in context, for the large Class A water utilities with greater than 10,000 customers, their weighted average rate base per customer is approximately \$3,400. By comparison (see following chart), 25 of the 43 small CPUC-regulated Class D water utilities have rate base per customer of less than \$1,000, and with 10 of those having zero rate base. Zero rate base means they have no cushion for downturns like COVID-19 and consequently do not have the financial strength to carry non-paying customers for extended periods.

Note the chart below illustrates that the usual economies of scale typically seen in other industries are not evident; that is, even though small utilities are often incredibly small – the smallest one on this chart has 10 customers, nevertheless they often have little or no rate base.



CWA, CWSA, and CalMutuals agree that access to safe drinking water is an essential, fundamental, and basic human right that should be afforded to all people at a reasonable cost. The cost to produce safe drinking water, maintain distribution systems and pay employees remain. Restricting utilities from enforcing collection processes will have detrimental impacts to the financial health to small utilities.

If small water utilities are restricted from using “discontinuance of service” as an incentive tool in order to obtain revenues from their customer, some of whom without this incentive will likely no longer be able to continue as going concerns and quality of service will be seriously jeopardized.

Sincerely,



Jennifer Capitolo, Executive Director
California Water Association



Adan Ortega, Executive Director
CalMutuals
Community Water System Alliance

CC: Secretary Jared Blumenfeld, CA Environmental Protection Agency
Secretary Wade Crowfoot, CA Natural Resources Agency
Eileen Sobeck, Exec. Dir., CA State Water Resources Control Board
E. Joaquin Esquivel, Chair, CA State Water Resources Control Board
Honorable Members, CA State Water Resources Control Board
President Pro Tempore Toni Atkins, CA State Senate
Speaker Anthony Rendon, CA State Assembly
Deputy Cabinet Secretary Christine Hironaka, Governor’s Office
Deputy Legislative Secretary Rachel Wagoner, Governor’s Office