



CALIFORNIA WATER SERVICE

1720 North First Street
San Jose, CA 95112-4598 Tel: (408) 367-8200

January 20, 2017

The Honorable Members
State Water Resources Control Board
1001 I Street
Sacramento, CA 95814

Subject: California Water Service's Lucerne Service Area

Dear Chair Marcus and Members of the Board,

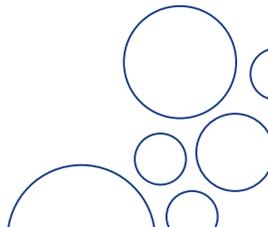
As you know, California Water Service (Cal Water) provides safe, reliable, and high-quality water utility service across California, with service areas from Chico in the north, to the Palos Verdes Peninsula in the south. In total, we serve approximately two million Californians through 500,000 individual service connections. Today, I'm writing to you about one of Cal Water's smallest service areas; the community of Lucerne in Lake County.

Cal Water has owned the water system in Lucerne and served its population of about 3,100 since 2000. Based on the criteria established in the Drinking Water State Revolving Fund Intended Use Plan, Lucerne is a "severely disadvantaged community," as its median household income (MHI) is approximately 42% of the statewide MHI. As is the case with many small service areas in California, there is a disjoint between the cost of operating, maintaining, and upgrading the water system in Lucerne with the community's ability to shoulder those expenses.

Currently, our customers in Lucerne pay a monthly service charge of \$15.94 per month for a typical 5/8 x 3/4" water meter, \$6.1755 per Ccf for the first seven Ccf of water, \$6.6493 per Ccf for the next 5 Ccf of water, and \$8.2379 per Ccf for all water use above 12 Ccf. Our typical customer in Lucerne uses approximately five Ccf of water in a monthly, resulting in monthly service and quantity charges of \$46.82.

In addition to these base charges, our customers in Lucerne with a typical 5/8 x 3/4" water meter pay an additional \$17.35 per month to repay a Drinking Water State Revolving Fund Loan (SRF Loan). Monthly charges for the repayment of the loan increase as the size of a customer's water meter increases, up to \$867.26 per month for a customer with a six-inch water meter. Annualized, water bills for our typical customers in Lucerne amount to approximately 3.03% of the community's MHI. The SRF Loan surcharge alone amounts to approximately 0.82% of the community's MHI.

It is the SRF Loan that we hope to discuss with you. In response to a Compliance Order issued by the California Department of Health Services in 2003, Cal Water undertook the design and construction of new water treatment facilities in Lucerne. In an effort to help reduce the rate impact of these new facilities, Cal Water sought and received a zero interest SRF Loan in the amount of \$7,078.698 with a 30 year term (Construction Loan Agreement SRF 08 CX 301). Cal Water and the State entered into a funding agreement for this project in 2008.





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Pursuant to California Public Utilities Commission's (Commission) Decisions 08-09-002 and 06-03-015, Cal Water is not earning any return, or profit, from the water treatment facilities constructed with the SRF Loan. Specifically Commission Decision 08-09-002, which granted Cal Water the authority to enter into the funding agreement with the State, stipulates that the treatment facilities are "permanently excluded from rate base for ratemaking purposes." Similarly, Commission Decision 06-03-015, which established the Commission's rules for the treatment of state grant funds received by the water utilities it regulates, states that "neither utilities nor their parent or affiliate companies should be allowed to earn a profit on grant-funded projects."

At the time Cal Water entered into the funding agreement for this project with the State, water utilities regulated by the Commission were not specifically eligible for SRF "loan forgiveness." However, in 2016, the California Water Association, the statewide association that represents water utilities regulated by the Commission sponsored SB 1456 (Galgiani) to make eligibility for loan forgiveness under the Safe Drinking Water State Revolving Fund Program available to Commission-regulated water utilities, if their customers are low income and the system is small. The Governor signed this bill on September 22, 2016. We have reviewed Federal and State laws regarding the SRF program and we believe that loan forgiveness can be applied retroactively for the community of Lucerne.

It is our hope that Cal Water and the Board can work together to utilize the flexibility offered by this new law to find a way to reduce the significant rate impact of Cal Water's existing SRF Loan on the residents of Lucerne. If you have any questions, please do not hesitate to get in touch with us.

Sincerely,

A handwritten signature in black ink that reads "Justin Skarb". The signature is fluid and cursive, with a long horizontal flourish extending to the right.

Justin Skarb
Government & Community Relations Manager

