

May 19, 2017

Mr. Stephen Lucas
Executive Director
Butte Local Agency Formation Commission
1453 Downer Street, Suite C
Oroville, CA 95965

Subject: Butte County LAFCo Regional Water Service Review of the Greater Oroville Area

Dear Mr. Lucas,

The National Association of Water Companies (NAWC) understands that the Butte County Local Agency Formation Commission (LAFCo) has agreed to complete, on behalf of the City of Oroville, a regional water service review of the greater Oroville area. NAWC is a national trade association that represents the interests of the private water utility industry, including California Water Service (Cal Water). In consideration of LAFCo's water study, I want to provide you and your colleagues with some perspectives from the private water utility industry.

Private water companies have served this nation for more than 200 years and have been reliably providing quality water service for generations of Americans. More than 73 million people across this nation benefit from private water companies continually investing in water infrastructure improvements, stellar environmental compliance records, economies of scale, operational efficiency and expertise, and new technologies.

Following are some distinct aspects of private water utilities particularly relevant for Oroville.

Regulatory oversight benefits customers of private water utilities.

The Regulatory Compact -- well-articulated in case law and state commission regulations -- allows regulated, private water companies like Cal Water to operate for the benefit of

the public. This compact means Cal Water relies on regulators at the California Public Utilities Commission (CPUC) to authorize any change in water rates to ensure rates accurately reflect the cost of providing safe, reliable water service to customers in different communities. Unlike municipalities, as a regulated private water utility, Cal Water is subject to additional layers of regulatory oversight when it comes to rates for water service. Private water utilities across the nation embrace this process and see it as uniquely beneficial to their customers.

The review by state regulators of a request for a change in rates by a private water utility like Cal Water is comprehensive, transparent and public. During the CPUC's 12- to 18-month regulatory review of a general rate case, private water utilities operating in California must provide regulators with thousands of pages of documents accounting for every dollar spent to operate, maintain and improve a water system. There are also public meetings conducted in the service area, as well as multiple opportunities for customers to write letters. Regulators provide ample opportunity for customers to submit comments about rates, water quality, and service – all in an open and public process.

It is impossible to make a true apples-to-apples comparison of rates between systems.

There are dozens of factors that influence water rates, including investment levels, water source, geography and water treatment needs. Because there are so many factors specific to each service area (even within the same region), it is impossible to make a true apples-to-apples comparison of rates between systems.

Comparing water rates in one community to those in another community leads to inaccurate conclusions since water rates can vary significantly due to many factors, including costs related to capital investment levels, the water source, geography, climate and water treatment needs.

It is also noteworthy that municipally-run water systems account for the cost of water service and capital projects differently, and in many cases rates for municipal water service that may not reflect the total cost of service. These artificially lower rates for water service can lead customers to unrealistic and inaccurate conclusions about the actual cost for their water service.

Private water companies are given an opportunity -- not a guarantee -- to earn a fair rate of return on capital improvements.

Capital improvements must be consistently made in a water system to ensure the water is safe, reliable, and secure. Regulators want private water utility shareholders to invest capital in water systems so they provide an incentive by allowing for a fair rate of return on the capital invested. This incentive is not dissimilar to a municipality financing its

debt for large water projects by issuing bonds for purchase by private investors who expect a return on the capital they invest in the bond market.

The CPUC provides an opportunity for a private water utility like Cal Water to earn a fair return on the capital it invests to improve and expand a water system. Subject to regulatory review, Cal Water's shareholders have an opportunity to earn a fair rate of return on the money they invest in the water systems that serve the public. This helps to attract capital for necessary future water infrastructure improvements.

Ongoing capital investment in water infrastructure is essential. The realization that capital investments are not a current priority was made acutely clear on March 9 when the American Society of Civil Engineers (ASCE) released the 2017 Report Card for America's Infrastructure and gave the country's water and wastewater systems grades of D and D+, respectively. The findings released by the ASCE affirm the urgent need to repair or replace aging water infrastructure to ensure resiliency for public health, safety, and robust local economies. The ASCE reported California's drinking water and wastewater infrastructure alone needs \$44.5 billion and \$26.2 billion, respectively. The private water sector has access to the capital and expertise needed to deliver 21st century solutions for the water challenges Oroville and many other communities are facing today.

I am hopeful this information will clarify the importance of having a regulated water utility partner like Cal Water to help meet the needs of future generations in Oroville.

Sincerely,

A handwritten signature in black ink that reads "Michael Deane". The signature is written in a cursive, flowing style.

Michael Deane
Executive Director

Cc: The Honorable Commissioners, Butte County Local Agency Formation
Commission

The Honorable Members, Oroville City Council

Mr. Donald Rust, City Administrator, City of Oroville

Mr. Rath Moseley, General Manager, South Feather Water & Power Agency

Mr. Jayme Boucher, General Manager, Thermalito Water & Sewer District