Some Thoughts on the Water Business

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First, Overview of Cal Water

In the Water Business, We Are All Small

- Largest in the West
- 3rd largest in U.S.
- Serves 2 million people
- 500,000 connections
- 1,200+ employees
Thoughts in Five Areas

• Public health – whatever the costs
• Too many, too small
• Infrastructure
• Usage dropping
• Conservation can work
1. Public Health – Whatever the Costs

- Water quality standards = multiple moving targets
  - 169 EPA standards
  - EPA considers new ones all the time
  - Each state can “pile on” – tighter and more standards
  - Technology: we can now measure ppt (trillion!)
2. Too Many, Too Small

- 52,000 water systems
- 83% serve fewer than 3,300 people
- 1% serve fewer than 100,000 people

As an aside, 80% government-owned (NOT cost-of-service regulation = pricing disconnect)
3. Infrastructure

- Water most capital-intensive
- Need continued debt and equity market access
- Ability to earn ROE important
Water Most Capital-Intensive Utility in U.S.

Capital invested per $1 of revenue

- Telephone: $0.86
- Gas: $1.18
- Electric: $2.06
- Water: $3.81
4. Usage Dropping

- New technology – toilets, irrigation
- Conservation ethic

Per customer use dropping about 1% per year on average
5. Conservation Can Work, Especially Where Supply Constrained

- Is often low-cost supply
- Get creative

High supply cost
  +
Low-income customer (LIRA)
  +
Full bathroom retrofit
  =
Win, win, win
Closing Personal Observations

1. NARUC best practices for water regulation–are just that
   • Shorten, simplify, streamline rate case process
   • Fair return on capital
   • Consolidate: economies of scale
   • Full-cost pricing
Closing Personal Observations

2. We are small, but (most) important
   - Public health, life-sustaining
   - Disasters – we are in support role
     - Fires
     - Natural disasters
   - Safe, reliable water is key