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June 30, 1998

Mr. Lester Snow, Executive Director
CALFED Bay-Delta Program
1416 Ninth Street, Suite 1155
Sacramento, CA 95814

Dear Lester:

California Water Service Group is a holding company that, through its two operating subsidiaries, the California Water Service Company (Cal Water) and CWS Utility Services (a utility services provider) serves 1.5 million people in 58 communities in California through more than 400,000 connections. Regulated by the California Public Utilities Commission, Cal Water's service area is composed of 20 distinct and separate operating systems (districts) located in the Sacramento and San Joaquin Valleys; the San Francisco Bay Area; Monterey County; and Southern California. Cal Water's sources of supply are comprised of local groundwater, reservoirs or water purchased from wholesale water agencies. As a statewide utility dependent upon many different sources of supply, we carefully reviewed the alternatives developed and proposed in CALFED's Draft Programmatic EIS/EIR Report.

Cal Water agrees that the main objectives of any solution to problems in the Bay-Delta should be 1) to improve water quality in the delta to benefit the environment and water users and, 2) to improve water supply reliability. We also support the evaluation criteria in the "solution principles" which require that any solution selected should 1) reduce conflicts between users of water, 2) be equitable, 3) be affordable, 4) be politically and economically sustainable in the long term, 5) be implementable, acceptable to the public and legally feasible and, 6) have no significant negative impact on the other stakeholders.

Since its inception in 1926, Cal Water's objectives have been to provide a safe and reliable water supply to our customers at a reasonable cost. Three fourths of Cal Water's purchased water supplies are direct or indirect diversions from the Bay-Delta. Given Cal Water's varied geographic locations and diverse water sources, our company would support a comprehensive alternative which addresses the main objectives of a solution in the Bay-Delta for the long term.

The environmental community is concerned that increased flows should not be an objective of a Bay-Delta solution. But the fact remains that California's population is growing at a rapid pace and even with increased water use efficiency, increased demand on the state's resources is inevitable. Expectations of the final solution must be realistic. It is unlikely that California voters will want to revisit this issue for decades. They are



looking to those responsible for managing California's water resources to develop plans which will ensure continued prosperity of all affected parties, i.e. people, business, agriculture, and the environment. Providing institutional and operational assurances which support this alternative should be a priority. Concerns of all stakeholders should be addressed as it relates to the final alternative. Although already a long and arduous process, it is our opinion that making this effort at the front end will result in the selection of the best solution for the long term.

While there has been much debate over various elements of the alternatives and common programs, our company understands that there will be no absolutes in reaching a consensus on a Bay-Delta solution. There will be exceptions, which could undermine the success of any element of the solution. CALFED must include provisions allowing flexible compliance. Local conditions must be considered when judging the progress of affected entities in meeting the goals set forth in each element of the solution. This is a key provision that will allow Cal Water to meet its obligations in the Bay-Delta solution.

As with other stakeholders in this process, Cal Water strongly supports the inclusion of assurances which address all affected parties in a particular action. While this theory has been continuously stated throughout this process, there have been examples of organizations and agencies intentionally or unintentionally excluding others in negotiations or development of proposals as it relates to water supplies in this state. We would suggest that a standard method of determining affected parties be developed and applied in all elements of the common programs and the final solution.

Implementation of the common programs and the final solution will require significant resources. We recommend that federal and state funding be made available on a non-discriminatory basis to all parties at the level necessary to carry out their respective responsibilities effectively. If it is perceived that more emphasis is being placed on one element than another, the potential for the loss of stakeholder support is risked.

A concern for regulated water companies in California is the involvement of the Public Utilities Commission (PUC) in developing policies to facilitate their ability to comply with any CALFED mandates. Private water companies serve twenty percent of California's population, and assurances that potential policy conflicts be addressed in the CALFED process will help us to avoid costly and time-consuming pursuit of PUC approvals and will allow us to begin compliance at the same time as public agencies. Consistent policies within state agencies would help to facilitate compliance with any CALFED mandates.

Any funding mechanism that provides technical and financial assistance for public water agencies must also include regulated water companies. Finally, projects which must be implemented by water suppliers to comply with CALFED, but which may not be economically feasible, should be supported through funds made available by CALFED agencies. Taxpayers will be protected. The PUC does not allow regulated utilities to make a profit on grant funds.



While Cal Water believes that increased flows are desirable, we also believe that the most efficient use of all flows be made. To achieve this goal, we recommend three policies:

1. Further emphasis should be placed on the development of recycled water. Although utilized in some parts of California, the development and use of recycled water as a source of additional water is still seen as unpalatable to many citizens throughout the state. More work is required to educate the public about the benefits as well as the potential health risks associated with the use of recycled water. Studies and published findings on recycled water use should receive the financial and technical support of CALFED. CALFED's support of such projects should be publicized so that Californians are aware that such programs exist and are sanctioned by the state and federal governments.
2. Installation and reading of water meters. All urban and agricultural user connections currently unmetered should have meters installed. CALFED financial assistance should be made available to install them. But perhaps more importantly, all water meters must be read and customer accounts billed by volume of use. Existing California law requires all new construction be metered but is silent about reading them.

There's an old saying that to manage something, it must be measured. This holds true for water. The simple act of installing meters, reading meters and billing customer accounts by volume provides the user with previously inaccessible information that is key to managing water demand.

3. Steps must be taken to develop a permanent water market. Doing so will create economic incentives to use our water supplies more efficiently. Excise or transfer fees could be imposed when moving water to provide funds to mitigate environmental or economic externalities that transfers could produce. No other mechanism will allocate supply as efficiently as the market.

In terms of the Water Use Efficiency Common Program, caution should be exercised to assure that water suppliers are not burdened by redundant or competing implementation requirements. Existing agreements to implement water management programs must be given consideration before establishing any new statewide water efficiency standard.

The ability by water agencies to determine the cost-effectiveness of implementing various efficiency measures could be enhanced by CALFED providing appropriate analytical tools or other technical assistance. It was determined during statewide workshops conducted by the California Urban Water Conservation Council to introduce and solicit input from water agencies on the revision of its Best Management Practices, that the ability to conduct cost-benefit analyses is difficult for many. As cost-effectiveness is the cornerstone to the implementation of any water efficiency measure,



CALIFORNIA WATER SERVICE COMPANY

CALFED must consider the benefit that the development of a consistent, user-friendly analysis tool could bring to accomplishing its objectives in the Water Use Efficiency Common Program.

In closing, Cal Water wishes to commend CALFED on the extraordinary effort it has made to help California meet its obligations to provide a safe and reliable water supply to the benefit of all. Balance, mitigation, improvement, protection and equity; vigilance in meeting these goals will result in a better future for California.

Sincerely,

A handwritten signature in black ink that reads "Peter C. Nelson".

Peter C. Nelson
President and Chief Executive Officer

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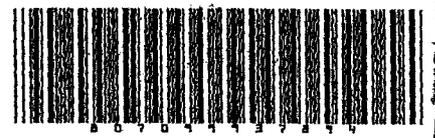
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