



FONTANA WATER COMPANY
A.16-01-002: General Rate Case
Frequently Asked Questions (FAQs)

Q. Why did Fontana Water Company file this application requesting rate changes?

A. Fontana Water's rates are set by the California Public Utilities Commission (CPUC). The CPUC is an independent state agency whose mission is to protect utility customers by ensuring that the rates they pay are fair and reasonable, while safe and reliable water service is maintained. The CPUC requires all water utilities it regulates to file a general rate case (GRC) every three years, so that it can conduct a comprehensive review of the utility's rates and operations.

Fontana Water filed its last GRC in 2011, and the current GRC was originally scheduled to be filed in 2013, but Fontana Water requested and the CPUC granted a delay. It has been five years since Fontana Water last filed a GRC.

Q. Why is Fontana Water requesting such a large increase?

A. The single largest factor driving the need for a rate increase is reduced water use through conservation.

Our customers have done an outstanding job responding to the governor's 2015 executive order calling for mandatory water use reductions, having reduced water use by an average of 27% from June 2015 through May 2016. It may seem counter-intuitive that water rates would increase in response to such a large drop in usage, since the amount of water Fontana Water must pump, treat and deliver is significantly less. However, the types of "variable" costs that decrease during periods of low water usage, such as purchased water, electricity, and chemicals, are relatively small compared to the "fixed" costs of operating the water system.

These fixed costs, which must be paid no matter how much water flows through the system, are similar to a home mortgage or rent payment that does not change based on the number of people living in a home. Fontana Water's fixed costs include the cost of replacing old infrastructure, laying pipe and water mains, building tanks, installing pumping and treatment facilities, drilling wells,

and setting fire hydrants - most of which is completely out of sight (and out of mind).

In fact, approximately 70-80% of the costs of operating a water system are fixed. In contrast, Fontana Water's rates are 70% variable to encourage conservation. Unfortunately, this means that when customers do the right thing and conserve, rates must be increased to cover the difference. But this also means you can lessen the impact of such rate increases by reducing water use even further.

For example, if the average residential customer with a 5/8 x 3/4-inch meter reduces their water use by 26% to approximately 14 ccf, their average monthly bill will increase by only 14.3% in 2017, instead of 47.3% for customers who continue to use an average of 19 ccf, as shown below:

	<u>Monthly Bill</u>	<u>Proposed Increase</u>
Present Rates	\$65.62	-
Proposed July 2017	\$74.98	\$9.36 or 14.3%
Proposed July 2018	\$76.65	\$1.67 or 2.2%
Proposed July 2019	\$78.98	\$2.33 or 3.0%

Q. Will the rate increase go to pay for water system improvements?

A. Yes. Fontana Water needs to spend \$76 million over the next four years maintaining and improving the water system to ensure that our customers continue receiving safe, adequate and reliable water service 24 hours a day, 365 days a year. This includes \$25 million to replace old pipes, water mains, and service lines that waste water through leaks, or are not large enough to meet demands while maintaining enough pressure to put out fires.

Fontana Water's budget also includes projects required for water supply, treatment, and storage and to implement water conservation measures mandated by the State of California and the CPUC in response to ongoing drought conditions. Fontana Water has budgeted for facilities that will replace lost supply due to contaminated wells, and will replace aging infrastructure that is at risk of failing.

Water system infrastructure lasts a long time, but it doesn't last forever. Replacing aging infrastructure increases the overall reliability of the water system, and it's easier and cheaper to replace it before it fails, rather than after it fails and causes damage to streets, sidewalks, and private property.

Q. When will the rate changes take effect?

A. The rate changes are anticipated to become effective on July 1, 2017, about a year from now. After the CPUC conducts a thorough review and audit of Fontana Water's operations, accounting records, and requested rate changes, it will either approve the rates that Fontana Water requested or approve different rates.

Q. Why does this process take so long?

A. Fontana Water must justify its proposal by providing thousands of pages of information to the CPUC. The CPUC assigns a team of engineers, accountants, economists and attorneys from the Office of Ratepayer Advocates to thoroughly examine all of this data and ensure that the public interest is protected. Later this year, the CPUC will hold formal hearings to collect evidence from all parties before making its final decision in mid-2017.

Q. Do Fontana Water and the Commission listen to customers' opinions?

A. Yes. Customers often feel ignored, but customers' opinions are important to both Fontana Water and the CPUC. Both review and consider all comments received from customers. Where the comment is specific (such as a water leak or high bill), Fontana Water addresses the issue immediately.

Q. How can Fontana Water help customers manage their water bills?

A. Fontana Water offers a comprehensive water conservation program to help customers use water more efficiently. Fontana Water provides water audits, free conservation kits and may be able to point you to available rebates from cities and water wholesalers to help offset the costs of water-saving appliances and landscaping.

Fontana also has a low income rate assistance program, known as California Alternative Rates for Water (CARW). Under the CARW program, discounted rates are offered to qualifying low income residential customers living in a single family dwelling or duplex, being served through a 1-inch or smaller meter, and meeting the income criteria established each year by the CPUC. Customers can apply for discounts under the CARW program by filling out an application, available on Fontana Water's website (www.fontanawater.com), or by visiting Fontana Water's local office.

Q. What increases has Fontana Water proposed?

A. Fontana Water has proposed the following increases:

\$20,607,600 or 38.6% in July 2017
 \$1,760,400 or 2.3% in July 2018
 \$2,664,800 or 3.4% in July 2019

Q. What rate changes has Fontana Water proposed?

A. Fontana Water has proposed the following rate changes:

Monthly Service Charge				
	<u>Present</u>	<u>July 2017</u>	<u>July 2018</u>	<u>July 2019</u>
5/8 x 3/4-inch meter (general)	\$13.90	\$18.89	\$19.14	\$20.56
5/8 x 3/4-inch meter (conservation)	\$14.53	\$18.89	\$19.14	\$20.56
1-inch meter (general)	\$34.76	\$47.23	\$47.85	\$51.40
1-inch meter (conservation)	\$36.34	\$47.23	\$47.85	\$51.40

Quantity Rates (per 100 cubic feet, or "Ccf")				
	<u>Present</u>	<u>July 2017</u>	<u>July 2018</u>	<u>July 2019</u>
Schedule FO-1 (general):	\$2.7517	\$3.7999	\$3.9060	\$3.9746
Schedule FO-1C (conservation):				
Tier 1 (0-16 Ccf)	\$2.5338	\$3.6165	\$3.7175	\$3.7828
Tier 2 (over 16 Ccf)	\$2.9139	\$4.1590	\$4.2751	\$4.3502
CARW surcharge (non-CARW customers only):	\$0.2408	\$0.3902	\$0.3902	\$0.3902

CARW Discount (per meter, per month)				
	<u>Present</u>	<u>July 2017</u>	<u>July 2018</u>	<u>July 2019</u>
5/8 x 3/4-inch meter	\$8.00	\$10.00	\$10.00	\$10.00
1-inch meter	\$20.00	\$20.00	\$20.00	\$20.00

Private Fire Service				
	<u>Present</u>	<u>July 2017</u>	<u>July 2018</u>	<u>July 2019</u>
Per inch diameter of service connection	\$9.37	\$12.73	\$12.90	\$13.86

Q. How would this request impact a typical residential customer's bill?

A. A typical residential customer served through a 5/8" x 3/4" meter and using 19 Ccf per month would experience the following changes if Fontana Water's application is approved:

	<u>Monthly Bill</u>	<u>Proposed Increase</u>
Present Rates	\$65.62	-
Proposed July 2017	\$96.64	\$31.02 or 47.3%
Proposed July 2018	\$98.86	\$2.22 or 2.3%
Proposed July 2019	\$101.55	\$2.69 or 2.7%

However, for the average residential customer with a 5/8 x 3/4-inch meter who reduces their water usage by 26% to approximately 14 ccf, the average monthly bill will increase by only 14.3% in 2017, instead of 47.3%, as shown below:

	<u>Monthly Bill</u>	<u>Proposed Increase</u>
Present Rates	\$65.62	-
Proposed July 2017	\$74.98	\$9.36 or 14.3%
Proposed July 2018	\$76.65	\$1.67 or 2.2%
Proposed July 2019	\$78.98	\$2.33 or 3.0%

Q. Why are these percentage increases different from the overall amounts Fontana Water is requesting?

A. To encourage water conservation, Fontana Water is required to design its rates to recover about 70% of its total revenues through its quantity rates. As a result, quantity rates and monthly service charges cannot be increased proportionately.

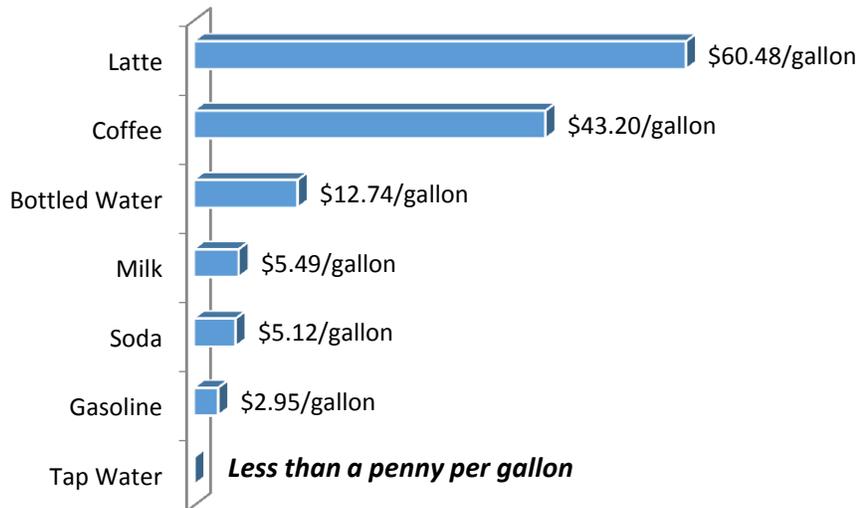
Q. Are these the only charges that Fontana Water makes?

A. Fontana Water's rates often include temporary surcharges (increases) and surcredits (decreases). For example, while costs are reflected in rates on a forecasted basis, the CPUC requires the recovery of certain costs to later be adjusted up or down based on the actual costs incurred.

For example, when Fontana Water's rates include higher water costs than Fontana Water actually incurs, a surcredit will be authorized to return the savings to customers. In contrast, when Fontana Water's rates include lower water costs than Fontana Water actually incurs, a surcharge will be authorized to recover the shortfall.

Q. How affordable is Fontana Water’s water?

A. Fontana Water delivers high quality water to our customers’ taps 24 hours a day, 365 days a year for less than a penny per gallon. Compared to a number of products we buy every day, tap water is the best deal around.



Q. How has the drought impacted this GRC?

A. Fontana Water maximizes its use of its cheapest water supplies, which include Lytle Creek surface water, to the extent it is available, and its non-Chino Basin wells, pursuant to its historical local groundwater pumping rights. Fontana Water is also completing a recycled water system that will begin delivering recycled water in 2016. Recycled water is a drought-proof, lower cost renewable water supply that replaces the use of drinking water for watering landscaping. As a result, Fontana Water will be able to minimize the impact of rising imported water costs.

The most significant impact of the drought is lower customer water use from conservation. As mentioned above, water utilities have a high ratio of fixed costs. That is, when water sales fall, the cost Fontana Water incurs in providing service does not fall proportionately. Therefore, in order to recover all of the costs of providing water service, the price of each unit of water must be increased.

It is a common misconception that higher rates necessarily mean higher water bills. Hopefully, the required water use reductions over the past year or so have demonstrated to our customers that water bills do, in fact, go down significantly when less water is used.

Q. Do I still have to pay a drought surcharge for excess water usage?

A. No. On May 18, 2016, the State Water Resources Control Board issued Resolution No. 2016-0029, allowing water providers like Fontana Water to self-certify that they will have sufficient water supplies should the drought continue. Because Fontana Water projects to have sufficient water supplies if the drought continues, its customers are no longer subject to mandatory conservation. As a result, Fontana Water eliminated the drought emergency surcharges on June 24, 2016. However, California remains in a serious drought and the State's call for water use efficiency and conservation remains loud and clear. Therefore, Fontana Water is asking that customers continue to conserve.

Fontana Water is now under Stage 1 of its Water Shortage Contingency Plan. This means that, although customers are not currently subject to mandatory conservation and drought emergency surcharges, a number of water use restrictions remain in effect. These Stage 1 restrictions can be found in Fontana Water's Rule No. 14.1, available on Fontana Water's website (www.fontanawater.com).

Q. What will Fontana Water do with the money collected by the drought surcharges?

A. Fontana Water is required by the CPUC to set aside all of the surcharges in a special account. The CPUC will determine at a later date how the money will be used. One likely use of the surcharge funds would be to help offset future rate increases.

Q. What does Fontana Water do to control its costs?

A. The clearest example is the delay in filing this GRC. Had Fontana Water filed its GRC in 2013, as originally required, rates would likely be higher than they are today.

Water conservation has been a focus of Fontana Water for many years, resulting in a reduced need for additional infrastructure and lower production costs.

You may have read recent headlines about cities putting-off the replacement of old water mains in order to hold down water rates, only to see broken mains cause damage to both public and private property which results in even higher repair costs. Fontana Water has been able to avoid similar problems

by maintaining its ongoing infrastructure replacement program, which includes only those projects which cannot be delayed.

To minimize water supply costs, Fontana Water delivers low-cost Lytle Creek water and local, low-cost groundwater to the extent these sources are available in order to avoid having to purchase costly imported water from Northern California or the Colorado River.

Fontana Water also works closely with Southern California Edison to ensure the water pumping equipment at each of its plant sites is operating efficiently and served under the most economical electric rate schedules.

Fontana Water's employee payroll costs have risen less than 6% (in total) over the last five years, which is lower than the cumulative rate of inflation of 8.8% over the last five years.

Q. Are Fontana Water's stockholders guaranteed a rate of return on their investment?

A. No. On the contrary, there is no guaranteed rate of return at all. The CPUC simply allows Fontana Water "an opportunity" to earn what the CPUC establishes as a *reasonable rate of return*.

Fontana Water more often than not earns less than what the CPUC authorizes for a variety of reasons, like unexpectedly lower water sales or higher necessary expenditures. The authorized rate of return is not decided in this GRC, but rather in a separate proceeding that the CPUC is expected to schedule in 2017 or later.