
THIRD READING

Bill No: SB 1469
Author: Bradford (D) and Becker (D), et al.
Amended: 4/25/22
Vote: 21

SENATE ENERGY, U. & C. COMMITTEE: 11-0, 4/18/22

AYES: Hueso, Becker, Bradford, Dodd, Eggman, Gonzalez, Hertzberg, McGuire,
Min, Rubio, Stern

NO VOTE RECORDED: Dahle, Borgeas, Grove

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

SUBJECT: Water corporations: demand elasticity

SOURCE: California American Water
California Water Service
Golden State Water Company
Liberty Utilities
San Jose Water Company

DIGEST: This bill authorizes the California Public Utilities Commission (CPUC) to authorize the use of a mechanism that separates water corporations' revenues and water sales, commonly referred to as a "decoupling mechanism."

ANALYSIS:

Existing law:

- 1) Establishes and vests the CPUC with regulatory authority over water corporations. (Article XII of the California Constitution)
- 2) Requires all charges demanded or received by any public utility for any product or commodity furnished or any service rendered shall be just and reasonable. (Public Utilities Code §451)

- 3) Requires the CPUC in establishing rates for water service to consider separate charges for costs associated with customer service, facilities, variable operating costs, or other components of the water service provided to water users. Requires the CPUC to consider, and authorizes the CPUC to authorize, a water corporation to establish programs, including rate designs, for achieving conservation of water and recovering the cost of these programs through the rates. (Public Utilities Code §727.5)

This bill:

- 1) Authorizes the CPUC to authorize the implementation of a mechanism that separates the water corporation's revenues and its water sales upon application by a water corporation, commonly referred to as a "decoupling mechanism."
- 2) Requires that an authorized mechanism to be designed to ensure that the differences between actual and authorized water sales do not result in the over-recovery or under-recovery of the water corporation's authorized water sales revenue.
- 3) Prohibits an authorized decoupling mechanism from enabling the water corporation to earn a revenue windfall by encouraging higher sales.

Background

CPUC-regulated water utilities. The CPUC has jurisdiction over water companies, or investor-owned water utilities (IOUs), that provide water service to about 16 percent of California's residents. Approximately 95 percent of those residents are served by nine large water IOUs, known as Class A water utilities, each serving more than 10,000 service connections. Combined, the nine largest utilities serve nearly 1.2 million customers. The majority of the CPUC-regulated water utilities (92) have service connections of 2,000 or less, and 87 of those have service connections of 500 or less.

CPUC water utility rates. As with other IOUs, the CPUC regulates the rates of water utilities under its jurisdiction (water corporations) to ensure they are just and reasonable. Class A water utilities file a formal General Rate Case (GRC) application for the CPUC every three years that includes information to justify any proposed rate changes. Class A water utility rates have two main components: a service meter charge and a use charge. The service charge is a monthly (or bi-monthly) charge applied to all customers regardless of how much water is used.

The service charge allows water utilities to cover up to 50 percent of their total fixed costs to operate and maintain water systems. The use charge is a charge for actual water used during the bill period. The use charge is calculated by multiplying the usage by the quantity rate. Quantity rates are tiered to allow for different prices per unit of water depending on the amount used and to account for a lower tier for the basic amount of water needed, and to help encourage conservation by pricing higher volumes of water use at a higher rate.

Water Revenue Adjustment Mechanism (WRAM). WRAMs are ratemaking mechanisms developed by the CPUC to incentivize Class A water IOUs to conserve water. WRAM balances are not included in service or use charges. Instead, WRAMs are recovered through a separate surcharge on customer utility bills. The CPUC has instituted two types of WRAMS: full WRAM and Monterey-style WRAM. Full WRAM is a full sales and revenue decoupling mechanism whereby when actual sales are less than those adopted in the GRC sales forecasts, uncollected revenues may be recovered through a surcharge. When sales are more than those adopted in the GRC sales forecasts, over-collected revenues may result in a refund to customers. Monterey WRAM calculates sales differences due to increasing tiered, quantity rates, also referred to as “conservation rate design.” The sales differences come from comparing the revenue collected through the tiered rates and those that would have been collected if there were no tiered rate structure, resulting in a revenue adjustment tracked through the Monterey WRAM.

CPUC pilot program of full WRAM (full decoupling mechanism). Full WRAMS were first implemented in 2008 and were developed as part of a pilot program to promote water conservation. The CPUC adopted several settlements between various Class A water utilities and the Public Advocates Office (previously known as the Office of Ratepayer Advocates). These settlements included conservation rate designs and adoption of full WRAM as a means of promoting conservation by decoupling sales from revenues. Specifically, the settlement decisions adopted full WRAM (decoupling) mechanisms for California Water Service Company, California-American Water Company, Golden State Water Company, Liberty Utilities (Park Water) Corp., and Liberty Utilities (Apple Valley Ranchos Water) Corp. In contrast, San Jose Water Company and California American’s Monterey district have Monterey-style WRAMS.

CPUC eliminates decoupling cites lack of conservation benefits and customer complaints. In CPUC proceeding R. 17-06-024 related to water affordability issues, the CPUC adopted a decision (D. 20-08-047) in Phase 1 that, among other provisions, eliminated the use of full WRAMs (decoupling) beginning in the next

GRC cycle for each of the Class A water utilities and authorized the utilities to petition for a Monterey-style WRAM mechanism. The CPUC's decision noted that the 10-year pilot program of full WRAMs did not provide the anticipated benefits, especially in light of the issues it created. Specifically, the CPUC decision noted the full WRAMs did not result in more conservation of water than those without them. The decision noted that customers may see their bills increase when they conserve more under full WRAMs, full WRAMs resulted in major under-collections and large balances, and rarely credits to customers. The CPUC stated the Monterey-style WRAMs are authorized to provide for recovery of revenue, other mechanisms are available to address loss revenue (including Lost Revenue Memorandum Account as utilized by some of the utilities not using WRAMs) and that the elimination of the full WRAMs would better induce the water utilities to provide more accurate sales forecasts and accurate tiered rates (including those authorized by the Monterey-style WRAMs) also incentivize conservation.

Water IOUs petition California Supreme Court. After the CPUC decision to eliminate full decoupling (the full WRAMs), several of the water utilities petitioned the CPUC for rehearing. Prior to a rehearing decision, Golden State Water filed a petition with the Supreme Court of California for writ of review. The Court granted the CPUC's request to hold the court case in abeyance until a decision on rehearing was issued. In September 2021, the CPUC issued a decision denying rehearing. Subsequently, Golden State Water filed an amended petition with the California Supreme Court and a separate petition was filed by several of the water utilities. The Court has since combined the petitions, but has not issued a decision on the matter, as the cases remain pending.

SB 1469. This bill authorizes the CPUC to authorize a full decoupling of water utility sales and revenue forecasts, thereby instituting the full WRAM, in reviewing a water utilities' GRC application, but not require the CPUC to do so. The proponents of this bill argue that decoupling of sales and revenue supports conservation efforts, especially critical as the state continues to experience drought conditions.

CPUC regulatory flexibility. Many of the water utilities supporting this bill disagree with the CPUC decision to eliminate the full WRAM (decoupling). They argue that decoupling provides stability despite changes in water use and ensures that water suppliers only receive the funds they need to safely operate and upgrade the water system. Those opposed to this bill argue that the decision on whether to decouple water utility rates is best left to the CPUC. They note that the issues in

determining just and reasonable rates for customers are complex and involve multiple variables, particularly as it relates to encouraging conservation. They oppose this bill as it would overturn a CPUC decision and could limit regulatory flexibility. They express concerns that the surcharges imposed by full WRAMs lack transparency, create customer complaints, and can saddle customers with costs for extended periods.

Related/Prior Legislation

SB 29 (Kehoe, Chapter 8, Statutes of 2001) among many provisions of the bill, decoupled electricity sales with revenue recovery for electrical corporations.

AB 2815 (Moore, Chapter 549, Statutes of 1992) authorized the CPUC, in establishing rates for water service, to establish separate charges for costs associated with customer service, facilities, and fixed and variable operating costs, as specified.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

SUPPORT: (Verified 5/10/22)

California American Water (co-source)
California Water Service (co-source)
Golden State Water Company (co-source)
Liberty Utilities (co-source)
San Jose Water Company (co-source)
Steve McShane, Salinas City Council Member
350 Silicon Valley
Alliance for Water Efficiency
Alliance to Save Energy
American Council for an Energy-efficient Economy
Bay Area Council
Bay Area Water Supply and Conservation Agency
California Community Economic Development Association
California Water Efficiency Partnership
California-Nevada Section, American Water Works Association
Central Valley Business Federation (BizFed)
Chamber of Commerce: California Hispanic, Carson, Commerce Industrial
Council, Cupertino, East Los Angeles, Greater Bakersfield, Greater
Stockton, Hawthorne, Hermosa Beach, Livermore Valley, Lomita, Menlo

Park, Montebello, Palos Verdes Peninsula, Redondo Beach, San Joaquin
County Hispanic, San Jose, and San Mateo Area
City of Salinas
City of San Mateo
El Concilio
ICON CDC
International Federation of Professional & Technical Engineers - Local 26
International Union of Operating Engineers Local 3
Natural Resources Defense Council
Santa Clara Valley Water District
Silicon Valley Leadership Group
South Bay Association of Chambers of Commerce
Sustainable Silicon Valley
West Basin Water Association

OPPOSITION: (Verified 5/10/22)

Public Advocates Office
Public Water Now

ARGUMENTS IN SUPPORT: According to the author:

SB 1469 is seeking to memorialize a long-held practice of ratemaking that has been used to encourage conservation. Decoupling has been in place for energy utilities since the 1980s and the Legislature made the program permanent in 2001 as part of the policies and practices established after the 2000 energy crisis.

Utility rate decoupling works – Los Angeles Department of Water and Power, the largest municipal utility in the United States, serving four million residents and businesses implemented decoupling for its water utility in 2016... SB 1469 reinstates rate decoupling to ensure that both costs savings and conservation benefits continue to be available for customers throughout California.

Many of the supporters of this bill note the need to ensure decoupling of water sales and revenues. In support of this bill, California American Water states: “a proven way to encourage water conservation is through the best-practice of decoupling... Decoupling allows water suppliers to encourage maximum water conservation while having assurance they will have sufficient revenues to safely and reliably deliver water.”

ARGUMENTS IN OPPOSITION: In opposition to this bill, the Public Advocates Office states that SB 1469 does not advance of the goals of promoting conservation or keeping water rates affordable. They note that the CPUC eliminated decoupling after 10 years of experience with a pilot project. The Public Advocates Office opposes decoupling as it “charges customers for any reduction in sales, even those unrelated to conservation, such as economic downturn...”, limits transparency on cumulative bill impacts, removes the incentive for water utilities to accurately forecast sales and costs, and unfairly transferring forecasting risks to customers.

Those opposed to this bill express concerns that the full WRAM punishes customers for conservation by billing them with additional surcharges unrelated to their water usage. Public Water Now states that “because WRAM calculates the difference between estimated and actual sales, and not the difference between actual sales and the sales necessary to achieve a reasonable shareholder return WRAM surcharges will often allow a water utility to exceed its authorized rate of return.”

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