Date of Hearing: August 20, 2025

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Buffy Wicks, Chair
SB 473 (Padilla) – As Amended April 10, 2025

Policy Committee: Utilities and Energy Vote: 15 - 0

Urgency: No State Mandated Local Program: Yes Reimbursable: No

SUMMARY:

This bill requires the California Public Utilities Commission (CPUC) to ensure that errors in estimates of demand elasticity or sales do not result in material over collections or undercollections by water corporations, and that any changes to water service rates or implementation of surcharges do not result in revenues exceeding those approved by the CPUC.

FISCAL EFFECT:

This bill will likely result in significant new workload for the CPUC, with associated annual costs likely in the hundreds of thousands of dollars (Public Utilities Commission Utilities Reimbursement Account).

The CPUC estimates this new workload will require the addition of staff at an annual cost of approximately $576,000, as follows: a regulatory analyst ($140,000 annually), a more-senior regulatory analyst ($179,000) and an administrative law judge ($257,000). CPUC describes tasks these position will undertake as establishing a full decoupling mechanism in general rate case proceedings and then reviewing water utilities' decoupling requests.

COMMENTS:

1) **Purpose.** The author intends this bill to allow water utilities to decouple charges applied to a customer's bill to recover the utility's fixed costs from the volume of water the customer uses during the billing period, a practice known as "decoupling," which the author describes as "proven to reduce water usage and keep utility rates affordable."

2) **Background.** The CPUC regulates the rates charged by the investor-owned utilities (IOUs). In the case of gas and electric IOUs, the CPUC long ago decoupled electricity use from IOU rate recovery, to remove the incentive for the profit-seeking IOUs to maximize energy consumption. However, the Legislature recognized that an IOU may, in good faith, misestimate demand for gas or electricity and held that such an IOU should not benefit by nor suffer from such a misestimation. For this reason, existing law directs the CPUC to ensure that errors in estimates of demand elasticity or sales do not result in material over or under collections by the electrical IOUs.

   The CPUC has also attempted to decouple water use from the ability of water IOUs to recover their just and reasonable costs from ratepayers. Through implementation of what are known as WRAMs (water revenue adjustment mechanisms), the CPUC sought to encourage large water IOUs to conserve water through pilot projects that separate certain costs from

charges collected from the IOUs' customers for each volume of water used. Under a WRAM, a water IOU forecasts the amount of water its customers will use over a given period, and the IOU charges its customers a rate for each unit of water used in an amount sufficient to allow the IOU to recover its authorized costs over the period.

However, an IOU is not always successful in forecasting the amount of water its customers will use over a given period. In such instances, the IOU will collect too much revenue from its customers if the IOU underestimates the amount of water it customers will use over the given period, and IOU will collect too little revenue if it overestimates the amount of water its customers will use. To account for this potential under or over collection of revenue, the IOU tracks revenues for the period and, through use of the WRAM, either collects additional revenue from its customers through a surcharge or refunds revenue to its customers, as appropriate.

The CPUC concluded its WRAM pilots did not result in consistent water savings compared to other rate structures, finding the mechanism encouraged a water IOU to over forecast water use, which kept volumetric water charges low, knowing it could later collect any revenue shortfall through a WRAM surcharge. For this reason, in 2020, the CPUC ended the use of WRAMs by water IOUs. The CPUC did allow IOUs to use a modified version of the mechanism, known as a "Monterey-style WRAM," distinct from the "full WRAM" discussed in this analysis so far.)

The large water IOUs sued the CPUC to allow them to continue using WRAMs. But, before conclusion of the lawsuit, the Legislature passed SB 1469 (Bradford), Chapter 890, Statutes of 2022, which authorizes a water IOU to propose decoupling mechanisms—including full WRAMs—in its general rate cases. Importantly, SB 1469 does not require the CPUC to approve an IOU's WRAM proposal.

3) **Support and Opposition.** This bill is supported by large water IOUs and several of their customers, among others. Writing jointly in support, the California Water Association and several of the state's larger water IOUs assert:

> The program [decoupling] lets water utilities separate the fixed costs of water infrastructure from the variable costs of water consumption. It's a proven tactic but unfortunately, since SB 1469 passed, the California Public Utilities Commission (CPUC) has denied all decoupling requests from water suppliers, discouraging programs that help make water bills more affordable and that encourage conservation.
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> SB 473 offers a permanent solution to water affordability by ensuring the CPUC permits water utilities to utilize decoupling when requested and honor the intent of the Legislature when they passed SB 1469.

These opponents also contend the bill should result in few or no new costs for CPUC, since the CPUC already has resources to consider the IOU's past and current full decoupling proposals.

The bill is opposed by the Public Advocate's Office, which describes water decoupling as "a flawed rate adjustment mechanism" that has been proven over a 10-year pilot project to not lead to water conservation but that shifts forecasting risks from IOUs to ratepayers.

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