SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS
Senator Josh Becker, Chair
2025 - 2026 Regular

Bill No:	SB 473	**Hearing Date:**	4/7/2025
Author:	Padilla		
Version:	2/19/2025 Introduced		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Water corporations: demand elasticity

DIGEST: This bill requires the California Public Utilities Commission (CPUC) to ensure errors in estimates of demand elasticity or sales do not result in material overcollections or undercollections of water corporations.

ANALYSIS:

Existing law:

1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical and 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)

4) Requires the CPUC to ensure that errors in estimates of demand elasticity or sales do not result in material overcollections or undercollections of electrical corporations. (Public Utilities Code §739.10)

This bill requires the CPUC to additionally ensure errors in estimates of demand elasticity or sales do not result in material overcollections or undercollections of water corporations.

Background

Decoupling. Decoupling is a utility rate-making mechanism that separates a utility's revenue from its sales. Under a decoupling approach, if a utility sells more or less electricity in one year, any revenue over-collection will be returned to customers and any under-collection will be collected the next year. California was the first state to introduce decoupling in 1982 in order to encourage energy conservation and efficiency and reduce the need to build more power plants. This mechanism ensures utilities receive a pre-determined revenue, regardless of electricity sales volume, incentivizing them to promote energy conservation.

CPUC-regulated water utilities. The CPUC has jurisdiction over water utility corporations, or investor-owned water utilities (IOUs), that provide water service to about 16% of California's residents. Approximately 95% of those residents are served by nine large water IOUs, known as Class A water utilities, each serving more than 10,000 customer 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 (known as water corporations or water IOUs) under its jurisdiction to ensure rates are just and reasonable. Class A water utilities file a formal General Rate Case (GRC) application to 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 recover up to 50% of the total fixed costs to operate and maintain water utility systems. The use charge is a charge for actual water used during the utility billing period, 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. Utilities utilize tiered rate structures to account for a lower tier for the basic amount of service needed (in this case water) and to help encourage conservation by pricing higher volumes of usage (in this case water) 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 water 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 the amount 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 (PAO). 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 (Rulemaking 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 combined the petitions, and ruled in favor of the water utilities on procedural grounds after the adoption of SB 1469 (Bradford, Chapter 890, Statutes of 2022) which explicitly authorized the CPUC to consider the WRAMs. Since then the CPUC has denied applications by water corporations for full decoupling due to the continued concerns with the mechanism.

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. In previous proceedings and in relation to SB 1469, the PAO argued 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 express concerns that the surcharges imposed by full WRAMs lack transparency, create customer complaints, and can saddle customers with costs for extended periods.

Concerns. In opposition to SB 1469 and proceedings proposing decoupling, the PAO argue against full decoupling contending it does not advance the goals of promoting conservation or keeping water rates affordable, largely due to the surcharges imposed on customers. They note that the CPUC eliminated decoupling after 10 years of experience with a pilot project. The PAO 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. The water corporations supporting this bill contend that full decoupling supports conservation and addresses affordability for low-use customers. They acknowledge that surcharges can be confusing for customers, and note a desire to consider other decoupling rate designs that result in less confusion for customers while supporting conservation.

Amendments needed. In order to provide additional guard rails to better protect customers from additional costs, *the author and committee may wish to amend this bill to add language that ensures that the decoupling mechanism does not result in the over recovery of the water corporation's water sales revenue.*

Prior/Related Legislation

SB 1469 (Bradford, Chapter 890, Statutes of 2022) required the CPUC to consider whether to authorize, upon application by a water corporation, implementation of a utility rate mechanism that separates a water corporation's revenues and its water sales, commonly referred to as a "decoupling mechanism."

AB 29 (Kehoe, Chapter 8, First Extraordinary Session of 2001) among its many provisions related to energy, included explicit language to decouple 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:

California Water Association (Sponsor)
Alliance for Water Efficiency
Bay Area Council
Butte Environmental Council
California African American Chamber of Commerce
California Alliance for Jobs
California American Water
California Asian Pacific Chamber of Commerce
California Chamber of Commerce
California State Pipe Trades Council
California Water Service
Cupertino Chamber of Commerce
El Concilio California
Golden State Water Company
Great Oaks Water Company
Initiating Change in Our Neighborhoods Community Development Corporation
International Union of Operating Engineers, Local 3
Liberty Utilities

NAACP California-Hawaii State Conference
National Association of Water Companies
Regional Water Authority
Sacramento Metropolitan Chamber of Commerce
San Jose Chamber of Commerce
San Jose Water Company
Sierra Nevada Alliance
Silicon Valley Leadership Group
Torrance Area Chamber of Commerce
Utility Workers Union of America, Local 259

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: California Water Service, Golden State Water Company, San Jose Water Company, California American Water, Liberty Utilities, and Great Oaks Water Company state:

> SB 473 is a pragmatic solution that will promote affordability and encourage water conservation. In 2022, the California Legislature passed Senate Bill 1469 to make permanent a successful pilot program, called "decoupling," that promotes water affordability, conservation, and protects investments in clean, safe, reliable water infrastructure. The program 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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