
**SENATE COMMITTEE ON ENERGY, UTILITIES AND
COMMUNICATIONS**

Senator Ben Hueso, Chair

2021 - 2022 Regular

Bill No:	SB 1469	Hearing Date:	4/18/2022
Author:	Bradford		
Version:	2/18/2022	Introduced	
Urgency:	No	Fiscal:	Yes
Consultant:	Nidia Bautista		

SUBJECT: Water corporations: demand elasticity

DIGEST: This bill requires the California Public Utilities Commission (CPUC) to authorize the use of full decoupling of water sales and revenues by water utilities.

ANALYSIS:

Existing law:

- 1) Establishes and vests the CPUC with regulatory authority over electrical corporations 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 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)
- 4) 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. (Public Utilities Code §727.5)

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

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 rates. As with other IOUs, the CPUC regulates the rates of the water utilities under its jurisdiction 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 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 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 now Public Advocates Office. These settlements included conservation rate designs and adoption of WRAM as a means of promoting conservation by decoupling sales from revenues. Specifically, the settlement decisions adopted full WRAM 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 Cal Am's Monterey district have Monterey-style WRAMS.

CPUC issues decision to eliminate full WRAM – decoupling. In 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 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 did not provide the anticipated benefits, especially in light of the issues it created. Specifically, the CPUC decision noted the full WRAMS did not conserve more than those without them. The CPUC stated that the elimination of the full WRAMS would better induce the utilities to provide more accurate sales forecasts, customers may see their bills increase when they conserve more under full WRAMS, accurate tiered rates also incentivize conservation, full WRAMS resulted in major under-collections and large balances (and rarely credits to customers), 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).

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 would implement full decoupling of water utility sales and revenue forecasts, thereby instituting the full WRAM. 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. 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 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.

Amendments. Should the committee wish to authorize decoupling for water utilities, the author and committee may wish to amend this bill to recraft the contents into Public Utilities Code §727.5, more clearly providing the option for decoupling mechanisms for water utilities, but ensure that the decoupling mechanism does not result in water utilities earning a revenue windfall by encouraging higher sales.

Public Utilities Code §727.5

(d) (1) The commission shall consider, and may 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. rates if the following condition is met:

(2) (A) Upon application by a water corporation, the commission may authorize the implementation of a mechanism that separates the water corporation's revenues and its water sales, commonly referred to as a "decoupling mechanism."

(B) An authorized decoupling mechanism shall be designed to ensure that the differences between actual and authorized water sales do not result in the overrecovery or underrecovery of the water corporation's authorized water sales revenue.

(C) An authorized decoupling mechanism shall not enable the water corporation to earn a revenue windfall by encouraging higher sales.

Prior/Related 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:

California American Water, Co-sponsor
California Water Service, Co-sponsor
Golden State Water Company, Co-sponsor
San Jose Water Company, Co-sponsor
Liberty Utilities, Co-sponsor
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 Hispanic Chamber of Commerce
California Water Efficiency Partnership
California-Nevada Section, American Water Works Association
Carson Chamber of Commerce
Central Valley Business Federation (BizFed)
City of Salinas
City of San Mateo
Commerce Industrial Council Chamber of Commerce
East Los Angeles Chamber of Commerce
El Concilio
Greater Bakersfield Chamber of Commerce
Greater Stockton Chamber of Commerce
Hawthorne Chamber of Commerce
Hermosa Beach Chamber of Commerce
ICON CDC

International Federation of Professional & Technical Engineers - Local 26
International Union of Operating Engineers Local 3
Livermore Valley Chamber of Commerce
Lomita Chamber of Commerce
Montebello Chamber of Commerce
Natural Resources Defense Council
Palos Verdes Peninsula Chamber of Commerce
Redondo Beach Chamber of Commerce
San Joaquin County Hispanic Chamber of Commerce
San Jose Chamber of Commerce
San Mateo Area Chamber of Commerce
Silicon Valley Leadership Group
South Bay Association of Chambers of Commerce
Sustainable Silicon Valley
West Basin Water Association

OPPOSITION:

Public Advocates Office, unless amended
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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