A Case Study of Low-Income Discount Programs for Water Utilities in California[1]

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Abstract:

In the past 22 years, the CPUC has rolled out low-income discount programs across all of its major water utilities. These programs have proven to be a great success; at peak enrollment, nearly 260,000 customers were receiving a discount on their water bills, representing 1 million Californians. As these programs were rolled out on a utility-by-utility basis, there is not one standard program model; e.g. the discount amount, and the component of the bill to which it is applied, differs, though the CPUC is currently exploring this issue currently in a rulemaking.

This paper examines the evolution, incentives and effects of low-income discount programs on California water utilities. Specifically, the paper analyzes the impact of one low-income discount program on a large California water utility and its customers. The paper explores the effect of increasing enrollments on utility revenues, the impact of the subsidy on non-eligible customers, water use by income level, customer perception and equity issues, utility and customer risk, and the effect on water conservation.

Lessons are drawn for the design of future low-income programs.

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Over the past 22 years, the California Public Utilities Commission (Commission) has rolled out low-income discount programs across all its major water utilities. These programs have proven to be a great success. At peak enrollment, nearly 260,000 customers were receiving a discount on their water bills, representing about one million Californians. This paper examines the evolution, incentives and effects of low-income discount programs on California water utilities. Specifically, the paper analyzes the impact of one low-income discount program on a large California water utility and its customers. The paper explores the effect of increasing enrollments on utility revenues, the impact of the subsidy on non-eligible customers, water use by income level, customer perception and equity issues, utility and customer risk, and the effect on water conservation.

Evolution of the Programs

In 1993, Section 739.8 was added to the Public Utilities Code, requiring the Commission to consider and implement low-income programs for water utilities. The statute states in part "Access to an adequate supply of healthful water is a basic necessity of human life and shall be made available to all residents of California at an affordable cost...The commission shall consider and may implement programs to provide rate relief for low-income ratepayers and provide appropriate incentives and capabilities to achieve water conservation goals."

Three years later, the Commission established its first low-income discount program for California-American Water Company's Monterey District[2]. At the time, the Commission adopted a residential Program for Alternate Rates because of its two-fold desire to assist low-income ratepayers *and* low-water users. This program consisted of three parts; it billed low-income ratepayers for only the water they consumed—without having to pay the monthly fixed service charge. For low water users, the first 8 Ccf (1 Ccf = 748 gallons) of water used was to be billed at a rate of 75% of the standard block rate. And lastly, a surcharge was instituted for high residential water consumption. To offset the revenue loss due to these three programs, the Commission established, on a temporary three-year basis, a Water Revenue Adjustment Mechanism (WRAM) account to record the lost revenues for later recovery as a means of providing revenue stability for the utility. This was the first time the Commission instituted a sales decoupling mechanism for a water utility. While widely used for energy utilities, the Commission had not previously used decoupling to promote water conservation.

Water rate design typically includes a service charge structured to recover at least 50% of the utility's fixed costs, along with a quantity charge, which applies to actual consumption on a volumetric basis. As a conservation incentive, a water utility's rate design may include more than one consumption block or tier, with higher consumption levels subject to higher rates.

The Monterey region of California has been and continues to remain a water-constrained area with higher costs of providing service. Exacerbating this problem is Order WR 95-10 (issued in

[2] Commission Decision No. 96-12-005, dated December 6, 1996.

1995) from California's State Water Resources Control Board that requires the utility to significantly reduce its reliance on water from the Carmel River. In adopting California American's low-income discount program, the Commission felt that by eliminating the service charge, but keeping the quantity charge for water, low-income customers would still receive a conservation price signal.

The Commission, however, did not follow this approach in the next low-income program it adopted. In 2002, the Southern California Water Company[3] was authorized to establish a low-income program across its Region II and III service areas[4]. This program provided for a discount of 15% on *each* bill component, i.e. the service charge and the quantity charge. To track the costs and revenue shortfall of the program, the utility was authorized to maintain a balancing account for future recovery. At the time, the Commission concluded that low-income rate relief in the form of a 15% reduction of each bill component was a reasonable approach, even though the various districts contained within Region II and III can face different water supply constraints—though not as severe as in Monterey.

In 2004, the Commission adopted a low-income program for the San Jose Water Company[5]. In this case the Commission stayed consistent with its decision in the Southern California Water Company case and authorized San Jose Water Company to discount the total bill amount by 15%. The utility had proposed a $5 fixed monthly discount, but the Commission felt that this discount amount was too little. To track revenue shortfalls, the utility was authorized to maintain a balancing account for future recovery.

In 2005, the Commission approved a low-income discount program[6] for the San Gabriel Valley Water Company. But this time the Commission reasoned that "…by lowering the readiness-to-serve charge only, there is no adverse incentive to use water unwisely. Conversely, applying a discount to the total bill and/or to the quantity rate, would not promote conservation." The utility's proposal reduces the monthly service charges by 50% for all qualifying customers, while maintaining the same quantity rate. And to track revenue shortfalls, the utility was authorized to maintain a balancing account for future recovery or refund.

Even though the Commission approved low-income programs with varying levels of discounts to bill components, the eligibility criteria always remained the same. The eligibility criteria were set initially at 175% of the federal poverty guidelines to match that of the low-income discount programs in effect for electric and gas utilities. The federal guidelines are updated annually, and the Commission's current eligibility criteria is set at 200% of the federal poverty guidelines. For 2018, this means that a family of four must have a household income of less than $50,200.

[3] Now known as Golden State Water Company
[4] Commission Decision No. 02-01-034, dated January 9, 2002
[5] Commission Decision No. 04-08-054, dated August 19, 2004
[6] Commission Decision No. 05-05-015, dated May 5, 2005

Over a nine-year period, from 1996 to 2005, the Commission had approved four low-income discount programs; two programs were utility wide—San Jose Water Company and San Gabriel Valley Water Company, and the other two programs only existed in parts of the service territories served by Southern California Water Company and California American Water. The other six large water utilities had no low-income programs at all, but not for long.

To set forth its long-term policy for regulating the water industry—including expanding low-income discount programs—in 2005 the Commission enacted its first Water Action Plan, or WAP. The WAP identified the policy objectives that would guide the Commission in regulating investor-owned water utilities and highlights the actions that the Commission will consider taking to implement these objectives.

The WAP is premised upon Four Key Water Principles;

- Safe, high quality water
- Highly reliable water supplies
- Efficient use of water, and
- Reasonable rates and viable utilities.

Under these key Principles, the WAP sets forth six objectives; One of them being to assist low-income ratepayers. Under this Objective, the WAP set forth three action items for the Commission to undertake;

1. Develop a low-income rate assistance program for water customers taking service from CPUC-regulated water utilities.
2. Implement a pooling mechanism as well as a standard low-income rate assistance program based on the results of individual company programs.
3. Examine policy and legislative changes needed to address low-income consumers' dwelling in multi-family housing.

With the WAP's release, the Commission signaled its intention to roll out low-income programs across all ten[7] of its Class A (utilities with more than 10,000 service connections) water utilities. As a result, utilities with no low-income programs or with partial plans, soon began requesting low-income programs as part of their general rate case filings. By the end of 2008, all Class A water utilities had low-income discount programs in place. Today, about 215,000 service connections receive a discount every month.

But this was not always the case.

[7] Currently at 9 Class A water utilities after Valencia Water Company was acquired by a public agency in 2014.

Initially, the low-income program participation rates[8] remained relatively low. In October 2007, the Commission's Division of Water and Audits[9] issued a research paper[10] that found that the penetration rates[11] of such programs were just 15.3% in 2006 and just 16.1% in 2007. This compares to an average penetration rate for the large regulated energy utilities of 72.4% in 2006. At the time, less than 100,000 customers were enrolled in these programs. To address these low penetration rates, the Commission opened a rulemaking[12] in 2009 to establish the rules for sharing of low-income customer data between the water utilities and both investor owned and municipal energy utilities with the express goal of increasing participation rates.

The rulemaking was initiated to determine whether sharing of qualifying low-income customer information between regulated water and regulated energy utilities should be required; whether sharing of qualifying low-income customer information between regulated water and municipal energy utilities should be encouraged; and if so, to establish standardized rules and policies applicable to the governance of such sharing between regulated water utilities and regulated energy utilities; and the sharing between regulated water utilities and municipal energy utilities.

In 2011, the Commission issued a decision[13] in the rulemaking requiring water and energy utilities with overlapping service territories to share low-income customer information as a means toto increase the participation rates in water low-income assistance programs. The decision went on to require automatic enrollment of eligible customers twice a year, however an opt-out notification is required should the customer decline to be automatically enrolled in the water utility's low-income assistance program. Water utilities are required to automatically enroll customers only if the programs' income and eligibility requirements are comparable. The categorical eligibility procedures adopted for the energy utilities, which permit a customer to demonstrate eligibility with documentation of participation in a government means-tested program, are extended to the water utilities' low-income assistance programs. And finally, data sharing guidelines are adopted that incorporate these directives and establish procedures for handling confidential customer data and unauthorized disclosure of such data.

At the time the decision was issued in 2011, the total participation rate of all the water low-income programs was about 9% with over 115,000 customers enrolled. As a result of this decision, enrollment took off, more than doubling the participation rate to 20% by 2013. Enrollment peaked at nearly 260,000 in 2014 and has since decreased to 215,000 in 2016 with a

[8] Participation rate is calculated as the number of customers enrolled over the total number of residential customers (eligible or ineligible)
[9] Now known as Water Division
[10] Assessment of Water Utility Low-Income Assistance Programs, dated October 2007
[11] Penetration rate is calculated as the number of customers enrolled over the total number of eligible customers
[12] Commission Rulemaking No. 09-12-017, dated December 17, 2009
[13] Commission Decision No. 11-05-020, dated May 5, 2011

participation rate of 17%. The recent decrease in participation is mostly attributed to an improved California economy.

The table below lists the low-income discount participation rate by utility and shows the average monthly discount participants receive. Because all the listed utilities participate in data sharing with energy utilities, variations in participation rates are closely correlated with income levels of water utility customers. Single district utilities generally serve areas with more homogeneous income levels, and multi-district utilities have more varied income levels. Coastal communities tend to be wealthier with fewer eligible customers. As such, participation rates can vary greatly between utility and within utility alike.

Utility	Participation Rate	Average Monthly Discount
Apple Valley	20%	$8.92
California Water	18%	$8.91
California-American	14%	$7.23
Golden State	20%	$8.72
Great Oaks	10%	$4.29
Park	40%	$6.69
San Gabriel	49%	$9.44
San Jose	10%	$11.68
Suburban	13%	$6.95

*As of 2016

In 2010 the Commission adopted an updated Water Action Plan. That WAP retained the same principles and objectives as the original plan but added action items to further its policy objectives. For low-income ratepayers, the 2010 WAP identified five action items:

1) Track service shutoffs for low-income ratepayers.
2) Work with the Low-Income Oversight Board.
3) Develop standardized tariff discounts and eligibility criteria.
4) Increase penetration rates of existing programs.
5) Enhance the Commission website to prominently feature low-income programs.

Having mostly met its objectives for action items two, four and five, the Commission turned its focus to standardizing the water low-income programs. While data was collected to monitor service shutoffs, the data did not show any discernable trends and the Commission has yet to take any formal action in this area. Each low-income program was authorized by the Commission on a case-by-case basis and differs in name, discounts offered, and recovery of costs. The table below shows the current low-income discount programs offered across the Class A water utilities.

Utility	Program Name	Monthly Discount	Monthly Surcharge for Recovery
Apple Valley	California Alternative Rates for Water (CARW)	$8.38 credit	Fixed $0.69
California Water	Low-Income Ratepayer Assistance (LIRA)	50% off service charge	2.044% of total bill
California-American	LIRA; promoted as Help to Others (H2O)	20% off service charge & Tier 1 & 2 quantity charges	Fixed $1.21
Golden State	CARW	Varied credits ($6 - $29) among 8 districts	Region 1: $0.127 per Ccf Region 2: $0.250 per Ccf Region 3: $01.66 per Ccf
Great Oaks	Low-Income Customer Assistance Program (LICAP)	50% off service charge	$0.0293 per Ccf
Park	CARW	$7.70 credit	Fixed $6.39
San Gabriel	CARW	$9.00 credit	Fontana: $0.2425 per Ccf LA: $0.2128 per Ccf
San Jose	Water Rate Assistance Program (WRAP)	15% off total bill	Fixed $1.45
Suburban	LIRA; promoted as Water Invoice & Statement Help (WISH)	$6.50 credit	$0.040 per Ccf

*As of 2018

In June 2017, the Commission opened a rulemaking[14] to review the low-income rate assistance programs of the Class A water utilities to assess the feasibility of achieving program consistency. The Commission signaled its intent to investigate providing assistance to low-income customers of the smaller water utilities. The Commission also stated in the rulemaking that it would consider the broader question of water affordability, and whether other public revenue sources within and outside of the Commission's jurisdiction can be generated to contribute to affordability, including pooling and consolidation opportunities.

The Commission initially sought comments from parties to the proceeding to (1) better understand the differences between the Class A water utilities' low-income rate programs; (2) evaluate whether consistency between the Class A water utilities' low-income rate programs is feasible; if so, (3) how such consistency can be attained; (4) assess whether other water companies meet the definition of a public utility under the Commission's jurisdiction; and (5) examine issues concerning affordability of clean, safe drinking water for low-income and disadvantaged communities, including pooling mechanisms and utility consolidation.

At this time the Commission is continuing its deliberations and no decisions have been issued in the rulemaking.

[14] Commission Rulemaking No. 17-06-024, dated June 29, 2017

Earlier, in October 2015, the California State Legislature passed, and the Governor signed, Assembly Bill 401. Titled Low-Income Water Rate Assistance Program, it requires the State Water Resources Control Board (State Board) to consider developing a statewide low-income program for all water systems.

This bill requires the State Board, no later than January 1, 2018, in collaboration with the State Board of Equalization and relevant stakeholders, to develop a plan for the funding and implementation of the Low-Income Water Rate Assistance Program, which would include specified elements. The bill would permit the board to consider existing rate assistance programs authorized by the Commission in developing the plan and would authorize the plan to include recommendations for other cost-effective methods of offering assistance to low-income water customers. The bill would require the State Board, no later than February 1, 2018, to report to the Legislature on its findings regarding the feasibility, financial stability, and desired structure of the program, including any recommendations for legislative action that may need to be taken.

The legislation required that the State Board might consider the existing rate assistance programs authorized by the Commission for investor-owned water utilities. The legislation further stated that the State Board's plan may also include recommendations for other cost-effective methods of offering assistance to low-income water customers besides rate assistance, including billing alternatives, installation of water conservation devices, and leak repair. In considering other methods, the board may consider the Commission's "Assessment of Water Utility Low-Income Assistance Programs" report.

The legislation's intent is to expand low-income assistance programs across public and private water utility alike. And the legislation recognizes the Commission's policy leadership in this area. While the State Board held a series of workshops across the state to hear from affected stakeholders, as of June 2018, no report has been issued.

The Commission has structured its low-income assistance programs so non-eligible residential customers and CII (commercial, industrial and institutional) customers are responsible for cost of the subsidy resulting from the implementation of low-income assistance programs. Program costs are recorded in balancing accounts for future recovery from non-eligible customers. Even though participation rates can be as high as nearly 50%, the percent of revenue represented in the balancing accounts rarely exceeds 5% of annual utility revenue.

The table below shows the under-collected (and over-collected) balances contained in the utilities' low-income assistance balancing accounts for calendar years 2016 and 2017. Balances are calculated on a net basis including any surcharge revenue collected for the prior year.

2016 Low-Income Assistance Programs Balancing Account balances

Utility	2016 Low-Income Balance (Undercollection)	2016 Operating Revenue (Annual Report)	% of Revenue
Apple Valley	($799,076)	$22,538,629	-3.5%
California Water	$89,624	$558,724,313	0.0%
California-American	$693,772	$209,089,280	0.3%
Golden State	($7,892,527)	$298,157,774	-2.6%
Great Oaks	($90,007)	$15,436,052	-0.6%
Park	$383,440	$32,591,628	1.2%
San Gabriel	($2,704,389)	$126,110,105	-2.1%
San Jose	$453,385	$311,640,629	0.1%

*Missing data from Suburban

2017 Low-Income Assistance Programs Balancing Account balances

Utility	2017 Low-Income Balance (Undercollection)	2017 Operating Revenue (Annual Report)	% of Revenue
Apple Valley	($1,000,358)	$24,575,136	-4.1%
California Water	($1,463,395)	$611,801,625	-0.2%
California-American	($3,283,145)	$218,825,391	-1.5%
Golden State	($5,569,052)	$304,480,221	-1.8%
Great Oaks	($91,049)	$16,952,520	-0.5%
Park	$809,072	$35,258,618	2.3%
San Gabriel	($3,388,696)	$145,272,112	-2.3%
San Jose	$725,893	$359,430,889	0.2%

*Missing data from Suburban

San Gabriel Valley Water Company

We now further examine the impact of the low-income assistance program on both utility and customer alike for the San Gabriel Water Company. We explore the effect of increasing enrollments on utility revenues, the impact of the subsidy on non-eligible customers, water use by income level, customer perception and equity issues, utility and customer risk, and the effect on water conservation.

San Gabriel Valley Water Company, or San Gabriel, is a Class A investor-owned water utility with roughly 105,000 total connections. San Gabriel serves two distinct service areas separated by 70 miles; its Los Angeles district and its Fontana district. The Los Angeles district serves multiple cities in the San Gabriel Valley area in Los Angeles County, while the Fontana district serves the City of Fontana and portions of nearby cities. Each service area contains roughly 42,000 single-family residential connections.

In the beginning of 2016, San Gabriel's low-income program California Alternative Rates for Water (CARW) offered different methods of rate assistance in each service area. In Los Angeles, the discount offered was a 50% off the service charge, while in Fontana, the discount was a fixed $8.00 credit to the bill[15]. But this was soon about to change as enrollment increased.

After implementing the data exchange between water and energy industries, enrollment in CARW rose from 26% of all residential customers to almost a 50%[16] participation rate. This presented several problems for the program. Before the data exchange, the program was able to offer large monthly discounts with the non-CARW customers paying a small surcharge to fund the program. This was based on a 30% participation rate estimate of CARW. It was not designed to have half of the customer base subsidize the other half. After the data exchange, the under collections grew substantially year after year and the program became unsustainable.

This resulted in San Gabriel requesting and receiving Commission authorization[17] in 2016 to update its CARW program to better reflect the increased participation rate. San Gabriel was granted authority to update its low-income assistance program by increasing surcharges applied to customer bills to support the program because of higher than estimated participation by low-income customers in CARW. The discount offered in its Los Angeles district was changed from a 50% off service charge to a fixed $8.00 credit[18], matching its Fontana district, and the surcharges to fund the costs of the program were correspondingly increased in both districts.

The surcharge increased from $0.1308 to $0.1851 per Ccf (hundred cubic feet or 748 gallons) in Los Angeles and from $0.1297 per Ccf to $0.2408 per Ccf in Fontana. Currently the surcharges are $0.2128 per Ccf in Los Angeles and $0.2425 per Ccf in Fontana. Surcharges apply to the CII customer classes, even though these classes are ineligible for the CARW program. Even with these adjustments, one half of San Gabriel's residential customers subsidize the other half, raising a public policy question on whether a hard income eligibility line makes sense, e.g. if household income exceeds the eligibility threshold by just $1, that household becomes ineligible to receive a CARW discount. Thus far, the Commission has not further explored this issue, but may do so in the rulemaking now open[19].

To further explore the impact of the CARW program on customers, single-family residential data from calendar year 2016 was obtained from the utility for monthly water usage, monthly bill amounts, and zip code information for CARW and non-CARW customer alike.

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[15] Changed from 50% off service charge in 2014 by Commission Decision No. 14-05-001, dated May 8, 2014
[16] As of 2016, participation rate is 49%
[17] Commission Decision No. 16-03-021, dated March 21, 2016
[18] Currently a fixed $9.00 credit
[19] Commission Rulemaking No. 17-06-024, dated June 29, 2017

Utility wide, the average usage per month was 13.4 Ccf and the average bill per month was $63.18. Los Angeles' monthly averages were 12.0 Ccf for usage and $58.30 for bill amount. Fontana customers used slightly more water with an average usage of 14.8 Ccf per month and paid an average of $67.79 per month. The Fontana area residents typically have more outdoor landscaped area and a warmer and dryer climate, hence their higher usage.

When comparing bill data of CARW and non-CARW customers in both districts, the monthly bill amounts for CARW customers are an average of 26% less than non-CARW customers. CARW customers paid on average $53.82 per month while non-CARW paid $72.29 per month. The service charge on average makes up 30% of the bill for CARW customers (including discount) and 40% for non-CARW customers.

The usage amount between them were nearly identical at 12.6 Ccf for CARW and 12.5 Ccf for non-CARW, demonstrating that water usage is not affected by income levels. Further breakdown of CARW and non-CARW by district also shows no significant difference in water consumption, as shown in the table below.

	Usage		**Bill**	
Single-Family Residential	**Los Angeles**	**Fontana**	**Los Angeles**	**Fontana**
CARW	11.1 Ccf	13.8 Ccf	$49.06	$57.75
Non-CARW	11.5 Ccf	13.6 Ccf	$66.15	$78.92

For San Gabriel, water usage appears more dependent on geographical location than other factors such as income and eligibility for the CARW program. Census and community survey data were used to ascribe median income to zip codes. The usage data show no clear correlations between median income and usage. There are, however, regional consistencies that are apparent when comparing CARW to non-CARW data. Some zip codes have consistently higher or lower usage than others regardless of median income. This is most likely attributed to regional landscaping trends.

A check with the Commission's Consumer Affairs Branch—the entity with the Commission which tracks and records customer complaints—shows that in the past five years there was only one customer complaint about San Gabriel's CARW program and its associated surcharges.

On April 2015, Governor Jerry Brown declared a drought emergency in California[20] and enforced mandatory water reductions throughout the state. The overall goal was to conserve 25% of water statewide compared to 2013 usage, but each water system had their own specific targets. San Gabriel was assigned a 16% conservation target for Los Angeles and a 28% conservation target for Fontana from 2013 usage levels. These were later lowered to 14% and 26%, respectively, after reassessments of each system. When the mandatory water reductions

[20] Executive Order B-29-15, dated April 1, 2015

ended in May 2016, San Gabriel met its targets by conserving 25.6% in Los Angeles and 26.7% in Fontana.

For San Gabriel, the data shows no discernable difference in usage between the CARW and non-CARW residential customer classes. Based on data collected for 2016, both customer classes equally contributed to conservation and we found no correlation between income levels and conservation. We did, however, find that the utility's Fontana district customers have higher water usage, and we attribute this to greater outdoor landscaped areas, and a warmer and dryer climate.

Given San Gabriel's customer demographic profile, the Commission had to lower the available discount to account for a higher-than-expected participation rate. Because of the inclusion of the CII class in the calculation of the surcharge used to fund the CARW program, there is not a dollar for dollar discount and corresponding surcharge, i.e. a monthly $9 residential customer discount is not offset by a monthly $9 residential surcharge. Without the CII class, non-CARW eligible customers would solely fund CARW customers on a dollar for dollar basis.

Low-income assistance programs developed on an individual utility basis over the past 22 years. As a result, each program has a different name, as well as different monthly discount. To promote water conservation among low-income assistance participants, the Commission in some cases authorized discounts to the service charge only and not to the quantity charge. In other instances, the Commission authorized a total bill credit. Initial estimates for customer participation were too low; and when the Commission ordered data sharing with energy utilities, participation rates went up higher than expected. Along the way, the Commission adjusted discounts and surcharges to reflect increased participation.

To achieve standardized tariff discounts and a single naming convention, in June of 2017 the Commission opened a rulemaking[21] to review the low-income rate assistance programs of the Class A water utilities to assess the feasibility of achieving program consistency. In this rulemaking, which is currently ongoing, the Commission also signaled its intent to investigate expanding assistance to low-income customers for smaller water utilities. The Commission also intends in this rulemaking to consider the broader question of water affordability, and whether other public revenue sources within and outside of the Commission's jurisdiction can be generated to contribute to affordability, including pooling and consolidation opportunities.

[21] Commission Rulemaking No. 17-06-024, dated June 29, 2017

In summary, the Commission has remained steadfast in its efforts to assist low-income ratepayers. The Water Action Plan laid out the Commission's policy framework and the actions needed to realize its objective of assisting low-income ratepayers. The Commission remains committed to expanding low-income discount programs to the smallest of water utilities and is considering new innovative approaches to do so. The Commission continues to work with the State Water Resources Control Board and other stakeholders to ensure that all water utility customers, including those customers in disadvantaged communities, receive high quality potable water service at just and reasonable rates.