



# Water Affordability Low-Income Oversight Board



**Division of Water and Audits**  
**Rami Kahlon, Director**

**October 28, 2014**





# Water Affordability

- Water
  - 2014 Drought
  - Is water affordable?
- Topics
  - Industry Overview
  - Affordability
  - Rates and Bills
  - Ratemaking
  - Low-Income Ratepayer assistance
  - Recent Commission Decisions





# Drought

- **Water Year 2014– ended September 30, 2014**
  - One of the driest years on record – 60% average precipitation
  - January 17, 2014 – Drought State of Emergency declared by Governor Brown
    - Calling for a 20% voluntary reduction in water use
  - January 31, 2014 - State Water Project - no water deliveries
  - February 21, 2014 – Central Valley Project – 50% cut for urban
- **Commission Actions**
  - February 27, 2014 - 15 largest utilities ordered to put in place 20% voluntary conservation
  - Member of Governor’s Drought Task Force
  - August 14, 2014 – Ordered utilities to comply with SWRCB mandatory restrictions
  - Monitoring vulnerable water systems along with SCWRB Division of Drinking Water





# CPUC Regulated Utility Overview

- The only utility you ingest!
- 114 Water Utilities
  - 9 Class A water utilities (over 10,000 connections)
  - 5 Class B water utilities (over 2,000 connections)
  - 24 Class C water utilities (over 500 connections)
  - 76 Class D water utilities (500 connections or less)
- 13 Sewer utilities, less than 1,000 connections
- Serving over 6 million Californians, or about 16% of the state's population
- \$1.4 Billion in total revenue





# Water Utility Geographic Reach



**▲ CLASS A WATER COMPANIES**  
Headquarter Offices

All Water Company Customer Service Areas

**▲ CLASS A WATER COMPANIES  
CUSTOMER SERVICE AREAS**  
More than 10,000 Service Connections

**◆ CLASS B WATER COMPANIES**  
2,000 - 10,000 Service Connections

**● CLASS C WATER COMPANIES**  
500 - 2,000 Service Connections

**■ CLASS D WATER COMPANIES**  
Less than 500 Service Connections





## California's Water Supply

- ❑ Sierra Mountain Range
- ❑ Delta
- ❑ Colorado River
- ❑ Ground Water
- ❑ Storage Reservoirs

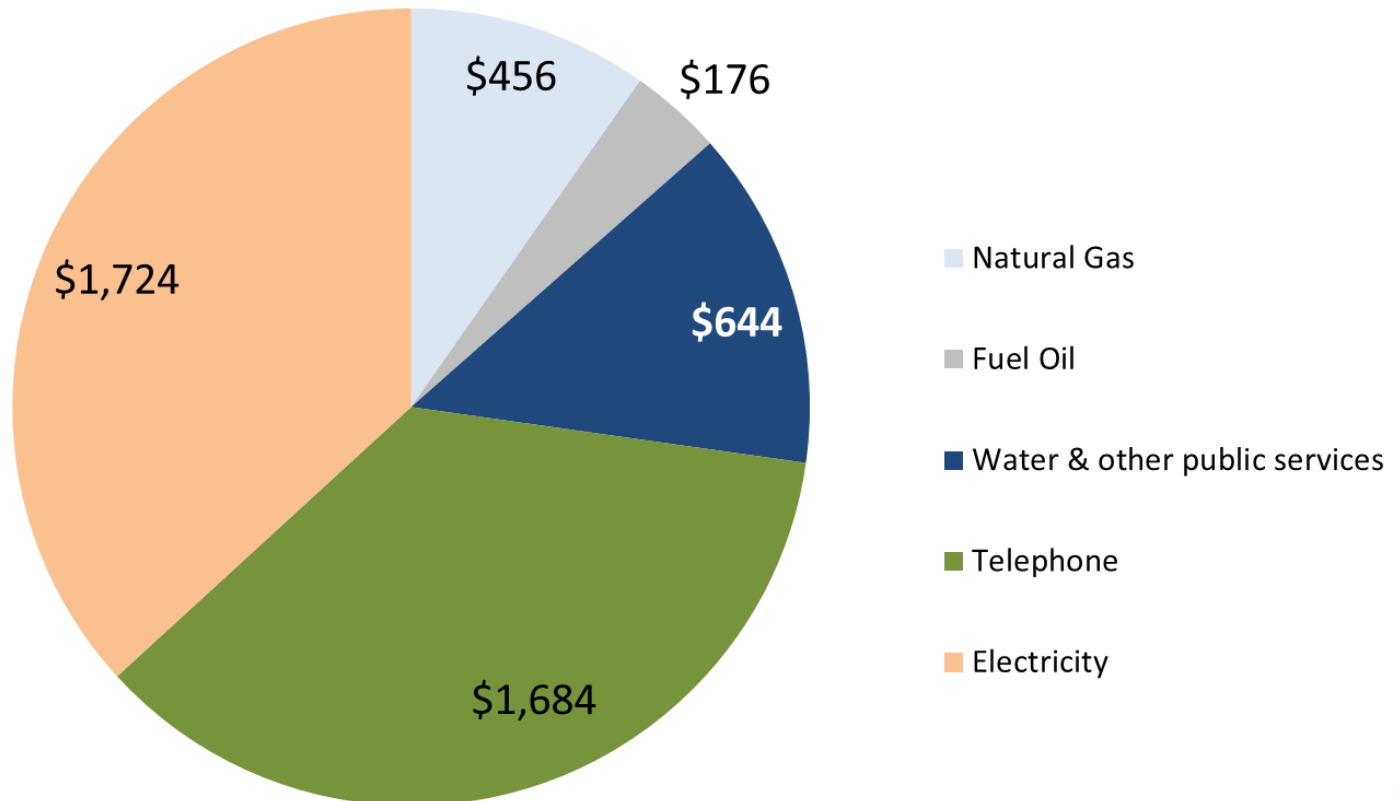
CPUC regulated utilities  
mostly rely on groundwater  
and imported water (LA area)





# National Utility Cost Comparison

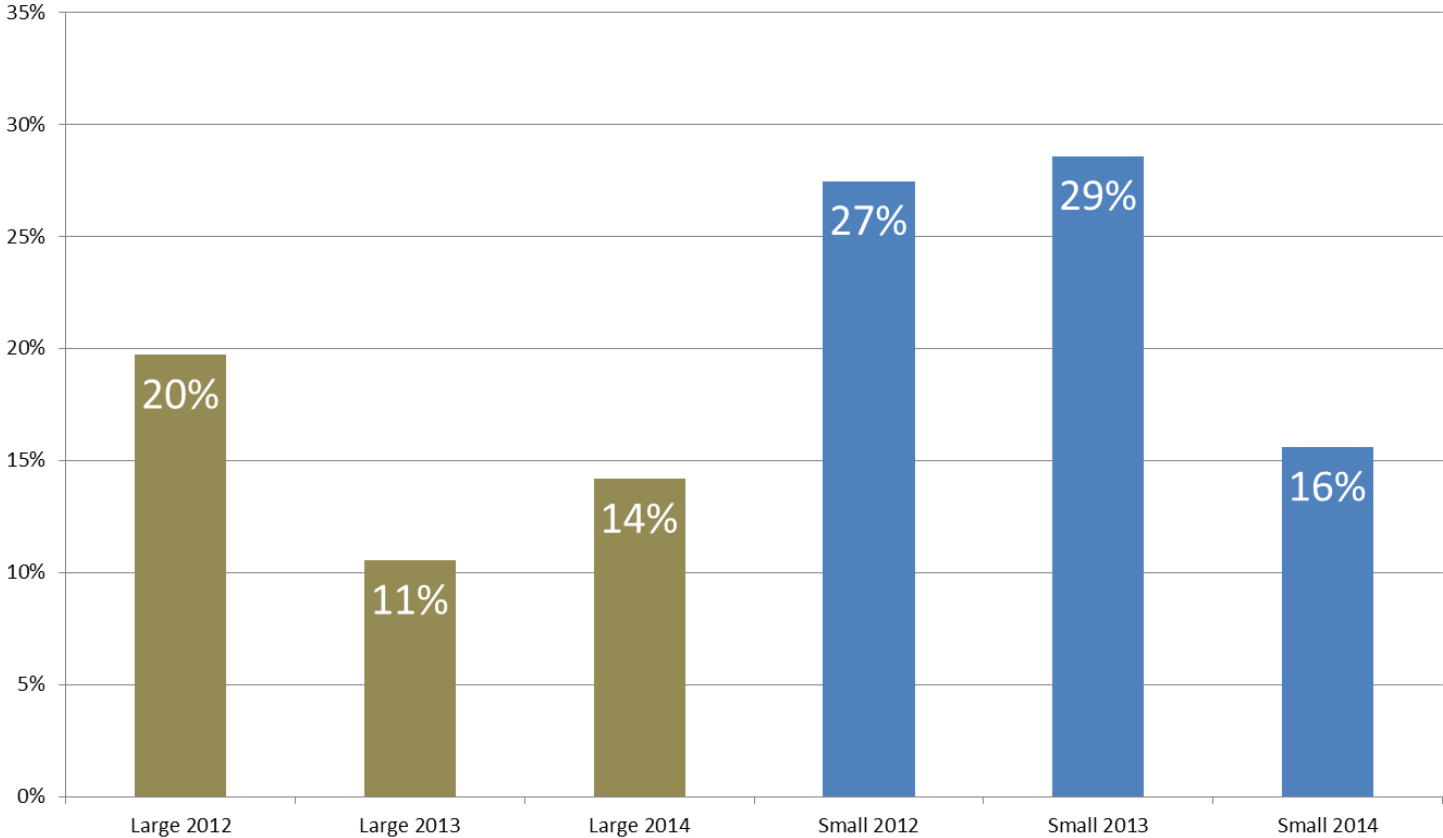
2012 ANNUAL COST





# 2012-14 Revenue Increases

ANNUAL AVERAGE REVENUE INCREASE

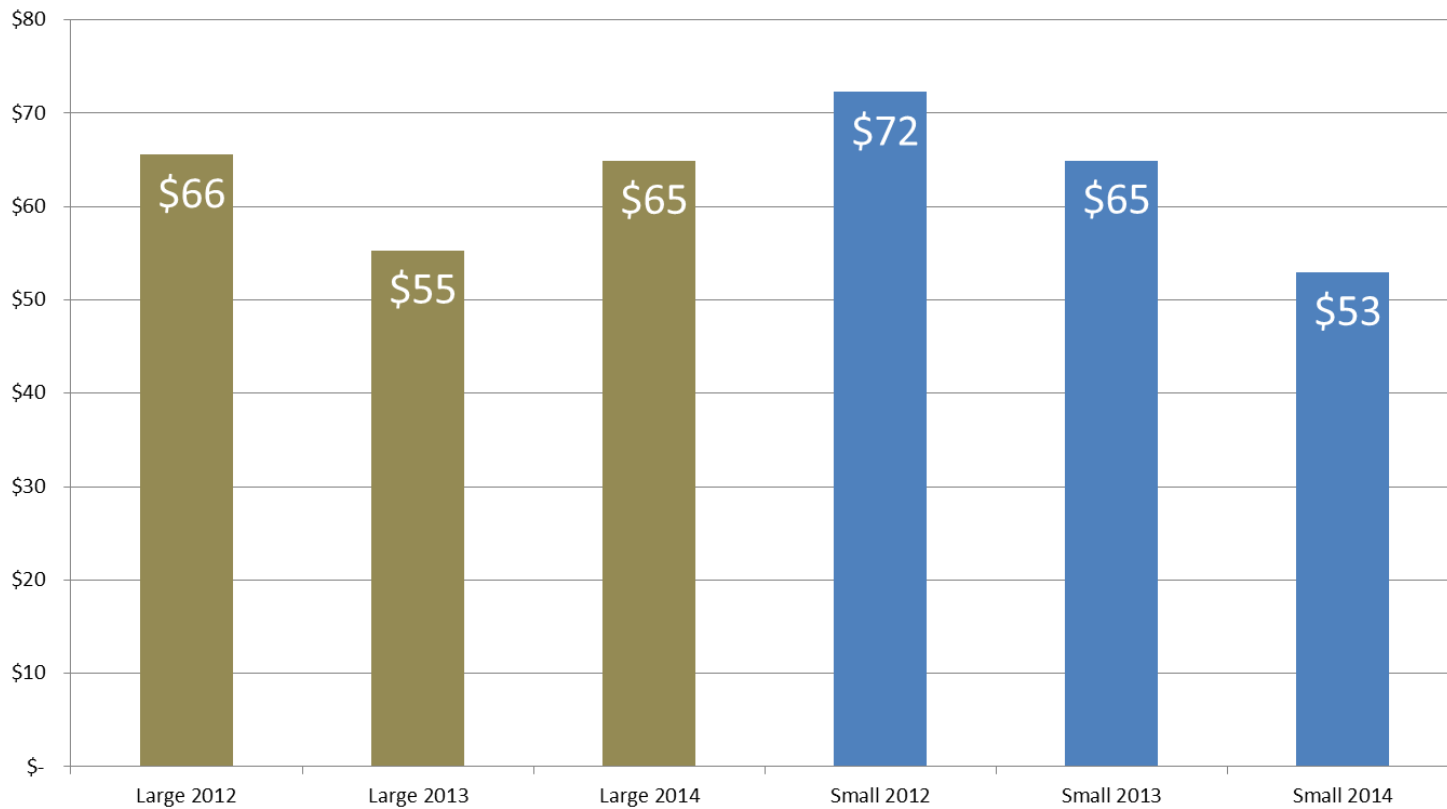






# Average Monthly Bills

ANNUAL AVERAGE MONTHLY BILL





## State Auditor's Reports

- January 29, 2013 - Southeastern Los Angeles County
  - “examine why water rate increases have occurred since 2008 and why the price for buying the same quantity of water from different suppliers can vary significantly.”
- Findings
  - Rates charged by Golden State Water had risen mostly due to the increase in wholesale water rates.
  - CPUC uses its ratepayer advocacy arm to protect the interests of consumers; recommended that other retail water suppliers adopt such a practice.





## State Auditor's Reports

- July 8, 2014 – Antelope Valley Water Rates
  - Factors that contribute to differences among water utilities
- Findings
  - “Purchased water has a significantly higher cost per acre-foot than pumped groundwater.”
  - “Unlike investor-owned utilities, public utilities have sources of revenue other than water rates.”
  - “Two public utilities...could not demonstrate that they met certain requirements when making pass-through rate increases.”
  - “Cal Water is the only utility we reviewed that offers rate assistance programs.”





## Water Industry

- CPUC Charter: Clean, safe, and reliable water service at just and reasonable rates.
- Challenges and Cost Drivers
  - More stringent water quality standards
  - Aging infrastructure
  - Declining water use
    - Recession
    - Conservation mandates
    - Drought





# Ratemaking

- Traditional Cost-of Service
- Two Components

## Expenses

- Recover all just and reasonable costs of providing water service plus earn a rate of return\* on ratebase.

## Ratebase

- Utility plant in service (water mains, storage tanks, treatment plants) less accumulated depreciation.

\* Cost of Capital Proceedings





# Ratemaking

- Smaller utilities (< 10,000 service connections)
  - DWA processes all general rate increase requests
- Thorough System Evaluation
  - Service quality – outages, pressure, complaints
  - Leaks
  - Water treatment
  - Water quality standards
    - Division of Drinking Water - SWRCB
- Larger utilities
  - Water Quality Expert assigned in GRC proceeding
  - Report / Testimony





# Low-Income Programs

- All large (Class A) water utilities offer low-income bill assistance programs.
- Over 250,000 CPUC-regulated residential water customers participating in income water assistance programs.
- Huge increase in participation rates in 2013.
- Auto enrollment program with data exchange between the energy and water utilities.



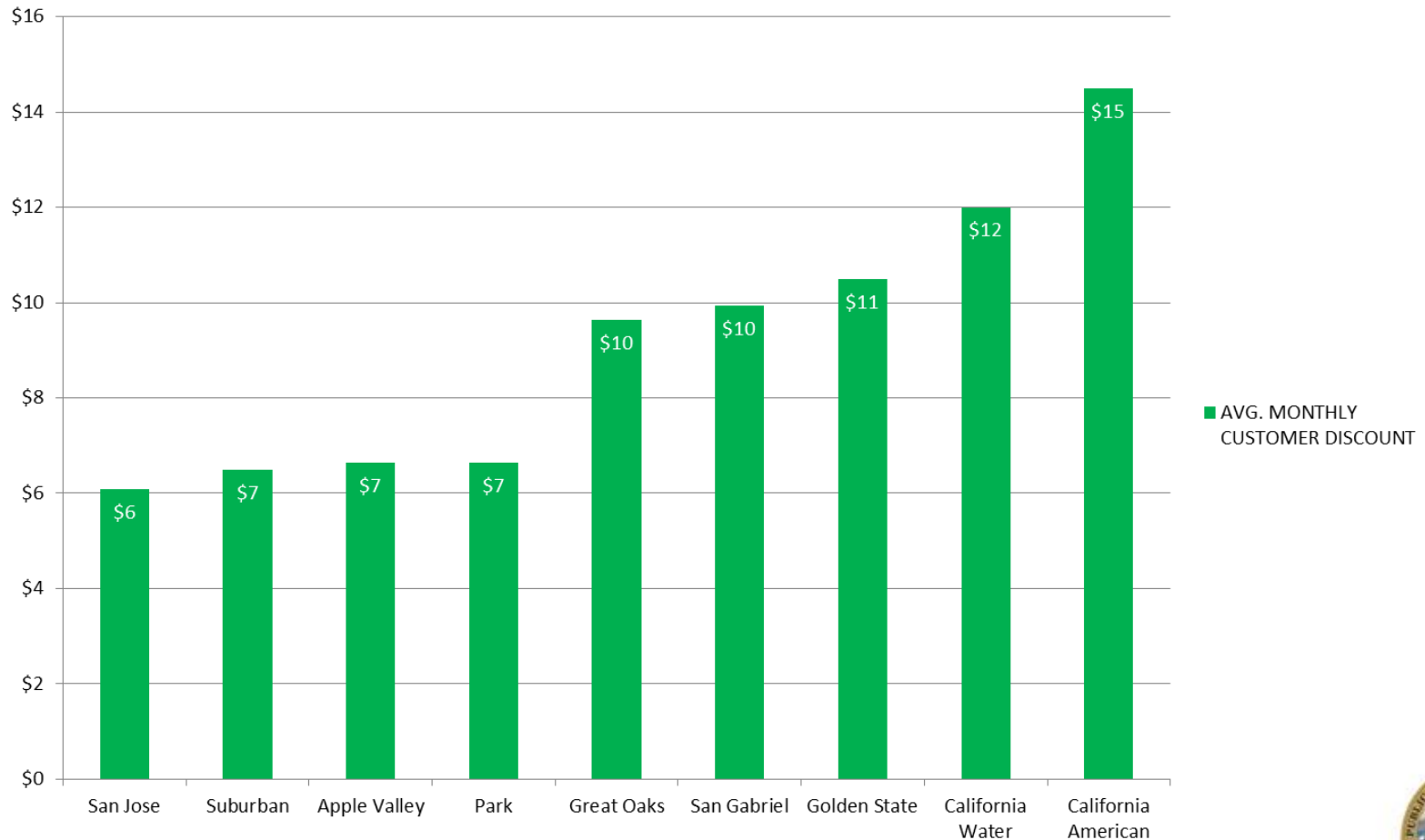
Low-income programs for water started in 2006.





# Discounts for Low-Income Customers

## LOW INCOME MONTHLY DISCOUNT







# California Water Service

- Decision No. 14-08-011
  - General Rate Case Decision issued in August 2014
- Low-Income Rate Assistance
  - Credit is 50% of monthly service charge
  - Current \$12 cap was raised to:
    - \$18 – Non RSF
    - \$30 RSF
- Rate Support Fund
  - Current Support
    - \$12 - \$25 per month credit on service charge
  - Expanded Support
    - Formula based
  - Funded through a 0.5% surcharge on bills





# Balanced Rate Decision

- D.14-10-047 issued on October 2, 2014
  - Rates that Balance Investment, Conservation, and Affordability for Multi-District Water Utilities
- Decision requirements
  - District-based rate review to assess whether high-cost and affordability problems exist.
  - Propose one or more solutions to mitigate those problems
    - consolidation in some form (i.e., rate consolidation, cost consolidation, rate base consolidation, operational consolidation);
    - intra-utility grant/loan funding;
    - rate design (affordability through the first rate tier)





# Water Action Plan

- Adopted in 2005, updated in 2010
- Principles
  - Safe, high quality water
  - Highly reliable water supplies
  - Efficient use of water
  - Reasonable rates and viable utilities
- Six Objectives including “Assist Low-Income Ratepayers”
- Actionable Action Items
  - Establish low-income programs
  - Increase penetration rates
  - Low Income Oversight Board
  - Standardize discounts

