



Water Utility Conservation Rates and Sales Decoupling: A California Example

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I Will Cover

- Cal Water Characteristics
- Policy Background
- Our Implementation Plan
- Reporting and Analysis
- Initial Impressions
- Where do we go from here?





California Water Service Company



- Largest water company in California
- Serves nearly 2 million people through 450,000+ connections
- Serves 58 cities and towns through 27 ratemaking areas
- Wide range of demographics, climates, and sources of supply
- Nearly all have significant summer peak demand





California Policy Background

- CPUC adopted its Water Action Plan in 2005
- A major goal of the WAP is water conservation
 - Over 20% of California's electricity use is for water pumping and treatment
 - Infrastructure, environment, and growth factors make water scarce in California
 - Around half of residential water use is outdoor irrigation
 - Effecting changes in water use patterns requires "buy-in" from customers and the utility





Decoupling: the Preferred Alternative

- Cannot simply design rates that drive customers and the utility to conserve
 - Customer conservation spurred by high quantity rates, high bills, or high marginal rates
 - Utility wants relatively high base rates to protect revenues
 - Commission and utility want cost-based rates
- Sales adjustment mechanism (WRAM) allows high marginal rates while not threatening utility fixed cost recovery
- Production cost adjustment mechanism (MCBA) ensures ratepayers benefit from reduced variable production costs





Cal Water's Program

- Settlement with Division of Ratepayer Advocates and The Utility Reform Network
- Inverted block rates for residential customers
- Lower service charges for most customers
- WRAM covers all quantity revenue. MCBA covers purchased water, power, and pump tax.
- Cal Water records adopted sales revenue and production expenses by month. Net variance recorded and booked monthly.
- Conservation rates accompanied by a major increase in funding for conservation programs

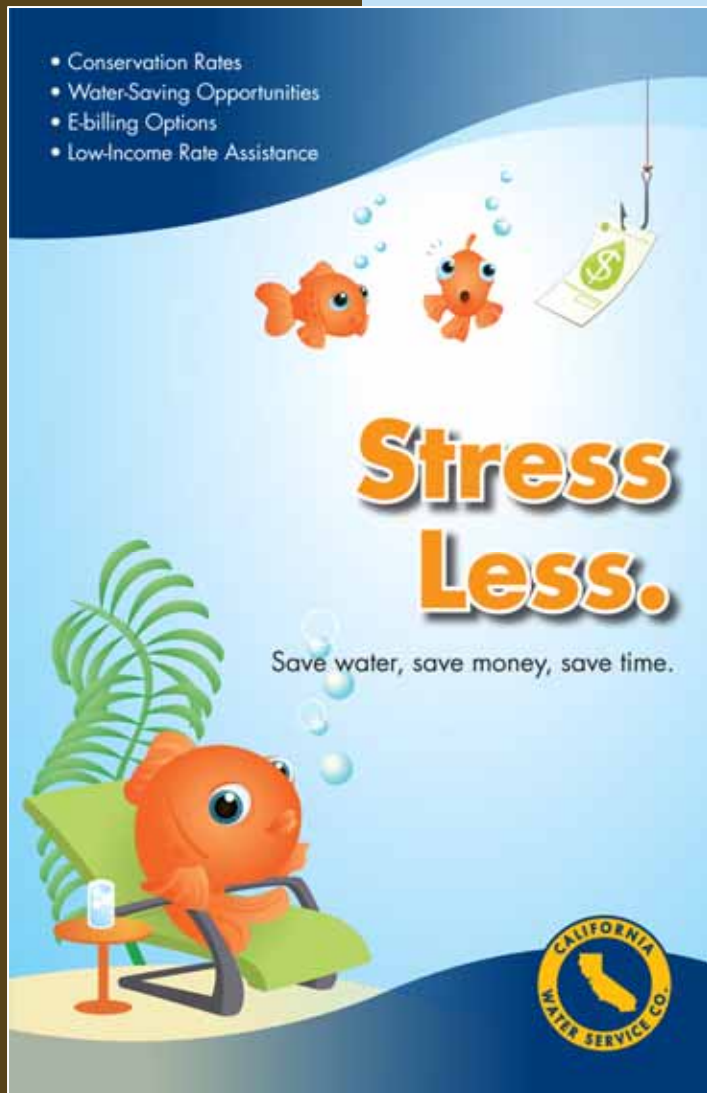


Implementing the Commission's Order

- CPUC adopted program in February 2008
- Cal Water committed to implement tiered rates on July 1
 - Most price-based conservation is going to take place in the summer
 - Good timing since news media is focused on drought
- Doing this despite:
 - Water bills already highest in July – September
 - Also in July, Cal Water received authorization for 10% to 30% general rate increases in all districts.



Communications are Key to Customer Acceptance



- Cal Water marketing campaign laid groundwork early
- Emphasize “control over your water bill”
- Turn customer concerns into conservation action
- “Stress Less” brochure sent in May 2008 introduced concept of tiered rates and provided conservation information
- Water Awareness Festivals held in May 2008 provided opportunities to educate customers





More Detailed Communications Follow Up

- District-specific bill inserts showed average water usage in summer and winter
- Direct contact with local media, elected officials, and community leaders
- Training and “Answers to Frequently Asked Questions” for Customer Service Representatives
- Most communications drive questions to Cal Water website
 - Bill calculators
 - Order conservation devices
 - Extensive online FAQ





Reporting and Analysis

- WRAM and MCBA are tied to monthly expected sales and production costs
- Had to estimate sales by tier and by month
 - Never needed that information before
 - Initial estimates of monthly and tier usage may need to be refined in later filings
- Critical so that we set our revenue expectations accurately for financial reporting
- Accounts are amortized annually if the net balance exceeds 2.5% of revenue, or carried over





First Results

- In first quarter of implementation, Cal Water had a WRAM balance of +\$3.2 million and MCBA balance of -\$2 million
 - Collected 2.4% less revenue than anticipated
 - May be due to decline in water sales
 - May be the way we estimated monthly breakdown
 - May have different tier populations than expected
 - Water Production cost 4.6% less than anticipated
 - May be due to decline in production
 - One-time credits and timing of payments a factor
- Many of these factors will wash out in 12-month reporting period





My Initial Impressions

- Conservation is a partnership
 - Company and customers need to participate
 - Price signals need to go hand in hand with opportunities to conserve
 - Cal Water will creatively make those opportunities available
- Ratesetting may change
 - Sales forecasting will not be as contentious
 - Rate design does not have to tie out to revenue requirement
 - May be able to experiment with zero service charge or severely inclined blocks
- Reporting will become more critical



Future Considerations

- It is going to be difficult in the short-run to determine the effect of tiered rates
- CPUC looking at ways to measure and report on long-term savings
- Cal Water's rates (and long-run marginal cost) vary significantly by service area
 - Can we set a rate high enough to promote conservation and retain cost-of-service basis?
- Tiered rate design was a first step
- CPUC is likely to push tier differential higher and change rate design for commercial and industrial users

