

## PROPOSAL PAPER

### Independent Technical Panel on Demand Management Measures Final Report on California Landscape Water Use 12-11-15 Draft (\*Jeff Stephenson Edits)

**Section 7** (From the current draft outline)

**Section Title:** Complementary Policies and Regulations

**Recommendation #: 3** Promoting Innovative Conservation Pricing

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#### **Background:**

Water systems are designed and operated to meet local needs and conditions based on the available water supplies to the community. Local funds are collected to pay for financing these systems and given the uniqueness of each community and water system, an overarching conservation pricing policy only fits to the extent the system is interconnected between water sources. In California, there is a complex water system that interconnects some, but not all water utilities. Water sources and local community needs in California are very diverse which is expected given a population of 38 million people and a \$2 trillion economy.

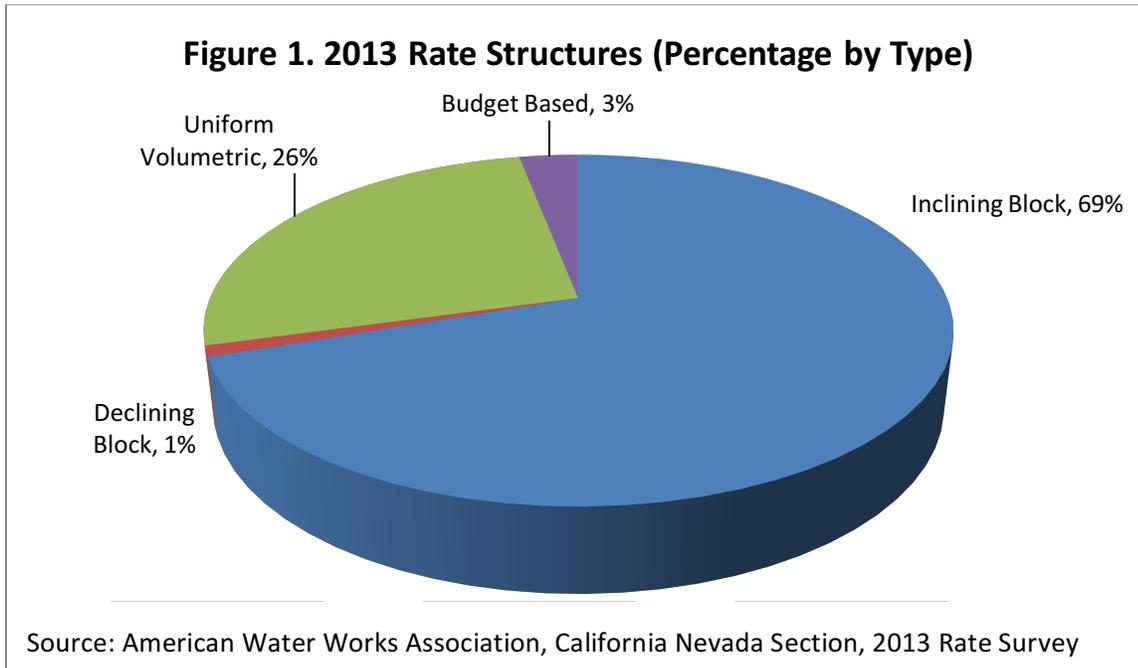
Currently, locally elected bodies provide the local accountability to set the pricing structures best suited to meet local needs. There are several fundamental principles that each elected body must adhere to when adopting a rate structure. They are:

- *Financial Management* – Rate structures must provide financial solvency and meet its revenue requirements.
- *Cost of Service* – Rate structures must provide equity to allocate costs across the customer classes where customers pay for the actual cost of service (e.g., untreated water customers do not pay for treatment costs, customers at top elevations pay for added pumping fees).
- *Supports the Long-Term Cost Structure* – Rate structures must embed community goals (e.g., promotes conservation, promotes efficiency, easy to administer) in order to meet long-term asset needs. There are challenges for each water system given local conditions. For example, water abundant systems may best justify charging based on a uniform rate. Water scarce systems may best justify a tiered rate structure. In addition, the policy of local elected officials is constrained under Proposition 218.

Because of these reasons, the fiscal responsibility to maintain water, wastewater and stormwater systems should continue to rest with local municipalities and the California Public Utilities Commission's regulation of private companies.

In 2013, the California Nevada Section of the American Water Works Association hired Raftelis Financial Consultants, Inc. to update its biannual survey of water rate structures. The 2013 survey provided valuable insights to pricing practices embraced by utilities across California and Nevada. Figure 1

illustrates a summary of pricing practices embraced by participating water utility members which included 217 water utilities in California and 17 in Nevada, each subject to diverse ownership and operating conditions. When compared to similar data from a 2011 study, the 2013 study found that an additional nine percent of utilities had shifted to volumetric-based pricing through the adoption of inclining block or uniform pricing structures. According to the 2013 study, more than 95 percent of the utilities had volumetric based pricing structures.



As part of the shift to volumetric rate structures, water utilities:

- Continue to make upgrades to transition to automatic meter infrastructure and to collect information on metered consumption to better understand behavioral changes.
- Regularly assess existing volumetric charges for metered accounts to evaluate the sufficiency of cost recovery. Rate changes typically occur annually based on rate studies done every three years.
- Identify conservation rate pricing objectives that meet short-term and long-term needs and consider implementation of an increasingly more conservation-oriented rate design, such as increasing block rates or water budget-based rates for residential customers.
- Maintain open dialogue with internal and external stakeholders to gather perspective on, evaluate, and implement conservation-oriented rates.
- Monitor utility billing information as it relates to fixed and variable revenue and costs.

Utilities are constantly evaluating the recommendations and working collaboratively with their stakeholders to establish clear revenue program goals. This includes modifying a utility's existing conservation rate structure or implementing a new structure which will require community engagement and outreach, as costs will necessarily shift between customers and customer classes. It is

critical to have representative usage data from the various neighborhoods and customer classes throughout the utility in order to develop a fair and equitable rate structure that adequately generates utility revenues. This is achieved with assessing the “apparent” losses from AWWA Water System Audits that are now required in California.

Pricing structures for storm and waste water utilities are based more on fixed costs and driven by wet weather flow design criteria. However, given that the average day dry weather flows also have a limited effect on the operation and maintenance, treatment and land disposal costs of capital facilities for storm and wastewater systems, conservation pricing may also be given consideration for these other utilities where there are variable costs like seasonal pumping charges or other incentives that may be shared among utilities.

As the need drives changes in the existing volumetric charge, utilities engage stakeholders in order to ultimately provide a water rate structure recommendation for the future that is conservation-oriented, considers revenue sufficiency, equity, transparency, legal compliance, and the feasibility of implementation. To the extent practical and feasible, water, wastewater and stormwater utilities should collaborate together on cost efficiencies and stakeholder engagement provided it’s the same ratepayers in each community affected.

**Recommendation Purpose Statement:**

Given the need for local elected bodies to address their fiscal responsibility based on their community’s unique needs and overall state goal to promote more water conserving water rate structures, the ITP recommends that DWR work with statewide agencies and non-profits (e.g., California Urban Water Conservation Council and AWWA California-Nevada Section) to continue to educate, research, provide case studies and the tools necessary for financial managers to adapt to the changing mandates on water use reduction targets currently driven by SB X7-7 and emergency regulations associated with droughts. This educational process may also be supported by symposiums for water utilities coming together with waste water and stormwater utilities and include a discussion of Proposition 218.

**Recommendation:**

- **Statutory Recommendation** – None.
- **Specific Guidance Recommendation** – California Department of Water Resources and local utilities may work through the Urban Stakeholder Committee or other body to assess the benefits and role for DWR and SWRCB to support conservation pricing by local utilities.
- **General Guidance Recommendation** – All state and local organizations should seek to be focused on the watershed approach that optimizes the use of conservation pricing for enhancing our urban landscapes. This support can include more educational opportunities, case studies and tools to help financial managers consider water budget-based pricing that helps increase outdoor water efficiency by identifying for customers and utilities where some

customers are over-budget in terms of water usage and therefore paying more for their water service than necessary.