EXHIBIT 6-B

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

VIA EMAIL

June 17, 2025

Assembly Committee on Utilities and Energy
1020 N Street, Room 408A
Sacramento, CA 95814

RE: SB 473 (Padilla) – OPPOSE (as amended April 10, 2025)

Dear Chairwoman Petrie-Norris and Committee Members:

The Monterey Peninsula Water Management District (District) submits this letter in opposition to SB 473 (Padilla) as it moves into the Assembly for consideration.

- The bill purports to support conservation in setting water rates for investor-owned water utilities (IOUs), but is not about conservation, consumers, or labor – it is about guaranteed corporate profit.

- The bill affects 57 of the 80 Assembly Districts, or 71%, and 5.8 million of your constituents who face additional and unnecessary rate increases for an essential lifeline service – water. (see Attachments A and B)

- The California Public Utilities Commission and its Public Advocates Office oppose this bill. (see Attachments C and D)

- The effect of the bill is to countermand recent decisions by the California Public Utilities Commission (CPUC) because corporate interests were unhappy. (see Attachment E)

- The District has 95,000 residents who would be subject to higher water rates because of the proposed bill.

CPUC Background

The revenue decoupling mechanism, as envisioned in this bill, has already had a 10-year trial period among a number of regulated water utilities and the CPUC determined it wasn't successful.

Most recently, in several 2024 decisions by the CPUC, the decoupling mechanism proposed by SB 473 was denied. For example, in a December 2024 Decision the CPUC said:

> "Decoupling refers to the various mechanisms employed to address the effect on water utility costs and revenue when water sales volumes do not align with the sales projections

> adopted as part of a general rate proceeding. Decoupling mechanisms have been assigned various names over time, but generally fall into two general categories-Water Revenue Adjustment Mechanisms (WRAM) and Monterey Style Water Revenue Adjustment (M-WRAM)… A WRAM tracks the difference between authorized revenues (based on an adopted sales forecast) and the revenues based on actual sales over a calendar year… The difference between actual and authorized expenses is subtracted from the difference in authorized and actual revenue. The result is then applied to customer bills as a surcharge or sur-credit. Proponents of WRAM, including Cal-Am, argue that it encourages conservation. They argue that because authorized revenue is primarily collected through usage rates, without some form of a WRAM water utilities are disincentivized to promote conservation because reduced water sales lead to decreased revenue and cost recovery."[1]

The CPUC authorized our local water utility Cal-Am to utilize a WRAM beginning in 2008. Cal-Am's WRAM was renewed in each subsequent general rate proceeding. Other large water utilities were granted WRAM during that period. In 2017, the CPUC issued an Order Instituting Rulemaking to evaluate, among other issues, water affordability. As a result of that Rulemaking, in 2020 the Commission barred water utilities from including WRAM proposals in future rate applications.

Through lobbying by the water IOUs on September 30, 2022, the Governor signed Senate Bill 1469 (Stats. 2022, Ch. 890), which amended Public Utilities Code Section 727.5 to allow the "Class A water utilities" (the 8 largest private companies providing water service) to propose decoupling mechanisms. The statute also required the CPUC to consider decoupling proposals in water rate-setting applications. The legislation became effective January 1, 2023. As a result, our local water utility Cal-Am and several other IOUs included decoupling proposals in their most recent rate cases.

In the most recent CPUC decision on our local water rates,[2] the CPUC found the following:

> Cal-Am's request to reinstate a WRAM should be denied. Cal-Am did not establish that the proposed WRAM promoted conservation or overcame concerns about risk reallocation and intergenerational transfers.
>
> Other approaches such as a style of M-WRAM, paired with tiered rates provides Cal-Am revenue adjustments for reduced consumption.
>
> California-American Water Company's request for a WRAM-style decoupling mechanism was denied.

CPUC Says the Bill Carries New Costs

The CPUC estimates ongoing costs of about $576,000 annually (ratepayer funds) and 3 positions to provide analysis and advisory support to Administrative Law Judges and Commissioner

[1] See Attachment E.
[2] *Id.*

offices related to requests from regulated water corporations for decoupling mechanisms and recovery of revenue shortfalls through implementation of rate surcharges, among other things.[3] This has not been funded in the State's proposed budget going forward.

CPUC Public Advocates Position

The CPUC Public Advocates Office (PAO) letter[4] provides numerous details about previous attempts by IOUs to recoup revenue via the decoupling revenue mechanisms. They show that if IOUs were allowed to get the decoupling revenue mechanism reinstated by the CPUC by way of this legislative bill, the consumers of these utilities will see higher bills due to the utilities ability to recoup charges above the basic service costs.

History has shown that the decoupling revenue mechanism led to overcharging customers. The CPUC indicated that IOUs should accept more normal business risks and have consumers pay the actual cost of service. The CPUC has policies in place that allow IOUs the ability to collect revenue retroactively in instances such as a drought declaration made by the government.

The decoupling revenue mechanism, as envisioned in this bill, has already had a 10-year trial period and was shown it wasn't successful. Having the IOUs get a second bite at the revenue apple is not in the best interest of customers and sets a precedent of profits over people.

Please join us in opposing SB 473 (Padilla) as it will only exacerbate the affordability of water for investor-owned utility customers and prevent these companies from overcharging customers.

Sincerely,

David J. Stoldt
General Manager
Monterey Peninsula Water Management District

[3] See Attachment D.
[4] See Attachment C.

ATTACHMENT A

"Class A" Investor-Owned Water Utilities
and the
Assembly Districts They Serve

	Population[1]	Connections[2]	Assembly Districts Served
California American Water Co.	700,000	196,643	2, 3, 4, 5, 6, 7, 8, 9, 10, 27, 29, 30, 38, 41, 42, 48, 49, 55, 56, 61, 77, 80
California Water Service	2,000,000	527,407	2, 3, 4, 8, 9, 11, 12, 13, 16, 19, 21, 23, 26, 29, 30, 31, 32, 33, 34, 35, 39, 42, 49, 52, 54, 61, 64, 65, 66, 69
Golden State Water Co.	1,000,000	260,853	3, 4, 6, 7, 15, 30, 34, 36, 37, 41, 42, 47, 48, 49, 53, 55, 56, 57, 59, 61, 62, 64, 65, 66, 67, 69, 70
Great Oaks Water Co.	107,000	21,687	25, 28
Liberty Utilities	194,000	52,015	34, 41, 62, 64, 65, 67
San Gabriel Valley Water Co.	493,000	109,048	45, 48, 49, 50, 54, 56, 64
San Jose Water Co.	1,000,000	226,602	23, 24, 25, 26, 28
Suburban Water Co.	300,000	78,000	48, 56, 64, 65, 67
Total	5,794,000	1,472,255	

[1] Source: Company's Urban Water Management Plan or website.
[2] Source: California Water Association website

ATTACHMENT B

Assembly Districts
Served By
"Class A" Investor-Owned Water Utilities

Assembly District #	Assembly Member	Investor-Owned Water Utility Serving Assembly District
2	Rogers	California-American, California Water Service
3	Gallagher	California-American, California Water Service, Golden State Water
4	Aguiar-Curry	California-American, California Water Service, Golden State Water
5	Patterson	California-American
6	Krell	California-American, Golden State Water
7	Hoover	California-American, Golden State Water
8	Tangipa	California-American, California Water Service
9	Flora	California-American, California Water Service
10	Nguyen	California-American
11	Wilson	California Water Service
12	Connolly	California Water Service
13	Ransom	California Water Service
15	Avila Farias	Golden State Water
16	Bauer-Kahan	California Water Service
19	Stefani	California Water Service
21	Papan	California Water Service
23	Berman	California Water Service, San Jose Water
24	Lee	San Jose Water
25	Kalra	Great Oaks Water, San Jose Water
26	Ahrens	California Water Service, San Jose Water
27	Soria	California-American
28	Pellerin	Great Oaks Water, San Jose Water
29	Rivas	California-American, California Water Service
30	Addis	California-American, California Water Service, Golden State Water
31	Arambula	California Water Service
32	Ellis	California Water Service

33	Macedo	California Water Service
34	Lackey	California Water Service, Golden State Water, Liberty Utilities
35	Bains	California Water Service
36	Gonzalez	Golden State Water
37	Hart	Golden State Water
38	Bennett	California-American
39	Carrillo	California Water Service
41	Harabedian	California-American, Golden State Water, Liberty Utilities
42	Irwin	California-American, California Water Service, Golden State Water
45	Ramos	San Gabriel Valley Water
47	Wallis	Golden State Water
48	Rubio	California-American, Golden State Water, San Gabriel Valley Water, Suburban
49	Fong	California-American, California Water Service, Golden State Water, San Gabriel Valley Water
50	Garcia	San Gabriel Valley Water
52	Caloza	California Water Service
53	Rodriguez	Golden State Water
54	Gonzalez	California Water Service, San Gabriel Valley Water
55	Bryan	California-American, Golden State Water
56	Calderon	California-American, Golden State Water, San Gabriel Valley Water, Suburban
57	Elhawary	Golden State Water
59	Chen	Golden State Water
61	McKinnor	California-American, California Water Service, Golden State Water
62	Solache	Golden State Water, Liberty Utilities
64	Pacheco	California Water Service, Golden State Water, Liberty Utilities, San Gabriel Valley Water, Suburban
65	Gipson	California Water Service, Golden State Water, Liberty Utilities, Suburban
66	Muratsuchi	California Water Service, Golden State Water
67	Quirk-Silva	Golden State Water, Liberty Utilities, Suburban
69	Lowenthal	California Water Service, Golden State Water
70	Ta	Golden State Water
77	Boerner	California-American
80	Alvarez	California-American

ATTACHMENT C

April 1, 2025

The Honorable Steve Padilla
California State Senate
1021 O Street, Suite 7630
Sacramento, CA 95814

Re: SB 473 (Padilla) – Oppose

Dear Senator Padilla:

The Public Advocates Office is the independent consumer advocate at the California Public Utilities Commission (CPUC). We advocate for affordable, safe, and reliable utility services consistent with the state's climate and clean energy goals.

We oppose SB 473 (Padilla) as introduced, which would require the CPUC to authorize full-revenue decoupling revenue mechanisms for water utilities. Simply put, this bill is not in the best interests of water utility customers. In 2008, the CPUC authorized decoupling as a pilot project to promote water conservation. After 10 years, the CPUC eliminated decoupling, determining that the flaws outweigh any benefits. The CPUC concluded that the year-to-year change in water usage per customer was nearly identical for utilities that implemented decoupling and those that did not. We strongly supported the CPUC's decision.

The attached fact sheet (see Page 3 below) provides more detailed information about the issues that arose for customers of the investor-owned water utilities that were granted full-revenue decoupling mechanisms (called WRAM). This mechanism allowed the utilities to impose on customers nearly $1 billion in charges outside of the utilities' central budgeting process. As such, it is unreasonable to expect households to anticipate their water bills from month to month.

Moreover, the water utilities that did not implement the WRAM did not experience any of the concerns or ill-effects to which proponents of the WRAM mechanisms are claiming.

With the current affordability challenge in providing safe and reliable water service to all Californians, SB 473's requirement to reinstate full-revenue decoupling mechanisms for

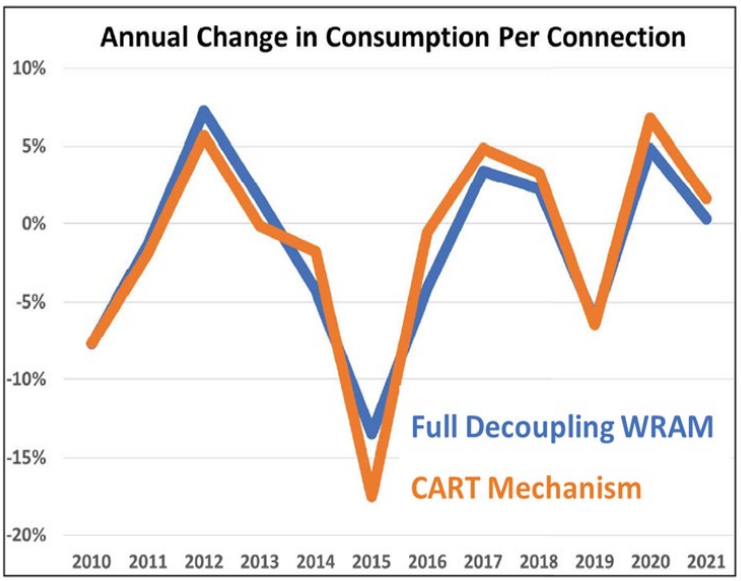
investor-owned water utilities will heighten the current affordability challenge to provide safe and reliable water service to customers of the investor-owned water utilities.

Sincerely,

Linda Serizawa
Director, Public Advocates Office

SB 473 (Padilla) – Water Rates for Customers

- The bill would require the California Public Utilities Commission (CPUC) to provide water utilities with full decoupling revenue mechanisms.
- In 2008, the CPUC conducted a 10-year pilot project with full decoupling or the Water Rate Adjustment Mechanism (WRAM) for half of the large water utilities and Conservation Price Decoupling (CART) for the other half.
- The WRAM allowed water utilities to charge ratepayers for any forecasted water sales that did not occur while the CART allowed water utilities to recover only the revenue loss attributable to conservation pricing and estimated effects of conservation programs.
- Over the 10 years, the WRAM mechanism showed no difference in conservation than the CART mechanism (*see chart, right*). Even the utilities' own consultant testified that the results were "inconclusive."
- However, the WRAM mechanism cost ratepayers close to $1B more than the CART in surcharges over the 10 years of the pilot project.
- In fact, the ballooning of WRAM surcharges on customer bills became so severe, the CPUC opened multiple proceedings to address interim remedies and partial solutions.



- Ultimately, in its multiple evaluations since the pilot project, the CPUC has consistently concluded that full decoupling:
    - Inappropriately shifts forecasting risk from utilities to ratepayers.
    - Shields utilities from normal business risks unrelated to conservation, and
    - Conflicts with the CPUC's policy of consumers paying the cost of service.
- After first eliminating the WRAM in 2019, the CPUC has allowed all water utilities to implement the CART mechanism, which has operated since 2008 without causing utility layoffs, substantial rate increases, or the inability to raise capital for infrastructure.
- Utilities are still able to implement mechanisms to recover all forecasted revenue retroactively via customer surcharges during Government declared droughts.

SENATE COMMITTEE ON APPROPRIATIONS

Senator Anna Caballero, Chair
2025 - 2026 Regular Session

SB 473 (Padilla) - Water corporations: demand elasticity: rates and surcharges

Version: April 10, 2025
Urgency: No
Hearing Date: May 5, 2025

Policy Vote: E., U. & C. 15 - 0
Mandate: Yes
Consultant: Ashley Ames

Bill Summary: This bill would require the California Public Utilities Commission (CPUC) to ensure errors in estimates of demand elasticity or sales do not result in material overcollections or undercollections of water corporations. It would also require that any changes to rates or implementation of surcharges in accordance with this requirement not result in revenues above those approved by the CPUC.

Fiscal Impact:

- The CPUC estimates ongoing costs of about $576,000 annually (ratepayer funds) and 3 positions to provide analysis and advisory support to Administrative Law Judges and Commissioner offices related to requests from regulated water corporations for decoupling mechanisms and recovery of revenue shortfalls through implementation of rate surcharges, among other things.

Background:

Decoupling. Decoupling is a utility rate-making mechanism that separates a utility's revenue from its sales. Under a decoupling approach, if a utility sells more or less electricity in one year, any revenue over-collection will be returned to customers and any under-collection will be collected the next year. California was the first state to introduce decoupling in 1982 in order to encourage energy conservation and efficiency and reduce the need to build more power plants. This mechanism ensures utilities receive a pre-determined revenue, regardless of electricity sales volume, incentivizing them to promote energy conservation.

CPUC-regulated water utilities. The CPUC has jurisdiction over water utility corporations, or investor-owned water utilities (IOUs), that provide water service to about 16% of California's residents. Approximately 95% of those residents are served by nine large water IOUs, known as Class A water utilities, each serving more than 10,000 customer 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 utility rates. As with other IOUs, the CPUC regulates the rates of water utilities (known as water corporations or water IOUs) under its jurisdiction to ensure rates are just and reasonable. Class A water utilities file a formal General Rate Case (GRC) application to 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 recover up to 50% of the total fixed costs to operate and maintain water utility systems. The use charge is a charge for actual water used during the utility billing period, 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. Utilities utilize tiered rate structures to account for a lower tier for the basic amount of service needed (in this case water) and to help encourage conservation by pricing higher volumes of usage (in this case water) 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 water utility 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 the amount 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 decoupling mechanism). 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 Public Advocates Office (PAO). These settlements included conservation rate designs and adoption of full WRAM as a means of promoting conservation by decoupling sales from revenues. Specifically, the settlement decisions adopted full WRAM (decoupling) 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 California American's Monterey district have Monterey-style WRAMS.

CPUC decision cites lack of conservation benefits and customer complaints. In CPUC proceeding (Rulemaking 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 (decoupling) 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 of full WRAMs did not provide the anticipated benefits, especially in light of the issues it created. Specifically, the CPUC decision noted the full WRAMs did not result in more conservation of water than those without them. The decision noted that customers may see their bills increase when they conserve more under full WRAMS, full WRAMs resulted in major under-collections and large balances, and rarely credits to customers. The CPUC stated 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) and that the elimination of the full WRAMs would better induce the water utilities to

provide more accurate sales forecasts and accurate tiered rates (including those authorized by the Monterey-style WRAMs) also incentivize conservation.

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 combined the petitions, and ruled in favor of the water utilities on procedural grounds after the adoption of SB 1469 (Bradford, Chapter 890, Statutes of 2022) which explicitly authorized the CPUC to consider the WRAMs. Since then the CPUC has denied applications by water corporations for full decoupling due to the continued concerns with the mechanism.

CPUC regulatory flexibility. Many of the water utilities supporting this bill disagree with the CPUC decision to eliminate the full WRAM (decoupling). 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. In previous proceedings and in relation to SB 1469, the PAO argued 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 express concerns that the surcharges imposed by full WRAMs lack transparency, create customer complaints, and can saddle customers with costs for extended periods.

Concerns. In opposition to SB 1469 and proceedings proposing decoupling, the PAO argue against full decoupling contending it does not advance the goals of promoting conservation or keeping water rates affordable, largely due to the surcharges imposed on customers. They note that the CPUC eliminated decoupling after 10 years of experience with a pilot project. The PAO 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. The water corporations supporting this bill contend that full decoupling supports conservation and addresses affordability for low-use customers. They acknowledge that surcharges can be confusing for customers, and note a desire to consider other decoupling rate designs that result in less confusion for customers while supporting conservation.

Proposed Law: Existing law 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). This bill would require the CPUC to additionally ensure errors in estimates of demand elasticity or sales do not result in material overcollections or undercollections of water corporations. It would also require that any changes to rates or implementation of surcharges in accordance with this requirement not result in revenues above those approved by the CPUC.

Related Legislation:

SB 1469 (Bradford, Chapter 890, Statutes of 2022) required the CPUC to consider whether to authorize, upon application by a water corporation, implementation of a utility rate mechanism that separates a water corporation's revenues and its water sales, commonly referred to as a "decoupling mechanism."

AB 29 (Kehoe, Chapter 8, First Extraordinary Session of 2001) among its many provisions related to energy, included explicit language to decouple 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.

Staff Comments: Staff notes that the 2023-2024 budget included $950,000 and authority for 4 positions for the CPUC to implement SB 1469 to assist with its review of decoupling requests.

-- END --

ATTACHMENT E

ALJ/JRO/avs **Date of Issuance 12/9/2024**

Decision 24-12-025 December 5, 2024

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $55,771,300 or 18.71% in the year 2024, by $19,565,300 or 5.50% in the year 2025, and by $19,892,400 or 5.30% in the year 2026.	Application 22-07-001

DECISION APPROVING PARTIAL SETTLEMENT AND ADOPTING RATES FOR CALIFORNIA-AMERICAN WATER COMPANY'S TEST YEAR 2024 GENERAL RATE CASE

(Table of contents and pages 1-3 deleted)

1.1. Decoupling

Cal-Am, in this proceeding, proposes a new form of decoupling. We briefly describe decoupling as part of the background, along with the impact of recent legislation on this issue and the effect on the timing of this proceeding.

Decoupling refers to the various mechanisms employed to address the effect on water utility costs and revenue when water sales volumes do not align with the sales projections adopted as part of a general rate proceeding. Decoupling mechanisms have been assigned various names over time, but generally fall into two general categories-Water Revenue Adjustment Mechanisms (WRAM) and Monterey Style Water Revenue Adjustment (M-WRAM). Cal-Am here proposes a Water Revenue Sustainability Plan (WRSP), a new form of a WRAM decoupling mechanism. In the event we do not approve WRSP, Cal-Am and Cal Advocates each propose M-WRAM style alternatives.

A WRAM[1] tracks the difference between authorized revenues (based on an adopted sales forecast) and the revenues based on actual sales over a calendar year. A companion part of WRAM is the Modified Cost Balancing Account (MCBA).[2] The MCBA tracks authorized water production expenses and actual water production expenses. The difference between actual and authorized expenses is subtracted from the difference in authorized and actual revenue. The result is then applied to customer bills as a surcharge or sur-credit. Proponents of WRAM, including Cal-Am, argue that it encourages conservation. They argue

[1] Decision (D.) 08-11-023 at 13.

[2] *Id.*

that because authorized revenue is primarily collected through usage rates, without some form of a WRAM water utilities are disincentivized to promote conservation because reduced water sales lead to decreased revenue and cost recovery.

M-WRAM is a mechanism that protects water utilities utilizing tiered rates. M-WRAM tracks the difference in sales revenue over a calendar year between an adopted tiered rate design and a revenue-neutral uniform rate.[3] Tiered rate design promotes conservation through a rate structure that increases the cost of water as a customer's usage increases. The M-WRAM works to protect the water utility from declining revenue due to changes in consumption promoted by the tiered rate design.

The Commission authorized Cal-Am to utilize a WRAM beginning in 2008.[4] Cal-Am's WRAM was renewed in each subsequent general rate proceeding.[5] Other large water utilities were granted WRAM during that period. In 2017, the Commission issued an Order Instituting Rulemaking (R.) 17-06-024 to evaluate, among other issues, water affordability. R.17-06-024 resulted in the issuance of D.20-08-047. In D.20-08-047, the Commission barred water utilities from including WRAM proposals in future rate applications. Cal-Am and Golden State Water Company filed challenges to the prohibition on WRAM proposals. The California Supreme Court granted review in May 2022.[6]

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[3] M-WRAM was first adopted in D.96-12-005. Also *see* D.00-03-053.

[4] D.08-11-023.

[5] *See* D.20-08-047, Section 5.2.

[6] *California-American Water Co. v. Public Utilities Com.* (May 18, 2022, No. S271493) ___Cal.5th___ [2022 Cal. LEXIS 2769]; *see* also *California-American Water Co. v. Public Utilities Com.* (June 1, 2022, Nos. S271493, S269099) ___Cal.5th___ [2022 Cal. LEXIS 2945] consolidating writ review with *Golden State Water Co. v. Public Utilities Com.* (No. S269099.)

On September 30, 2022, the Governor signed Senate Bill (SB) 1469 (Stats. 2022, Ch. 890). SB 1469 amended Public Utilities Code[7] Section 727.5 to allow Class A water utilities to propose decoupling mechanisms. The statute also requires the Commission to consider decoupling proposals in water ratesetting applications. The legislation became effective January 1, 2023.

On July 8, 2024 the California Supreme Court issued an opinion overturning on procedural the portion of D.20-08-047 that prohibited WRAM.[8] The court did not address the merits of WRAM and WRAM related mechanisms as an element of water rate design.[9]

1.1.1. Public Utilities Code Section 727.5 Consideration

The present application was filed prior to the amendment of Section 727.5. On October 10, 2022, 10 days after the adoption of SB 1469, but prior to its effective date, Cal-Am filed a motion requesting to update the application to include a WRAM request under Section 727.5. The motion was granted over the opposition of Cal Advocates. Cal-Am was granted an extension of time to file the updated application. The updated application was filed January 27, 2023.

The parties were directed to meet and confer regarding scheduling for the exchange of direct testimony, hearings, and other matters. Their proposed schedule was largely adopted without alteration.

On February 6, 2023, Cal Advocates filed a protest to the updated application. Cal-Am requested and received authorization to file a response to that protest.

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[7] All subsequent references to section are to the Public Utilities Code unless otherwise specified.

[8] (*Golden State Water Co. v. Public Utilities Com.* (July 8, 2024, Nos. S269099, S271493) ___Cal.5th___ [2024 Cal. LEXIS 3468].)

[9] Id. at 2-3, 34

Cal-Am was authorized to submit opening and rebuttal testimony on each element of the application, including the WRSP/WRAM proposal.

In April and May 2023, eight PPHs were held. The assigned Commissioner, the ALJ, and representatives from the Commission's Water Division were present in addition to representatives of the parties and members of the public. At the beginning of each PPH, each party, including Cal-Am, was granted time to make a presentation on its application, including the WRSP/WRAM and M-RAM proposals.

Eight days of evidentiary hearings were scheduled. Each party, including Cal-Am, was afforded the opportunity to present evidence and cross-examine witnesses on every aspect of the application, including the WRSP/WRAM proposal. Each of the parties rested their case-in-chief and rebuttal cases after only four days of hearing.

Closing briefs were authorized following the evidentiary hearing. The briefing was bifurcated between the WRSP/WRAM/M-WRAM elements of the application and the other disputed issues. A third briefing schedule was adopted for the proposed settlement.

All parties were authorized to file opening and reply comments, subject to the Commission's Rules of Practice and Procedure (Rule(s)). Cal-Am's Reply Comment, which failed to comply with the Rules, primarily addressed issues related to decoupling. Cal-Am's non-compliance with the Rules was waived and the comments were received and given full consideration.

The record demonstrates that, pursuant to Section 727.5, Cal-Am's WRSP/WRAM proposal was fully addressed by the parties and treated by the Commission consistent with due process.

(Multiple pages deleted for brevity)

6. Conservation and Decoupling

6.1. WRSP/WRAM/Decoupling

Cal-Am requests to continue its decoupling WRAM with modifications described in the WRSP. Cal-Am focuses on the conservation benefits of its proposal. Cal-Am argues that it is necessary to fully decouple revenue from consumption in order to promote conservation. It argues that without decoupling, the significant fixed costs recovered via consumption-based rates act as disincentive for a water utility to promote conservation because of the threat that declining consumption may result in the failure to recover authorized revenue.[10] Cal Advocates and MPWMD argue that the data does not support the conclusion that WRSP/WRAM is a significant causal factor in promoting conservation.[11] They also argue that WRSP/WRAM inequitably reallocates risk between the utility's shareholders and its ratepayers.[12] We agree with Cal Advocates and MPWMD and deny Cal-Am's request for WRSP/WRAM.

Water conservation is an essential element of California's response to a changing climate. Our historic pattern of periods of drought and adequate precipitation, to support a population the size of California's, has become more extreme. WRSP/WRAM is promoted as a conservation measure, incentivizing water utilities to promote conservation. To that end, Cal-Am and CWA point to the record of conservation improvements during the WRAM era as evidence of

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[10] Cal-Am Opening Brief, December 6, 2023, at 18.

[11] Cal Advocates Opening Brief, December 6, 2023 at 25. MPWMD Opening Brief, December 6, 2023 at 4-5.

[12] *Id.* at 9. Also, MPWMD Reply Brief, January 9, 2024 at 4.

WRSP/WRAM's conservation benefits.[13] We do not dispute the conservation gains of the WRAM era. The question is one of correlation versus causation.

The WRAM era was marked by drought and a significant public response to drought. State and local government, along with water utilities, promoted conservation through public education campaigns, efficiency upgrades, and other measures. Communities adopted water use restrictions supported by various punitive sanctions. The record in this proceeding does not establish the extent to which WRAM played a role in conservation. At best, we may conclude it was part of an array of measures that promoted conservation.

Water conservation is not the only factor for consideration. WRAM realigns risk. WRAM also conflicts with our ratesetting policy goal of ensuring the consumer of utility services bears the cost of that service. WRSP/WRAM focuses on the difference between actual and forecasted consumption. It allows for the application of surcharges and sur-credits to future consumption bills based upon past consumption. In order to evaluate whether Cal-Am's proposal is just and reasonable, we must weigh the role of decoupling mechanisms in conservation against the concerns of intergenerational transfer and risk reallocation. We recognize that other considerations may tip the balance in favor of WRAM/WRSP and anticipate that future decoupling proposals will present such considerations. But the record and advocacy before us in this proceeding presents conservation as the benefit of WRAM/WRSP.

WRAM is at best a minor factor in conservation efforts. Cal-Am presents the experience of WRAM and M-WRAM water utilities since 2008 and allocates any and all success for additional conservation to WRAM. We do not join in that

[13] Cal-Am Opening Brief, December 6, 2023, at 5; CWA Opening Brief, December 6, 2023, at 6.

conclusion. WRAM is tailored to protect revenue, on the theory that with revenue secure water utilities will make greater efforts to promote conservation. It is not narrowly tailored to address only declining revenue attributable to conservation. The proposed WRAM/WRSP shields Cal-Am from any failure of consumption to meet projections, not just those reductions in consumption attributable to conservation.

Tiered rate designs operate on the basic economic principle that as the cost of a commodity increases, demand/consumption of the commodity will decrease. M-WRAM is narrowly tailored to address declining revenue attributable to conservation achieved through tiered rate design. M-WRAM tracks the difference between revenue achieved under a tiered rate structure designed to promote conservation and a structure without the conservation-promoting tiers. The protection it affords a water utility is aligned with a mechanism that more directly promotes conservation.

We rely heavily on forecasted consumption to set rates that allow Cal-Am the opportunity to achieve its authorized revenue requirement. A forecast is just that, a forecast, a reasonable prediction. It is not a guarantee. As with all investments, Cal-Am's equity investors assume some risk when they assume ownership and they receive compensation for that risk. Return on Equity (ROE) is an element of the authorized revenue requirement adopted for Cal-Am. It is intended to provide a reasonable rate of return that encourages continued investment and compensates investors for their investment. By allowing Cal-Am to recover the difference between projected and actual revenue, the proposed WRAM/WRSP largely eliminates the risk of forecasts for the investors. Customers who have made efforts to conserve water perceive the WRAM surcharges as being charged for water they did not consume, a confusing price

signal that frustrates the goal of conservation. Cal-Am has not demonstrated that WRAM/WRSP sufficiently distinguishes between conservation resulting from efforts by the water utility and other errors in forecasting.

It is important to note that Cal-Am has tools to address unexpected reductions in consumption. Cal-Am retains the ability to book losses attributable to drought in a memorandum account. In section 6.2, we authorize decoupling via M-WRAM and in section 6.3 we authorize Cal-Am's continued use of an Annual Consumption Adjustment Mechanism. Cal-Am has been afforded significant means of recovering its revenue requirement.

Balancing the limited record of WRAM's impact upon conservation against our intergenerational transfer and risk transfer concerns, we find that the benefits of the proposed WRSP do not sufficiently outweigh its harm. Accordingly, we deny the portion of Special Request No. 1 that seeks a decoupling WRSP.

6.2. Conservation Adjustments for Rate Tier Designs

Having denied the request for WRSP, we grant Cal-Am's alternative requested M-WRAM. We do so because it is a ratemaking tool that provides reasonable revenue recovery with a focus on promoting conservation signals in the pricing structure. Because the mechanism will be applied statewide, to minimize confusion going forward we rename the mechanism Conservation Adjustments for Rate Tier Designs (CART Design). Cal-Am and Cal Advocates have offered competing CART Design proposals.

In Special Request 2, Cal-Am proposes to establish Incremental Cost Balancing Accounts (ICBA) for its San Diego and Ventura County Districts and Full Cost Balancing Accounts (FCBA) for its Monterey, Los Angeles, Sacramento, and Larkfield Districts as part of its M-WRAM proposal. ICBA tracks the

difference between the adopted and actual water price of water production components. Rates are adjusted to account for changes in the price due to supplier price changes. FCBA adds an additional component to the ICBA, tracking variances attributable to changes in supply sourcing.

Cal-Am states that an ICBA for San Diego and Ventura is reasonable because it purchases water for each district from a single source.[14,15] The suppliers control the per unit cost of production. Cal-Am notes that it is difficult to forecast price changes adopted by the suppliers. The ICBA is intended to protect Cal-Am and ratepayers from unreasonable price increases or decreases.

Cal Advocates generally support the proposed ICBAs, with one exception for Cal-Am's proposed pumping expense calculation. It argues that the ICBA makes a single district-wide pumping expense calculation unnecessary and that Cal-Am should use the unit rate for pumping expenses in San Diego and Ventura.[16] Cal-Am did not address the pumping expense issue in its briefing. We find that the ICBA proposal for San Diego and Ventura is just and reasonable, with the exception that we deny Cal-Am's proposal regarding pumping expenses.

Cal-Am's proposed FCBA differs from the ICBA. Where the ICBA only tracks differences in price, the FCBA also tracks differences in quantity supplied by various sources, what it terms the supply mix. Cal-Am proposes this change for the Monterey, Los Angeles, Sacramento, and Larkfield Districts because, unlike San Diego and Ventura, water for these districts is procured from multiple

[14] Cal-Am Opening Brief, December 6, 2023, at 14.

[15] Cal-Am sources water for its San Diego District from the City of San Diego. Calleguas Municipal Water District supplies the Ventura County District.

[16] Cal Advocates Opening Brief, December 6, 2023, at 17-18.

sources. The FCBA allows Cal-Am to recover additional costs or refund excess charges to ratepayers based upon increased costs or savings attributable to reallocation of volume between different suppliers.

Cal Advocates opposes the FCBA proposal. It argues that FCBA is identical to the MCBA and Essential Service Cost Balancing Account (ESCBA) elements of Cal-Am's existing WRAM and its WRSP, respectively.[17] There is merit to the concern that Cal-Am may use the ability to pass supply-source costs on to ratepayers as a way of avoiding production related costs. However, we recognize that there is merit to Cal-Am's concerns underlying the FCBA proposal, especially where new conservation requirements or drought conditions beyond Cal-Am's require changes in water production and sourcing. Accordingly, we authorize Cal-Am to establish an ICBA and Supply Source Cost Memorandum Account (SSCMA) for the Monterey, Los Angeles, Sacramento, and Larkfield districts.

The SSCMA will allow Cal-Am to track and record costs related to extraordinary events outside of its control that adversely impact Cal-Am's ability to use a particular supply source. Cal-Am bears the burden of demonstrating that costs recorded in the SSCMA are just and reasonable. We find that this approach strikes an appropriate balance between protection against rising costs and potential abuse. We expect that this issue will be revisited during Cal-Am's next general rate proceeding and encourage the parties to review and address the matter thoroughly at that time.

(Multiple pages deleted for brevity)

[17] *Id*. at 16-18.

Findings of Fact

(Multiple findings deleted for brevity)

32. Cal-Am was first authorized a WRAM in 2008. The WRAM was renewed in subsequent rate cases. In its application, Cal-Am proposed the WRSP, a set of modifications to its WRAM.

33. California experienced extreme drought from 2008-2022. State and local government and water utilities implemented various conservation measures, including restrictions on water use and education campaigns.

34. Water conservation improved while Cal-Am was authorized a WRAM. There is insufficient evidence to determine the degree to which WRAM influenced that conservation.

35. Cal-Am's ROE compensates Cal-Am's investors investment risk as an element of its revenue requirement. Cal-Am's WRAM reallocated forecasting risk between its investors and its ratepayers.

36. ICBA for the San Diego and Ventura County Districts and ICBA with an SSCMA for the Monterey, Los Angeles, Sacramento, and Larkfield Districts are narrowly tailored to reflect the cost of changes in the water supply mix. The ICBA in San Diego and Ventura renders a single district-wide pumping expense calculation unnecessary.

37. ACAM allows for rates to be adjusted between GRC cycles. The Commission's Rate Case Plan generally prohibits mid-cycle rate changes. An exception was made to allow ACAMs to mitigate the rate impact of high WRAM balances.

38. Cal-Am has historically modified rates more than once per year to reflect authorized adjustments mid-rate case cycle. Multiple rate changes each year negate the conservation benefits of price signals and cause uncertainty for consumers.

Conclusions of Law

(Multiple conclusions deleted for brevity)

18. Cal-Am's WRSP should be denied. Cal-Am did not establish that the proposed WRSP promotes conservation and overcomes concerns about risk reallocation and inter-generational transfers.

19. CART-Design paired with tiered rates provides Cal-Am revenue adjustments for reduced consumption. Cal-Am should be authorized to implement a CART-Design, formerly known as M-WRAM.

O R D E R

IT IS ORDERED that:

(Orders 1-3 deleted for brevity)

4. California-American Water Company's request for a Water Resources Sustainability Plan decoupling mechanism is denied.

5. California-American Water Company's request for a Monterey-Style Water Revenue Adjustment Mechanism or Conservation Adjustments for Rate Tiered Designs is granted. California-American Water Company must file a Tier 1 Advice Letter to include the Monterey-Style Water Revenue Adjustment

Mechanism or Conservation Adjustments for Rate Tiered Designs in its Preliminary Statement.

(Orders 6-15 deleted for brevity)

16. Application 22-07-001 is closed.

(a) This order is effective today.

(b) Dated December 5, 2024, at Sacramento, California.

ALICE REYNOLDS
President
DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
Commissioners

Commissioner Matthew Baker recused himself from this agenda item and was not part of the quorum in its consideration.