

Small Water Supply Systems: Assessment of Drought Preparedness

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California Water Association

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California Water Association

- Comprises Class A-D Utility Members
 - Class A: California Water Service; Golden State Water; San Jose Water; California American Water; San Gabriel Valley Water; Suburban Water Systems, Valencia Water
 - Class B: Alco Water; Del Oro Water; East Pasadena Water
 - A number of Class C & D Companies
- Represents Interests of 140 CPUC-Regulated Water Utilities Before Commission and State Legislature
- Principal Activities
 - Promote sound water policy: utility/customer balance
 - Provide consensus on regulatory, legislative positions
 - Internal and external communications
 - Small system assistance
 - Forum for sharing best management practices



2007 Small System Objective

- Ensure small system viability by providing technical, managerial and financial assistance to Class C and D water companies (< 500 service connections).
- Recent CPUC policy and procedural improvements since 2005 have been beneficial to small water companies.



Resolution W-4524 – March 2005

- Greatly improved Rate-of-Margin (previously operating ratio) ratesetting methodology
- Attractive alternative to Return-on-Ratebase method when small system has small net investment (largely depreciated ratebase)
- Specifically designed for Class C & D utilities
- Provides needed cash flow
- Rates calculated based on “higher of” result between ROM and ROR
- Many companies have taken advantage of ROM



Resolution W-4540 – June 2005

- Provides Interim Rates for Small Water Utilities
- Enables Small Companies to File Interim Rate Request with General Rate Case
- Allows Interim Rates to go into Effect in GRC Test Year if GRC is Still Ongoing
- Interim Rates Subject to Refund Pending final GRC Decision
- Current, Filed Annual Report and Annual CPI Adjustment Filing Are Prerequisites



Resolution W-4603 – May 2006

- Cottage Springs Water Company GRC Decision
- Established ‘Expedited GRC Process’ for Qualifying Class C & D Water Utilities in Lieu of Typical Rate Case
- Utility Provides Information Specified in Expedited GRC Process ‘Checklist’
- If Conditions Met, Resolution Can Be Drafted by Water Division without Public Meeting, Field Investigation and Staff Report
 - Adequate service since last GRC; Average rates are ‘reasonable’
 - Reliable and safe drinking water supply; DPH compliance letter
 - No CPUC, DPH or County health compliance orders
 - DPH/County Environmental Health Dept. certification of infrastructure
 - No significant customer complaints
 - Filed annual reports for at least the last three years
 - Annual compounded CPI-U adjustments
 - No SDWBA loan balance outstanding



Resolution W-4658 – September 2007

- Modifies W-4540 – Interim GRC Rate Increases
- Authorizes Class B, C or D Utilities to File Interim Rates Based on CPI-U or Cash Flow Needs
- File Via a ‘Tier 1’ Advice Letter
 - Effective pending disposition (i.e. prior to approval)
 - Subject to Water Division staff approve (not PUC)
- Subject to Refund (up or down) Per Final GRC Decision



Resolution W-4664 – November 2007

- Authorizes Tier 1 Advice Letter Filings for:
 - CPI Offsets
 - Expense Offsets
 - Utility Tax Offsets
- Waives 30-day Notice Requirement
- Reduces Customer Confusion
- Rate Changes Already Deemed Reasonable



Resolution W-4661 – September 2007

- Rio Plaza Water Company (Ventura County)
- GRC Decision Adopts Rate-of-Margin Method
- GRC Decision Introduces Increasing Block Rates
- Company Requested New Rate Design
 - Encourage conservation
 - Comply with CPUC's *Water Action Plan*
- New Three-Tiered Rates
 - Previous uniform rate was \$1.15/Ccf
 - New tiers are: 0-6 Ccf/\$0.83; 7-12 Ccf/\$1.36; >12 Ccf/\$1.95
 - Example: A customer previously paying \$41.29 for 24 Ccf/month will now pay \$57.19 for 24 Ccf



Resolution W-4663 – September 2007

- CPUC Drought Response Mechanism
- Penngrove Water Co. (Sonoma County)
 - Large Class C: 494 Service Connections
 - Petaluma Aqueduct is sole source of water
- Background:
 - Sonoma County Water Agency Conservation Request of Utility Customers
 - Mandatory Conservation Period – July-October 2007
 - SWRCB Directive to SCWA: Reduce diversions from Russian River from July 1 through October 31 by 15% of 2004 levels



Penngrove Response

- Cooperation with SCWA
 - Appeal to PWC customers for voluntary conservation
 - Filed Advice Letter to establish interim conservation rate with a 'severe' third tier
 - Analyze expected net revenue loss if conservation is successful
 - Open Mandatory Conservation Memorandum Account
 - Recovers lost revenues due to conservation
 - Tracks actual sales revenue and purchased water expense for subsequent recovery of net lost revenues
- Elements of Interim Third Tier
 - Interim tier set at \$8.50 per Ccf through October
 - Intended to discourage water use above 1,300 cu. ft./month/SC
 - Authority to increase tier to \$12.985 if SCWA mandates further cuts beyond the 15% threshold
 - Designed to recover conservation revenue losses



CPUC Decision and Results

- Commission Approval
 - Interim Conservation Rate/Third Tier is 'Reasonable'
 - Mandatory Conservation Memorandum Account
 - Third tier rate revenues are subject to refund pending review of memorandum account and earnings test
 - Rates return to prior two-tier structure at end of interim period
- October Rainfall in Sonoma County: Two Inches
 - Likely forestalled drought-induced conservation efforts
 - October sales down 2.8% from 10/04, but only 0.5% from 10/06
 - With so much rain, difficult to attribute decline to third tier rate
- Nonetheless, Benefits of Interim Rate Remain
 - Alerts customers to urgent need for conservation
 - Mechanism will encourage conservation regardless of drought
 - Revenue adjustment mechanism useful tool for future

