

**VIA ELECTRONIC MAIL**

July 1, 2015

Jeanine Townsend, Clerk  
State Water Resources Control Board  
1001 I Street, 24<sup>th</sup> Floor  
Sacramento, CA 95814  
commentletters@waterboards.ca.gov

Re: Solicitation of Comments Regarding Conservation Water Pricing and  
Implementation of Directive 8 of Executive Order B-29-15

Dear Ms. Townsend:

California Water Association (“CWA”) submits the following comments in response to the Solicitation of Comments Regarding Conservation Water Pricing and Implementation of Directive 8 of Executive Order B-29-15 issued by the State Water Resources Control Board (“State Water Board”) on June 10, 2015 (the “Solicitation”).

CWA is a statewide association that represents the interests of 113 investor-owned water utilities (“IOUs”) that are subject to the jurisdiction of the California Public Utilities Commission (“CPUC”). As an organization, CWA has actively participated in many of the proceedings that have shaped statewide policy and standards on water conservation and conservation rate design, including, especially, proceedings before the CPUC, the State Water Board and the Legislature. Though the questions enumerated in the Solicitation are mainly oriented toward the public agency water suppliers, rather than the IOUs, CWA appreciates the opportunity to comment on the IOUs’ experience with respect to conservation pricing.

**Conservation Pricing and the IOUs**

CWA’s member companies have spent the last several years implementing their respective conservation rate design programs pursuant to the CPUC Water Action Plan.<sup>1</sup> The IOUs’ programs vary in ways intended to address company, district and water system-specific circumstances. Since 2008, many of the Class A companies have, with CPUC authorization, implemented conservation rate designs, which include increasing block tiered rates (primarily

Jack Hawks, Executive Director  
California Water Association  
601 Van Ness Avenue, Suite 2047  
San Francisco, CA 94102-6316  
415.561.9650  
415.561.9652 fax  
415.305.4393 cell  
jhawks@calwaterassn.com  
www.calwaterassn.com

Melissa Dixon, Administrative Director  
California Water Association  
1215 K Street, Suite 940  
Sacramento, CA 95814  
916.231.2147  
916.231.2141 fax  
mdixon@calwaterassn.com

CWA President  
Greg Milleman  
California Water Service Group  
661.476.0574  
gmilleman@calwater.com

CWA Vice Presidents  
Lawrence Morales  
East Pasadena Water Company

Keith Switzer  
Golden State Water Company

Evan Jacobs  
California American Water

CWA General Secretary and Treasurer  
Leigh Jordan  
Park Water Company  
P.O. Box 7002  
Downey, CA 90241-7002  
562.923.0711  
leigh@parkwater.com

CWA Billing Address  
California Water Association  
1215 K Street, Suite 940  
Sacramento, CA 95814

CWA Mailing and Shipping Address  
California Water Association  
601 Van Ness Avenue, Suite 2047  
Mail Code: #E3-608  
San Francisco, CA 94102-3200

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<sup>1</sup> The latest update on the CPUC’s Water Action Plan (October 2010) is available at <http://docs.cpuc.ca.gov/PUBLISHED/Graphics/125501.PDF>

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for residential customers). The CPUC has authorized these conservation rates in tandem with regulatory accounting mechanisms that serve to work together with conservation pricing to induce customers to conserve without inflicting undue financial harm on the IOUs. In CWA's experience, these regulatory tools have generally worked well to instill a conservation ethic in customers. As the State Water Board is likely already aware, the CPUC is currently examining the effectiveness of these regulatory tools in Phase II of its Rulemaking ("R.") 11-11-008, in which CWA and its member companies are actively participating.

### **Conservation Pricing Policy**

The State Water Board has been assigned a key role in finding ways to maximize water conservation in accordance with the Governor's Executive Order B-29-15. CWA appreciates that, even in the necessary haste to deploy restrictions designed to implement the Governor's directives and achieve statewide conservation targets within a relatively short timeframe, the State Water Board has maintained consistent support for water suppliers, including by commending supplier investment in drought-resistant sources of supply such as recycled water plant<sup>2</sup> and, more relevant to the present Solicitation, by supporting the use of conservation rate design structures that make it possible for the IOUs to aggressively promote conservation efforts without suffering serious financial harm.<sup>3</sup> Moreover, CWA concurs in the State Water Board's observation that "conservation water pricing must be carefully tailored to local circumstances to be effective," and supports the State Water Board's examination of ways to improve conservation price signals in this context.

CWA has observed with interest the recent legal developments in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* ("CTA v. CSJC") on the subject of conservation pricing. Although CWA sees the opinion having no direct legal implications for the CPUC's decisions related to its rate regulation, the case has become an issue from a customer-relations standpoint. This confusion, combined with customer concerns regarding the fairness of the recently imposed conservation standards, has possible negative implications for customer conservation behavior and for customer regard for their water suppliers. It is counter-intuitive from the customer's perspective that conserving and reducing water use should generate higher rates for service.

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<sup>2</sup> State Water Board Resolution No. 2015-0032, at 5 (Section 13).

<sup>3</sup> *From this perspective, especially, CWA applauds the State Water Board for its endorsement of Resolve No. 10.a. in Resolution No. 2015-0032, which states:*

10. *The State Water Board calls upon water suppliers to:*
  - a. *ensure that adequate personnel and financial resources exist to implement conservation requirements not only for 2015, but also for another year of drought should it occur. Water suppliers that face budget shortfalls due to reduced sales should take immediate steps to raise necessary revenues in a way that actively promotes continued conservation;*

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While CWA's member companies make significant investments in customer education, CWA believes that one action that the State Water Board can take to assist water suppliers with regard to implementing conservation pricing is to redouble its efforts to improve communications with customers and water users regarding the need, nature and rate impacts of evolving water use restrictions and requirements.

While the *CTA v. CSJC* decision is not binding on the CPUC-regulated utilities, it is important to note that these utilities undergo a statutorily mandated, comprehensive general rate case every three years to ensure that their rates are based strictly on the cost of serving their customers. Accordingly, the tiered rate designs approved by the CPUC and the associated decoupling mechanisms that have been adopted do no more than recover the utility's approved revenue requirement, which in turn is based exclusively on cost of service ratemaking principles.

CWA hopes these comments on the implementation of Directive 8 prove useful to the State Water Board's efforts to promote effective conservation through innovative pricing strategies during this ongoing drought and into the future.

Very truly yours,



Jack Hawks

cc: Commissioner Catherine J.K. Sandoval – California Public Utilities Commission  
Rami S. Kahlon – CPUC Director, Division of Water & Audits  
Jamie Ormond – Water & Legal Advisor to Commissioner Sandoval  
California Water Association Regulatory Committee