CONSERVATION RATES -- SENSIBLE PRICING FOR WATER IN THE CAL AM SETTLEMENT

WATER RATES WORKSHOP
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Today's Presentation

- NRDC's goals and objectives
- Rate design principles in the Cal Am case
- Decision rules used for building new rates
- Resulting tiered rate design in the settlement agreement
- Illustrative effects of the new rate designs
- Issues remaining for the next rate case

NRDC's goals and objectives

For Water Efficiency

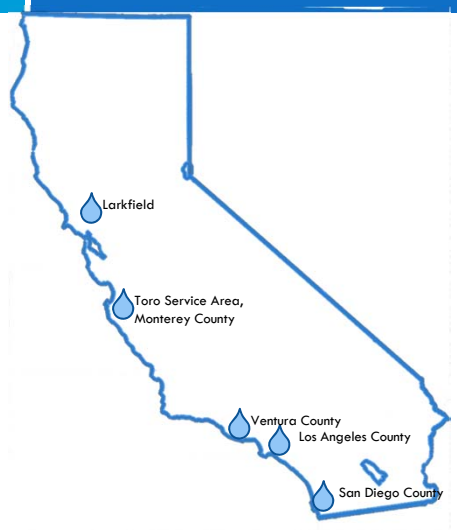
Support Attainment of WCA 20% goal with:

- Rational pricing for water and wastewater service.
- Sensible codes, standards, and regulations.
- Pooled investment mechanisms.

For the Cal Am Case

- Maintain affordability of essential levels of indoor water use.
- Send strong price signal to peak season outdoor demand.
- Employ principles that are transferrable.
- No involvement in revenue requirement.

Cal Am Districts Covered by the Rate Design Settlement



Districts and Residential Connections

Larkfield	2,025
Toro Area	411
Ventura	19,372
Los Angeles	24,458
San Diego	18,083

Population ≈ 200,000

Status of the Case – A10-07-007

- Cal Am filed for a rate increase in July 2010 for 5 of its 6 districts (all except Monterey).
- NRDC intervened in August 2010.
- Testimony filed in February 2011.
- 3-party "joint stipulation" filed in May 2011.
- Initial rate settlement filed in July 2011.
- Decision on revenue requirement June 2012.
- Final rate design settlement filed July 2012.
- Decision on rate design – forthcoming (Oct? 2012)

Rate design principles in the settlement

- Encourage water conservation and efficient use;
- Maintain affordability for essential levels of indoor water use;
- Practical, easy to implement, and understandable for customers;
- Maintain revenue neutrality;
- Adhere to the principle of gradualism, giving residential customers the opportunity to adjust to new price signals;
- Bear a reasonable relationship to the cost of service;
- Fair in their treatment of diverse groups of customers.

Decision rules used for building rates

- Fixed charges set to recover 25 % of fixed costs
- 4-tier volumetric rate design
- Break-points for water volumes within tiers –
  - Tier 1 = median winter month use*
  - Tier 2 = median summer month use*
  - Tier 4 limited to 3 to 5 % of water usage

* We met the consumers where they were, rather than setting consumption levels for the tiers at some predetermined target.

Decision rules for new rates (continued)

Relationship of water rates between tiers –

- Tier 2 = average price of water
- Tier 1 = 70 to 90 % of Tier 2
- Tier 3 = 115% to 150% of the Tier 2
- Tier 4 = 170% to 200+% of Tier 2, (and less than 10% of volumetric revenue)

Tiered rate design in the settlement

Ventura District			Larkfield District		
1	12 hcf	2.91	1	7 hcf	5.18
2	22 hcf	3.38	2	14 hcf	6.47
3	100 hcf	5.17	3	38 hcf	9.37
4	>100 hcf	7.71	4	>38 hcf	12.69

Illustrative effects of the new rate designs – Ventura District

- Top tier rates -- former: $ 2.93/hcf; new: $7.71/hcf
- Consumer payback for leak repair costing $390 (100 gpd leak)
  - At old rate = 2.8 years
  - At new rate = 1.1 years
- Consumer payback for landscape renovation costing $2,500 (35 gpd reduction)
  - At old rate = 22.5 years
  - At new rate = 8.6 years

More strategic targeting of water use is possible in future rate designs

- Tiers are based on current use patterns, rather than set at predetermined or targeted consumption levels.
- Tier 1 allowance in the Settlement averages 10 HCF per month, with the smallest being 7 HCF (in Larkfield)
  - 10 HCF = 62 gpcd for a 4-person household
- From NRDC's perspective, 35 to 40 gpcd is the range of consumption that we should aim to protect in Tier 1 in the years ahead. 55 gpcd might be an interim target.
- 35 to 40 gpcd would be --
  - about 4.3 HCF per month @ 2.7 persons per household
  - about 6.4 HCF per month @ 4.0 persons per household

Issues remaining for the next rate case

- Refinement of first tier consumption level
- Multi-family rate designs
- Commercial, Industrial, and Institutional rate designs
- Billing format
- Building a price elasticity response into the sales forecast
- Conservation programs targeting leakage and inadvertent use

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