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

WATER RATES WORKSHOP
U.C. DAVIS, DAVIS, CA

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

<table>
<thead>
<tr>
<th>Districts and Residential Connections</th>
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<tbody>
<tr>
<td>Larkfield 2,025</td>
</tr>
<tr>
<td>Toro Area 411</td>
</tr>
<tr>
<td>Ventura 19,372</td>
</tr>
<tr>
<td>Los Angeles 24,458</td>
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<tr>
<td>San Diego 18,083</td>
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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

<table>
<thead>
<tr>
<th>Ventura District</th>
<th>Larkfield District</th>
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<tbody>
<tr>
<td>1 12 hcf 2.91</td>
<td>1 7 hcf 5.18</td>
</tr>
<tr>
<td>2 22 hcf 3.38</td>
<td>2 14 hcf 6.47</td>
</tr>
<tr>
<td>3 100 hcf 5.17</td>
<td>3 38 hcf 9.37</td>
</tr>
<tr>
<td>4 &gt;100 hcf 7.71</td>
<td>4 &gt;38 hcf 12.69</td>
</tr>
</tbody>
</table>

### 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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