

**Testimony of Paul Townsley
Vice President, Regulatory Matters & Corporate Relations
California Water Service Company**

**Before the Joint Hearing of the
Committee on Utilities & Commerce and the
Committee on Aging & Long-Term Care
California State Assembly**

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Introduction

Chairs Bradford and Yamada, Vice Chairs Patterson and Wagner, and Members of the Committees, good afternoon -- Thank you for allowing me to be here with you today. I am Paul Townsley, the Vice President of Regulatory Matters and Corporate Relations for California Water Service Company (Cal Water). Cal Water employs more than 1,000 water industry professionals who provide safe, reliable water utility service to approximately 2 million Californians in nearly 100 communities, from Chico in the north to the Palos Verdes peninsula in the south.

I sincerely appreciate this opportunity to discuss some of the important ways that water utility rates intersect with issues of affordability. This topic is especially timely because the cost of providing water utility service is increasing across the country. These cost increases are a fact of life for all water utilities, large and small, and they do not discriminate between those regulated by the California Public Utilities Commission (PUC) or owned by government agencies. As the Pacific Institute reported last year, water utility service "is a rising cost industry as a result of deteriorating infrastructure, stricter regulations, and climate change."¹ These cost increases translate into higher water utility rates. In fact, rates "continue to rise at a pace much higher than overall inflation."²

Every utility, whether it is owned by a government agency or shareholders, is facing increasing costs and rising rates. Every utility has to comply with a multitude of state and federal laws and regulations on everything from water quality to water conservation. Each has to offer a reasonable return to investors, be it for government-issued bonds or company stock, to be able to acquire the funds necessary to make costly infrastructure improvements. Most importantly, there are

¹ Kristina Donnelly & Dr. Juliet Christian Smith, June 2013, "An Overview of the 'New Normal' and Water Rate Basics," Available at: <http://www.pacinst.org/wp-content/uploads/2013/06/pacinst-new-normal-and-water-rate-basics.pdf>.

² Janice A. Beecher, Ph.D., February 2013, "Trends in Consumer Prices (CPI) for Utilities through 2012, Institute of Public Utilities Regulatory Research & Education Research Note," Available at: [http://www.ipu.msu.edu/research/pdfs/IPU%20Consumer%20Price%20Index%20for%20Utilities%20012%20\(2013\).pdf](http://www.ipu.msu.edu/research/pdfs/IPU%20Consumer%20Price%20Index%20for%20Utilities%20012%20(2013).pdf).

customers facing economic hardship in every city and town in California, regardless of who their water utility happens to be.

With these facts in mind, the question becomes, “How we can meet our obligation to provide safe, reliable service at a reasonable cost?” To further advance this discussion, I would like to address three broad topics in my testimony: The rate-setting environment Cal water operates within; the programs Cal Water has in place to assist customers facing economic hardship; and several principles that should be considered while working to craft viable programs and policies to help ensure that water utility service remains affordable.

Rate-Setting Environment

Cal Water’s rates are set on a cost-of-service model, meaning that the rates paid by our customers reflect the actual cost of providing them with service. All of the operational, administrative, and capital costs are included in our rates. We are not able to levy property taxes or other assessments or collect other fees and charges to help offset the cost of infrastructure improvements and reduce the monthly bills paid by customers.

Cal Water is regulated by the PUC. Every three years, we are required to file a General Rate Case (GRC) with the PUC, which allows it to audit Cal Water’s books and operations, ensure its expenses are prudent and justified, determine what infrastructure improvements we will be allowed to make to our water systems, and, finally, establish water utility rates for the subsequent three-year period.

Cal Water’s most recent GRC was filed in July 2012. We are nearing the end of the proceeding as a Proposed Settlement Agreement between Cal Water, the PUC’s Office of Ratepayer Advocates, and the other parties to the case, was filed in late 2013. We expect the PUC to issue a Final Decision early in the second quarter.

Affordability issues were an important part of each phase of the proceeding, from our original application to the Proposed Settlement Agreement. With the assistance of ORA and the other parties to the case, we were able to make substantial enhancements to our programs designed to assist customers facing economic hardship.

Customer Assistance Programs

Currently, Cal Water has two programs in place that are specifically designed to help address affordability issues: Our Low-Income Rate Assistance (LIRA) program and our Rate Support Fund (RSF) program.

LIRA is a state-wide program that is similar to the CARE program offered by energy utilities. Any Cal Water customer that meets certain income guidelines (which are the

same as the CARE guidelines) and is enrolled in the program currently receives a monthly discount of 50 percent off of the monthly service charge, up to a cap of \$12.00, which is funded through a modest surcharge on other customers' bills company-wide. Presently, about 48 percent of our customers in Lucerne participate in LIRA and, across all of our service areas, about 24 percent of our customers are enrolled.

RSF is a program that is targeted specifically at our service areas that have higher water utility costs as a result of the relatively small size of the customer base. Customers in these specific service areas receive a monthly credit on their bills. The program is funded through a modest surcharge on other customers' bills company-wide.

This program was implemented with our customers in communities such as Lucerne in mind. Lucerne is a small community, located on Clear Lake in Lake County, with approximately 3,000 residents. This community continues to struggle economically with unemployment rates well above 10 percent and average household incomes of less than \$35,000 per year. Nearly 25 percent of Lucerne's residents have had an income below the poverty level in the last 12 months.

As I stated earlier, the Proposed Settlement Agreement in our current GRC includes significant enhancements to both of these programs. For example, the current monthly cap on the LIRA program would increase from \$12.00 to \$18.00 in our service areas that do not receive benefits under the RSF program. For customers in those service areas that do receive benefits under the RSF program, the monthly cap on the LIRA benefit would increase from \$12.00 to \$30.00. The LIRA program would be funded through a 2.313 percent surcharge on bills of customers not enrolled in the program.

Similarly, the RSF program would be modified to establish a substantially reduced rate for the first 7,480 gallons of water used by customers in Lucerne. The rate would be \$4.52 for 748 gallons, or about six-tenths of a cent per gallon. Each additional unit would be charged at the normal rates established in the GRC. As a point of reference, the typical single-family residential customer in Lucerne uses approximately 3,740 gallons of water per month. The RSF program would be funded through a 0.502 percent surcharge on bills of customers, except for those in participating districts that are also enrolled in LIRA.

With these enhancements to our assistance programs, customers in Lucerne who are enrolled in LIRA and use the typical amount of water will actually see their monthly water utility bill decrease.

In addition to these programs that are funded by Cal Water's ratepayers, the Company will be launching a customer grant program aimed to provide assistance to customers who are having difficulty paying their water utility bill. The program will be

similar to Southern California Edison's Energy Assistance Fund and it will be funded by Cal Water's shareholders. Customers will be eligible to receive an annual financial grant to help them pay their water utility bill. We will be partnering with local non-profit organizations in our service areas to implement the program.

We are extremely proud of the efforts we have made, with the assistance of the PUC and its Office of Ratepayer Advocates, to address affordability issues in relation to water utility rates. That said, we must recognize that there will continue to be customers who are struggling financially, both in our service areas and in those of every other water provider across the state. This is especially true in smaller, rural areas where significant infrastructure needs, difficult water quality issues, and small numbers of customers can substantially increase the cost of service.

Principles for Future Reform

I believe that several principles should guide additional efforts to address affordability issues as they relate to water utility rates.

First, the time may have come for a state-wide low-income rate assistance program, applicable to all utilities regardless of whether they are owned by government agencies or shareholders. Fewer than 25 percent of the state's residents receive water utility service by utilities regulated by the PUC. Limiting future reform efforts to only those utilities would overlook the 75 percent of Californians that may be facing economic hardship but are not served by a PUC-regulated utility. Likewise, many PUC-regulated water utilities already offer some form of low-income rate assistance benefit.

Second, additional efforts to address affordability issues should be funded from the state's general revenue. Not only would this funding model facilitate a state-wide low-income rate assistance program, but it would also minimize the overall burden for each ratepayer. It must be recognized that the cost of providing safe, reliable water utility service does not change based on the economic makeup of a community. As such, any subsidy a community or group of customers receives has to be paid for. By substantially enlarging the number of individuals who contribute to these types of subsidy or low-income programs, the cost to each individual can be reduced significantly.

Third, low-income rate assistance and other subsidy programs can create countervailing equity issues. For example, individuals in lower-income urban areas, where the cost of water utility service is lower because of economies of scale, could end up providing significant subsidies to rural areas where the cost of water utility service is substantially higher. Establishing a state-wide program funded from general revenue would work to minimize these countervailing effects.

Finally, grant and loan programs should be available to all water utilities, regardless of their ownership model. In many instances, PUC-regulated water utilities are not eligible for certain grants and loans because they are not owned by government agencies, despite the fact that their customers share the tax burden of funding those programs. As I stated earlier, the cost of providing safe, reliable water utility service and rates are increasing for all utilities. Economic dislocation does not just happen to individuals served by government-owned utilities. As such, the Legislature should ensure that future water infrastructure funding initiatives, such as the Water Bond, are open to every water utility across the state.

Conclusion

Again, I sincerely appreciate your invitation to appear before the two Committees. I look forward to continuing to work with you, your colleagues, and the PUC to ensure that all Californians are able to receive safe, reliable water utility service at a reasonable cost. Thank you and I would be happy to respond to any questions you may have.