

May 3, 2017

Mr. Stephen Lucas  
Executive Director  
Butte Local Agency Formation Commission  
1453 Downer Street, Suite C  
Oroville, CA 95965

**Subject: Butte County Local Area Formation Commission's Regional Water Service Review of the Greater Oroville Area**

Dear Executive Director Lucas:

My name is Jack Hawks, and I am the Executive Director of the California Water Association ("CWA"), a statewide trade association that represents approximately 100 investor-owned public water utilities regulated by the California Public Utilities Commission ("Commission" or "CPUC"). In addition to the CPUC, CWA represents the interests of these water utilities before the State Water Resources Control Board, the Department of Water Resources, the California Water Commission, the State Legislature and the Governor's Office, among others.

CWA is aware that the Butte County Local Agency Formation Commission ("Butte LAFCO") has approved a request from the City of Oroville to complete a "regional water service review of the greater Oroville area."<sup>1</sup> On behalf of our member California Water Service ("Cal Water") and the rest of the CPUC-regulated water utilities, CWA respectfully offers the following comments in an effort to provide you with the most complete and accurate information regarding our segment of the industry.

As you pursue the requested review, CWA hopes that you will make use of this material to correct certain inaccuracies in a previous review, the Butte County LAFCO's Final Municipal Service Review of Domestic Water and Wastewater Service Providers, issued on June 1, 2006 ("2006 MSR").<sup>2</sup>

**1. Governance Structure and Local Accountability**

Unfortunately, the 2006 MSR depicts an incomplete and, in a number of places, inaccurate, picture of the government structure under which Cal Water operates.<sup>3</sup>

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<sup>1</sup> Butte County Local Agency Formation Commission, "Memorandum: LAFCO File No. 17-11 – City of Oroville Request for LAFCO to Administer a Water Service Study of the Oroville region," February 23, 2017.

<sup>2</sup> Available at <http://buttelafco.org/sites/default/files/resources/Final%20MSR.pdf>.

<sup>3</sup> 2006 MSR, at 2.18-6 to 2.18-7.

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#### **A. Regulation by the California Public Utilities Commission**

The 2006 MSR does not recognize that Cal Water is regulated and overseen by the CPUC. The Commission is enabled by Article 12 of the California Constitution and is governed by the California Public Utilities Code. Specifically, the Commission is responsible for regulating utility rates, terms of service, operations, financing, and, along with the State Water Resources Control Board, water quality. The Commission is an independent state agency, comprised of five Commissioners who are appointed by the Governor and confirmed by the Senate for six-year terms.<sup>4</sup> Far from “not hav[ing] a government structure,”<sup>5</sup> as is stated in the 2006 MSR, Cal Water operates under a governance structure that is among the most heavily regulated in the United States.

#### **B. Transparency and Public Participation**

Contrary to the implication in the 2006 MSR, the regulatory environment in which Cal Water operates offers an unmatched degree of transparency and opportunity for public participation. For example, the 2006 MSR fails to mention that the Commission’s meetings, including those related to Cal Water and utility rates, conform to the Bagley-Keene Open Meeting Act, the state-level analog of the Ralph M. Brown Act.<sup>6</sup>

Similarly, the 2006 MSR does not discuss the extraordinary level of scrutiny applied to the regulated utilities by the Commission’s staff, by the independent Office of Ratepayer Advocates (“ORA”), or by the various consumer advocate organizations that participate in the utilities’ proceedings, such as The Utility Reform Network and the Consumer Federation of California. Additionally, there are a myriad of opportunities for the public to obtain information about, and to engage in, the rate-setting process, including local community outreach meetings, local public hearings conducted by the CPUC’s administrative law judges, and participation as official parties to the Commission’s legal rate-setting proceedings.

Finally, the Commission’s proceedings offer a high degree of transparency relative to government-owned utilities’ proceedings because ex-parte communications between the Commission, its jurisdictional utilities and the parties are greatly restricted, especially in the rate-setting process where the meetings and any supporting materials must be publicly reported pursuant to state law and the CPUC’s rules.<sup>7</sup>

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<sup>4</sup> California Constitution Article 12 § 1.

<sup>5</sup> 2006 MSR, at 2.18-7.

<sup>6</sup> Government Code §§ 11120-11132.

<sup>7</sup> See *City of Claremont v. Golden State Water Company*, at 38 (Los Angeles Superior Court December 9, 2016) (“The likelihood of ex parte communications are much greater at the City level. Council members are expected to be available outside of public hearings to discuss matters coming before the Council with residents. The Council members will also likely communicate frequently with the City employees who manage a municipally owned water system.”).

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### **C. The Commission's Rate-Setting Process**

Unlike their government-owned utility counterparts, water utilities regulated by the Commission, like Cal Water, must, by state law, have their rates, operations, water system improvements, and expenses reviewed by the Commission and customer advocacy groups every three years.<sup>8</sup> This law not only contributes to the transparency of Cal Water's operations by increasing the frequency with which its rates are reviewed, but also helps to ensure that rates reflect the true cost of service.

Cal Water's rates for its Oroville service area are set by the Commission through a process established by the Legislature and strictly governed by the Commission. For water utilities under the Commission's jurisdiction, the rate-setting process occurs every three years in a formal proceeding that is similar to a trial in a court. The process is overseen by an independent Administrative Law Judge, and is transparent and open to the public.

Hearings designed specifically for public participation are held to receive the testimony of customers. The rates for Cal Water are ultimately established only after an 18-month review process that includes testimony from all parties, a proposed decision by the Administrative Law Judge and then a formal vote and decision of the Commissioners.

Most important, rate applications submitted by water utilities before the Commission are typically challenged by the ORA, a separate, independent agency whose statutory mission is "to obtain the lowest possible rate for service consistent with reliable and safe service levels."<sup>9</sup> ORA conducts a thorough audit of the utility's books, expenses, operations, proposed infrastructure improvements and recommended capital investments, and typically contests aspects of the application in evidentiary hearings before an Administrative Law Judge. Having a formal entity with such expertise and experience in the rate-setting process to advocate on behalf of customers ensures that the rates ultimately approved are just and reasonable, and it is a benefit not offered in rate-setting proceedings of most government-owned utilities.<sup>10</sup>

In contrast to the proceedings of government-owned water utilities, individual customers of Cal Water have the opportunity for significant involvement and representation in order to influence the rate-setting process. An individual can become a party to the rate-setting proceedings of Cal Water and affect the outcome. In fact, the CPUC intervenor compensation program awards compensation for fees and costs of participation to qualified intervenors representing residential or small commercial utility customers who demonstrate that they have made a substantial

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<sup>8</sup> Public Utilities Code § 455.2.

<sup>9</sup> California Public Utilities Code § 309.5(a).

<sup>10</sup> California State Auditor, *Southeastern Los Angeles County*, Report 2012-104, at 38 (January 2013), available at: <http://calwaterassn.com/wp-content/uploads/2014/02/State-Auditor-Report-Jan-2013-2012-104.pdf>.

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contribution to the proceeding in which they participated.<sup>11</sup>

By comparison, the ability for individuals to *meaningfully* change the outcome in the rate-setting process for government-owned water utilities is limited. For example, the customers of most government-owned utilities are relegated to a passive role throughout most of the process as they are only able to act on the final rate proposal that is prepared by the governing body. In contrast, customers of water utilities regulated by the Commission who become official parties to a rate-setting proceeding are able to prepare their own rate proposals and have them considered and evaluated as part of the rate-setting process.

Similarly, the customers of most government-owned utilities are often limited to a few minutes during a rate-setting hearing to provide their opinion to the utility's governing body. In contrast, the customers of utilities regulated by the Commission who become official parties to a rate-setting proceeding are able to present testimony and evidence, and even cross-examine witnesses during evidentiary hearings.

In summary, it was unfortunate that the 2006 MSR criticized the governance and accountability of Cal Water's operations in Oroville without a *single* mention of the Commission's oversight or the comprehensive rate-setting process that Cal Water must undergo. A more credible comparison would take into account the intricate framework described above, and CWA hopes the 2017 regional water service review of the greater Oroville area will do just that.

## **2. Effect of Water Use on Rates**

The amount of water a utility projects its customers will use over the course of a year or rate cycle is an integral component of the rates the utility charges its customers. The Alliance for Water Efficiency summarizes the issue in this way:

Demand forecasting serves many purposes, and is a critical step in the planning, design and evaluation of a rate structure. In order to ensure that revenue collected will cover costs, water utilities need to anticipate how much water they expect to sell.<sup>12</sup>

Because of this, most water utilities – whether investor- or government-owned – set their water rates, in part, based on how much water customers are projected to use. Utilities with

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<sup>11</sup> See CPUC, *Intervenor Compensation Program Guide and Instructions* (May 2014), available at <http://www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=2558>.

<sup>12</sup> Alliance for Water Efficiency (in partnership with the California Urban Water Conservation Council), *Building Better Water Rates for an Uncertain World: Balancing Revenue Management, Resource Efficiency, and Fiscal Sustainability*, at 61, (August 2014), available at: <http://www.financingsustainablewater.org/tools/building-better-water-rates-uncertain-world>.

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customers who use more water relative to other utilities can have a lower per-unit cost, but will still recover the same amount of total revenue (all other things being equal). Even though their per-unit cost of water may be lower, customers may be paying the same total amount as customers of utilities with higher per-unit costs simply because they are using and being billed for more units of water.

The 2006 MSR assumes that Cal Water's customers have "similar water usage" as those customers of other nearby water utilities. However, Cal Water's customers use substantially less water than, for instance, customers of South Feather Water & Power ("South Feather"). The State Water Resources Control Board ("SWRCB") reported that, from July to September 2014, the Residential Gallons per Capita per Day ("RGPCD") for Cal Water's customers in Oroville was 131.<sup>13</sup> On the other hand, the SWRCB reported that, over the same period of time, the RGPCD for South Feather's customers was 466, or 3.5 times more than Cal Water's customers in Oroville.<sup>14</sup> As a point of fact, based on the provided data, from July to September 2014, South Feather's customers had the seventh highest RGPCD of the more than 400 water suppliers across California reported on by the SWRCB.

During the course of California's historic drought, both Cal Water and South Feather have seen changes in their customers' water use patterns.<sup>15</sup> From July 2015 to November 2016, the average RGPCD for Cal Water's customers was 78. Over the same period of time, the average RGPCD for South Feather's customers was 264, or about 3.4 times more than Cal Water's customers in Oroville. During this time period, South Feather's customers had the fourth highest RGPCD of the more than 400 water suppliers across California reported on by the SWRCB.

Everything else being equal, South Feather would be able to charge substantially less for each unit of water used by its customers, but would still generate a comparable amount of revenue as Cal Water, whose customers use substantially less water. The assumption that Cal Water's customers have water usage that is similar to that of South Feather's serves to artificially inflate the monthly bill calculation for Cal Water's customers and artificially lower the monthly bill calculation for South Feather's.

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<sup>13</sup> State Water Resources Control Board, *Urban Water Suppliers and Regulatory Framework Tiers to Achieve 25% Use Reduction* (April 23, 2015), available at: [http://www.waterboards.ca.gov/waterrights/water\\_issues/programs/drought/docs/emergency\\_regulations/supplier\\_tiers\\_20150428.pdf](http://www.waterboards.ca.gov/waterrights/water_issues/programs/drought/docs/emergency_regulations/supplier_tiers_20150428.pdf).

<sup>14</sup> *Id.*

<sup>15</sup> Data derived from the State Water Resources Control Board's June 2014 – February 2017 Urban Water Supplier Report Dataset, available at: [http://www.waterboards.ca.gov/water\\_issues/programs/conservation\\_portal/docs/2017apr/uw\\_supplier\\_data\\_040417.xlsx](http://www.waterboards.ca.gov/water_issues/programs/conservation_portal/docs/2017apr/uw_supplier_data_040417.xlsx).

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### 3. Importance of Water Conservation

Since the 2006 MSR was completed, California has made great strides towards more aggressive and meaningful water conservation measures and water-use efficiency standards. Cal Water provides customers with a world-class water conservation program, consistent with State, County, and local water conservation goals.

California has made several efforts at the state level to make water conservation a high priority:

- In 2008, Governor Schwarzenegger announced “a plan to achieve a 20 percent reduction per capita water use statewide by 2020.”<sup>16</sup> This culminated in the 20x2020 Water Conservation Plan in 2010, which set a statewide road map to maximize the state’s urban water efficiency and conservation opportunities between 2009 and 2020, and beyond.<sup>17</sup>
- In 2015, Governor Brown signed Executive Order B-29-15, which directed the SWRCB to develop and implement drought emergency regulations and mandatory reductions in potable water use between June 2015 and February 2016 by identifying a conservation tier for each urban water supplier, based on residential per capital water use for the months of July – September 2014.<sup>18</sup> Most recently, on February 8, 2017, the SWRCB extended an updated version of these existing emergency water conservation regulations that was recognized the improved water supply conditions throughout the state.<sup>19</sup>
- In May 2016, Governor Brown signed Executive Order B-37-16, which directs state agencies to establish long-term water conservation measures and improved planning for more frequent and severe droughts.<sup>20</sup> The centerpiece of Executive Order B-37-16 is a requirement for the state’s urban water suppliers to meet new water use targets.<sup>21</sup> On April 7, 2017, Governor Brown signed Executive Order B-40-17, which ended the drought emergency and finalized the report, “Making Water Conservation a California Way of Life,” starting the legislative and regulatory process for promulgating the long-

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<sup>16</sup> Letter from Governor Schwarzenegger to California State Senate Leadership (February 28, 2008), available at: [http://www.swrcb.ca.gov/water\\_issues/hot\\_topics/20x2020/docs/govltr\\_to\\_legislature022808.pdf](http://www.swrcb.ca.gov/water_issues/hot_topics/20x2020/docs/govltr_to_legislature022808.pdf).

<sup>17</sup> *20x2020 Water Conservation Plan*, at ix (February 2010), available at:

[http://www.swrcb.ca.gov/water\\_issues/hot\\_topics/20x2020/docs/20x2020plan.pdf](http://www.swrcb.ca.gov/water_issues/hot_topics/20x2020/docs/20x2020plan.pdf).

<sup>18</sup> Executive Order B-29-15 (April 1, 2015), available at: [https://www.gov.ca.gov/docs/4.1.15\\_Executive\\_Order.pdf](https://www.gov.ca.gov/docs/4.1.15_Executive_Order.pdf).

<sup>19</sup> SWRCB Resolution No. 2017-0004 (February 8, 2017), available at:

[http://www.waterboards.ca.gov/board\\_decisions/adopted\\_orders/resolutions/2017/rs2017\\_0004.pdf](http://www.waterboards.ca.gov/board_decisions/adopted_orders/resolutions/2017/rs2017_0004.pdf).

<sup>20</sup> Executive Order B-37-16 (May 9, 2016), available at: [https://www.gov.ca.gov/docs/5.9.16\\_Executive\\_Order.pdf](https://www.gov.ca.gov/docs/5.9.16_Executive_Order.pdf)

<sup>21</sup> See Public Review Draft of *Making Water Conservation a California Way of Life: Implementing Executive Order B-37-16* (November 2016), available at: [http://www.swrcb.ca.gov/water\\_issues/hot\\_topics/20x2020/docs/20x2020plan.pdf](http://www.swrcb.ca.gov/water_issues/hot_topics/20x2020/docs/20x2020plan.pdf).



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term conservation regulations.<sup>22</sup>

Butte County has identified water conservation as a crucial element of both its 2030 General Plan and its Climate Action Plan:

- In its 2030 General Plan, Butte County identifies goals relating to water conservation and aims to achieve these goals by ensuring the sustainability of community water supplies, promoting urban and agricultural efficiency, identifying water use efficiency best management practices, and working with municipal and industrial water purveyors to implement water conservation policies and measures.<sup>23</sup>
- In its Climate Action Plan, Butte County recognizes the hazards that climate change will present including reduced water supply.<sup>24</sup> Specifically, Butte County plans to “support other agencies to help vulnerable populations conserve water and reduce household resource costs through income-qualified subsidies and rebates for water-efficient equipment upgrades including pump retrofits, low-flow toilets, and faucet aerators.”<sup>25</sup>

The City of Oroville has also identified water conservation as a crucial element of both its own 2030 General Plan and its Climate Action Plan:

- In its 2030 General Plan, the City of Oroville identifies several policies related to water conservation.<sup>26</sup> To implement these policies, the City of Oroville identified as an action to “coordinate with water providers to develop a list of feasible water conservation programs and incentives that might be offered to the City’s customers, and develop related strategies for how the City might support providers’ efforts in implementing these programs.”<sup>27</sup>
- The City of Oroville also identifies water conservation as a critical tool in both mitigation and adaptation in their Climate Action Plan.<sup>28</sup> Specifically, the Climate Action Plan identifies strategy WR-1, Per Capita Water Use Reduction, which aims to reduce water

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<sup>22</sup> See final report at [http://www.water.ca.gov/wateruseefficiency/conservation/docs/20170407\\_EO\\_B-37-16\\_Final\\_Report.pdf](http://www.water.ca.gov/wateruseefficiency/conservation/docs/20170407_EO_B-37-16_Final_Report.pdf)

<sup>23</sup> *Butte County General Plan 2030*, at 170 – 171, available at: <https://www.buttecounty.net/dds/Planning/GeneralPlan/Chapters.aspx>.

<sup>24</sup> *Butte County Climate Action Plan*, at 5 (adopted February 24, 2014), available at:

<http://www.buttecap.net/component/edocman/butte-county-climate-action-plan-adopted-march-25-2014/download>.

<sup>25</sup> *Id.*

<sup>26</sup> *City of Oroville 2030 General Plan*, at 8-23 – 8-24, (adopted March 31, 2015), available at:

<http://www.cityoforoville.org/services/planning-development-services-department/planning-division/planning-documents>.

<sup>27</sup> *Id.* at 8-24.

<sup>28</sup> *City of Oroville Climate Action Plan*, at 3-17 (Adopted March 31, 2015), available at: <http://www.cityoforoville.org/home/showdocument?id=12191>.

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consumption consistent with Senate Bill X7-7 and other statewide efforts.<sup>29</sup>

As the data reported by the SWRCB illustrates, there is a significant difference in water use patterns between South Feather and Cal Water. This difference is, at least in part, a result of each utility's commitment to water conservation. Cal Water has developed a world-class water conservation program, designed to provide its customers with the information and tools they need to use water wisely.

Cal Water's conservation program offerings in Oroville are based on its detailed Conservation Master Plan, which it prepares every five years in conjunction with its state-mandated Urban Water Management Plan.<sup>30</sup> In short, Cal Water's conservation program is precisely what is envisioned in both the County and City's respective planning documents.

In August 2015, the SWRCB issued a Notice of Violation and Information Order to South Feather for failure to meet the water conservation standards established during California's historic drought.<sup>31</sup> In its response, South Feather explained that it does not have a number of water conservation programs that both the County and City have deemed important in their respective planning documents.<sup>32</sup> For example, South Feather indicated that it does not have a dedicated budget for conservation education and outreach, school-based conservation programs, rebate programs for high-efficiency appliances, or water efficient landscape programs.

In addition to the potential impacts on long-term water sustainability, these are critical differences between Cal Water and South Feather that directly impact each utility's rates. Given this, any attempt to compare rates and quality of service between Cal Water and South Feather, without controlling for these factors, is not a valid exercise.

#### **4. Water Rate Comparisons**

The 2006 MSR attempts to compare the water utility rates charged by Cal Water, South Feather, and Thermalito Water and Sewer District (Thermalito).<sup>33</sup> However, the comparisons

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<sup>29</sup> *Id.*

<sup>30</sup> California Water Service, *Conservation Master Plan 2016-2020*, (March 2016), available at: [https://www.calwater.com/docs/uwmp/2015/oro/Appendix\\_L\\_-\\_Conservation\\_Master\\_Plan.pdf](https://www.calwater.com/docs/uwmp/2015/oro/Appendix_L_-_Conservation_Master_Plan.pdf).

<sup>31</sup> State Water Resources Control Board, *Notice of Violation for Failure to Meet Water Conservation Standard and Order for Additional Information*, submitted to South Feather Water and Power Agency, (August 14, 2015).

<sup>32</sup> South Feather Water and Power Agency, *Agency Response to Notice of Alleged Violation of Emergency Regulations for Statewide Urban Water Conservation*, (August 26, 2015).

<sup>33</sup> 2006 MSR at 2.18-5 to 2.18-6.



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made in the 2006 MSR contain fatal flaws and overlook critical differences between the water systems that directly affect the cost of water service. These differences include:<sup>34</sup>

- Non-water revenue received by the utility
- Utility costs (e.g., paving) covered by non-utility departments
- Taxation status
- Number of customers served and amount of waters used by those customers
- Sources of water, water quality, and treatment requirements
- Age and design of the system
- Required maintenance and capital investments for infrastructure improvements
- Local geography and elevation changes

Without careful consideration of these and other differences, efforts to compare the cost of water service in one area with another are likely to “produce misleading or even false results.”<sup>35</sup> It is for this reason that experts in the field regularly caution against making the very type of comparisons attempted in the 2006 MSR:

Readers are also cautioned to use . . . rate surveys with much care. Water rate levels in particular can vary substantially and for many reasons, including but not limited to locational cost of service. Rates reflect only rates and cannot be used to draw conclusions about operational performance, including economic efficiency. Without much additional information, no inference can be made about whether rates reflect the true cost of service, that is, whether they are too low, too high, or just right for sending efficient price signals to water customers. Casual comparisons of or generalizations about rates are strongly discouraged.<sup>36</sup>

In contrast, the 2006 MSR does not mention, or control for, any of the critical differences between the three water suppliers under review. Most prominent, the 2006 MSR fails to address the fact that South Feather’s water rates are heavily subsidized by non-water revenue

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<sup>34</sup> See California-Nevada Section of the American Water Works Association, *2013 Water Rate Survey* (2014) (“Drawing conclusions from rate comparisons, however, should be done only after evaluating several community characteristics (such as geography, climate, and service area, as well as the use of taxes, subsidies and grants). The determinants of utility rates are varied and complex and do not necessarily reflect the true cost of service. A low rate or a high rate does not necessarily mean that a utility is more or less efficient, respectively. As a result, the survey findings alone should not be used to judge the performance of any individual utility or to generalize about all water-sector utilities.”); see also *City of Claremont* at 20-21.

<sup>35</sup> USA Today, *Nation’s Water Costs Rushing Higher*, (September 27, 2012), available at: <http://usatoday30.usatoday.com/money/economy/story/2012-09-27/water-rates-rising/57849626/1>.

<sup>36</sup> Alliance for Water Efficiency (in partnership with the California Urban Water Conservation Council), *Building Better Water Rates for an Uncertain World: Balancing Revenue Management, Resource Efficiency, and Fiscal Sustainability*, at 61, (August 2014), available at: <http://www.financingsustainablewater.org/tools/building-better-water-rates-uncertain-world>.

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generated from hydro-electric sales. South Feather itself has said that its water rates are “substantially below the cost of producing and delivering water, which costs are being subsidized by the use of the revenue produced by the Agency’s hydroelectric facilities.”<sup>37</sup>

Likewise, South Feather has explained that its water rates “cover no portion of the Agency’s capital expenses.”<sup>38</sup> Instead, South Feather’s “power revenues are required to finance the capital requirements of the Agency, including water treatment, storage, distribution system repairs, replacement and expense.”<sup>39</sup> Therefore, attempting to compare South Feather’s rates to Cal Water’s, which are required by law to account for all of these expenses, without controlling for these subsidies, is misleading and disingenuous.

Similarly, the 2006 MSR does not mention or control for differential treatment with respect to taxation. Cal Water, for example, must pay federal and state income taxes, local property taxes, as well as other taxes and fees. These taxes and fees are included in the underlying revenue requirement on which Cal Water’s rates are based. In contrast, government-owned water utilities are exempt from most of these taxes and fees. Because these amounts are not insignificant, failing to account for them when comparing water rates leads to an inherently unfair comparison. Likewise, it is a misnomer to conclude that this differential tax treatment results in “savings” for the customers of government-owned water utilities. Rather, this tax burden is simply shifted to other taxpayers.<sup>40</sup>

The 2006 MSR also compared Cal Water’s rates for its Chico and Oroville customers.<sup>41</sup> What this comparison failed to consider is that Cal Water’s Chico service area has about eight times as many customers as its Oroville service area. While this does mean that there is more infrastructure that needs to be operated and maintained, it also means that there are substantially more customers who share the cost of doing so, which substantially reduces the per-customer cost of those expenses through economies-of-scale efficiencies.

This is precisely the reason why Cal Water proposed to consolidate its Oroville, Chico, Willows, and Marysville service areas for rate-setting purposes in its required 2015 general rate case application.<sup>42</sup> Even though this would not have changed local operations, it would have significantly increased the number of customers who share the cost of water service and

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<sup>37</sup> South Feather Water and Power Agency, *Notice of Change in Rates for Treated Water Purchased from South Feather Water and Power Agency*, (September 28, 2011), available at: [http://southfeather.com/assets/2013/01/092711\\_Packet.pdf](http://southfeather.com/assets/2013/01/092711_Packet.pdf).

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> *City of Claremont* at 39-40.

<sup>41</sup> 2006 MSR, at 2.18-5 (“Metered rates charged by Cal Water Oroville range from 12% to 105% more than the corresponding rates charged by Cal Water Chico.”).

<sup>42</sup> See *Application*, California Water Service Company, CPUC Proceeding A.15-07-015 (filed July 9, 2015), available at: <http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M153/K177/153177625.pdf>.

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resulted in rate parity between the four service areas. Unfortunately, the Office of Ratepayer Advocates opposed this consolidation, and it was not included in the final settlement or the final Commission decision.<sup>43</sup>

Regardless of the outcome in that decision, a comparison of the rates of the three water providers for the City of Oroville should ensure that these structural factors are considered and accounted for. Specifically, this means normalizing the comparative rates by factoring in subsidies that South Feather's and Thermalito's ratepayers may receive (e.g., add the hydroelectric component of the subsidy to South Feather's cost of service). In so doing, the average monthly residential water bill of Cal Water Oroville customers is comparable to that of South Feather customers.<sup>44</sup>

## 5. Rates that Reflect the Actual Cost of Service

Unlike the 2006 MSR, CWA respectfully requests that any rate comparison in the 2017 MSR take into account the importance of having rates that accurately reflect the actual cost of service between the different water providers to the City of Oroville residents. Having rates that reflect the actual cost of service is important for several reasons.

First, it sends an accurate price signal to the customer, resulting in a more efficient use of the resource.<sup>45</sup> Cal Water's rates reflect the actual cost of providing its customers in Oroville with safe, reliable, and high-quality water utility service. As discussed in Section 4 above, other utilities rely on other sources of revenue that are used to offset a portion of the cost of water service. These other sources of revenue allow these utilities to artificially lower their water rates, even though the actual cost of water service is higher.

Second, having rates that reflect the actual cost of service ensures financial stability if other revenue sources were to be eliminated. For example, municipal water utilities that become overly reliant on non-water revenue to subsidize their operations run the risk of having to substantially increase water rates down the road to offset the eventual loss of this revenue:

With water rates failing to keep pace with the cost of delivering water,

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<sup>43</sup> See CPUC Decision 16-12-042, available at <http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M171/K452/171452755.pdf>

<sup>44</sup> David Sosa, Analysis Group, Inc., *A Comparison of Residential Water Bills: Cal Water Oroville and South Feather Water & Power Agency* (January 2017) ("However, after accounting for differences between the two systems, the Cal Water Oroville average monthly residential water bill (\$54) is comparable, and in fact lower than that of [South Feather] (\$64)."), available at: [http://www.calwatergroup.com/docs/2017-0112-FINAL\\_Report\\_1\\_-\\_A\\_Comparison\\_of\\_Residential\\_Water\\_Bills.pdf](http://www.calwatergroup.com/docs/2017-0112-FINAL_Report_1_-_A_Comparison_of_Residential_Water_Bills.pdf).

<sup>45</sup> James Laughlin, *Full Cost Pricing Key to Sustainability*, *Water World*, (January 2013), ("Ultimately, full cost pricing is considered to be one of the four pillars of sustainable infrastructure, along with utility management, water conservation and managing water on a watershed basis."), available at: <http://www.waterworld.com/articles/print/volume-29/issue-1/departments/viewpoint/full-cost-pricing-key-sustain.html>.

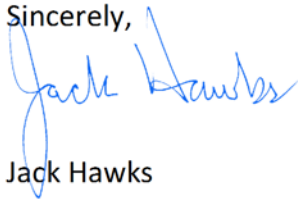
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many water systems developed an unfortunate dependence on connection fees from new housing development during the economic boom . . . For such systems, the housing downturn led to a sudden reduction in revenue, and subsequent credit degradation . . . Even during boom times, investors and ratepayers should be wary of how much water systems rely on fees from new connection to generate revenue—the boom times will only last so long and rate adjustments needed to offset revenue loss are sure to cause water customers sticker shock.<sup>46</sup>

Similarly, water utilities that keep their water rates artificially low for political reasons run a significant risk of credit downgrades. “Since 2010, by far the most common cause of credit downgrades in the water sector has been failure to increase rates sufficiently to keep pace with expenditures on system maintenance or debt service coverage.”<sup>47</sup> By instituting rates that reflect the actual cost of service that are not intertwined with other revenue sources, Cal Water is able to maintain a financial structure that is insulated from these risks.

CWA hopes that you will find these comments helpful as Butte LAFCO moves through the process of completing the regional water service review for the greater Oroville Area. If you have any questions, please feel free to contact me. I would be happy to come up to Oroville to meet with you.

Sincerely,



Jack Hawks

Cc: The Honorable Commissioners, Butte County Local Agency Formation Commission  
The Honorable Members, Oroville City Council  
Mr. Donald Rust, City Administrator, City of Oroville  
Mr. Rath Moseley, General Manager, South Feather Water & Power Agency  
Mr. Jayme Boucher, General Manager, Thermalito Water & Sewer District

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<sup>46</sup> Sharlene Leurig, *Water Ripples: Expanding Risks for U.S. Water Providers*, A Ceres Report, (December 2012), at 10, available at: <https://www.ceres.org/resources/reports/water-ripples-expanding-risks-for-u.s.-water-providers>.

<sup>47</sup> *Id.* at 10.