



## FOUR WAYS THE COALITION GETS IT WRONG

Like other activist groups, the California Coalition on Water Rates Reform (the Coalition) makes false and misleading claims on water rates established for regulated water utilities and the California Public Utilities Commission's (CPUC or Commission) regulatory process.

Here are the top four ways that the Coalition gets it wrong:

### 1. COALITION CLAIMS ON WATER RATES ARE FALSE AND IGNORE IMPORTANT CONTEXTS.

The Coalition claims that, "CPUC is enabling regulated monopolies to charge rates three to five times higher than those paid by customers of public water utilities."<sup>i</sup>

This is simply not true. In fact, a report cited by the Coalition in their materials – a February 2016 rate comparison report by Food & Water Watch<sup>ii</sup> – found that regulated water utilities in California charge just 17% more than government-owned water utilities, a difference of \$67 per year.<sup>iii</sup>

Given that regulated utilities have stronger and more comprehensive capital investment and asset management programs than their government counterparts, and given that regulated utilities have more cost obligations imposed on them by regulators and legislators (e.g., low-income, customer-notice, and intervenor compensation programs), this relatively small disparity in rates is actually quite impressive.

In addition, regulated utilities are required to pay income, property, franchise and utility taxes, and must fully fund the pension plans for their employees – none of which are obligations of government-owned utilities. These key differences in required expenditures suggest even further that regulated water utilities are doing an excellent job of managing their operations in order to keep the overall differences in customer rates to a minimum.

Furthermore, the Coalition gets several other fundamental things wrong on rates:

- The Coalition ignores the fact that rates are a reflection of water infrastructure investment. Blindly celebrating low rates is unwise, as low rates are often the result of dangerously low investment in a water system. A city that properly invests in its water infrastructure is going to have higher rates than a city that doesn't make the necessary investments and lets its system deteriorate, putting public health and customers at risk.

A real-world example of this phenomenon occurred in Claremont and La Verne, California. Activists attempted a government takeover of the investor-owned Claremont water system, pointing to how the neighboring municipal utility in La Verne charged lower rates. The resulting condemnation trial found that Claremont's rates reflected proper investment: the CPUC-regulated utility had been updating aged pipelines and other system assets according to a 100-year replacement cycle per industry best practices, investing a total of \$13.7 million from 2011-2014. On the other hand, the evidence showed the municipal water system in La Verne was being neglected: the utility's replacement rate would require pipes to stay in the ground for 148,000 years before being updated. Despite being a similar sized system as Claremont, the municipal government in La Verne had invested just \$1.9 million from 2011-2014.<sup>iv</sup> Given these facts, it is no surprise that La Verne

has struggled with water quality issues, including E. coli contaminations and repeated violations of the Lead & Copper Rule, in recent years.<sup>v</sup>

- Rate increases are occurring across the board as both municipal and regulated utilities address aging infrastructure. A recent report from Bluefield Research shows that the largest government-owned utilities are increasing water rates at 5.7% annually, on a par with investor-owned utilities that are regulated by state public utility commissions.<sup>vi</sup>
- The clear majority of regulated utility customers have reasonable water bills; those who claim to pay several hundred dollars per month are outliers. Data from California Water Service Company shows that the majority – 54% – of its single-family residential customers had average monthly water bills of less than \$55 in 2017. More than 85% of the company’s single-family residential customers had average monthly water bills of less than \$100 in 2017.<sup>vii</sup>

## 2. COALITION CLAIMS MISREPRESENT THE CPUC RATEMAKING PROCESS; THE COALITION GETS BASIC THINGS WRONG ABOUT HOW INVESTOR-OWNED PUBLIC UTILITIES ARE REGULATED.

The Coalition claims that the CPUC colludes with the utilities it regulates<sup>viii</sup>, ignoring the public interest<sup>ix</sup> while enabling price gouging that results in record profits.<sup>x</sup> The group calls the CPUC rate-setting process a “choreographed bureaucratic dance” that always gives the utilities what they want.<sup>xi</sup>

These claims are false. Here are the facts:

Regulated water utility rates are set by the CPUC. In setting rates every three years through the general rate case process, as mandated by California state law, the Commission thoroughly reviews the company’s costs, audits system needs, conducts public hearings for customers, holds formal evidentiary hearings adjudicated by administrative law judges, and issues a final decision authorizing an approved rate structure and terms of service for the utility. Throughout this process, a regulated utility’s spending is scrutinized in detail by experts at the CPUC.<sup>xii</sup>

A primary objective of the general rate case process is ensuring that rates are fair to customers. Within the Commission, the Office of the Ratepayer Advocates has a statutory mission to obtain the lowest possible rate for service consistent with safety, reliability, and the state’s environmental goals. Further, customers are able to participate in the general rate case process through comments and hearings. Rate setting through the CPUC is always a public process that includes opportunities for input by all interested individuals and groups, especially customers.<sup>xiii</sup>

## 3. THE COALITION IGNORES HOW THE CPUC PROCESS DELIVERS RESULTS FOR COMMUNITIES: REGULATED WATER UTILITIES PERFORM BETTER THAN THEIR MUNICIPAL COUNTERPARTS.

A National Academy of Sciences study has found that investor-owned regulated water utilities are far less likely to have health-based drinking water quality violations than municipal utilities.

The study, published in February 2018, analyzed health related violations of the Safe Drinking Water Act (SDWA) for 17,900 communities over a 34-year period (1982 to 2015). According to the report, compliance with the SDWA was most closely associated with a purchased water source and private ownership. The authors wrote, “Privately owned utilities are found to be less vulnerable to violations than government ownership. In particular, large private firms are associated with lower likelihood of violation.”

These findings validate previous research, including a 2014 study from Georgetown University and Texas A&M, which examined EPA data between 2010 and 2013. That study found that government-operated water systems

are 24% more likely to incur health violations of the SDWA than privately operated water systems.<sup>xiv</sup>

#### 4. LEADERS OF THE COALITION HAVE MADE OUTLANDISH STATEMENTS THAT UNDERCUT THE ABILITY TO HAVE A REASONABLE, FACT-BASED EXCHANGE ON WATER UTILITY SERVICES.

According to the coalition website, the Mayor of Lancaster, California, asked whether the city can subpoena California Water Service Company executives during a City Council meeting. The Mayor was quoted on the thought of bringing the executives to Lancaster: “We could have a good, old-fashioned stoning. If the PUC isn’t willing to investigate this, maybe we should.”<sup>xv</sup>

During the same meeting, the Mayor was also quoted as saying: “I don’t want to be here three years from now talking about the same thing ... I want all of our collective heads brought together and find out a way to screw this company. We make the rules; let’s make one that hurts.”<sup>xvi</sup>

##### Sources

<sup>i</sup>Coalition 2/10/18 Media Release; Coalition Facebook, “Sins and omissions” post.

<sup>ii</sup>Coalition 2/10/18 Media Release.

<sup>iii</sup>Food & Water Watch, “The State of Public Water in the United States” February 2016.

<sup>iv</sup>Truth from the Tap, “Why Rate Comparisons are Bogus” June 2017.

<sup>v</sup>Proposed Findings of Fact and Supporting Evidence, Golden State Water Company; City of Claremont v. Golden State Water Company, 5 August 2016.

<sup>vi</sup>Bluefield Research, “U.S. Municipal Water and Wastewater Utility Bill Index, 2017” 19 June 2017; Truth from the Tap, “More Evidence That Food & Water Watch’s Claims About Rates Are Faulty” 17 August 2017.

<sup>vii</sup>Data provided by California Water Service Company.

<sup>viii</sup>Coalition Summit held 2/16/18.

<sup>ix</sup>Coalition Facebook, “Sins and omissions” post.

<sup>x</sup>Coalition Facebook, “Sins and omissions” post.

<sup>xi</sup>Coalition website, “Surrender Follows When Cities Fight Corporate Water Barons Alone”

<sup>xii</sup>California Public Utilities Commission, “Utility General Rate Case – A Manual for Regulatory Analysts” November 2017.

<sup>xiii</sup>California Public Utilities Commission, “Utility General Rate Case – A Manual for Regulatory Analysts” November 2017; For more information, see: <http://www.cpr.ca.gov/>.

<sup>xiv</sup>David Konisky, Georgetown University, and Manny Teodoro, Texas A&M University, “When Governments Regulate Governments” November 2014.

<sup>xv</sup>Coalition website, “Parris: Screw Water Agency”; Antelope Valley Press, “Parris: Screw Water Agency” 16 November 2017.

<sup>xvi</sup>Coalition website, “Parris: Screw Water Agency”; Antelope Valley Press, “Parris: Screw Water Agency” 16 November 2017.