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Delivered by e-mail to: commentletters@waterboards.ca.gov

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State Water Resources Control Board
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Subject: Comment Letter – Conservation Pricing

Dear Chair Marcus and State Water Board Members:

California Urban Water Agencies (CUWA) appreciates the State Water Board's attention and openness in exploring the topic of pricing mechanisms that encourage conservation. We recognize you are considering State Water Board actions in direct response to the current drought and the Governor's April 1st Executive Order, but at the same time you face real limitations in how you can respond. Though it is clear the State Water Board does not play a role in rate setting, we do see several areas where you could support water agencies to strengthen price signals for water users, consistent with Proposition 218.

CUWA is comprised of ten of the largest public water agencies in the state that collectively serve more than 26 million people, or over two-thirds of the population of California. Water pricing is a critically important topic to CUWA and our member agencies. The CUWA agencies have long been proponents of water conservation, and each CUWA member agency currently applies various pricing mechanisms to promote conservation. In addition, our Financial Sustainability Committee, comprised primarily of CFOs from our member agencies, regularly compares notes on various rate strategies to send effective price signals and to maintain revenue stability in light of declining water demands. Several Financial Sustainability Committee members and CUWA staff also participated in a Project Advisory Committee to consider refinement of the California Urban Water Conservation Council (CUWCC) retail water pricing BMP (BMP 1.4).

Pricing is one of many mechanisms to improve water use efficiency, and while we recognize its value, it is only one element of a more comprehensive approach. Flexibility is needed for utilities to determine the best combination of measures needed to meet the challenges of the current drought and to achieve long-term water use transformations for future water sustainability.

We would like to offer the following recommendations for how the State Water Board can best assist water agencies, in response to the questions you posed in your workshop announcement.

1. *What actions should the State Water Board take to support the development of conservation pricing by water suppliers that have not yet developed conservation rate structures and pricing mechanisms?*

Recognize and value flexibility – The State Water Board's approach in responding to the current drought has been to direct water suppliers in *what* they need to do but not to define *how*. We encourage you to continue this approach, leaving water agencies to determine the best approaches to achieve water use efficiency goals. Understanding that there are many

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definitions of “conservation pricing” and many rate structures that encourage efficient water use, we ask that the State Water Board not be prescriptive in defining conservation pricing. Our agencies apply a variety of pricing and other mechanisms, such as messaging to their users to encourage conservation, while still meeting overall financial needs. Because agencies are very different from one another, there is no single rate structure that works for all, and defining conservation rates as specific structures may preclude local agencies from implementing rates that best suit their specific needs given individual agency and community characteristics and may result in unintended financial consequences.

Clarify implications of recent ruling – It would be helpful for the State Water Board to seek clarification from the Attorney General on the implications of the recent San Juan Capistrano ruling and share this clarification with water agencies and the public. Our understanding is that the ruling applies to one specific application and does not preclude other agencies from implementing tiered rates. Many utilities have detailed cost of service studies in place, which is foundational to rate structures that comply with Prop 218. Unfortunately, the San Juan Capistrano ruling has diverted attention away from this topic, and the State Water Board could help to address this issue with clarification and consistent communication.

Provide a clearinghouse of case studies – It would be helpful for the State Water Board to provide a clearinghouse of case studies featuring pricing mechanisms that encourage conservation and comply with legal requirements. Case studies of highly effective and defensible pricing mechanisms implemented by other water agencies throughout the state could inform and guide agencies developing new programs. The State Water Board could coordinate with other state agencies to gather data from water agencies to support the case studies and to evaluate rate structure effectiveness (e.g., the California Debt and Investment Advisory Commission) and to provide feedback on critical elements of rate mechanisms that enable compliance with state law (e.g., the Attorney General).

2. *What actions should the State Water Board take to support water suppliers that have already developed conservation rate structures and pricing mechanisms to improve their effectiveness?*

Support communication on rates – It would be helpful for the State Water Board to take a stronger leadership role on statewide rate communications. A consistent message from the state could more effectively inform the public on the value of water (i.e., already a low cost for most customers) and the importance of services provided by well-managed water systems (e.g., 24/7 fire protection), as well as the substantial fixed costs associated with running a water business and additional costs of responding to the challenges of drought and climate change.

3. *What actions can the State Water Board take to assist water suppliers in demonstrating that existing rate structures harmonize competing legal authorities associated with water rates?*

Leverage existing work and build partnerships – Water suppliers that have not yet developed conservation rate structures could greatly benefit from a toolbox of information on the various rates and pricing signals that promote efficient use and that are legally defensible in California. The State Water Board could support development of such a toolbox in coordination with others. The toolbox could be a culmination of successful case studies that the State Water Board compiles (as mentioned above) and relevant resources recently developed by water organizations and associations to leverage the work that these groups are now doing on similar efforts.

Provide leadership in establishing key messages in support of other efforts – We understand that there are related efforts ongoing by several other organizations (e.g., CUWCC, AWE, and CA-NV AWWA). It would be helpful for the State Water Board to provide leadership and support greater efficiency in developing a more consistent message to bridge these efforts and reach the

public with broad common themes, rather than multiple messages coming from multiple sources.

We hope our comments have been helpful. The CUWA agencies are fully committed to supporting pricing approaches that achieve water use efficiency, while also maintaining financial sustainability and water supply reliability. We would welcome the opportunity to work more closely with the State to further explore and implement our recommendations. In the meantime, we continue to take actions on many levels to manage California's water supplies in a more sustainable manner. Please contact Jenny Gain at (925) 210-2225 if you have any questions, would like further detail in any particular areas, or would like further assistance from CUWA in any way.

Sincerely,



Cindy Paulson, Ph.D.
CUWA Executive Director



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