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July 1, 2015

Water Resources Control Board
PO Box 100
Sacramento, California 95812-0100

Subject: Comment letter: conservation pricing

Dear Board,

I want to call to your attention the failed experience of the first conservation pricing term to be placed on a water permit¹. I am a water ratepayer who has led an effort in my community, Occidental, since 2003 to get our unconstitutional water rates, which flagrantly fail conservation pricing standards, corrected. Please read the below case study and the conclusions drawn from this failed experience.

OCcidental CASE STUDY: Term 14 of OCSD's water permit requires OCSD to implement conservation pricing that complies with the California Urban Water Conservation Council's (CUWCC) Best Management Practice #11, Option 1, if an alternative method was not approved by 6/18/08. OCSD failed this requirement but the Division has allowed OCSD to continue to submit alternative methods for the past six years. OCSD has submitted around 10 submissions and amended submissions under both Option 1 and Option 2, in which they reported variable costs as fixed costs in various clever ways, which included misappropriated expenses. We challenged these rates by pointing out the incorrectly assigned expenses, and they were rejected by the Division. Had we not pointed out the various incorrect assignments, the Division staff would not have had the information to identify these failings and likely would have approved some of the rate submissions. There has been much busy work by the Division's staff that looks like enforcement, but the OCSD board has been able to avoid bringing their rates into compliance with Term 14 for six years. OCSD's rates flagrantly fail the CUWCC's Option 1, which requires that rates not recover more than 30% of the revenue from the service charge. OCSD's rates recover 74% of the revenue from the service charge.

The lessons to be learned:

1) A service charge revenue recovery maximum is essential to conservation pricing enforcement. The California Urban Water Conservation Council's (CUWCC) Best Management Practice 1.4, Retail Conservation Pricing includes Option 1, which requires that not more than 30% of the revenue be recovered from a service charge. It is important that SWB include such a service charge

revenue maximum, which all rates must meet before being approved as conservation pricing. **Requiring districts to meet a maximum service charge revenue recovery such as the CUWCC Option 1 thirty percent requirement will seriously reduce the false reporting of variable costs as fixed costs and will reduce the amount of staff time spent in trying to uncover the many ways that variable costs can be falsely reported as fixed costs.**

2) Defining variable and fixed costs is paramount in conservation pricing implementation. If the SWB does not establish clear definitions for variable and fixed costs, districts will assign variable costs as fixed costs and recover variable costs from the service charge as they offer low volumetric rates, which don't reflect the true cost of the water. Such rates not only fail the Proposition 218 requirements of the State Constitution, but, also, fail AWWA and CUWCC conservation pricing definitions. CUWCC's Option 2 and other alternative rate design mechanisms are problematic because Districts will manipulate variable and fixed costs in order to get their low volumetric rates approved when they actually fail conservation pricing definitions. Even though the American Water Works Association has defined variable and fixed costs in its M-1 and M-54 manuals, the CUWCC does not refer to nor require the use of the AWWA definitions, which results in districts abusing the manner in which they assign variable and fixed costs when using Option 2. The new CUWCC Option 3 rate design now being developed may, also, have this problem if it doesn't define variable and fixed costs. **I recommend that the SWB establish the AWWA definitions for variable and fixed costs as the official definitions regarding the conservation pricing practices they approve.**

Sincerely,



Bill Wadsworth
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¹We have been told OCSD's term 14 was the first time that SWB has placed a conservation pricing term on a water permit.