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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Establish a
Framework and Processes for Assessing the
Affordability of Utility Service.

Rulemaking 18-07-006
(Issued July 12, 2018)

**COMMENTS OF
CALIFORNIA WATER ASSOCIATION
ON STAFF PROPOSAL**

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September 10, 2019

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I. INTRODUCTION

Pursuant to the August 20, 2019 *Administrative Law Judge’s Ruling Inviting Comments on Staff Proposal* (“Ruling”), California Water Association (“CWA”) hereby submits its comments on the “Staff Proposal on Essential Service and Affordability Metrics” (“Staff Proposal”). CWA has been an active participant in this proceeding in order to assist the Commission in its efforts to develop a well-reasoned and comprehensive framework for defining and assessing affordability of utility service. CWA recognizes the level of effort reflected in the Staff Proposal and appreciates Staff’s thoughtful and measured approach to the complex issues associated with assessing the affordability of utility service. In its comments below, CWA notes areas where Staff should clarify or expand its proposal with respect to definitions, metrics and implementation.

II. DEFINITIONS

A. Substantial Hardship

Staff proposes to define affordability as “the degree to which a household can regularly pay for *essential service* of each public utility type on a full and timely basis without substantial

hardship.”¹ While Staff has defined “essential service,” both generally and for specific utilities,² it has not defined “substantial hardship.” CWA is concerned that the lack of a definition for this key component of affordability could lead to confusion and disputes if the Commission attempts to apply affordability concepts in future proceedings. At the August 26, 2019 workshop, Staff discussed “hardship” in terms of the economic tradeoffs that a household may be forced to make. “Substantial hardship” could indicate economic tradeoffs that have a negative impact on the health and safety of the household (although this concept would still be difficult to track and quantify). CWA recognizes the challenge inherent in attempting to provide a precise definition of “substantial hardship.” Nonetheless, CWA suggests that Staff modify its proposal to include at least a discussion of the issues associated with the concept of “substantial hardship” in order to provide guidance to parties addressing affordability in future Commission proceedings.

B. Essential Service

With respect to “essential service,” Staff defines water essential service as that “sufficient for essential indoor usage, as required for human consumption, cooking and sanitary purposes.”³ Staff proposes that 50 gallons per capita per day (gpcd) be considered essential indoor water usage, claiming that it strikes “an acceptable balance between conservation and ensuring that a sufficient quantity of water is affordable for most economically vulnerable populations.”⁴

While this is a good starting point for consideration of essential service, CWA is wary of applying a universal metric across the entire state. There are several other factors to consider with respect to essential service, including, but not limited to, median customer usage,

¹ Staff Proposal, p. 6 (emphasis in original).

² *Id.*, p. 5.

³ *Id.*

⁴ *Id.*, p. 12.

seasonality, geography, climate, and demographics. The amount of water the Commission should consider “essential” will necessarily vary across different parts of California. Therefore, to the extent that the Commission attempts to assess the affordability of essential water service in future proceedings, it should allow the amount of water used for the essential service metric to be defined in a way that reflects unique needs and circumstances of each water utility.

The Commission is considering similar issues in its rulemaking assessing water low-income ratepayer assistance programs (R.17-06-024), where it is contemplating a discounted water rate tier that reflects a baseline amount of water for basic human needs. There, as here, CWA has explained that the Commission must retain the flexibility to consider the specific factors that affect water usage in each geographical service area.

III. METRICS

Staff proposes to use three complementary metrics to measure affordability, stating that the strengths of one metric complements the weakness of others: (1) Affordability Ratio, (2) Hours at Minimum Wage, and (3) Ability-to-Pay Index.⁵ CWA generally supports this approach, since it allows a more comprehensive and nuanced assessment of affordability than would be provided if the Commission were to rely upon any one of these metrics alone.

The Affordability Ratio relies on household data associated with a Public Use Microdata Area (“PUMA”). For a PUMA with more than one utility provider, it is not possible to determine the specific utility service provider for a given household.⁶ Staff therefore proposes to rely on proxy bills “to hold expenses for two utilities constant while affordability for the third utility is being assessed.”⁷

⁵ Staff Proposal, p. 15.

⁶ Staff describes this as the “utility assignment problem.” *Id.*, p. 19.

⁷ *Id.*, p. 28.

To develop the water proxy bill, Staff recommends using an average of bills of all community water systems in the PUMA weighted by number of service connections, based on data from the State Water Resources Control Board, Department of Drinking Water.⁸ As such, these proxy bills will include data from municipal water systems as well as investor-owned water utilities regulated by the Commission. In some instances, municipal water rates are significantly subsidized from revenue sources other than the ratepayer. For instance, municipal water utilities may recover part of their cost of service through charges associated with housing (such as connection fees) or from other sources, such as property taxes. This means that their full cost of service is not reflected in their customers' water rates. Additionally most municipal utilities set rates based on a cash needs approach rather than basing needs on the cost of service. The cash needs approach may result in infrequent but large rate increases and may cause intergenerational inequities in water rates. These facts will skew the analysis and provide an inaccurate assessment of the affordability of the cost-of-service-based rates of Commission-regulated water utilities. While the Commission may not be able to avoid the use of municipal water data for proxy bills, these issues should be noted in the Staff Proposal and should be addressed when evaluating the results of affordability assessments in the future.

IV. UTILIZATION AND IMPLEMENTATION

A. Affordability Efforts Must be Balanced Against Other Commission and Utility Obligations

As it moves forward, the Commission must balance its affordability efforts with its duty to ensure that utilities are able to continue to provide safe and reliable service. As the Commission considers whether to utilize the affordability metrics in proceedings such as general rate cases, it must recognize that any affordability assessment must be secondary to the

⁸ Staff Proposal, p. 28.

establishment of a revenue requirement that reflects the utility's actual cost of providing service. It is unlikely that the cost of service is less in an economically vulnerable area. The fact that certain customers may face difficulty paying utility bills due to underlying household economic conditions does not make the revenue requirement that is necessary for safe and reliable service any less reasonable.

Once the Commission has determined the reasonableness of the revenue requirement for a particular utility, it can then attempt to assess affordability, and, to the extent necessary, address affordability concerns via rate design or low-income ratepayer assistance programs. Moreover, the Commission's efforts with respect to affordability should be undertaken in concert with other policy efforts of the Commission for water utilities, such as meeting a multiplicity of increasingly stringent environmental requirements, improving safety and reliability, addressing wild fire risks and continuing to promote water conservation in an era of increasingly adverse climate change impacts.

B. The Commission Must Address the Availability and Reliability of Data and Calculation Methodologies

Throughout its Proposal, Staff notes that the availability and reliability of certain data played a significant role in choosing the recommended metrics and the calculation of the affordability assessment.⁹ Staff "envision[s] a database and affordability calculator designed such that the Commission can readily compute the proposed metrics using current and/or proposed residential rates as inputs."¹⁰ While this resource would allow the Commission to conduct an affordability analysis, it is also important that utilities, the Public Advocates Office and other interested parties also have access to the database and are able to perform their own affordability

⁹ See e.g., Staff Proposal, p. 16, discussing the difference between data available at the census tract scale and data available at the PUMA scale.

¹⁰ *Id.*, p. 25.

calculations. This is necessary to ensure the accuracy and reliability of the data and calculations,¹¹ and to allow adjustment of the calculations as may be needed to reflect the specific circumstances of the utility.

The Staff Proposal does not include any information as to the cost or the time necessary to develop an affordability calculator, as well as to measure the reliability and accessibility of the data. The Commission may want to consider whether an additional phase of this proceeding is necessary to address such efforts.

C. The Commission Should Utilize Affordability Assessments Strategically

CWA recommends that the Commission refrain from including affordability assessments in any of its proceedings until, as discussed above, it has ensured that the data used for the affordability metrics is reliable and readily available, and that interested parties are able to replicate these calculations. Once the Commission has achieved this level of statistical stability, CWA further recommends establishment of a pilot program to analyze the use of affordability assessments. A pilot program would allow the Commission to examine how inclusion of an affordability assessment will affect the resources expended by utilities, the Commission, and interested parties, whether it will affect the schedule and length of the Commission proceedings, and its value in addressing the issues before the Commission.

For the pilot program and beyond, CWA recommends that the Commission limit the utilization of affordability metrics and assessments to formal proceedings. While utilities may use the informal advice letter process to implement rate changes, these are generally for items and matters that the Commission has already approved in a decision in a formal proceeding. In the generally ministerial advice letter context, affordability assessments are likely to be of

¹¹ For example, the sample affordability analysis included in the Staff presentation at the August 26, 2019 workshop included an error with respect to the annual median cost of housing on slide 27.

limited value. Similarly, until the Commission has more information on the costs and benefits of affordability assessments, it should not impose a blanket requirement of such assessments for an entire category of formal proceedings, such as general rate cases. The Commission should be strategic in its deployment of affordability assessments to ensure that they provide benefits to customers and further Commission policy goals.

V. CONCLUSION

CWA again expresses its appreciation for this opportunity to provide input on the Commission's efforts to address affordability issues. The Staff Proposal is an important first step in determining how to define and measure the affordability of utility rates.

Respectfully submitted,

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