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SB-1469 Water corporations: rates. (2021-2022)

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Senate Bill No. 1469

CHAPTER 890

An act to amend Section 727.5 of the Public Utilities Code, relating to water corporations.

[Approved by Governor September 30, 2022. Filed with Secretary of State September 30, 2022.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1469, Bradford. Water corporations: rates.

Existing law requires the Public Utilities Commission, in establishing rates for water service, to consider separate charges for costs associated with customer service, facilities, variable operating costs, or other components of the water service provided to water users. Existing law requires the commission to consider, and authorizes the commission to authorize, a water corporation to establish programs, including rate designs, for achieving conservation of water and recovering the cost of these programs through the rates.

This bill would, upon application by a water corporation with more than 10,000 service connections, require the commission to consider, and authorize the commission to authorize, the implementation of a mechanism that separates the water corporation's revenues and its water sales, as provided.

Under existing law, a violation of the Public Utilities Act or any order, decision, rule, direction, demand, or requirement of the commission is a crime.

Because the above provision would be part of the act and a violation of a commission action implementing this bill's requirements would be a crime, the bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. (a) The Legislature finds and declares all of the following:

- (1) Adequate water supply reliability for all uses is essential to the future economic and environmental health of California.
- (2) California is in a severe drought, and in 2021 the Governor issued executive orders declaring a drought emergency.
- (3) Droughts in California are expected to become more frequent and more severe as a result of climate change.

(4) The frequency of droughts highlights the continued importance of encouraging both water suppliers and their customers to practice water conservation as the most cost-effective means of ensuring that there are adequate water supplies for the environment and people in the state.

(5) Because water suppliers have very significant fixed costs that do not fluctuate with changes in consumption patterns, they have a financial disincentive to encourage water conservation as reductions in water consumption directly translate into cost recovery challenges.

(6) The Legislature has addressed this same financial challenge for electricity suppliers by requiring that changes in demand do not result in material overcollections or undercollections of revenue.

(b) It is the intent of the Legislature to ensure that water corporations are authorized to establish revenue adjustment mechanisms that provide for a full decoupling of sales and revenue in order to further incentivize water conservation efforts.

SEC. 2. Section 727.5 of the Public Utilities Code is amended to read:

727.5. (a) In establishing rates for water service, the commission shall consider, and may establish, separate charges for costs associated with customer service, facilities, variable operating costs, including fixed and variable costs associated with supplying the water, or other components of the water service provided to water users.

(b) The commission shall consider, and may authorize, a water corporation to assess a fee for future water service, or a reservation charge for future water service, for persons or entities occupying or owning property within the service territory of the water corporation.

(c) The commission shall consider, and may authorize, a water corporation to establish a balancing account, rate stabilization fund, or other contingency fund, the purpose of which shall be the long-term stabilization of water rates.

(d) (1) The commission shall consider, and may authorize, a water corporation to establish programs, including rate designs, for achieving conservation of water and recovering the cost of these programs through the rates.

(2) (A) Upon application by a water corporation with more than 10,000 service connections, the commission shall consider, and may authorize, the implementation of a mechanism that separates the water corporation's revenues and its water sales, commonly referred to as a "decoupling mechanism."

(B) An authorized decoupling mechanism shall be designed to ensure that the differences between actual and authorized water sales do not result in the overrecovery or underrecovery of the water corporation's authorized water sales revenue.

(C) An authorized decoupling mechanism shall not enable the water corporation to earn a revenue windfall by encouraging higher sales.

(D) The water corporation may only submit an application to the commission pursuant to this paragraph as part of its triennial general rate case application described in Section 455.2, unless the commission and the water corporation mutually agree for the application to be otherwise submitted.

(e) In establishing rates for recovery of the costs of used and useful water plant, the commission may use a capital structure and payback methodology that maintains the reliability of water service, minimizes the long-term cost to ratepayers, provides equity between present and future ratepayers, and affords the utility an opportunity to earn a reasonable return on its used and useful investment, attract capital for investment on reasonable terms, and ensure the financial integrity of the utility.

SEC. 3. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.