January 22, 2019

Ms. Jeanine Townsend
Clerk to the Board
STATE WATER RESOURCES CONTROL BOARD
P. O. Box 100 Sacramento, California 95812-2000
Via: commentletters@waterboards.ca.gov

Re: COMMENTS - Options for Implementation of a Statewide Low-income Water Rate Assistance Program

Dear Ms. Townsend:

The California Association of Mutual Water Companies would like to provide the following comments on options for Implementation of a Statewide Low-Income Water Rate Assistance Program.

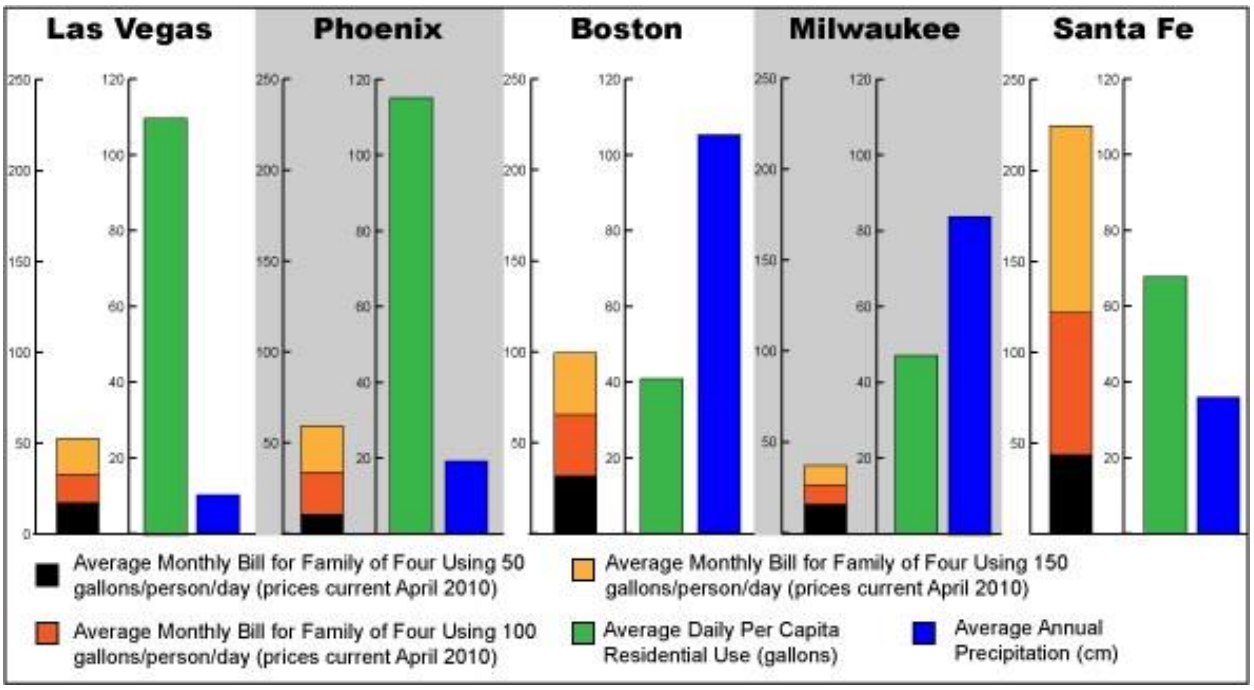
First, we would like to thank and acknowledge the work of Mr. Max Gomberg and his colleagues at the State Water Resources Control Board (SWRCB), for the efforts made to engage stakeholders on the complex task given to them of developing options for the implementation of a statewide low-income water rate assistance program, as directed by AB 401(Dodd). We witnessed the diligence Mr. Gomberg and his team exercised throughout the process that culminated with the resulting report. While we may disagree with certain aspects of the options as presented, as well as agree on others, we herald the team's professionalism and good faith.

In short, the report adequately addresses the problem California faces with respect to the need for a low-income water rate assistance program. We concur with the necessary revenue being generated by means other than placing a fee or tax on consumers' water bills, although we also have some suggestions, as set forth in our comments to Chapter 3, below, regarding alternatives means to raise the needed revenues. Our comments to the various chapters in the report follow.

Chapter 1: Why help households pay for drinking water service? The need for Low-Income Assistance in California

#1 Health and livelihood impacts

California is unique in many facets, including its weather, geography, economy and regulatory climate. California's water distribution system, and the laws and regulations that govern it, are also unique. Thus, we question the relevance of applying cases of affordability and public health from Detroit and Pittsburgh, which differ greatly from California in many ways, to situations here. As an example, a 2010 report by the A Circle of Blue found that some cities in rain-scarce Western regions have the lowest residential water rates and the highest level of water use, as compared to regions on the East Coast who pay more but use less water (see chart below).



This comparison shows that, due to utility pricing structure, certain urban areas — such as Boston, which has high rainfall and low consumption — can have pay higher water rates than in cities like Phoenix, where rainfall is low and consumption is high.

Residents in U.S. Eastern cities, outside of the Great Lakes region, pay about double for water, on average, when compared to residents on the West Coast, and consume less overall. Given the necessity of water for essential needs, at such higher prices for lower volumes, it is unlikely that Eastern residents relegate their water payments to the disposable income category. The inference that people will choose to use less water in California as they factor paying for it with disposable income is therefore not comparable to the East Coast, including Detroit and Pittsburgh, where water is much more expensive.

More relevant to California are a series surveys since the 1990's by the Natural Resources Defense Council (NRDC) finding that a significant number of persons in the United States, including California, with origins in Latin America and Asia, prefer bottled water to tap water. According to an NRDC report released in 2016 titled "The Truth About Tap," "*Chemicals called phthalates, which are known to disrupt testosterone and other hormones, can leach into bottled water over time.*" In 1999, NRDC reported that bottled water presented higher rates of tooth decay in populations that rely on it as a primary source because of the lack of fluoridation in such sources. Other studies have found that many lower income residents pay as much as 600 times more for drinking water through purchases of bottled water as a primary source.

There are other dynamics at play in California that drive many residents with low incomes to choose more expensive options for drinking water from the tap. Some are cultural while others have to do with the legacy of contaminated local supplies in inner cities and rural areas that justifiably cause distrust of tap water. We would like to suggest that addressing the systemic issues that drive people to more expensive drinking water options, such as bottled water, will result in increased disposable income and reduced current health impacts specific to California, primarily with dental decay, as people gain confidence in, and increase their use of, less expensive but safe drinking water from local sources.

#2 The rapidly-rising retail cost of drinking water

Again, we assert that some low-income residents are choosing to pay more, by orders of magnitude, for drinking water because they distrust their local tap water . According to the International Bottled Water Association (IBWA), the average cost per gallon of bottled water – not counting imported or sparkling waters – was $1.21 in 2013. According to the US Environmental Protection Agency (EPA) the cost of tap water, which is $2 per every thousand gallons, is 600 times less expensive than bottled water.

While the price of tap water is also increasing given its legacy of being underpriced in California, and the need to update aging infrastructure, demand for tap water is also declining in California as residents adopt conservation as a way of life. For many mutual water companies this has meant rate increases, as less units of water are sold while fixed administration and overhead costs must still be met, and regulatory and statutory compliance burdens continue to increase. Yet, water rates for drinking water still are not approximating the cost of bottled water, and people choosing the more expensive option by necessity need long-term investments in their local infrastructure so they can trust it and reduce their costs as their trust in local tap water increases. We agree that raising revenues from a meter tax would be regressive and burden to low income and income limited residents such as seniors on fixed incomes.

#3- Comparable programs exist in other sectors

While comparable programs exist in the energy sector, special districts and mutual water companies are limited to charging the cost of service and do not have the means to

recover the lost revenue of subsidizing low-income customers. This limitation is cited in the Executive Summary of the Draft Report, and we thus concur with consideration of options in Chapter 3 (please see discussion in comment letter under "Chapter 3").

#4- The limitations of standalone system rate assistance programs

Mutual water companies are limited under applicable law (see, e.g., Public Utilities Code Section 2705) to delivering water to their "stockholders and members at cost." This is a similar limitation as applies to special districts and cities under Proposition 218. Due to this limitation, mutual water companies are similarly restricted in being able to offer their own low-income rate assistance programs, as a finding of subsidizing a low-income customer's bill with revenue derived from another ratepayer could give rise to a claim the company is not providing water "at cost" and therefore subject the company to regulation (and significantly increased costs) by the Public Utilities Commission.

Chapter 2: Program Design Scenarios: Eligibility, Benefit Level and Total Program Cost

Our comments to this chapter are relatively minor. In Table 5 on page 19, we believe the allocation of 75 gallons per day for outdoor use is high when applied to lower income water users, many of whom reside in multi-unit apartments that use minimal outdoor water. That factor needs to be taken into consideration in the analysis set forth in Chapter 2.

Secondly, we recommend that Footnote 44 be deleted in its entirety. That footnote is insulting to water suppliers, as without any support or justification, it insinuates they would somehow "game the system" by manipulating rate setting, although it is not entirely clear from the text of the note what benefit a water supplier would derive from such conduct. That text is similarly problematic where later in the note, the Report references water system representatives stating they would not engage in such "strategic rate setting." The bottom line from our perspective is that Footnote 44 adds no substance to the Report, and has the potential to distract from some of the good points the Report makes.

Chapter 3: Revenue Collection Options

CalMutuals supports a revenue collection program that does not rely on taxing meters or applying any additional fee to a commodity charge, which we agree, are regressive options. Furthermore, as previously discussed, taxing meters or adding a fee to commodity charges may result on additional taxes being charged to mutual water companies on the revenues collected on behalf of the state, if there are exemptions for some customers (perhaps based on income).

While the recommended taxing of incomes of over $1 million is a possible partial solution, it could create an unreliable source of revenues to sustain the W-LIRA program during economic slumps when the total earners in the higher income brackets decline. Such reductions will need to be planned for with a sustainable revenue source to backfill any such shortages when that contingency occurs. A possible alternative revenue source would be to

apply a tax on profits in industries that rely on government incentive programs, such as electric cars, solar energy, water conservation devices and practices (i.e. California Friendly gardens), corporate relocations, as well as recycled and desalinated water related industries where the revenues funding the incentives are supported through taxes applied to all income and property taxpayers. This could be an equalizing to the tax contributions of lower income taxpayers who help to subsidize the incentives, but themselves benefit less from such incentives, which instead benefit persons and entities with higher incomes. For example, during efforts to incentivize lawn replacement programs during the last drought ending in 2016, it was found that the primary beneficiaries of the $300 million incentive program were residents in the wealthy community of Santa Fe. Yet the funding behind those landscape incentives was derived through the taxpayers of all property owners in the Metropolitan Water District of Southern California. The same is the case with incentives for solar power and electric cars.

While some would argue that the tax on bottled water is regressive, it's more akin to tiered water pricing that provides a dis-incentive for overuse. This applies to bottled water given that it has been documented to result in tooth decay and pose other risks on populations that over-rely on it as a drinking water source.

Chapter 4: Options for Benefit Distribution and Administrative Features of a Statewide Low-Income Ratepayer Assistance Program

Distributing the benefit through water bills is problematic for reasons cited in the SWRCB report given that many renters, for example, would not be reached through this means. Also, we believe that distributing the assistance through electrical providers will be very complicated and cumbersome in transmitting data from water suppliers to electrical providers. A further complicating factor is that water system boundaries generally do not align with an electrical provider's boundaries and there may be instances where one water supplier is served by two, or more, electrical providers.

Based on the shortcomings of those other alternatives, CalMutuals supports an alternative where the benefit is distributed through the **existing** EBT program. While there are costs associated with creating a *new* EBT program, purchases of bottled water, for example, are permitted in the existing EBT program and CalFresh. Some water suppliers currently bottle tap water as a demonstration to boost confidence in the water supply. Thus, the calculated subsidy can match the amount of volume in increments of liters which is common to bottling, equal to 12 ccf, for example, authorizing a commensurate payment to an eligible persons' EBT or CalFresh account. The state can then equip retail water suppliers to process EBT cards for payment of a portion of the water bill equivalent to the cost of 33980.2 liters (12ccf), for example, in the same manner that farmer's markets are allowed to do.

CONCLUSION:

Thank you for the opportunity to provide the preceding comments. The California Association of Mutual Water Companies has been involved in the AB 401 process from the outset and appreciates the Report that has been prepared. In particular, we appreciate the flexibility demonstrated in the revenue source and revenue collection alternatives, as those alternatives avoid placing increased burdens and costs on water systems.

Sincerely yours,

Adán Ortega
Executive Director
California Association
of Mutual Water Companies