

Decision 12-01-005 January 12, 2012

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

In the Matter of the Application of Valencia Water Company (U342W), a Corporation, for Authorization to Implement WaterSMART program and Tiered Rates for Dedicated Irrigation Meter Customers in Compliance with Decision No. 10-12-029.

Application 11-08-015  
(Filed August 16, 2011)

**DECISION APPROVING APPLICATION**

**1. Summary**

In Decision (D.) 10-12-029, we approved a settlement that established the framework and fiscal guidelines needed to implement and track Valencia Water Company's (Valencia) water conservation programs (Conservation Settlement). D.10-12-029 also directed Valencia to seek authority to implement the Water Smart Allocation (WSA) pilot program and tiered rates for two classes of Dedicated Irrigation Meter (Dedicated) customers before January 2012. Consistent with D.10-12-029, on August 16, 2011, Valencia filed an application requesting authority to implement its WSA pilot program and tiered rates for two classes of Dedicated customers, and requesting authority to modify the Conservation Settlement to improve the overall impact of the conservation program. Today's decision reviews the proposed programs and rates, directs Valencia to file new tariffs for the program, authorizes the requested modifications to the Conservation Settlement, and closes this proceeding.

## **2. Background**

On January 4, 2010, Valencia Water Company (Valencia), a Class A water company, filed Application (A.) 10-01-006 for a general rate increase. Among other things, in its application Valencia requested approval of its Water Smart Allocation (WSA) pilot program. The WSA pilot program is a water conservation program that uses tiered rates based on consumption levels to reduce consumption and sustain the water supply for Valencia's customers.<sup>1</sup> On February 4, 2010, the California Public Utilities Commission (Commission) Division of Ratepayer Advocates (DRA) filed a protest to A.10-01-006. No other responses to the application were received.

Over the course of A.10-01-006 the parties negotiated and reached agreement on various disputed issues. With regard to Dedicated Irrigation Meter (Dedicated) and Dedicated Irrigation Meter-Mixed Source (Dedicated-MS) customers in the WSA, DRA and Valencia agreed that Valencia would submit an application during 2011 requesting approval to implement a program similar to the residential WSA, proposing additional parameters to better tailor the application of the WSA to the dedicated irrigation customer category, and incorporating a proposed timeline that would allow Valencia to begin implementing the WSA for its dedicated irrigation customers no later than January 1, 2012.

On February 1, 2011, Valencia implemented the residential portion of the WSA as approved by the Commission in Decision (D.) 10-12-029. On August 16, 2011, Valencia filed A.11-08-015 which seeks authority to implement

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<sup>1</sup> D.10-12-029 at 8-9.

the WSA and tiered rates for Dedicated and Dedicated-MS customers. On September 16, 2011, DRA filed a response to Valencia's application which notes that DRA and Valencia worked cooperatively to develop the programs and rates for which Valencia now seeks approval. No other party responded to Valencia's application.

### **3. Discussion**

#### **3.1. Programs**

##### **3.1.1. The Dedicated and Tiered Rate Pilot Program**

As was the case with the residential portion of the WSA approved in D.10-12-029, the Dedicated portion of the WSA, for which Valencia now seeks approval, was designed using parameters such as actual landscaped areas, local evapotranspiration rates, irrigation efficiency, a five tiered rate structure, and various water use categories. Similarly, for the associated tiered rate unit pricing, Valencia set prices and price signals as a relative function of the established single quantity rate (SQR) to provide it with a mechanism to achieve revenue neutrality. The Dedicated and tiered rate pilot program differ from the previously approved residential program. According to Valencia, the changes from the residential program were made in order to maintain consistency and continuity with the existing WSA programs, to achieve revenue neutrality, to be consistent with cost-of-service principles, to stimulate water conservation and increase consumer education, and to avoid rate shock. Valencia requests

Commission authorization to implement new tariffs for the WSA and tiered rates pilot program for Dedicated customers.<sup>2</sup>

### **3.1.2. The Mixed Sources Program**

Recycled water use is an important part of Valencia's long-term water supply strategy and is in line with the policy framework developed in Rulemaking (R.) 10-11-014. Valencia has 14 customer connections receiving recycled or untreated water. In 2010 these customers took delivery of 368 Acre Feet of water. Valencia provides two of these customers, Vista Valencia Golf Course and Tournament Players Golf Course, with both potable and recycled/untreated water sources. The golf courses consume about 3% of the potable water for the Dedicated and Dedicated-MS sites included in Valencia's Dedicated Irrigation Meter Impact Study, and nearly 100% of all recycled water consumed by Valencia customers.<sup>3</sup>

The Dedicated-MS WSA is determined using the same criteria as the regular Dedicated WSA program. However, in order to mitigate a disincentive effect for mixed sources customers, Valencia moved these accounts out of the regular WSA and created a new tariff that will support WSA priorities while maintaining the incentives needed to encourage the use of recycled water. In addition, following the principle of recycled priority, actual recycled water consumption will comprise the lower bounds of the monthly allocation and actual potable water consumption will always be deemed to comprise the top or

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<sup>2</sup> These tariffs are set forth at 27 of Exhibit (Exh.) 1 to Valencia's application.

<sup>3</sup> Valencia collected data for 1,150 of its 1,258 Dedicated customers in a comprehensive impact study. Valencia refers to the study as the Dedicated Irrigation Meter Impact Study. DRA reviewed the study during the pre-application collaborative process.

higher bounds of the total water use. Recycled water will be priced at the lower recycled water rate regardless of the water consumption tier(s) designation and potable water use will be priced at and subject to the conditions of the regular Dedicated WSA, except that no potable water use will be charged at below the tier two SQR price unless recycled water is unavailable.

Valencia requests Commission authorization to implement new tariffs for the WSA and tiered rates pilot program for Dedicated-MS customers.<sup>4</sup>

### **3.2. Modification of the Conservation Settlement**

The settlement approved in D.10-12-029 (Conservation Settlement) was the product of extensive discussions between Valencia and DRA that effectively established the framework and fiscal guidelines needed to implement and track Valencia's water conservation programs. The Conservation Settlement addressed Valencia's Weather Based Irrigation Controllers Rebate Program, High Efficiency Toilet Rebate program, an annual Water Savings Goal, Conservation Expense Balancing Account, and Conservation Reporting. Valencia proposes to modify these programs as follows:<sup>5</sup>

1. The Weather Based Irrigation Controllers Rebate Program - Valencia proposes adding language to the Settlement Agreement in D.10-12-029, Appendix A, at 16 such that Valencia can implement alternative conservation programs with cost benefit ratios and/or performance measures equal to or greater than documented savings for the Weather Based Irrigation Controller Rebate Program.<sup>6</sup>

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<sup>4</sup> These tariffs are set forth at 27 of Exh. 1 to Valencia's application.

<sup>5</sup> Valencia does not propose any amendments to the Water Savings Goal or Conservation Reporting program.

<sup>6</sup> See Application Exh. 3 at 12.

2. The High Efficiency Toilet Rebate Program - Valencia proposes adding language to the Settlement Agreement in D.10-12-029, Appendix A, at 16, Section L, Item 2 that would allow Valencia to include ultra high efficiency toilets in its rebate programs and provide differing levels of rebates relative to the amount of water saved.<sup>7</sup>
3. The Conservation Expense Balancing Account - Valencia proposes adding language to the Settlement Agreement in D.10-12-029, Appendix A, at 17, Section L, Item 4, in the Resolution section that would apply to indoor and outdoor conservation activities and include non residential customers.<sup>8</sup>

Valencia notes that it worked closely with DRA to ensure that common goals and fiscal priorities are met and documented for future reference, and asserts that its proposed amendments offer further flexibility and provide clarification for its conservation programs.

### **3.3. Standard of Review**

#### **3.3.1. Introduction**

This unopposed application relates back to a settlement reached in A.10-01-006. While we need not, and do not, review the terms of the settlement approved in D.10-12-029, in an abundance of caution we will apply the same criteria used to assess the earlier application to the current application.<sup>9</sup>

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<sup>7</sup> See Application Exh. 3 at 12-13.

<sup>8</sup> See Application Exh. 3 at 13-14.

<sup>9</sup> D.10-12-029 utilized the criteria for all-party settlements set forth in D.92-12-019 (46 CPUC2d 538).

**3.3.2. The Pilot Program, Tiers, and Amendments are Reasonable in Light of the Whole Record**

The residential portion of the WSA was approved by the Commission in D.10-12-029. Consistent with our directives in D.10-12-029, Valencia's application does not seek approval of the WSA, but rather an extension of the WSA to two groups of Dedicated customers.

After reviewing the documents filed by the parties and the Settlement Agreement, in D.10-12-029 we stated:

It is a measure of reasonableness of the Agreements that these parties, who vigorously disputed these issues that the Agreements would resolve, have now agreed to the proposed compromise.<sup>10</sup>

Here, in the wake of the Settlement Agreement that resolved all other issues in A.10-01-006, the applicant continued to work closely with DRA to develop the pilot programs, tiers, and amendments. Moreover, as Valencia notes, the Dedicated customer portion of the WSA was designed in the same fashion as the residential portion of the WSA. For the associated tiered rate unit pricing, Valencia has set prices and price signals as a relative function of the established SQR to provide it a mechanism to achieve revenue neutrality. We therefore conclude that the application is reasonable in light of the whole record.

**3.3.3. The Pilot Programs, Tiers, and Amendments are Consistent With the Law**

As noted above, in D.10-12-029 we directed Valencia to file an application that would allow it to implement the WSA for its dedicated irrigation customers no later than January 1, 2012. Valencia's application, filed on August 16, 2011 is

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<sup>10</sup> D.10-12-029 at 8.

timely. Moreover, the programs, tiered rates, and amendments to the Settlement Agreement are consistent with the law and the Commission's Rules. Public Utilities Code Section 451 requires that utility rates must be just and reasonable, and Section 454 provides that no public utility shall change any rate except upon a showing before the Commission that the new rate is justified. As demonstrated by the prior Settlement Agreement and the Exhibits attached to the application, Valencia has made the required showing under Public Utilities Code Sections 451 and 454, and nothing in the application, tiers, or amendments contravenes statute or prior Commission decisions. We therefore conclude that the application is consistent with the law.

**3.3.4. The Pilot Programs, Tiers, and Amendments are in the Public Interest**

Approval of the application, tiers, and amendments will allow implementation of the WSA program to dedicated irrigation meter customers which will help sustain the water supply for all of Valencia's customers. Our approval of the application, tiers, and amendments avoids the cost of further litigation, and reduces the use of valuable resources by the Commission and the parties.

We also note that DRA's response to the application was uniformly supportive. DRA's September 9, 2011, response to Valencia's application notes that DRA and Valencia worked closely and cooperatively to develop the programs and rates for which Valencia now seeks approval. Moreover, as DRA states:

[b]ecause Valencia and DRA agreed on a resolution of all issues related to the rate design, tier rates and widths, and application of the Water Smart Program to [Dedicated] customers, DRA accepts the tiers and rates proposed in the Application.

Thus, the pilot programs, tiers, and amendments command the unanimous sponsorship of all active parties in this proceeding, who fairly represent the interests affected by the pilot programs, tiers, and amendments. We find that the evidentiary record contains sufficient information for us to determine that the pilot programs, tiers, and amendments are reasonable, and for us to discharge any future regulatory obligations with respect to this matter.

#### **4. Conclusion**

For all of these reasons set forth above, we approve the proposed dedicated irrigation meter pilot programs, tiers, and amendments to the settlement approved in D.10-12-029.

#### **5. Categorization and Need for Hearings**

In Resolution ALJ 176-3280 dated September 8, 2011, the Commission preliminarily categorized this application as Ratesetting and preliminarily determined that hearings were necessary. As no protest to the application were received, a public hearing is not necessary.

#### **6. Reduction of Comment Period**

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code and Rule 14.6(c)(2) of the Commission's Rules of Practice and Procedure, the otherwise applicable 30-day period for public review and comment is reduced to 7 days. The comments filed on December 7, 2011 by Valencia Water Company were incorporated in this decision.

#### **7. Assignment of Proceeding**

Michel P. Florio is the assigned Commissioner, and Darwin E. Farrar is the assigned ALJ in this proceeding.

### **Findings of Fact**

1. In D.10-12-029 we approved a settlement that established the framework and fiscal guidelines needed to implement and track Valencia's water conservation programs.

2. The WSA pilot program is a water conservation program that uses tiered rates based on consumption levels to reduce consumption and sustain the water supply for Valencia's customers.

3. On February 1, 2011, Valencia implemented the residential portion of the WSA as approved in D.10-12-029.

4. Recycled water use is an important part of Valencia's long-term water supply strategy.

5. The consumption pattern of the Dedicated customers is different from residential customers.

6. Changes were made for Dedicated customers in order to maintain consistency and continuity with the existing WSA residential program, to achieve revenue neutrality, to be consistent with cost-of-service principles, to stimulate water conservation and increase consumer education, and to avoid rate shock.

7. The proposed amendments to the settlement approved in D.10-12-029 offer Valencia further flexibility and provide clarification for its conservation programs.

### **Conclusions of Law**

1. D.10-12-029 directed Valencia to seek authority to implement the WSA pilot program and tiered rates for two classes of Dedicated customers before January 2012.

2. Valencia's application was timely filed.

3. Recycled water use is in line with the policy frame work developed in R.10-11-014.

4. Valencia's Dedicated pilot programs, tiers, and amendments are in the public interest.

5. Valencia's Dedicated pilot programs, tiers, and amendments are consistent with the law.

6. Valencia's Dedicated pilot programs, tiers, and amendments are reasonable in light of the record as a whole.

## **O R D E R**

### **IT IS ORDERED** that:

1. The proposed expansion of Valencia Water Company's (Valencia) Water Smart Allocation program to Dedicated Irrigation Meter (Dedicated) and Dedicated - mixed supply customers, set forth in Valencia's application, is adopted.

2. Valencia Water Company's proposal for tiered rates for Dedicated Irrigation Meter (Dedicated) and Dedicated - mixed supply customers set forth in Exhibit 2 to the application is adopted.

3. The consumption pattern metrics for the Dedicated Irrigation Meter Water Smart Allocation, set forth in Valencia Water Company's application, are adopted.

4. Valencia Water Company's proposed amendments to the settlement approved in Decision 10-12-029, as set forth herein and in Exhibit 3, are adopted.

5. Valencia Water Company's proposed tariff rates, which were included as Attachment C to the application and are included as Attachment A to this

decision, are adopted subject to adjustment for any Commission authorized rate adjustments in Schedule 1-NR, on which the proposed tariff rates are based.

6. Valencia Water Company shall file a Tier I Advice Letter within 30 days of this decision that reflects the above tariff changes and new rates to implement this decision.

7. No hearings are necessary.

8. Application 11-08-015 is closed.

This order is effective today.

Dated January 12, 2012, at San Francisco, California.

MICHAEL R. PEEVEY

President

TIMOTHY ALAN SIMON

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

MARK J. FERRON

Commissioners

[D1201005 Attachment A](#)