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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $55,771,300 or 18.71% in the year 2024, by $19,565,300 or 5.50% in the year 2025, and by $19,892,400 or 5.30% in the year 2026.	A.22-07-001

OPENING BRIEF OF

NATIONAL ASSOCIATION OF WATER COMPANIES

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SUMMARY OF RECOMMENDATIONS

The National Association of Water Companies ("NAWC") recommends that the Commission adopt California-American Water Company's Water Resources Sustainability Plan ("WRSP") proposal, identified in the proceeding as "Special Request No. 1."

I. INTRODUCTION.

Pursuant to the procedural schedule adopted in the October 31, 2023 Administrative Law Judge's Ruling Updating the Proceeding Schedule and Providing Direction Regarding Briefing ("ALJ Scheduling Ruling"), the National Association of Water Companies ("NAWC") hereby submits its opening brief on the revenue decoupling issues presented by California-American Water Company's ("Cal-Am") Water Resources Sustainability Plan ("WRSP") proposal, identified in the proceeding as "Special Request No. 1." NAWC has utilized the common briefing outline agreed upon by the parties, but the following points and authorities include more expansive discussion in the areas that best reflect NAWC's positions and interests in this proceeding.

NAWC strongly supports water revenue decoupling, and Cal-Am has made a reasonable proposal for implementing this policy in its rate case. This case arises at a critical juncture, at which drought conditions and volatile weather patterns are destabilizing water utility revenue streams, but investment in water infrastructure is more critical than ever.[1] This environment has created an imperative to ensure that water utilities can recover their fixed costs, while encouraging conservation efforts that are essential to California's broader public policy objectives. This is the first major water company rate case since the Legislature adopted SB 1469, which expressed support for "full decoupling of sales and revenue in order to further incentivize water conservation efforts."[2] NAWC's experience with decoupling mechanisms throughout the country demonstrates that they are an important part of a conservation-focused approach to water utility ratemaking.[3] NAWC fully supports Cal-Am's WRSP proposal and offers this brief to summarize the record support, policy justifications, and legal precedents that demonstrate the reasonableness and benefits of incorporating decoupling as an enduring feature of Cal-Am's rate design.

[1] Exh. NAWC-NJK-1 (Kennard) at 5:11-13 ("[t]his case presents an important opportunity for the Commission to establish ratemaking practices that will support California's response to the historic drought and future-proof water utility rate designs to align their incentives with conservation objectives.").
[2] *See* SB 1469 (Bradford) § 1(b).
[3] Exh. NAWC-NJK-1 (Kennard) at 6:19-21 (decoupling "remains the best practice to provide the foundation for prudent reductions in water production that will assist California's response to the generational drought that has plagued the state.").

II. BACKGROUND/PROCEDURAL HISTORY.

A. Key Procedural Events in Cal-Am's Rate Case Relating to Revenue Decoupling.

Cal-Am's rate case was initiated on July 1, 2022 in accordance with the rate case plan that the California Public Utilities Commission ("Commission") has adopted for Class A water utilities (the "Rate Case Plan").[4] At the time of Cal-Am's Application, the Commission's policies prevented Cal-Am from proposing full water revenue decoupling, so Cal-Am proposed to eliminate its existing Water Revenue Adjustment Mechanisms ("WRAM") from its rate design.[5] On September 30, 2022, SB 1469 was signed into law, thereby adopting Public Utilities Code Section 727.5(d), which provides that "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.'"[6] In response to this Legislative mandate, on January 27, 2023, Cal-Am provided an Updated Application that included a full revenue decoupling feature. With the Updated Application, Cal-Am served both company testimony and expert testimony in support of its decoupling proposal, also identified as the WRSP.

NAWC filed a response to the Updated Application on February 6, 2023, along with a contemporaneous Motion for Party Status. Administrative Law Judge ("ALJ") Rambo granted NAWC's motion in a ruling dated February 9, 2023. Since that time, NAWC has been an active participant in the proceeding, focusing on the questions surrounding revenue decoupling and an assessment of Cal-Am's WRSP proposal. Shortly after NAWC's request for party status, the California Water Association ("CWA") requested to join the proceeding. After an initial rejection of its request, CWA was made a party on April 21, 2023.

Several parties served testimony addressing Cal-Am's decoupling proposal. On April 13, 2023, the Commission's Public Advocates Office ("Cal Advocates") submitted testimony opposing Cal-Am's decoupling proposal, arguing that the Commission should instead embrace a "Monterey-style" WRAM, also termed a "Conservation Pricing Adjustment."[7] On April 20, 2023,

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[4] *See* D.07-05-062, Appendix A.
[5] *See* D.20-08-047 at 106 (OP 3); D.21-09-047 at 33-34 (denying rehearing of D.20-08-047).
[6] Pub. Util. Code § 727.5(d)(1)(A).
[7] *See* Exh. CALAD-RR-001 (Rauschmeier).

NAWC submitted its testimony from expert Norman J. Kennard, a former Commissioner with the Pennsylvania Public Utility Commission with broad experience in public utility ratemaking issues and significant experience with revenue decoupling efforts across utility sectors nationwide. On that same day, CWA also submitted expert testimony supporting Cal-Am's WRSP proposal.[8] Cal-Am submitted rebuttal testimony on May 25, 2023, which included further support for Cal-Am's WRSP. In addition, Monterey Peninsula Water Management District ("MPWMD") supplied limited testimony addressing the rate design ramifications of the WRSP.[9]

Evidentiary hearings took place starting on October 5, 2023, and the first two days focused on Cal-Am's WRSP proposal and parties' suggested alternatives regarding water revenue decoupling. Cross-examination focused on Cal-Am's company witnesses and experts; neither NAWC's expert nor the other parties' witnesses who addressed decoupling issues provided live testimony.

B. Cal-Am's Revenue Decoupling Proposal.

Through its WRSP, Cal-Am has proposed a full revenue decoupling framework, which will stabilize its utility operations regardless of fluctuations in water usage that may occur because of conservation efforts that are active and ongoing in California. As Cal-Am has explained, the WRSP is not a "continuation of [its] historical [WRAM] mechanism,"[10] but a carefully-tailored ratemaking feature designed to reflect balance of the water conservation imperatives of the current environment with the enduring need for operational stability and continued system investment by water utilities. The WRSP contains two principal elements. First, the Essential Service Balancing Account ("ESBA") would catalogue differences between forecasted operational expenses, including water acquisition, power, and pump tax costs.[11] Second, the Annual Consumption Adjustment Mechanism ("ACAM") provides a vehicle to effectuate rate adjustments twice a year based on the net differences between the forecasted and actual results in the accounts specified in

[8] *See* Exh. CWA-001A (Switzer).
[9] *See* Exh. MPWMD-DJS-001 (Stoldt) at 15:4-16:23.
[10] Exh. CALAM-SWO-002A (Owens) at 6:2-3.
[11] Exh. CALAM-JTL-002 (Linam) at 2:21-23. Mr. Linam's testimony was sponsored by Mr. Owens during the evidentiary hearings in light of Mr. Linam's departure from Cal-Am.

the ESBA.[12] The WRSP also facilitates appropriate amortization adjustments and modifications to rate design as necessary for a smooth and accurate implementation. Together, these features ensure that Cal-Am will have a reasonable way to recover its fixed costs, while de-linking this cost recovery from the "throughput incentive," which would otherwise incentivize inefficient water usage.[13]

C. NAWC's Experience With Decoupling Issues.

NAWC has been active in many jurisdictions in promoting forward-looking ratemaking practices that promote conservation while ensuring that the fixed costs of water utility operations can be reasonably recovered through balanced rate structures. NAWC has a national profile, with members spread across 37 states. Based on this broad-based experience, NAWC can attest to the advantages of decoupling. As NAWC's expert, Mr. Kennard, explained, at least eight other states have adopted water revenue decoupling mechanisms, including New York, Pennsylvania, Rhode Island, Connecticut, Indiana, Illinois, Missouri, and Nevada.[14] Decoupling is already "widespread in the electric sector," and its prevalence in the water arena is increasing.[15] NAWC is in a unique position to provide perspectives regarding best practices nationally regarding water revenue decoupling. Based on this background, NAWC strongly supports Cal-Am's WRSP which opposes the alternatives presented in this proceeding, such as the M-WRAM options endorsed by Cal Advocates.[16]

III. DISCUSSION.

A. Special Request No. 1: Authorization of a Water Resources Sustainability Plan (WRSP) or Monterey-Style Water Revenue Adjustment Mechanism (M-WRAM).

In this proceeding, the Commission will make a critical determination regarding the use of revenue decoupling in promoting California's conservation objectives in the face of historic

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[12] Exh. CALAM-JTL-002 (Linam) at 8:6-17.
[13] *See* Exh. NAWC-NJK-1 (Kennard) at 9:2-7; Exh. CALAM-DM-002 (Mitchell) at 6:12-13.
[14] Exh. NAWC-NJK-1 (Kennard) at 17:13-18:18.
[15] *Id.* at 14:22, 15:3-16.
[16] The term "M-WRAM" originally stood for "Monterey-Water Revenue Adjustment Mechanism," but it has not been utilized in Monterey for many years, so Cal Advocates correctly states that it should be re-named to "avoid its misleading association with Monterey." *See* Exh. CALAD-RR-001 (Rauschmeier) at 4:21-22, n. 17.

drought conditions. Only two proposals have been presented, and only one will achieve the California Legislature's recently-confirmed intent "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."[17] The WRSP is a dynamic, integrated set of ratemaking features that would adjust Cal-Am's rate design in between rate cases to ensure that specifically-identified categories of fixed costs can be recovered even as water usage fluctuates according to ongoing conservation efforts. By "severing the relationship between sales volume and revenue," the WRSP "removes the financial disincentive to promote customer efficiency programs."[18] The M-WRAM is not a decoupling mechanism and will not achieve the policy benefits of the WRSP.[19] Rather than mitigating the "throughput incentive," the M-WRAM modulates rate design based on the difference between the expected revenue under an "increasing-block rate design" and the revenue that would be achieved if there were a consistent "Single-Quantity-Rate."[20] The M-WRAM "lets revenues float with realized sales," and "[f]or each additional unit sold, the utility gains . . . in revenue."[21] By placing conservation efforts at odds with cost recovery, this framework would foster harmful, conflicting incentives that contradict California public policy and deviate from best practices nationally.

The choice between the WRSP and M-WRAM is straightforward. The Commission should adopt the WRSP and send a strong signal that similar mechanisms will be available to the other Class A water utilities who will be grappling with the same issues in their own rate cases in the near future.[22] To avoid the potential for stranded investment, consumer harm, and limitations on water conservation, the WRSP should be adopted.

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[17] SB 1469 (Bradford) § 1(b).

[18] Exh. CALAM-DM-002 (Mitchell) at 2:9-11.

[19] *Id.* at 4:17-18 ("Unlike the WRAM or the proposed WRSP, the M-WRAM does not decouple sales from revenue."), 6:13-14 (the M-WRAM is "not a true revenue decoupling mechanism.").

[20] *Id*. at 5:11-15 ("The M-WRAM adjusts the utility's revenue for the difference between the revenue it earns from block rates and the revenue it would have earned if it had been charging the SQR on all units of consumption").

[21] *Id.* at 6:15-16.

[22] Golden State Water Company filed its rate case for a 2025 test year in August 2023. *See* A.23-08-010 (Golden State Water Company). San Jose Water and California Water Service Company are both expected to file rate cases in 2024. *See* D.07-05-062, Appendix A at A-17 to A-18.

1. Water Resources Sustainability Plan (WRSP).

Cal-Am's WRSP is a revenue decoupling and cost recovery mechanism that permits adjustments to rate design between rate cases, reflecting the reality that "the rate case process is ill-suited to account for the effects of aggressive reductions in water production" that are occurring under California's water conservation policies.[23] Cal-Am presents its WRSP through three "special requests" and concomitant adjustments to rate design to reflect the results of the WRSP. Special Request No. 1 presents the ESBA, which isolates the categories of fixed cost within the scope of the WRSP.[24] Special Request No. 3 outlines the ACAM, which is a biannual rate design adjustment to true-up the revenues necessary to recover the "total net ESBA balance."[25] Special Request No. 14 seeks authority to increase the 15% cap on ESBA recovery and "any existing WRAM/MCBA balances that may exist beyond implementation of this GRC" in response to "factors outside of the control of the Company such as weather and economic conditions."[26] These specific features are designed to be paired with "additional volumetric tiers" and "stronger pricing signals," consistent with Cal-Am's commitment to "make water conservation a California way of life."[27]

While there are different ways to structure and implement decoupling, the WRSP is a reasonable approach that is consistent with the strong public policy imperatives underlying decoupling. Based on NAWC's experience with similar mechanisms in other states and California's widespread use of decoupling to encourage efficiency in the energy sector,[28] the WRSP is likely to "pave the way for the utility to encourage customers to use less water," while providing "stable utility revenues, which allows the utility to make the necessary investments in maintaining the system."[29] As Mr. Kennard observed, "[w]ater utilities are facing unprecedented challenges right now" to "replace aging utility infrastructure," pursue "water system hardening . . .

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[23] Exh. NAWC-NJK-1 (Kennard) at 6:12-14.
[24] *Updated Application* at 12-14; Exh. CALAM-JTL-002 (Linam) at 2:14-4:18.
[25] *Updated Application* at 14; Exh. CALAM-JTL-002 (Linam) at 3:22-23.
[26] *Updated Application* at 17-18; Exh. CALAM-JTL-002 (Linam) at 13:27-28, 13:19-20.
[27] Exh. CALAM-JTL-002 (Linam) at 4:24, 5:3-6.
[28] Exh. NAWC-NJK-1 (Kennard) at 14:11-17:1 (summarizing energy efficiency benefits of decoupling), 17:12-18 (noting decoupling efforts in the water sector in eight other states).
[29] Exh. NAWC-NJK-1 (Kennard) at 14:8-10.

to counteract climate change," address "filtration and treatment of emerging contaminants," and grapple with the many shifting priorities caused by enduring drought conditions.[30] Amidst these compelling incentives to increase investment and incur additional expenses, the "rate case process unfortunately does not allow for efficient responses to fluctuations in revenues, yet those fluctuation[s] create significant threats to a utility's financial position."[31] Implementing a mechanism that helps provide utilities with a level of certainty despite these challenges is the right response, and the WRSP achieves that balance.

a) Essential Services Balancing Account (ESBA).

Cal-Am's ESBA proposal would appropriately identify the fixed costs of its operations and ensure that they can be appropriately recovered based on actual operational results. The ESBA component of the WRSP would "track differences between the recorded and Commission-authorized revenues as well as the differences between recorded and Commission-authorized expenses for purchased water, power, and pump taxes."[32] The revenue eligible for the ESBA would be derived from "potable quantity charges to permanent residential, commercial, industrial, and public authority customers."[33] The ESBA balance would be computed by comparing the revenue subaccount (termed the "Essential Service Revenue Balancing Account" or "ESRBA") with the variable production cost subaccount (identified as the "Essential Service Cost Balancing Account" or "ESCBA").[34] These framing of the ESBA is a reasonable starting point for decoupling, and is consistent with the Legislature's observation that "water suppliers have very significant fixed costs that do not fluctuate with changes in consumption patterns."[35] As Cal-Am explained, the proposed ESBA mechanism "provides the benefits" of its preexisting WRAM, while "mitigating the negative impacts of the WRAM including substantial under-collections collected over longer periods of time."[36]

[30] Exh. NAWC-NJK-1 (Kennard) at 18:23, 19:5, 20:7-8, 21:12-13.
[31] *Id.* at 18:24-19:2.
[32] Exh. CALAM-JTL-002 (Linam) at 2:21-23; Exh. CALAM-SWO-002A (Owens) at 66:6-7.
[33] Exh. CALAM-JTL-002 (Linam) at 2:25-26.
[34] *Id.* at 2:15-19.
[35] SB 1469 (Bradford) § 1(a)(5).
[36] Exh. CALAM-SWO-002A (Owens) at 6:14, 6:17-18.

b) Annual Consumption Adjustment Mechanism (ACAM) (Updated Special Request No. 3).

The ACAM is the vehicle for effectuating the rebalancing reflected in the ESBA. Cal-Am proposes a two-step implementation process, with a Tier 2 advice letter designed to present "actual recorded consumption by classification and by tier" during the prior 12-month period, and then a Tier 1 advice letter to "implement new rates."[37] The Tier 2 advice letters would be due on May 15 and November 15 of each year, utilizing figures for the previous April through March and October through September in the calculations.[38] Rates would be updated on January 1 and July 1 to reflect "the previous year's water consumption in order to stabilize revenues and allow for a reasonable opportunity to recover the authorized revenue requirements in rates."[39] Again, Cal-Am's proposal is reasonable because it will position Cal-Am to "effectively manage water resources and address the large, fixed costs that must continue to be made to ensure that water systems remain resilient and efficient going forward."[40]

c) Amortization (Updated Special Request No. 14).

Cal-Am offers a reasonable explanation for seeking to lift the 15% cap on recovery of ESBA or WRAM balances based on "factors outside of the control of the Company" to "allow for more timely collection of existing balances and decrease the potential for intergenerational inequities."[41] For decoupling to be effective, there must be a reasonable, efficient vehicle to recover fixed costs over a time horizon that does not create inequities for customers or shortfalls for the utility. Cal-Am's proposal will achieve this goal. NAWC reserves the right to address this further in in its reply brief in response to any concerns that parties may raise in opening briefs.

d) Rate Design.

Cal-Am's rate design is appropriately structured to signal to customers that they should reduce consumption to fit within lower price tiers.[42] This system of incentives is precisely why

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[37] Exh. CALAM-JTL-002 (Linam) at 8:9-13.
[38] *Id.* at 8:20-9:9.
[39] *Id.* at 8:6-8.
[40] Exh. NAWC-NJK-1 (Kennard) at 6:6-8.
[41] Exh. CALAM-JTL-002 (Linam) at 13:19-20, 13:23-24.
[42] *Id.* at 4:22-5:10 ("California American Water has had the most conservation-oriented rate design of any

decoupling is important. The specifics of Cal-Am's rate design are also well-justified based on the record. As Cal-Am's expert Mitchell explained, Cal-Am is "proposing to recover 35-50% of its fixed costs from monthly service charges, the remainder being recovered from volumetric charges."[43] Cal-Am's rate structure can work in tandem with decoupling to maximize efficient water use. As NAWC's expert remarked, "I am not aware of any rate design tool that supports conservation better than decoupling."[44]

2. Monterey-Style Water Revenue Adjustment Mechanism (M-WRAM).

As noted above, the M-WRAM proposal that Cal Advocates endorses is not a viable alternative to the WRSP, at least for Cal-Am. The M-WRAM "is simply a pricing adjustment mechanism," not a form of decoupling.[45] Its dynamics remain linked to the "throughput incentive,"[46] so its benefits to conservation are limited. Absent true decoupling, "the utility *does* have a financial incentive to promote sales and discourage conservation."[47] Because NAWC does not support the M-WRAM, its discussion of the specific mechanisms of this approach is abbreviated. However, NAWC reserves the right to discuss these topics in further detail in its reply brief to the extent necessary based on the opening briefs.

a) Full Cost Balancing Account (FCBA) / Incremental Cost Balancing Account (ICBA) (Special Request No. 2).

NAWC does not support the use of a Full Balancing Account or Incremental Cost Balancing Account because these mechanisms will not properly capture the fixed costs necessary to support Cal-Am's operations in the face of fluctuating revenues. NAWC continues to embrace the ESBA, as discussed below. NAWC reserves the right to offer further material on this subject in its reply brief.

California Class A water utility for more than a decade.").

[43] Exh. CALAM-DM-003 (Mitchell) at 28:18-20.

[44] Exh. NAWC-NJK-1 (Kennard) at 13:21-24.

[45] Exh. CWA-001A (Switzer) at 3:17-18.

[46] Exh. NAWC-NJK-1 (Kennard) at 8:9-10 ("The 'throughput incentive' is the premise that utilities under rate-of-return regulation have incentive to encourage consumption.").

[47] Exh. CALAM-DM-002 (Mitchell) at 7:2-3 (emphasis in original).

b) Annual Consumption Adjustment Mechanism (ACAM) (Special Request No. 3).

As explained above, NAWC supports the ACAM proposal presented as part of the WRSP. To the extent that the ACAM mechanics are consistent under the M-WRAM, NAWC does not oppose them. However, without a linkage to the ESBA, the M-WRAM version of the ACAM cannot achieve the full benefits that decoupling provides. Again, NAWC reserves the right to address this topic further in its reply brief.

c) Amortization (Special Request No. 14).

NAWC does not have specific comments regarding the manner in which the amortization features in Special Request No. 14 would intersect with the M-WRAM alternative. As explained above, the WRSP should be adopted, not the M-WRAM approach. NAWC reserves the right to address this subject in its reply brief after reviewing the discussion provided by other parties.

d) Rate Design.

NAWC does not have specific input on the rate design impacts of the M-WRAM proposal because it opposes the adoption of this alternative to the WRSP. As Mr. Kennard explained, there is a strong and growing focus across the country on "efficiency and conservation" as a response to "climate change, droughts, extreme temperatures, and increasingly unpredictable weather patterns."[48] The pressure to address these problems will continue to militate in favor of aggressive rate designs that discourage high water use, making decoupling proposals more desirable. These rate design dynamics make the WRSP the right solution in this rate case. NAWC reserves the right to offer additional perspectives on this subject in response to parties' opening comments.

B. Comparison of Impacts of WRSP and M-WRAM.

CWA's expert aptly describes the analysis of the WRSP and the M-WRAM as an "'apples to oranges' comparison."[49] Whereas the WRSP will "alleviate[] the throughput incentive by reducing the connection between increased sales and increased revenue,"[50] the M-WRAM

[48] Exh. NAWC-NJK-1 (Kennard) at 9:11-13.
[49] Exh. CWA-001A (Switzer) at 3:9-10.
[50] Exh. NAWC-NJK-1 (Kennard) at 9:6-7.

"functions to adjust revenues to offset the effect of tiered rates vis-à-vis single quantity rates when sales deviate from forecasted amounts."[51] Like their mechanics, the policy ramifications of the two proposals are divergent. There is "no doubt that decoupling has resulted in increased conservation in the electric sector,"[52] and "[t]here is no reason to believe that the impact in the water sector will be different."[53] As NAWC's expert explained, the benefits of decoupling are far-reaching. The WRSP can "mitigate increasing operating costs in the long term" because "[w]hen less water is used, costly investments required to produce additional water supplies can be deferred and potentially avoided."[54] Moreover, "[b]y breaking the link between sales and revenue, decoupling provides more accurate revenue recovery, enables more precise cash flow projections, and helps avoid earnings volatility," which can "help ensure that the utility has the resources to invest in necessary system improvements, which result in a better quality of service."[55] As Mr. Owens observed on behalf of Cal-Am, the WRSP will "implement stronger conservation-oriented rate designs that will help achieve conservation goals and reduce bills for lower income and lower usage customers."[56] Similarly, NAWC's expert Kennard noted that "due to revenue decoupling, water bills are markedly lower than they would have been without the conservation investments that were incentivized by this same type of decoupling mechanism."[57] Decoupling is a "necessary tool to enable . . . investments in conservation, which will in turn save customers money."[58]

By contrast, "[u]nder the M-WRAM, . . . the utility gains . . . in revenue for each unit of sales above the forecast and loses SQR for each unit below the forecast," creating a "financial incentive to promote sales and discourage conservation."[59] As Cal-Am's expert Mitchell explained, "[t]he evidence garnered from 2008 to present clearly indicates that the Class A utilities with full decoupling" had "more aggressive conservation rate designs," "[r]ecovered a lower

[51] Exh. CWA-001A (Switzer) at 3:18-4:2.
[52] Exh. NAWC-NJK-1 (Kennard) at 15:19-20.
[53] *Id.* at 16:28-17:1.
[54] *Id.* at 26:16-17, 27:11-12.
[55] *Id.* at 27:18-20, 27:20-21.
[56] Exh. CALAM-SWO-002A (Owens) at 6:15-18.
[57] Exh. NAWC-NJK-1 (Kennard) at 26:9-11.
[58] Exh. NAWC-NJK-1 (Kennard) at 27:14-16.
[59] Exh. CALAM-DM-002 (Mitchell) at 6:38-7:3.

percentages of fixed costs through fixed service charges," "[i]nvested more in customer conservation programs," and "achieved greater reductions in customer water use" than those using a M-WRAM.[60] This is consistent with NAWC's observations, which confirm that "[d]ecoupling is a necessary tool to enable utilities to make . . . investments in conservation, which will in turn save customers money."[61]

Cal Advocates suggest that the conservation benefits of full decoupling are unproven, but these suggestions have been debunked on the record. Both Mr. Owens and Mr. Mitchell demonstrate that Cal Advocates' quantitative comparison between companies with WRAM features and those with M-WRAM mechanisms contains fatal methodological errors.[62] In fact, CWA's expert Mr. Switzer shows that "the reductions in per capita usage for the four WRAM companies have exceeded the reductions for the four M-WRAM companies."[63] Cal Advocates' other criticisms of the WRSP are equally misplaced. There is no evidence to suggest that the WRSP "shifts the risks" of delivering water service from Cal-Am to its ratepayers,[64] and there is no support for the notion that the WRSP will produce "excessive profit."[65] Nor is there support for the inference that decoupling will subject ratepayers to "negative demand shock."[66] Indeed, as Mr. Kennard notes, "[t]here is a growing body of empirical evidence that, by effectively promoting conservation, utility costs and customer bills are reduced over time."[67]

There is no real comparison between the parties' proposals. The WRSP provides far more benefits to conservation, ratepayers, and utility operations and long-term stability than the M-WRAM.

IV. CONCLUSION.

The record strongly supports the adoption of Cal-Am's WRSP, consistent with the

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[60] *Id.* at 14:1-10.
[61] Exh. NAWC-NJK-1 (Kennard) at 27:14-16.
[62] Exh. CALAM-DM-003 (Mitchell) at 44:12-50:15; Exh. CALAM-SWO-002A (Owens) at 9:12-23:2.
[63] Exh. CWA-001A (Switzer) at 7:7-8.
[64] Exh. CALAD-RR-001 (Rauschmeier) at 12:5-14:7; Exh. NAWC-NJK-1 (Kennard) at 28:21-29:3 ("[r]ather than shifting risk, decoupling appropriately recognizes an inherent tension in the traditional rate-of-return model when there are strong objectives for utilities and customers to conserve water.").
[65] Exh. CALAD-RR-001 (Rauschmeier) at 10:17-12:4; Exh. NAWC-NJK-1 (Kennard) at 28:5-17.
[66] Exh. CALAD-RR-001 (Rauschmeier) at 12:18-23.
[67] Exh. NAWC-NJK-1 (Kennard) at 26:7-8.

Legislature's twin goals of "further incentivizing water conservation efforts" and providing water utilities with a reasonable mechanism for recovering their "very significant fixed costs that do not fluctuate with changes in consumption patterns."[68] The WRSP is grounded in successful decoupling efforts in the energy sector, and best practices amongst water utilities nationally. NAWC fully endorses Cal-Am's decoupling proposal and implementation mechanism and urges the Commission to adopt it. To the extent that other parties raise concerns regarding the WRSP in their opening briefs, NAWC reserves the right to respond to those perspectives in its reply brief.

Executed on this 6th day of December 2023.

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[68] SB 1469 (Bradford) §§ 1(a)(5), 1(b).