

## **DROUGHT'S IMPACT ON WATER BILLS**

### **FAQ ABOUT WATER RATES AND THE WRAM/MCBA**

All water customers and utilities throughout California have been impacted by the recent drought emergency and the state's unprecedented drought regulations and conservation mandates.

As a result of reduced usage, water providers in every community must make adjustments to cover the costs to operate, maintain and improve the water system. This has been a challenge for all water providers, regulated and municipal.

Golden State Water Company (Golden State Water) has prepared the following answers to Frequently Asked Questions to help educate customers regarding the ratemaking process and the use of balancing accounts to ensure the ability to meet customer needs and obligations is not compromised.

We also encourage customers to [click here](#) for a comprehensive overview explaining how rates are determined, and invite customers to call our 24-hour Customer Service Center at 800.999.4033 with any questions or concerns.

### **WRAM/MCBA FREQUENTLY ASKED QUESTIONS**

#### **During periods of drought and reduced usage, how do regulated utilities like Golden State Water ensure they have the revenue needed to continue providing reliable, safe water service?**

The rates for regulated water utilities like Golden State Water are determined by the California Public Utilities Commission (CPUC) on a three-year General Rate Case cycle. During the ratemaking process, the CPUC forecasts water usage in order to calculate rates and ensure revenue recovered from rates balances with expenses to operate, maintain and improve the water system. Approximately 76 percent of Golden State Water's expenses are "fixed costs" and don't change as usage changes.

When water usage for any given year does not match the forecasted level and the revenue collected either exceeds or falls short of the CPUC-authorized amount, the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) are used to achieve the financial balance. These tools ensure under-collected revenue is recovered with a temporary surcharge, and revenue that exceeds the authorized amount is returned to customers in the form of a temporary surcredit.

#### **What are the WRAM/MCBA balancing accounts?**

For regulated utilities, the WRAM and MCBA balancing accounts ensure the revenue collected from water bills matches the amount authorized by the CPUC to continue providing reliable, quality water service—not a penny more, not a penny less. Any under-collected revenue is recovered with a temporary surcharge, and revenue that exceeds the authorized amount is returned to customers with a temporary surcredit.

This process provides transparency and accountability, but can also present challenges during times of drought and reduced water usage.

#### **Do municipal water utilities have WRAM/MCBA surcharges?**

There are subtle differences between how California's regulated and municipal water utilities recover the revenue shortfalls to cover the costs to operate, maintain and improve the water system when water usage does not match the forecasted level and revenue from rates falls short of the authorized amount.

Many municipal providers throughout the state have implemented rate increases over the last year and/or utilized financial reserves to account for revenue shortfalls from reduced usage. Unlike municipal providers, regulated water utilities like Golden State Water are governed by the CPUC and are prohibited from keeping reserves or permanently changing rates when revenue fails to cover operating expenses during periods of reduced usage. Rather, regulated utilities are allowed to charge a temporary surcharge to recover revenue shortfalls required to cover the costs to operate, maintain and improve the water system. The use of a temporary surcharge is transparent and ensures that Golden State Water does not over-collect its revenues.

#### **Why am I being asked to pay a WRAM/MCBA surcharge, when I followed the state's orders to conserve?**

The California Public Utilities Commission approved the WRAM/MCBA mechanism ensure that Golden State can respond to the state's call for conservation.

Golden State Water forecasts sales and water supply three years in advance and with any forecast, there is the potential for it to be higher or lower than the actual level. When the actual sales are lower or higher than forecasted level, the WRAM ensures any under-collected revenue is recovered with a temporary surcharge, and revenue that exceeds the CPUC-authorized amount is returned to customers in the form of a temporary surcredit.

The MCBA ensures any savings associated with lower water supply costs are credited to the customers in the form of a surcredit, and vice versa any water supply costs that exceed the CPUC-authorized levels are recovered in the form of a temporary surcharge.

#### **Does the amount of revenue Golden State Water needs to operate the water system decrease when the community uses less water?**

Yes and no. The WRAM surcharge is offset by the MCBA, which represents savings in purchased water and energy costs that result from the reduced usage levels. However, the majority of a water providers expenses are "fixed costs" and do not change based on usage. These fixed costs include expenses to operate, maintain and improve the water system. For Golden State Water, approximately 76 percent of expenses fall into this category.

#### **When will the WRAM/MCBA surcharge appear on my water bill?**

Effective March 20, 2017, Golden State Water customers may notice a higher/lower "WRAM/MCBA Surcharge" on their water bills. The 2016 WRAM/MCBA surcharge/credit will be added to the "WRAM/MCBA surcharge"

#### **Is Golden State Water going to adjust forecasts for 2017 and future years to account for the drought and reduced usage?**

The General Rate Case to determine rates for 2016-18 was recently approved by the CPUC, and usage forecasts have been adjusted to account for reduced usage. These adjusted usage forecasts should help to better match projections with actual water use and minimize the impact of potential WRAM/MCBA surcharges for future years.