

California Rate Process Fact Sheet

Overview

An investor-owned utility (IOU) is a utility business owned by investors which provides utility service to the general public. California American Water is an IOU. The rates IOUs charge customers are set by the regulators at the California Public Utilities Commission (CPUC). If the utility operates efficiently, a return on capital infrastructure investments is generated for the shareholders, but this return is not guaranteed. The rate of return is set by the CPUC. Operating costs, approved by the CPUC, are passed directly through to the ratepayer with no mark up.

Capital infrastructure improvements are funded by borrowing money from shareholders and creditors. This investment is recovered over the expected life of the property in rates paid by customers.

Rate-Making Process

Every three years California American Water is requested by the CPUC to file a "general rate case" for each district in the state. Rate cases include projected operating costs and capital investments for each district.

In May of 2010, the CPUC has requested that all California districts of California American Water file a consolidated rate case. Under current regulations, consolidated filings will continue in the foreseeable future.

Rate cases can take one to two years, or longer, to fully complete.



A rough chronology of a rate case after preparation includes:

- Initial proposal
- Final proposal
- Public participation hearings
- Public review
- CPUC staff review
- Formal hearings
- Final recommendation from Administrative Law Judge assigned to case
- Final decision by CPUC Commissioners

Rate Comparison

Generally, water rates and operating costs of investor-owned water companies are competitive with municipal counterparts, but these comparisons are not "apples to apples" because, among other things:

- CPUC-regulated water utilities pay income taxes and local property taxes, and public agencies do not.
- Most CPUC-regulated water utilities pay franchise fees to help cover municipal services, and public agencies do not.
- Municipal agencies often subsidize their costs with tax revenue.
- Municipalities are able to issue tax-exempt bonds for water infrastructure financing, which are rarely available to investor owned water utilities.
- Municipal agencies rely on taxpayer-supported, low-interest loans, and/or grants from federal and state sources. These are rarely available to investor-owned utilities.
- Municipal agencies assess substantial hook-up fees on new home builders.

Despite these and other differences, and despite the reality that investor-owned utilities' expenses are similar to municipal utilities, rates are competitive, as is customer service and dedication to improving a system's infrastructure.