



Intra-Utility Consolidation

CPUC and SWRCB Joint Public
Workshop – 8/17/17





ORA - the Office of Ratepayer Advocates - is the independent consumer advocate within the CPUC that advocates solely on behalf of investor owned utility ratepayers.

ORA's statutory mission is to obtain the lowest possible rates for service consistent with reliable and safe service levels. In fulfilling this goal, ORA also advocates for customer and environmental protections.



Definitions (for the purpose of this presentation)

- Intra-Utility Consolidation – merging of one or more systems or districts currently owned by the same utility
- Acquisition – change in ownership of a system





Goals of Presentation

- Provide information on intra-utility consolidations
 - Factors to consider
 - Advantages and Disadvantages
- Explore key learnings from intra-utility consolidations that relate to acquisitions



Types of Consolidation

- Intra-Utility Consolidation
 - Operational Consolidation
 - Should result in Economies of Scale
 - Mostly already occurred in Class A IOUs
 - e.g. General Office, IT, Customer Care
 - Rate Consolidation
 - Other Options (e.g. interconnections)
- Acquisition (ownership/managerial consolidation)
 - Could include the types above in addition to ownership change



Principles to Address in Consolidation Proposals

- Established in Decision 14-10-047 in Rulemaking (R.)11-11-008
- Address the public interest benefits that are achieved in light of:
 - Proximity
 - Rate Comparability
 - Water Supply
 - Operation
 - Other Factors that Affect the Public Interest
 - e.g. Balancing investment, conservation, water quality, impacts to low income customers, general affordability, and the duration of any subsidies resulting from consolidations





Factors to Consider for Intra-Utility Consolidation

- Some ratepayers' rates increase and some ratepayers' rates decrease
- Which ratepayers benefit could change over time



Advantages

- Risk Pooling
 - Managing risk over the long term
 - Lower cost districts today may be higher cost districts tomorrow
 - Examples of Risk
 - Regulatory Changes
 - Natural Disaster
 - Effects of Climate Change





Advantages

- Economies of scale
 - Increased efficiency and productivity
 - How best to pass on savings to ratepayers?
- Affordability advantages to high cost systems and/or small systems



Disadvantages

- Could provide inappropriate conservation signals
- In larger systems, imprudent investments can have a smaller impact on rates
 - Imprudent investments may not be as noticeable or concerning to the Commission
- Challenging to gain support from ratepayers in lower cost areas when proposed merger is with higher cost areas





Factors to Consider for Acquisitions

- Advantages and disadvantages to consolidation also apply to acquisitions
- Troubled systems gain more access to technical and financial resources
- Public Support/Public Perception Issues



Affordability Issues Associated with Acquisitions

- Investor return on IOU cost of acquisition
 - Cost of acquisition becomes the system ratebase
 - Annual investor return on ratebase is built into customer rates
 - Provides an incentive for a higher purchase price
- Without protection, existing ratepayers – some of whom are low-income – may pay more.
- Opportunities for Intra-Utility Consolidations Post-Acquisition





Recommendations

- Assess Advantages/Disadvantages
 - Case by case basis
- Communication and Coordination
 - Sharing of information
 - Continue to keep ORA in the loop
 - Continue to address at quarterly meetings
- Transparency
 - Ratepayer input
 - Do the math
 - Track and retain cost information
- Data Needs for Informed Decision Making
 - Identify data necessary to enable rigorous analysis and informed decision making
 - Gather and analyze necessary data

