



Making Water Conservation a California Way of Life

Review of the Water Board's Standardized Regulatory Impact Analysis (SRIA)

MESA WATER DISTRICT

PRESENTED BY

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SEPTEMBER 27, 2023

SRIA required whenever

☞ A proposed regulation would have an economic impact exceeding **\$50 million** in any **12-month period** following its adoption¹

☞ SRIA is intended to:

1. Assess the potential for *adverse economic impact and the imposition of unnecessary or unreasonable regulations or report, recordkeeping, or compliance requirements*
2. Provide agencies and the public with information to determine whether the proposed regulation is *efficient and effective in achieving policy decisions enacted in statute in the least burdensome manner*

Our Findings: Benefits

We find that the **SRIA does not reasonably determine the benefits of the proposed regulation** due to the following:

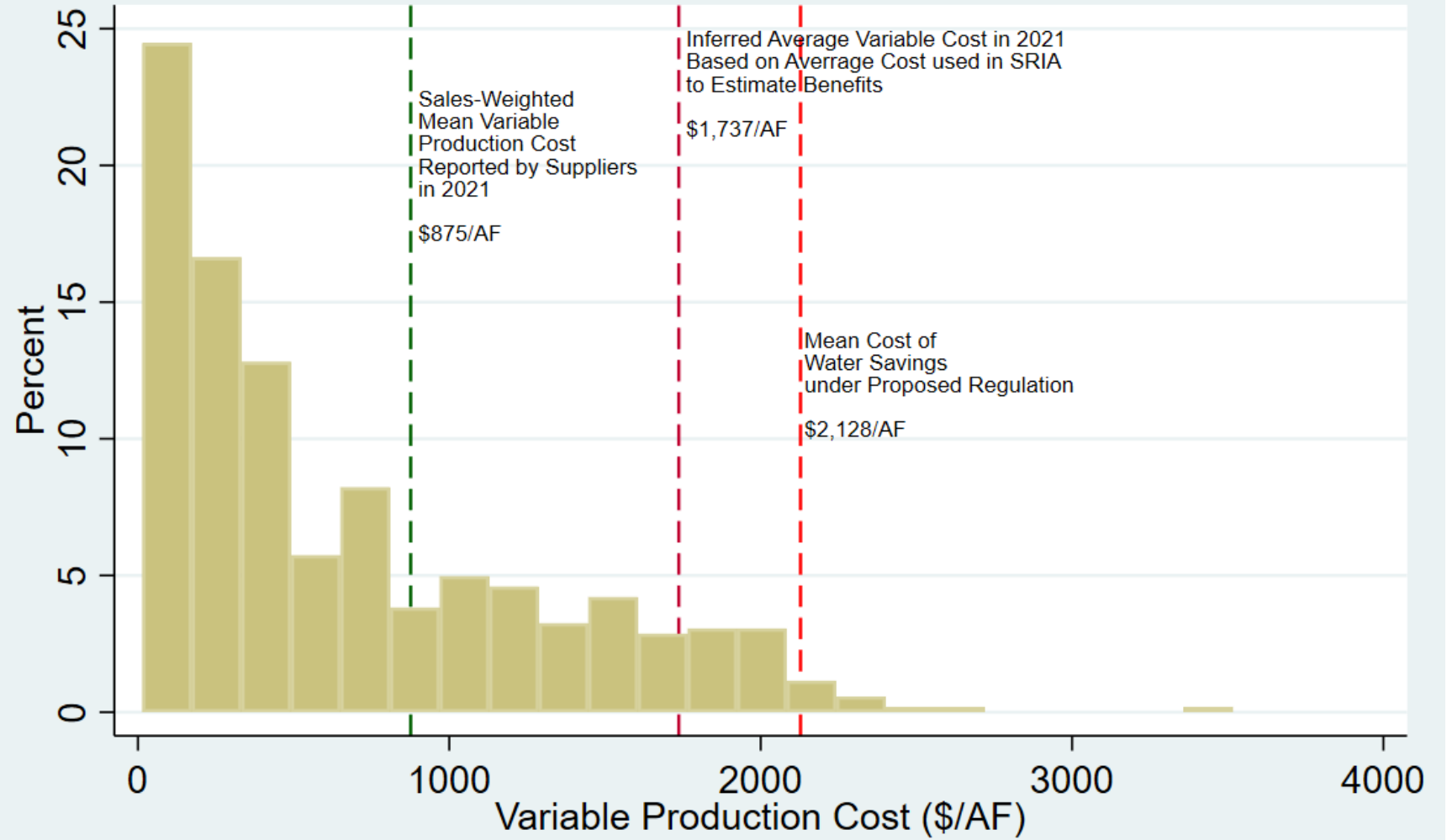
- It significantly **overstates supplier variable production costs** and appears to **double count** these costs.
- It **bases its estimates of avoided water production cost primarily on wholesale water rates** even though these rates embed a sizable portion fixed costs which in the long run are not avoidable.
- It **mistakes the underlying causes for escalating wholesale water rates** and consequently **overstates the rate at which truly avoidable costs will escalate in the future.**

Present Value Benefits of Proposed Regulation	
SRIA	After Correcting Deficiencies
\$11.1 Billion	\$8.2 Billion*

** Corrected estimate includes 10 extra years of water savings (2041-2050) to account for residual benefits that will accrue following the end of the 2040 analysis period.*

Actual vs Assumed Variable Costs

Variable Production Costs Reported in 2021 Water Loss Reports



Values in 2022 constant dollars

Our Findings: Costs

We find that the **SRIA does not reasonably determine the costs of the proposed regulation** due to the following:

- It uses **constant unit costs for conservation measures** despite assuming a **rapid and massive ramp-up** of these programs in the first five years of the regulation.
- It underestimates customer costs by **ignoring the time-value-of-money costs** of shifting future expenditures closer to the present.
- It **underestimates the costs of CII MUM to DIM conversions** by only counting the initial installation and inspection costs and **ignoring the annual maintenance, billing, and meter replacement costs**.
- It **grossly underestimates the costs of program creation and reporting** as well as the costs to **implement the CII BMPs**.

Present Value Costs of Proposed Regulation	
SRIA	After Correcting Deficiencies
\$8.9 Billion	\$15.6 Billion

Our Findings: Baseline

We find that the **SRIA does not reasonably establish the baseline from which to estimate benefits and costs** due to the following:

- It **contradicts long-term historical trends** in urban water use
- It **ignores the effects of future price increases** on residential and CII water uses
- It relies on **mutually contradictory assumptions** to set the baseline condition, estimate water savings, and calculate benefits of the proposed regulation

These deficiencies lead the SRIA to significantly overstate expected water savings and potential benefits of the proposed regulation

Our Findings: Bottom-Line

Present Value Costs and Benefits of Proposed Regulation		
	SRIA	After Correcting Deficiencies
Benefit of Regulation (primarily avoided water costs)	\$11.1 Billion	\$8.2 Billion*
Cost of Regulation	\$8.9 Billion	\$15.6 Billion
Net Benefit	\$2.2 Billion	-\$7.4 Billion
BCR	1.24	0.53

* Corrected estimate includes 10 extra years of water savings (2041-2050) to account for residual benefits that will accrue following the end of the 2040 analysis period.


Q&A; Thank YOU!

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POLICY ANALYSIS
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Date: September 26, 2023
To: Stacy Lynne Taylor
Mesa Water District
Fr: David Mitchell
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Re: Review of Standardized Regulatory Impact Assessment of Proposed Making Water Conservation a California Way of Life Regulation by the State Water Resources Control Board

Introduction

State agencies must prepare a Standardized Regulatory Impact Analysis (SRIA) when it is estimated that a proposed regulation would have an economic impact exceeding \$50 million in any 12-month period following its adoption.¹

The purpose of the SRIA is to "assess the potential for adverse economic impact on California business enterprises and individuals, avoiding the imposition of unnecessary or unreasonable regulations or reporting, recordkeeping, or compliance requirements."² Additionally, the SRIA is intended to "provide agencies and the public with tools to determine whether the regulatory proposal is an efficient and effective means of implementing the policy decisions enacted in statute or by other provisions of law in the least burdensome manner."³

At minimum, the SRIA must:⁴

- Assess the benefits and costs of the proposed regulation, expressed in monetary terms to the extent feasible and appropriate.
- Determine the economic impact of the regulatory proposal on the state economy, business, and public welfare.
- Determine the cost of enforcement and compliance to the agency and to affected business enterprises and individuals.

More specifically, the SRIA must address all of the following:⁵

- The creation or elimination of jobs within the state.
- The creation of new businesses or the elimination of existing businesses within the state.
- The competitive advantages or disadvantages for businesses currently doing business within the state.

¹ 1 CCR § 2000(g) and 11346.3(c) of the Government Code.
² 11346.3(a) of the Government Code.
³ 11346.3(e) of the Government Code.
⁴ 11346.36 of the Government Code.
⁵ 11346.3(c)(1) of the Government Code.

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