

California Water Service Group: How Much Revenue Protection Is Enough?

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On 17 March 2026, California Water Service Group (Cal Water, NYSE: CWT) told investors that the California Public Utilities Commission (CPUC) had issued a proposed decision in the company's 2024 California general rate case. The Commission had not voted. Cal Water's chief executive said the company would make oral arguments and submit written comments, seeking closer alignment with its application. Written comments were due 2 April; the Commission expected to consider a final decision at its 30 April meeting or shortly after. (1)

The proposed decision rejected Cal Water's proposed Low-Use Water Equity Program (LUWEP) and full revenue decoupling for this rate case. It retained a modified Monterey Water Revenue Adjustment Mechanism (M-WRAM) and proposed a two-way Sales Reconciliation Mechanism (SRM). For a regulated water utility, this was a consequential design choice: how should rates protect the ability to fund service when sales differ from forecasts, while giving customers understandable bills and retaining incentives to conserve?

Cal Water could use its comments to identify factual, legal, or technical errors in the proposed decision, with specific references to the existing record or applicable law. It could also commit to develop district-level data for a later GRC or proceeding. Rule 14.3(c) did not make the comment period a new evidentiary record: comments had to focus on specified errors and cite the record or law. The Commission's document was proposed and had no legal effect unless adopted. What should the company ask the Commission to correct now, and what should it measure for later?

The company and the proceeding

California Water Service Group was the parent of regulated water utilities in California, Hawaii, New Mexico, Washington, and Texas. The proceeding concerned California Water Service, the group's largest subsidiary-not all of CWT's territories. The California utility served customers across multiple districts, each with local operating conditions and rate schedules. The case involved a regulated essential service; Cal Advocates described the utility as a monopoly whose costs were subject to regulatory scrutiny. (2, 7)

In July 2024, Cal Water requested California revenue-requirement increases of \$140.558 million (17.1%) for test year 2026, \$74.163 million (7.7%) for 2027, and \$83.574 million (8.1%) for 2028. It also sought authority for more than \$1.6 billion of California district investment over 2025-2027. These were company requests, not approved amounts. (3)

The company's 17 March release described the proposed additional revenues as \$92.3 million (11.1%) for 2026, \$50.8 million (5.5%) for 2027, and \$52.4 million (5.4%) for 2028. The

proposed decision did not include the final infrastructure investment budget. The annual percentages use different year-specific bases; neither the requested investment program nor the proposed rate outcome should be treated as final. (1, 4)

California GRC measure	2026 test year	2027 escalation year	2028 escalation year
Cal Water requested added revenue	\$140.558m (17.1%)	\$74.163m (7.7%)	\$83.574m (8.1%)
Proposed added revenue, as reported by CWT	\$92.3m (11.1%)	\$50.8m (5.5%)	\$52.4m (5.4%)
Difference between request and proposal	\$48.258m	\$23.363m	\$31.174m

Exhibit 1. Requested and proposed annual revenue increases. The differences are simple subtractions of the figures above, not estimates of earnings, cash flow, or customer bills. The reported percentage increases are not directly comparable across years without their underlying revenue bases. Sources: CPUC proposed decision, pp. 7-8; CWT 17 March release, ¶¶4-12. (1, 3)

A disagreement about risk, prices, and proof

Cal Water proposed replacing M-WRAM with a two-account design attached to LUWEP. Its Sales Imbalance Balancing Account (SIBA) would compare adopted and actual quantity revenues; its Supply Cost Balancing Account (SCBA) would compare adopted and actual production costs. The company proposed netting account balances annually and amortizing them through base rates. Cal Water argued that the package would improve affordability for low-use customers while retaining conservation signals through the tiered tariff. These were the company's claims about its design, not established outcomes. (5)

The CPUC's proposed decision found that the application had not demonstrated that LUWEP would improve affordability or conservation relative to M-WRAM. It also pointed to inconsistent positions in the record about whether decoupling would reduce the company's cost of capital. The Commission said that if decoupling reduced risk, a future allowed return on equity should reflect that; it could not resolve that issue in this GRC. If Cal Water proposed decoupling again, the Commission called for district-level, multi-year data comparing adopted and collected revenues, including wet- and dry-year stress tests. (6)

Cal Advocates, the ratepayer advocacy office, argued that uncapped decoupling balances could move forecast risk to customers and that the record did not establish the claimed conservation and affordability benefits. This was a party's position, not a separate Commission finding. The proposed decision instead retained modified M-WRAM, incremental cost balancing accounts, and the two-way SRM. The SRM would trigger for a district if its most recent annual sales were more than 5% above or below forecast, then carry 50% of that variance into the upcoming escalation-year sales forecast. These parameters described the proposal; they did not predict whether or how often a trigger would occur. (7)

The proposed rate design also raised fixed charges by 10%, kept the four-tier structure and tier widths, and reduced the Tier 4 multiplier from 187% to 150%. Cal Water had argued for its own rate design; Cal Advocates had argued for steeper tier differentials. The Commission's proposed package therefore changed both the way bills were divided between fixed and volumetric charges and the mechanism for correcting sales forecasts. (8)

Mechanism	What it tracks	When customer rates may adjust	Principal risk question
Cal Water's proposed LUWEP / full decoupling	Quantity-revenue variance (SIBA) and production-cost variance (SCBA), netted annually	Annual account amortization through base rates, as proposed	How much forecast and balance risk should customers bear, and what evidence shows the tariff improves affordability or conservation?
Proposed modified M-WRAM	A narrower revenue adjustment; it does not fully separate revenue from sales	Under the proposed tariff/account framework	How much sales exposure remains with the utility, and how should the boundary between quantity and cost variance be set?
Proposed two-way SRM	District sales variance against forecast	If annual sales move more than 5% either way, 50% of the variance enters an upcoming escalation-year forecast	Does a thresholded, symmetric forecast correction share risk adequately while keeping bills predictable?

Exhibit 2. Mechanism comparison. Plain-language summary of Cal Water's proposal and the CPUC proposed decision; account operation and timing are as described in A.24-07-003. "Proposed" is essential: no final mechanism had been adopted as of the case date. (5, 8)

A live regulatory pattern, not a simple precedent

Cal Water was not the first California water utility to seek fuller revenue protection. In December 2024, the CPUC denied California-American Water's proposed Water Revenue Sustainability Plan, a full-decoupling design, while approving its alternative CART mechanism (described as formerly M-WRAM), continuing ACAM, and allowing 36-month amortization of earlier WRAM balances. A May 2025 rehearing order clarified that M-WRAM was not full decoupling. (9)

In January 2025, the CPUC denied Golden State Water's full-WRAM Water Conservation Advancement Plan, directed a move to M-WRAM plus an Incremental Cost Balancing Account, and continued an SRM for that GRC cycle with annual review and limits. Its rehearing request was denied in May 2025. These two cases showed that the Commission had approved some narrower adjustments while denying the full mechanisms requested in those proceedings. They did not establish a universal rule or determine how the Commission would resolve Cal Water's comments. The designs and records differed. (10)

This was a regulatory strategy problem rather than a conventional product-market contest. Customers could not generally change water providers within a service territory. The relevant comparisons were other regulated utilities' approved mechanisms, the Commission's stated evidentiary requirements, customer affordability and service needs, and the company's own ability to forecast and substantiate costs. A mechanism that stabilized revenue could affect incentives and the allocation of risk; a rate design could affect marginal price signals and bill distribution independently.

What did demand research establish?

Research could inform the question without resolving it. Browne, Gazze, and Greenstone studied hourly smart-meter use for more than 82,300 single-family households in Fresno from 2013 to 2016. Their preferred estimates reported price elasticities of about -0.16 for marginal price and -0.39 for average price. Their decomposition attributed a substantial share of observed use reductions to price changes and the summer watering schedule. But the estimates relied on citywide variation rather than randomized treatment or a control city; the authors identified limits to causal interpretation. Fresno's customers and tariff were not Cal Water's multiple districts. The results did not estimate CWT-specific elasticity, LUWEP's effects, customer welfare, or district revenue. (11)

The same caution applied to financing. A study of 14 electric utility holding companies estimated cost-of-capital changes after decoupling ranging from about -41 to -49 basis points across specifications, but none was statistically significant at the 5% level. This small, commissioned electricity-sector study could not establish a financing benefit for a California water utility. A 1962 regulatory model predicts a possible capital bias under particular assumptions when allowed returns exceed capital costs; it is a hypothesis for scrutiny, not evidence that Cal Water overinvested. (12, 13)

The choice on 17 March

The Commission had not closed the door to a future decoupling request, but it had specified evidence it wanted. Meanwhile, the proposed decision would defer advanced metering infrastructure pending a comprehensive cost-benefit analysis and pilot evaluation demonstrating operational and ratepayer benefits. Better measurement might help improve sales forecasts and investment evidence, but a future metering program's benefits, costs, and timing were not yet established. (14)

Cal Water's response could take one of three broad forms:

1. **Continue to advocate for LUWEP and full decoupling.** The company could identify specific factual, legal, or technical errors in the proposed decision and argue from cited material already in the GRC record that the filed design addresses the mismatch between volumetric sales and largely fixed system costs. It would need to confront the Commission's stated concerns about design, bill effects, conservation, forecast risk, and cost of capital; the comments could not rely on new district data that were not in the record.
2. **Seek a narrower correction supported by the existing record.** Cal Water could request a bounded or phased adjustment only to the extent its proposed terms and rationale were supported by record evidence, and identify the specific proposed-decision errors and record citations that justify each change. It could commit to collect and analyze district-level adopted-versus-recorded revenue data, wet/dry-year tests, and bill impacts for a subsequent GRC or proceeding; those new analyses would not be offered as evidence in these comments. The record did not establish that the Commission would accept any particular narrower design.
3. **Work within the proposed M-WRAM/SRM structure.** The company could use comments to identify record-supported errors or seek supported clarifications to implementation details, then direct management attention to forecast quality, affordability, conservation, infrastructure delivery, and evidence development for a future proceeding. This would leave the company exposed to some quantity-revenue variation while avoiding unsupported new claims in the comments.

The options were not costless or mutually exclusive in every detail. Management could use comments to state its position on the record-supported errors at issue now, while separately developing new analysis for a subsequent GRC or proceeding. Each strategy would consume management and regulatory capacity and shape how the Commission viewed the company's evidence in subsequent proceedings.

Decision questions

1. What is the precise decision Cal Water must make before the Commission votes? Which proposed-decision errors can it support with specific references to the current record or applicable law, and which analyses belong in a later proceeding?
2. How do LUWEP/full decoupling, M-WRAM, and the proposed SRM allocate sales and production-cost risk among the company and customers? What risk remains under each?
3. Which parts of Cal Water's affordability, conservation, and financing case are supported by evidence in this record? What additional evidence should it develop for a later GRC or proceeding to test unresolved claims?
4. What do the Cal-Am and Golden State decisions suggest about the Commission's posture? Where would treating those cases as direct predictions for Cal Water be misleading?
5. Which response should management submit? What record-supported correction or modification should it request now, and what data should it commit to develop for a later GRC or proceeding?

Source notes

1. CWT, "California Water Service Group Receives Proposed Decision in 2024 California General Rate Case," 17 Mar 2026, ¶¶4-12, 20-26 ([company release](#)).
2. CWT Form 10-K, year ended 31 Dec 2025, filed 27 Feb 2026, company overview; CPUC proposed decision, A.24-07-003, 13 Mar 2026, pp. 3-4 ([official PDF](#)).
3. CPUC proposed decision, pp. 7-8. Requested figures and investment amount are proposal facts, not approved outcomes.
4. CWT 17 Mar 2026 release, ¶¶4-12. Proposed incremental revenues are management's description of the proposed decision.
5. CPUC proposed decision, pp. 67-69. Summary of Cal Water's LUWEP, SIBA, SCBA, and stated rationale.
6. CPUC proposed decision, pp. 77-78. Proposed Commission findings and requested evidence for a future decoupling proposal.
7. CPUC proposed decision, pp. 72-79; Cal Advocates, "Executive Summary and Results of Operations Table," A.24-07-003, 28 Jan 2025, pp. 3-6 ([official testimony](#)). Party arguments are attributed as such.
8. CPUC proposed decision, pp. 82-84 and operative provisions pp. 154-155. Proposed tariff and SRM terms.
9. CPUC D.24-12-025, A.22-07-001, 5 Dec 2024, summary pp. 2-3 and ordering paragraphs 4-8, pp. 59-60; D.25-05-032, 15 May 2025, pp. 1-2, 17-18 ([decision](#); [rehearing order](#)).

10. CPUC D.25-01-036, A.23-08-010, 30 Jan 2025, §§6.3-6.4, pp. 70-76 and ordering paragraphs 4, 7-8, pp. 91-93; D.25-05-028, 15 May 2025, pp. 1-3, 10 ([decision; rehearing order](#)).
11. Browne, Gazze & Greenstone (2021), "Do Conservation Policies Work? Evidence from Residential Water Use," *Environmental and Energy Policy and the Economy* 2, 190-225, §§II-IV, Tables 4-5 ([publisher full text](#)).
12. Vilbert et al. (2014), "The Impact of Revenue Decoupling on the Cost of Capital for Electric Utilities," Brattle report, pp. 8-19, Table 1 ([report PDF](#)).
13. Averch & Johnson (1962), "Behavior of the Firm Under Regulatory Constraint," *American Economic Review* 52(5), pp. 1052-1069 ([JSTOR record](#)).
14. CPUC proposed decision, operative provision 11, p. 151.
15. CPUC Rules of Practice and Procedure (effective May 2021), Rule 14.3(c): comments focus on factual, legal, or technical errors and cite the record or applicable law ([official rules PDF](#)).

Case boundary: This case uses information available through 17 March 2026. The proposed decision was not final as of that date. No later decision, company result, or implementation outcome is part of the student information set.