STATE OF CALIFORNIA — DEPARTMENT OF FINANCE

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

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1. Statement of the need for the proposed major regulation.

Assembly Bill (AB) 1668 and Senate Bill (SB) 606 of 2018 directed the California State Water Resources Control Board to adopt standards for urban retail water suppliers (suppliers) for the efficient use of water and performance measures for commercial, industrial, and institutional (CII) water use. The proposed regulation, the Making Water Conservation a California Way of Life regulation, would require suppliers to calculate and adhere to "urban water use objectives" based on efficiency standards for a subset of urban water uses (residential indoor and outdoor use, CII landscapes with dedicated irrigation meters (DIMs), and real water losses); implement CII performance measures; and submit annual progress reports.

2. The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

Urban retail water suppliers are the only parties on which the proposed regulation imposes obligations, but other parties are expected to be affected indirectly, based on suppliers' compliance paths. Suppliers can be either publicly-owned (e.g., municipal agencies, special-purpose and irrigation districts, municipal water districts, and counties) or privately-owned (e.g., investor-owned utilities and nonprofit mutual water companies). Together, publicly-owned suppliers and privately-owned suppliers would incur aggregate costs of almost $9.9 billion and accrue benefits of approximately $10.6 billion from 2025 to 2040 (in present discounted value terms). Publicly-owned suppliers accounts for approximately 85% of these estimated costs and benefits, and privately-owned suppliers account for the remaining 15%. Local wastewater management agencies would incur costs of $2.5 billion from 2025 to 2040; benefits for these agencies could not be quantified. Residential customers would incur costs of $1.0 billion and accrue benefits of almost $5.1 billion. Urban forestry and landscape management agencies would incur costs of approximately $100 million; benefits for these agencies could not be quantified.

3. Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

- Costs: most of the estimated costs originate from the implementation of residential water use efficiency measures, approximately $5.8 billion from 2025 to 2040 (in present discounted value terms) or 43% of total estimated costs, and revenues that would be lost by suppliers (and, to a lesser extent, wastewater management agencies), approximately $4.7 billion or 35% The estimated cost of wastewater infrastructure improvements and other related infrastructure projects during that period is approximately $1.6 billion or 12% of total estimated costs. Total annual estimated costs range from $4.7 billion in 2025 to $0.7 billion in 2040.
- Benefits: most of the estimated benefits originate from reduced water purchases or reduced water production by the affected suppliers, approximately $8.5 billion from 2025 to 2040 or 54% of total estimated benefits. They also originate from reduced water use by, and thus lower water bills for, the residential customers (compared to the assumed future baseline), about $4.5 billion or 29%. A smaller fraction of the estimated benefits originates from savings of residential energy bills and from suppliers' having to do less stormwater-related work. Total annual estimated benefits range from $0.6 billion in 2025 to $1.1 billion in 2040.

4. Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed $50 million.

Staff assumed that the proposed regulation will be filed with the Secretary of State in 2024 and fully implemented by the end of 2035. The proposed regulation will remain in effect and will benefit California beyond 2035, and, to account for that, the economic impact analysis covers years 2025 through 2040. The 12-month period chosen for the major regulation determination was year 2025, the year in which estimated cost impact is greatest. To evaluate the sum of direct, indirect, and induced effects, we relied on the RIMS II model. RIMS II industries each have different multipliers in the model, converting new, direct spending into the industry into indirect and induced effects. Based on the application of these multipliers to the estimated costs and benefits in 2025, the proposed regulation is expected to increase the state’s gross output by $4.1 billion in 2025.

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5. Description of the agency's baseline:

The proposed regulation would apply to 405 suppliers in the state, representing approximately 95 percent of California population. Suppliers invest in both water supply and water demand management strategies to provide reliable water for residents and customers, including, for example, diversifying supplies and investing in new large water storage projects, and institutionalizing demand management actions. Per capita water use, a standard measure of efficiency, has, for the most part, been declining over the last few decades in California. In 2000, average statewide total urban water use was 199 gallons per capita per day (GPCD) and had dropped to 164 GPCD by 2013. By 2015, in response to the last drought emergency, it had dropped to 129 GPCD. Since then, California has experienced some rebound, peaking at 137 GPCD in 2020 and was again dropping near the end of 2022, averaging 130 GPCD. Absent the proposed regulation, average statewide total urban water use is forecasted to decline to 117 GPCD in 2035. Without accounting for variances, the proposed regulation could significantly increase urban water use efficiency, bringing average total statewide water use to 107 GPCD in 2035.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:

a. All costs and all benefits of the alternative
b. The reason for rejecting alternative

- Alternative 1, which is less stringent than the proposed regulation, would save approximately 4.1 million acre-feet of water in the entire 2025-2040 period, about 65% of the water saved under the proposed regulation. Benefits during that period are estimated to outweigh costs, with present discounted values of $10.2 billion and $9.9 billion, respectively.
- Alternative 2, which is more stringent than the proposed regulation, would save approximately 7.1 million acre-feet of water in the entire 2025-2040 period, about 113% of the water saved under the proposed regulation. Benefits during that period also are estimated to outweigh costs, with present discounted values of $17.9 billion and $14.9 billion, respectively.
- Cost-effectiveness was defined as the present discounted value of the 2025-2040 costs divided by the total estimated water use reduction in that period. A comparison of the estimated cost-effectiveness of the two alternatives and proposed regulation ranks Alternative 2 as the most cost-effective in the 2025-2040 period ($2,074/ac-ft), and Alternative 1 as the least cost-effective ($2,404/ac-ft). Alternative 2 is slightly more cost-effective than the proposed regulation (2.5% more cost-effective), but significantly more expensive in absolute terms (10.5% more expensive), and therefore was not chosen over the proposed regulation.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

The methods developed and data used to estimate economic impacts were presented at several water use efficiency working groups and committees for California water supplier associations including the Association of California Water Agencies, the California Water Efficiency Partnership, and regional water authorities throughout the state. Feedback from the industry on the estimation approach was collected. Suppliers throughout the state participated in semi-structured interviews in 2021, organized with assistance from regional water management organizations. In 2021, professionals at wastewater collection, treatment, and reuse facilities were reached out. One part of the outreach involved detailed discussions with approximately twenty industry professionals and wastewater system managers about the operational challenges in the industry. A second part included an online collection response system that gathered responses from agencies with forty to seventy agencies responding depending on the topic. As part of the work to evaluate potential impacts to parklands and urban trees, staff held one public workshop in December 2021 and a second in May 2022. The public workshops were attended by suppliers, park districts, tree organizations, landscapers, environmental nonprofits, and environmental justice organizations.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

Economy-wide impacts of the proposed regulation were estimated using the regional economic model developed by the U.S. Bureau of Economic Analysis: the Regional Input-Output Modeling System (RIMS II). Type II RIMS II final-demand multipliers (from the 2012 U.S. Benchmark I-O data and 2019 Regional Data for California's economy) were used to account for "direct," "indirect," and "induced" effects. The proposed regulation will require suppliers to meet their water use objectives, and we assumed that some of these suppliers will spend more on water use efficiency programs, including, for example, toilet and clothes washer rebate programs. Customers who elect to participate in the rebate and incentives programs will incur upfront costs associated with the implementation of the water use efficiency measures. Additionally, the proposed regulation will also increase spending by urban forestry and landscape management agencies and wastewater management agencies. We assumed that these expenses represent new, additional spending or investment purchases that would impact the demand for services, equipment, and materials in "final-demand" industries. Additionally, total California household spending was assumed to drop by an amount equal to the total costs of compliance after accounting for the rebates that households receive and household cost savings.

Agency Signature	Date

Agency Head (Printed)

Signature is on file