THE CITY OF SAN DIEGO

July 1, 2015

Sent via Electronic Mail: commentletters@waterboards.ca.gov

Honorable Chair Felicia Marcus
and State Water Resources Control Board Members
c/o Ms. Jeanne Townsend, Clerk of the Board
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814

Dear Chair Marcus and State Water Resources Control Board Members:

The City of San Diego (San Diego) is pleased to have this opportunity to provide input on the subject of conservation pricing for water. As a municipal retail agency servicing approximately 1.4 million water and recycled water customers and 2.4 million wastewater customers in Southern California, San Diego has been on the forefront of instituting lawful and fair rate structures that produce meaningful conservation results.

The State Water Resources Control Board's (State Water Board) Conservation Pricing Notice of Public Workshop identifies specific questions in which input from stakeholders on the subject of conservation pricing is requested. Before responding to these three questions, we would like to provide the following contextual input.

Conservation versus Drought Pricing: Conservation Pricing
We believe that discussions related to ***conservation pricing*** have been well vetted at the California Urban Water Conservation Council (CUWCC), having been a prominent topic of discussion between water agencies and non-governmental organizations since 1991. Conservation pricing is a baseline activity that should occur regardless of drought status to assure non-wasteful uses of water. Best Management Practice (BMP) 1.4 defines the requirements of effective conservation rate structure design while allowing sufficient flexibility for water agency implementation to allow for local circumstances. Conservation pricing includes the following components that together effect conservation.

Metering Water Use
While it may seem to go without saying, metering is the first step in being able to offer conservation rate structures. We have been so convinced of the importance of metering as a responsible approach to water management that the San Diego region sponsored legislation several years ago to require metering statewide. Prior to this legislation, many communities felt that they had "enough" water that metering was an unnecessary expense. This misconception has since been proven untrue.

San Diego's residential and commercial, industrial and institutional (CII) customers receive a combined water and wastewater bill once every two months based on metered use. Wastewater charges for Single Family Residential (SFR) customers are based on the lowest billing cycle during the winter months (December through March), not annual water usage. Recycled water customers and large landscape accounts similarly receive a metered usage invoice bimonthly, but these bills do not include wastewater services. The combined water and wastewater utility bill is more representative of a "One Water" inclusive approach to representing the total cost of water usage, and the cumulative pricing impact presents customers with a more compelling case for using water frugally.

Automatic metering infrastructure (AMI) for water usage is a next-generational approach to measuring and communicating water usage to customers. Studies indicate that AMI is effective in achieving additional conservation yields by communicating "real time" data that is especially helpful in recognizing abnormal spikes attributable to leaks. As such, San Diego asks that the State Water Board consider offering financial incentives for the installation and use of AMI meters and related customer interface technology.

Volumetric Pricing

Water conservation BMP 1.4 identifies the importance of volumetric pricing to send an appropriate signal to customers that if they use less water they will save money on their water bills. San Diego's current rate structure, for example, collects approximately 20% of its revenues from all rate classes on fixed charges and the balance on volumetric rates. This ratio of fixed to volumetric charges is well within the recommended 30:70 ratio established by BMP 1.4 as preferable for incentivizing conservation.

While effective at incentivizing conservation, volumetric pricing does present a risk to revenue stability for water agencies. Generally, water agencies are able to mitigate this risk with the establishment of a rate stabilization fund (RSF) that sets aside sufficient funds necessary to endure temporary periods (2-3 years generally) of moderately decreased sales due to wet weather.

Billing Units

The typical increment of usage charged to customers is a hundred cubic feet (HCF), which equals 748 gallons. There is general consensus in the water community that this unit of measurement is not intuitively translatable to customers, thereby hampering a true appreciation of individual water usage. There might be value in further studying the benefits and challenges associated with establishing a new billing unit standard, keeping in mind the limitations of metering technology to accurately measure small increments of water.
At a minimum, water agencies should be able to maintain HCF as a standard billing unit but also translate HCFs to gallons in the comments section of the water bill. AMI software is generally capable of translating HCF to gallons as part of its interface with customers as well.

Tiered Pricing

Establishing progressively higher rate levels for a certain number of tiers of water usage is generally considered to be an effective approach for discouraging high water use. San Diego's

current residential rate structure incorporates four tiers with the lowest tier costing $3.896/HCF and the highest tier costing $8.766/HCF.

Paramount to the establishment of tiered water rates is the completion of a Cost of Service Study to assure the nexus between the costs incurred and the tiered levels and prices. Page 3 of the *San Juan Capistrano* ruling states:

> "…Proposition 218 requires public water agencies to calculate the actual costs of providing water at various levels of usage. Article XIII D, section 6, subdivision (b)(3) of the California Constitution, as interpreted by our Supreme Court in Bighorn-Desert View Water Agency v. Verjil (2006) 39 Cal.4th 205, 226 (Bighorn) provides that water rates must reflect the "cost of service attributable" to a given parcel. While tiered, or inclined rates that go up progressively in relation to usage are perfectly consonant with article XIII D, section 6, subdivision (b)(3) and Bighorn, the tiers must still correspond to the actual cost of providing service at a given level of usage."

San Diego is confident that tiered rate structures continue to represent a viable and effective conservation pricing approach for California's water agencies.

Allocation-Based Pricing

While San Diego has considered allocation-based pricing as a potential rate structure to encourage conservation, we have elected to stay with tiered pricing. Allocation-based pricing (also known as Budget-based pricing) is an option that has been reviewed in San Diego. The review included stakeholder input and review processes in addition two Consultant Water Budget-Based Billing Project reports and detailed cost of service study analysis. The reports reviewed the pilot study, evaluated the applicability of water budgets across all customer classes, identified the challenges associate with establishing water budgets and recommended long-term conservation programs that could most effectively support customers that are billed based upon a water budget. It was determined that allocation-based pricing was overly complex for San Diego's purposes at this time, and would be labor-intensive to fairly implement, thereby increasing ratepayer costs unnecessarily.

It should be noted that San Diego achieved a lower average residential gallons-per-capita-per-day (R-GPCD) between July and September 2014 than did Irvine Ranch Water District, a noted champion of allocation-based pricing (82.0 R-GPCD and 91.7 R-GPCD, respectively). This statement is by no means meant to disparage Irvine Ranch's approach – We learned that each community has unique customer water usage profiles and must determine the rate structure, and allocation methodology that works best for their constituents. It is simply meant to point out that tiered pricing can be every bit as effective as allocation-based pricing.

Conservation versus Drought Pricing: <u>Drought Pricing</u>

In a situation wherein the Governor has declared a state of emergency due to drought, it is assumed that the need for customer response has gone beyond the baseline conservation pricing designed to discourage wasteful applications of water and is approaching reductions towards health and safety levels of water use. The drought conditions are assumed to require drastic

reductions in sales for a temporary period of time, although that period of time will be unknown at the onset of the drought declaration. We believe that additional financial tools and ***drought pricing*** should be considered and perhaps made ***temporarily*** available to water agencies only ***during times of declared drought***.

The following responses to the questions posed by the State Water Board distinguish between conservation pricing and drought pricing.

Question 1: What actions should the State Water Board take to support the development of conservation pricing by water suppliers that have not yet developed conservation rate structures and pricing mechanisms?

With regard to conservation pricing, we feel that the tools are already in place with CUWCC's BMP 1.4. We recommend that the State provide resources sufficient to allow CUWCC to hold workshops and trainings to assist water agencies in the establishment of rate structures meeting BMP 1.4.

With regard to temporary drought pricing, anticipated reductions in sales due to drought may have a larger financial impact on water agencies than can be responsibly managed by drawing funds from an agency's Rate Stabilization Fund. This can sponsor the need for immediate and persistent rate increases across all tiers to assure revenue requirements. The combined effect of higher rates with lower water use levels can be confusing and confounding to ratepayers who see their water bills increasing even though they are using less water.

It would be worthwhile for the State to explore the feasibility of allowing water agencies to immediately implement a temporary drought surcharge that does not impact low water-using or recycled water customers.

Question 2: What actions should the State Water Board take to support water suppliers that have already developed conservation rate structures and pricing mechanisms to improve their effectiveness?

The State Water Board could lead an effort to establish a new billing unit standard (other than HCF) across the industry that more easily translates into units (such as gallons) that are more intuitively understood by customers. This effort should be coordinated with water meter manufacturers and water industry professionals.

Also, it would be helpful for the State Water Board to find ways to advance AMI statewide, including with the provision of financial incentives.

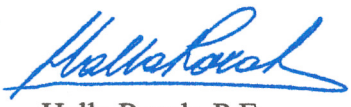
Question 3: What actions can the State Water Board take to assist water suppliers in demonstrating that existing rate structures harmonize competing legal authorities associated with water rates?

Our opinion is that the State Water Board should have little role with demonstrating that existing rate structures harmonize competing legal authorities associated with water rates. We believe that is the responsibility of individual water agencies and their legal teams to defend their choices.

However, drought pricing options, such as a temporary drought surcharge, if established by the State, should be legally defended by the State Water Board.

We hope that this input has been helpful. Please do not hesitate to contact me or Ms. Cathleen Pieroni at 858-292-6424 or cpieroni@sandiego.gov if you have any questions or concerns.

Sincerely,



Halla Razak, P.E.
Director of Public Utilities

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