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(7/8/15) Public Workshop
Conservation Pricing
Deadline: 7/1/15 by 12:00 noon

July 1, 2015

Delivered by e-mail to: commentletters@waterboards.ca.gov

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



Subject: Comment Letter: Conservation Pricing

Dear Chair Marcus and Members of the Board:

Mesa Water District (Mesa Water®) appreciates this opportunity to comment on conservation water pricing and implementation of Directive 8 of Executive Order B-29-15. Founded on January 1, 1960, and governed by a publicly elected five-member Board of Directors, Mesa Water® is an AAA-rated independent special district that provides water service to 108,000 residents in an 18-square-mile area. Mesa Water® serves most of Costa Mesa, parts of Newport Beach, and some unincorporated areas of Orange County including John Wayne Airport. Due to the investments in the improved Mesa Water Reliability Facility (MWRf), Mesa Water® meets 100 percent of its community's water needs with locally-sourced supplies.

Mesa Water® appreciates the way the Water Board has worked with urban water suppliers in responding to the serious drought California is experiencing and in implementing the Governor's Executive Order. We also appreciate the way the Water Board staff has worked with agencies throughout this process.

At Mesa Water® we take the conservation goals seriously and requirements that the Water Board and the State have asked us to achieve. Our philosophy is to provide our customers with a true economic signal of the cost of water through our rates along with an active informational and educational outreach program to achieve the conservation results we all desire. The implementation of this philosophy has been very successful for Mesa Water®.

Mesa Water® is already at conservation levels that achieve the State's rigorous 20X2020 mandates. (See attached graph)



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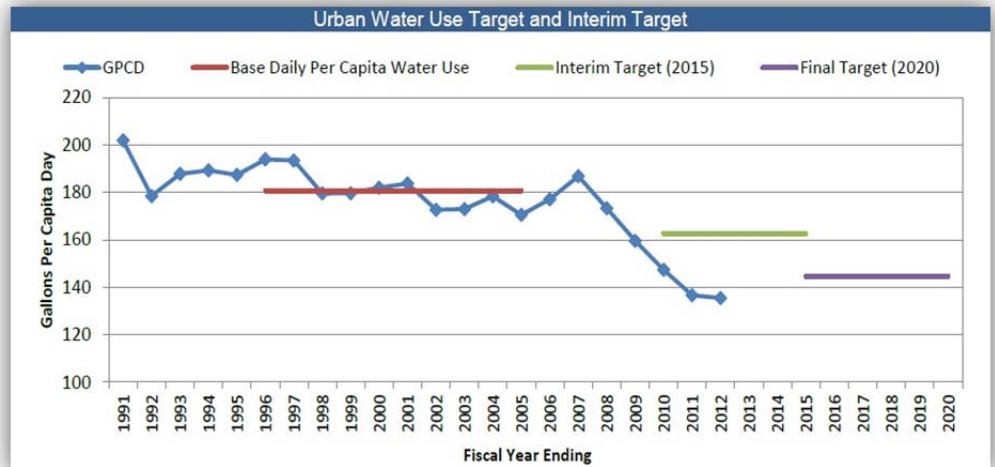
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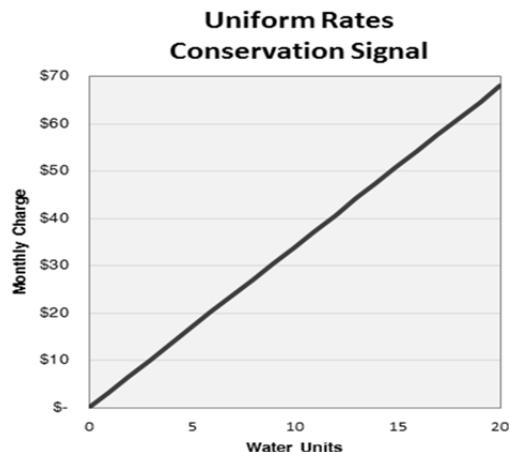
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And the State Board has assigned Mesa Water® a conservation target of 20% and through the first reporting month of June 2015 we have exceeded the target considerably, conserving 27%. Our residential gallons per capita per day for June 2015 is 78.5 GPCD.

We give great credit for our District’s success to our customers’ willingness to positively engage in important social issues and to comprehend the clear conservation signal that our rate structure provides.

Mesa Water®’s cost to provide water to our customers is uniform in compliance with Proposition 218. A uniform rate charges for each and every unit of water used and sends a very strong and understandable conservation signal. Mesa Water District charges \$3.40 per unit; the more water its customers use the more they pay. The figure below shows this relationship. If a customer’s water use increases, the customer pays more. If the customers conserve water they pay less. The customer has control over their water bill, something they understand and like.





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In addition Mesa Water® does not collect any type of tax that would add to our revenue but detract from the economic signal our rate structure sends. Some agencies with tiered rates collect up to 40% of their total revenue from taxes and other sources that are not reflected on the customer's bill. Mesa Water® receives 95% of all its revenues from the customer's bill. This sends the "true cost of water" pricing signal to its customers. The true cost of water, voluntary conservation and our outreach program are very effective for Mesa Water's conservation efforts. As stated above, it has met the States rigorous 20x2020 mandates early and is currently exceeding the SWRCB emergency drought conservation target.

Uniform rates are conservation based rates as defined by the California Urban Water Conservation Council (CUWCC) in its Retail Conservation Pricing Best Management Practices (BMP 1.4). The CUWCC definition of a conservation rate is as follows:

Definition: Conservation pricing provides economic incentives (a price signal) to customers to use water efficiently. Because conservation pricing requires a volumetric rate, metered water service is a necessary condition of conservation pricing. Unmetered water service is inconsistent with the definition of conservation pricing.

The following volumetric rate designs are potentially consistent with the above definition:

- 1) Uniform rate in which the volumetric rate is constant regardless of the quantity consumed.
- 2) Seasonal rates in which the volumetric rate reflects seasonal variation in water delivery costs.
- 3) Tiered rates in which the volumetric rate increases as the quantity used increases.
- 4) Allocation-based rates in which the consumption tiers and respective volumetric rates are based on water use norms and water delivery costs established by the utility.

Mesa Water® offers the following recommendations to the Water Board to help achieve permanent water use reductions over a long-term through conservation based pricing:

1. Resist Calls to Consider State Regulation of Local Water Rates

Water rate-setting is an extremely sensitive matter because water rates are such a fundamental element of local water agency operations, financial stability, and local government accountability. Water rate-setting is a technically challenging exercise that must be closely tied to the unique water demands and characteristics of individual public water agencies. Significant legal and governance requirements exist to guide water conservation rate structures. In light of this situation, Mesa Water



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recommends that the Water Board resist calls from some quarters to consider state regulation of local water rates.

2. Treat all Conservation Rates Equally

It is widely recognized that water pricing can influence water demand, and a wide variety of water conservation rate structures have been adopted by a growing number of water agencies which seem to be yielding promising results. In the text above, we have tried to show how well uniform rates work to achieve conservation goals. In Mesa Water®'s case because our cost of service is uniform we believe uniform rates are the only legal way for us to harmonize water conservation efforts required in article X of the California Constitution with the mandates of the California Constitution, article XIII D ("Prop. 218"). Because of the effectiveness of uniform rates and legal issues that sometime require uniform rates we recommend that the Water Board treat all conservation rates equally.

3. Provide Education to Agencies on enacting Penalties

There appears to be a lack of information among agencies as to how to apply penalties to excessive water users. The recent San Juan Capistrano appeals court in no way limits the ability of agencies to impose penalties for severe or excessive water use. The opinion only found that putting a label of "penalty" on a tiered rate structure would be a circumvention of the California Constitution if the rates were not compliant with Prop. 218. It would be helpful for education on properly enacted ordinances, regulations and statutes that penalize property owners for excessive use.

It is clear to all that we need to continue to "make conservation a California way of life" (California Water Action Plan, January 2014). Mesa Water® as well as other urban water suppliers are engaged in a long-term effort to improve water use efficiency and will continue to implement plans and programs at significant cost in coming years to achieve (and exceed) water use reduction targets. Much progress has been made over the last few decades and much remains to be accomplished. We thank you for your openness to our input on this important issue.

Sincerely,

Paul E. Shoenberger, P.E.
General Manager

c: Mr. Tom Howard, Executive Director
Ms. Caren Trgovcich, Chief Deputy Director



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