

**Recommended City Council Response to Findings and
Recommendations Made in the Grand Jury Report Entitled
“Water Conservation: Sober Up San Diego, The Water Party Is Over.”**

Recommendation 08-05: Put the water rates for multiple-family residences, and for commercial, industrial, and agricultural users into tiered block structures to make charges proportionate to use.

Mayor’s Response: The recommendation has not yet been implemented, but could be implemented if appropriate and allowable in the future. In December 2006, a Cost of Service Study was conducted by Raftelis Financial Consultants, Inc. to review the process by which the City allocated the cost of service to the users of the water system. In adherence to the Cost of Service Study, the City developed the current rate structure based on the base-extra capacity method endorsed by the American Water Works Association, a nationally recognized industry group. This method allocates costs and classifies customers by using several factors including average daily usage and peaking factors (periods of maximum usage). As a result of that study the City Council and Mayor approved increasing the number of customer classes (adding classes with separate rates for Other Domestic, Commercial/Industrial, and Agricultural/Construction classes) and approved four annual rate increases beginning with fiscal year 2008 and ending with fiscal year 2011.

The City will be doing another cost of service study at the end of the currently approved rate period (fiscal year 2011) and at that time, the Cost of Study will be directed to look into the feasibility of either creating additional customer classes which might allow equitable tiered structures or investigating the use of other mechanisms (such as water budgets) which might result in additional conservation.

IBA Recommendation: Join the Mayor’s Response.

Recommendation 08-06: Consider more carefully their growth policy as it relates to San Diego’s long-term water prospects and begin more rigorously enforcing the requirement that any large project proposal be able to ensure a 20-year supply of water.

Mayor’s Response: This recommendation has been implemented. Since January 2002, California state law has required 20-year Water Supply Assessments for approval of large scale development projects. Water demands needs are based upon the community plans approved by the City Council as measured with SANDAG Regional Growth Forecasts. These growth forecasts are then used to derive overall future water demands for San Diego and incorporated as part of both the City’s Urban Water Management Plan and the County Water Authority’s supply planning documents.

The Water Department complies fully with SB610/221, the State of California Urban Water Management Planning Act (UWMPA), and already offers significant safeguards for long-term demand on regional water supplies. Compliance with SB 610/221 is carried out through the

City's Urban Water Management Plan (UWMP). The City's 2005 *UWMP* was adopted by the San Diego City Council on September 11, 2006, and was filed with the Department of Water Resources (DWR). It stands as the City's foundational water planning document and is fully consistent with the California UWMPA.

Under SB 610/221, the Development Services Department (DSD) ensures that major projects are sited and designed to minimize impacts to water resources. Pursuant to SB 610, prior to approval of any discretionary permit for a future project, DSD requests the Water Department prepare a water supply assessment (WSA) to be included in the environmental documentation of certain large proposed projects.

IBA Recommendation: Join the Mayor's Response.

Recommendation 08-07: Publish the current water restriction stages and conditions in order to induce greater participation in conservation efforts.

Mayor's Response: The recommendation has been implemented. The current water usage restrictions are published under San Diego Municipal Code 67.3806. Copies are available via the internet on the City of San Diego's website and from the City upon request. Upon activating the provisions of the Municipal Code, the City is required to publish the restrictions. This information was also published in the most recent Urban Water Management Plan of 2005. The restrictions will also be posted in a prominent location on the Water Department's website.

IBA Recommendation: Join the Mayor's Response.

Recommendation 08-08: Base the cost of new water meters on the current and projected water conditions.

Mayor's Response: The recommendation has not yet been implemented, but could be implemented if appropriate and allowable in the future. Some jurisdictions in other States have been successful in implementing similar "new supply" fees; however, Proposition 218 in the State of California may preclude the implementation of this type of future supply related fee. During Fiscal Year 2009, we will investigate the feasibility of implementing this type of fee.

Currently, the cost of new water meters or new connections to the water system are currently addressed as capacity (developer) fees. These are one-time fees used to recover some or all of the costs of providing the system additional capacity when a new user connects to the water system. The use of such funds is in fact restricted by law (both the San Diego Municipal Code and State Code Section 66001) to only paying for expansion of the water system. Examples of these costs include those related to increasing capacity in treatment plants, pumping stations, storage reservoirs, and water mains. Capacity fees do not incorporate the current or projected water conditions (supply) because that is not an issue of system capacity. Inclusion of current or projected water supply issues to the capacity fees could be considered if large capital

improvement projects were planned to add additional storage capability to the water system. If such projects occur, their costs would automatically be included in capacity charges.

IBA Recommendation: Join the Mayor’s Response.

Recommendation 08-09: Formalize concrete triggers for water alerts to make them automatic and less arbitrary.

Mayor’s Response: This action has not been implemented, but may be implemented in the future. The City’s current restrictions and triggers for water alerts are being reviewed and updated as part of a regional effort led by the San Diego County Water Authority (CWA), working with all its member water agencies including the City of San Diego. CWA’s “Model” Drought Ordinance is designed to achieve greater county-wide consistency in drought response actions, including triggers, while also allowing individual agencies to modify the “model” ordinance based upon particular demographics and constituencies. Water agencies are not obligated to adopt the CWA model drought ordinance, but are encouraged to review it for consideration. The City is currently reviewing the model ordinance for possible incorporation into its existing drought response plan set out in Municipal Code.

IBA Recommendation: Join the Mayor’s Response.

Recommendation 08-10: Make some or all of the voluntary usage restrictions in Stage 1 water watch permanently mandatory in San Diego.

Mayor’s Response: This action has not been implemented, but may be implemented in the future. The City is currently reviewing the current drought response plan set out in the Municipal Code for possible modification. This review is being performed as part of region-wide effort coordinated by the County Water Authority to achieve a greater county-wide consistency in drought response planning.

IBA Recommendation: Join the Mayor’s Response.

Recommendation 08-12: Raise the cost of recycled water to at least 80% of that of potable water, and use this income to finance expansion of the recycled water distribution system.

Mayor’s Response: This action requires further analysis. Currently, the Water Department is conducting a Recycled Water Pricing Study (Pricing Study) to determine the cost of producing and distributing recycled water. The scope of the Pricing Study includes development of recommendations for recycled water commodity rates, base fees, capacity charges, alternative rate structures and a Recycled Water Rate Model. Inputs to the Pricing Study include cost of operation and maintenance for production and distribution facilities as well as capital costs for

the most feasible expansion projects. It is anticipated that the Recycled Water Pricing Study will be completed in Fiscal Year 2009.

IBA Recommendation: Join the Mayor's Response.

Recommendation 08-13: Approve the use of recycled water for reservoir augmentation.

Mayor's Response: This requires further analysis. On December 3, 2008 the City Council approved the development of a plan for implementation of the NC-3 strategy, as set forth in the 2006 Water Reuse Study. The Water Department is currently undertaking a project scoping effort in order to implement a 12-month Advanced Water Treatment (AWT) demonstration project, as directed by City Council. The Scoping Study is identifying regulatory requirements, project costs, public notification requirements, and optimum project scheduling in order to complete the demonstration project as directed. Upon Council identification and approval of funding, the Water Department will be conducting the AWT Demonstration Project to obtain information required for regulatory approvals for conducting reservoir augmentation. The study will also provide additional details and considerations not evident at this point and help refine the approach to reservoir augmentation.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

This requires further analysis. On December 3, 2008 the City Council approved the development of a plan for implementation of the NC-3 strategy, as set forth in the 2006 Water Reuse Study. The Water Department is currently undertaking a project scoping effort in order to implement a 12-month Advanced Water Treatment (AWT) demonstration project, as directed by City Council. The Scoping Study is identifying regulatory requirements, project costs, public notification requirements, and optimum project scheduling in order to complete the demonstration project as directed. Upon identification and approval of funding, the Water Department will be conducting the AWT Demonstration Project to obtain information required for regulatory approvals for conducting reservoir augmentation. The study will also provide additional details and considerations not evident at this point and help refine the approach to reservoir augmentation. If the AWT demonstration project is successful and the required regulatory approvals are given, the City Council may consider implementing a full-scale reservoir augmentation project in the future.

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Recommendation 08-14: Implement the use of recycled water in all appropriate City facilities.

Mayor's Response: This recommendation has been implemented. The irrigation systems for several City properties were designed or retrofitted to accept recycled water. The sites, primarily parkland and open space areas, are adjacent to the existing distribution pipelines; many were identified in the Recycled Water Master Plan.

The Park and Recreation Department has nineteen recycled water meter connections, with three more parks expected to come on-line Spring 2008. Over the course of the next three years recycled water retrofit of parklands and open space as well as related pipeline extension projects are planned.

The Water Department is actively pursuing grants for parkland retrofits.

Late last year, an analysis was conducted to identify all City properties fronting recycled water pipelines and the feasibility to retrofit the irrigation systems to use recycled water. Seven City properties, not previously listed in the Master Plan, were identified. Retrofitting or pipeline extension costs for the seven properties are estimated at \$1 million. Two facilities in the Fire Department are budgeted for retrofitting in Fiscal Year 2009

IBA Recommendation: Join the Mayor's Response.

Finding 1

Water conservation would be increased if all users' rates were put into tiered block structures.

Mayor's Response: Partially Disagree. Tiered block rates provide a disincentive to use a lot of water for some customers, and thus can lead to reduced water consumption. However, not all users can be put into tiered block rates since customers vary in size and type of water use.

For example, for commercial/industrial users, a tiered block rate structure would not necessarily impact the amount of water they use for business operations since consumption is more a function of business type and scope, rather than a result of discretionary water use. Health facilities may not have the ability to significantly lower water consumption for health reasons. Industrial customers who have water as a manufacturing ingredient could be unfairly impacted by a tiered block rate structure. For the restaurant industry, water usage and therefore rates, would be different for a larger restaurant (50 plus tables) than smaller restaurants (10 or fewer tables). Depending on how big the restaurants are, conservation measures may not be enough of an incentive to knock them into the lower tiers. Because customers within these classifications are so diverse, it is difficult, if not impossible, to design an equitable tiered block structure for all users.

IBA Recommendation: Join the Mayor's Response.

Finding 2

Mandatory water restrictions in a Stage 2 water alert should be made permanent.

Mayor's Response: Disagree. The San Diego Municipal Code clearly specifies the course and sequence of actions necessary to implement water conservation measures in the City. Mayor Sanders has been following the Code and has been actively working to encourage far greater water conservation throughout the city.

To date, neither the City's Water Department, the San Diego County Water Authority (CWA) or the Metropolitan Water District have called for, nor implemented mandatory restrictions on water use. However, as part of a regional supply management effort, the San Diego CWA has been working with the local water agencies on a Regional Drought Model Ordinance with the objective of recommending a more consistent, region-wide approach to water use restrictions in the event of supply shortages and to consider which, if any, restrictions should be made permanent. Water agencies are not obligated to adopt the CWA model drought ordinance, but are encouraged to review it for consideration. The City is currently reviewing the model ordinance for possible incorporation into its existing drought response plan set out in Municipal Code. It is anticipated that provisions of the Regional Drought Model Ordinance may come forward for Council consideration in early Fiscal Year 2009.

IBA Recommendation: Join the Mayor's Response.

Finding 3

The City of San Diego faces bleak prospects for the future in terms of the chance of growth colliding with the projected long-term dwindling of water supplies at reasonable cost.

Mayor's Response: Disagree. There is no doubt that the City of San Diego's water supply reliability is challenged but it is far from bleak. San Diego has proactively conserved water since the early 1990's. As a result, the City of San Diego has added more than 270,000 residents since 1987 without increasing overall demand for water. In this time, the City has also improved its plumbing regulations, increased its water conservation programming and worked closely with the San Diego County Water Authority to develop a long-term plan for water supplies to the City.

For example, in 2003, the Quantification Settlement Agreement (QSA) established two major water supply reliability programs for the San Diego region. First, San Diego will have an additional 77,700 acre-feet per year (AFY) of dedicated Colorado River water supplies established by 2009, upon completion of the canal lining projects in the Coachella and All-American canals. Second, a permanent water transfer from the Imperial Irrigation District (IID) to the Water Authority was established. The ramp-up schedule for the water transfer currently transfers 50,000 AFY from the IID to the Water Authority. By 2021, the maximum annual water transfer will be achieved and the Water Authority will purchase 200,000 AFY of transfer water every year from the IID. Combined with ongoing conservation programs and the development of local supplies, the QSA program will reduce the San Diego region's dependence on the Metropolitan Water District from 76% in 2007 to 29% in 2020.

IBA Recommendation: Join the Mayor's Response

Finding 4

The cost of laying purple pipe versus the current low cost of recycled water is inhibiting the extension of purple pipe systems.

Mayor's Response: Partially Agree. The challenge to connect new customers to the recycled water system extends beyond the recycled water rate and cost to build new pipelines. While new development is conditioned to install recycled water pipelines in anticipation of future delivery (which keeps the cost in line with anticipated costs for new construction), costs can be quite high for existing potable customers interested in retrofitting their current plumbing system to accept recycled water. The rate currently charged by the City for recycled water is \$350 per acre foot, approximately 30 percent of the rate charged to commercial and industrial customers for potable water. The low rate for recycled water does limit the City's ability to expand the recycled water pipeline system.

IBA Recommendation: Join the Mayor's Response.

Finding 5

Recycled water could be used for reservoir augmentation.

Mayor's Response: Disagree. Augmentation of reservoirs with recycled water has not yet been approved by California state regulators. Additional study and demonstration of treatment technologies is required to secure the necessary state permits for reservoir augmentation. Funding for this strategy was not identified in the water rate case approval by Council in 2007.

IBA Recommendation: Do not join the Mayor's Response and instead respond with the following:

Partially Agree. While reservoir augmentation has not yet been approved by California State regulators, the City Council has directed the Mayor to develop a plan for the implementation of the NC-3 strategy, as set forth in the 2006 Water Reuse Study. The NC-3 strategy includes full-scale implementation of reservoir augmentation. The Water Department is currently undertaking a project scoping effort in order to implement a 12-month Advanced Water Treatment (AWT) demonstration project, as directed by City Council. The Scoping Study will identify regulatory requirements, project costs, public notification requirements, and optimum project scheduling in order to complete the demonstration project. The AWT demonstration project will obtain information required for regulatory approvals for conducting reservoir augmentation. The study will also provide additional details and considerations not evident at this point and help refine the approach to reservoir augmentation. If the AWT demonstration project is successful and the required regulatory approvals are given, recycled water may be used for reservoir augmentation at some point in the future.

Finding 6

The City Council of San Diego has recently approved of a "pilot study" on the reuse of reclaimed water as potable water. This pilot study calls for the San Diego Water Department to conduct reservoir augmentation for a period of one year to assess the viability of this as an available option for increasing San Diego's available water.

Mayor's Response: Partially Disagree. The San Diego City Council approved the development of an implementation plan for the NC-3 strategy as set forth in the 2006 Water Reuse Study including but not limited to:

1. An independent energy and economic analysis of all water supply augmentation methods in the Long Range Water Resources Plan;
2. A current flow and detention study at the San Vicente Reservoir; and
3. A one-year indirect potable reuse demonstration project.

The Council's action regarding the NC-3 strategy does not call for conducting reservoir augmentation, but rather for a demonstration project. Under the action, no water will be sent to the reservoir.

IBA Recommendation: Respond with the following modification of the Mayor's Response:

The San Diego City Council approved the development of an implementation plan for the NC-3 strategy as set forth in the 2006 Water Reuse Study including but not limited to:

1. An independent energy and economic analysis of all water supply augmentation methods in the Long Range Water Resources Plan;
2. A current flow and detention study at the San Vicente Reservoir; and
3. A one-year indirect potable reuse demonstration project.

The Council's action regarding the NC-3 strategy does not call for conducting reservoir augmentation, but rather for a demonstration project, as a first step in receiving the regulatory approval that would be required to implement and conduct full-scale reservoir augmentation. Under the current action, no water will be sent to the reservoir.

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