



THE CITY OF SAN DIEGO

July 11, 2008

Jim Barrett
Director of Public Utilities
City of San Diego

Subject: **Agreed-Upon Procedures Review of the Increase in San Diego Water Rates Pursuant to the San Diego County Water Authority Water Rate Increases**

We performed the agreed-upon procedures review requested by the Water Department related to the proposed increase in water rates for San Diego rate payers, pursuant to San Diego County Water Authority rate increases, effective January 1, 2009. In summary, the procedures we agreed to perform related to verifying the mathematical accuracy of the proposed rate increases calculated by the Water Department.

We conducted our work in accordance with Generally Accepted Auditing Standards. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. By specifying the procedures we agreed to perform, the Water Department is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect. Our review is intended solely for the information and use of the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We were not requested to, and did not conduct an audit of the water rate setting process which would have entailed additional procedures. Such additional procedures may have identified other matters, if they existed, that would have been reported to you. We initiated our agreed-upon procedures on June 26, 2008, and completed our work on July 10, 2008.



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The agreed-upon procedures and the results of our work in the report attached were provided in draft to the Water Department for review and comments and they concurred with its contents. Key contributors to this report were Kyle Elser, Judy Zellers, and Farhat Popal. Please contact me if you have any questions.

Sincerely,



Eduardo Luna
City Auditor

cc: Jay M. Goldstone, Chief Executive Officer
Alex Ruiz, Assistant Director, Water Department
Rod Greek, Deputy Director, Water Department

Water Department Agreed-Upon Procedures Review Report

Background

The City of San Diego purchases water from the San Diego County Water Authority (SDCWA). On June 26, 2008, the Board of Directors of the SDCWA authorized an increase in the cost of water purchased from SDCWA, effective January 1, 2009. Therefore, the Water Department has proposed an increase to the rates paid by the City of San Diego customers. Prior to increasing rates, a Proposition 218 public notice to rate payers is required.

The Water Department prepared a calculation of the increased rates which are to be revenue neutral to the City. They provided us with the calculations, which will be included in the public notice, and requested that we perform agreed-upon procedures on their calculations. Their calculations included the following:

- The increase in base rates per meter, based on water meter sizes
- The increase in costs to purchase water from the SDCWA, based on SDCWA rate changes and estimated water purchases
- The increased revenue from San Diego rate payers necessary to offset the purchase costs based on estimated water sales
- The allocation of the increased revenues to customers, based on water usage

Agreed-Upon Procedures and Results

1. Trace the January 1, 2009 water purchase costs to the SDCWA ordinance.

Result: We traced the rates effective as of January 1, 2009 from the SDCWA ordinance to the rates used by the Water Department in their calculations. Payments to the SDCWA for in lieu taxes are based on budgeted estimates and are the responsibility of the Water Department. As such, we did not confirm the calculation of these estimates. The rates established by the SDCWA agreed to the rates used in the Water Department calculations.

2. Verify the prior year purchase costs used to calculate the change in costs between the calendar year 2008 rates and 2009.

Result: We verified the SDCWA rates, effective January 1, 2008, based on the prior year SDCWA ordinance. Payments to the SDCWA for in lieu taxes were traced to the prior year estimate. The prior year SDCWA rates agreed to the rates used in the Water Department calculations.

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3. Verify the mathematical accuracy of the Water Department calculations of projected increases in water purchase costs and the revenues required to offset the purchases for calendar year 2009.

Result: The change in SDCWA rates between January 1, 2008 and January 1, 2009 were mathematically accurate.

The projected total increases in water purchase costs and the revenues required to offset the purchases for calendar year 2009 are based on estimates of acre feet of water purchased and sold, which may vary depending on usage. The confirmation of estimates was outside of the scope of our agreed-upon procedures and is the responsibility of the Water Department.

Based on Water department estimates, we verified the mathematical accuracy of the projected costs and revenues.

4. Verify the allocation of rate increases to rate payers.

Result: There are two components to the water rate; a base rate based on meter size and a commodity rate based on usage. Base rate increased a flat amount per meter size (equivalent dwelling unit). We verified the accuracy of the flat fee increase based on meter size. The Water Department calculated the percentage required increase in revenues due to the SDCWA rate increases and increased each rate payer's usage rate by this percentage. We verified the mathematical accuracy of the percentage increase in rates and traced the resulting rates to the Proposition 218 Notice provided by staff.