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CALIFORNIA'S WATER: A VANISHING RESOURCE

Conservation may not lower bills

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Amid a newly announced statewide drought, residents are under urgent pressure to save water or risk mandates that would ban them from watering their lawns and washing their cars at will.

But as customers reduce their consumption, water districts generate less revenue from water sales. Many of the agencies in San Diego County are likely to raise rates – by about a third in the next three years – to cover their ongoing expenses, including daily operations and the ever-escalating cost of maintaining pipes.

The districts also must pay more for water on the wholesale market, and they'll pass on all or much of that cost to residents and businesses. Wholesale rates are shooting up because of higher energy prices for pumping water and intense competition for the dwindling resource.

The outcome: Even if residents turn on the faucet less often, their water bills probably will grow. The current round of rate increases doesn't include emergency fees that water districts can impose during droughts, and it could worsen if actual costs outpace projections.

“There is a threat that customers wouldn't understand what is happening here and just be angered by it,” said Joe Beachem, chief financial officer for the Otay Water District in Spring Valley. “The hope is that they will understand that we are faced with a challenging situation.”

Otay officials have proposed a 9.7 percent increase in their water rates for 2009 – nearly double what they projected a year ago. The new prices are designed to counteract lower revenues from reduced water sales, slow sales of meters for new homes and higher costs for importing water.

Yesterday, the Metropolitan Water District of Southern California – the region's largest wholesale supplier of water – called on local water agencies to promote extraordinary conservation measures.

If Metropolitan doesn't get a big enough response – the agency wants a 9 percent reduction next year – it could start limiting the amount of water it gives to member districts, which in turn probably would impose emergency rates.

Last week, Gov. Arnold Schwarzenegger declared a statewide drought, sparking efforts to transfer water to the driest areas, seek federal aid and funnel more money to conservation projects. The announcement prompted local water officials to talk more seriously about moving from voluntary to mandatory water reductions.

Water districts should stop hooking up new customers before they start pressuring existing ones to cut back, said Ted Lorenzen of Alpine. Like many residents, he compares the current situation to the drought of the early 1990s, when water agencies demanded that their customers conserve.

“At one point, my water bill went up 25 percent. I called them and they said, ‘We are not getting enough revenue.’ I flipped,” Lorenzen said.

“You are doing a good thing and they are nailing you.”

Tierrasanta resident Bill Neis also figures that even though he has trimmed his water use, his water bills will grow if the drought persists.

“It's going to cost us more money and it comes at a time when people have less,” he said.

Water managers statewide said they are trying to limit the financial impact of the water shortages. After the last major drought – the one nearly two decades ago – some districts adjusted their budgets to make them less vulnerable to sales declines.

Because of recent stepped-up calls for conservation, they anticipated slower water sales this year and responded by leaving certain positions vacant, deferring capital projects and tapping reserves, some of which are designed to lessen rate spikes.

“The districts' costs have gone up and their revenues have gone down and their rate stabilization funds can only help (them) so much until (they) have to collect more revenues,” said Ken Weinberg, resources director at the San Diego County Water Authority. The agency serves almost everyone in the region through 24 member districts.

In March, Metropolitan adopted a 14.3 percent wholesale water rate increase for 2009. Just a few months earlier, agency officials had talked about a 10 percent rise.

The county water authority has not finalized how much of the increase it will pass on to local retailers. However, many districts are considering jumps of about 10 percent for next year and expecting similar figures for the foreseeable future.

San Diego city officials would not speculate about rates for 2009, saying they would not act before the water authority does. In February 2007, the City Council approved a 34 percent rate increase over four years; it later passed an additional increase of 2.9 percent for bills starting in January.

Even when sales drop, water districts can't cut many corners on maintenance and operations of their pipes and treatment stations, partly because they are regulated by state health officials. That work costs tens of millions of dollars a year for major districts like San Diego.

The county's water infrastructure generally is in good shape compared with some much older cities on the East Coast, but various upgrades in San Diego city have been put off for years. Deferring projects can lead to steeper expenses down the road because of inflation.

Many water districts are suffering financial strain partly because they rely on water sales for more than two-thirds of their revenue.

Last year, the California Urban Water Conservation Council adopted a pricing structure meant to promote conservation. It recommended that at

least 70 percent of districts' revenue come from water sales and about 30 percent from service charges that stay the same no matter how much water a customer uses.

Water districts in San Diego County generally follow the council's advice.

“As you conserve, you have a smaller volume to spread the costs over,” said Rod Greek, a deputy director of San Diego's water department.

In addition to whatever annual price increases that agencies adopt, drought conditions are likely to induce emergency water rates as soon as 2009. These temporary price jumps come in various forms. Some force customers to pay several times the normal rates if they use more than the allotted volume of water.

The idea is to reward consumers who use small amounts of water by giving them the smallest rate increases – or even rate cuts – while charging guzzlers the highest prices.

“What all the retail agencies are doing is working on our conservation rates,” said Mike Uhrhammer, spokesman for the Padre Dam Municipal Water District in Santee. “I am sure there is going to be a lot of annoyance. . . . No one is going to like it.”