



## Presentation to the Committee on the Environment

# Cost of Service Study

## Proposed Changes to Potable and Recycled Water Rates and Structure

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City of San Diego Public Utilities

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# Public Utilities Department



## Excellence in Serving our Customers

Provide services to the 8<sup>th</sup> largest US city and surrounding area

1.4M water & 2.5M sewer customers

Award Winning and Efficient Operations

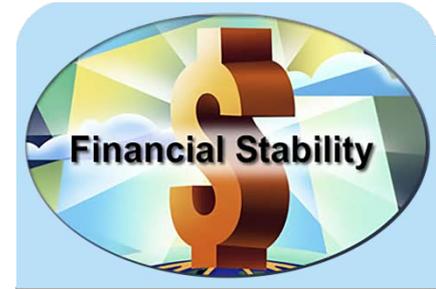


## Water Supply

Reliance on imported water

State Drought Mandate and Enforcement

Investing in Pure Water



## Finances

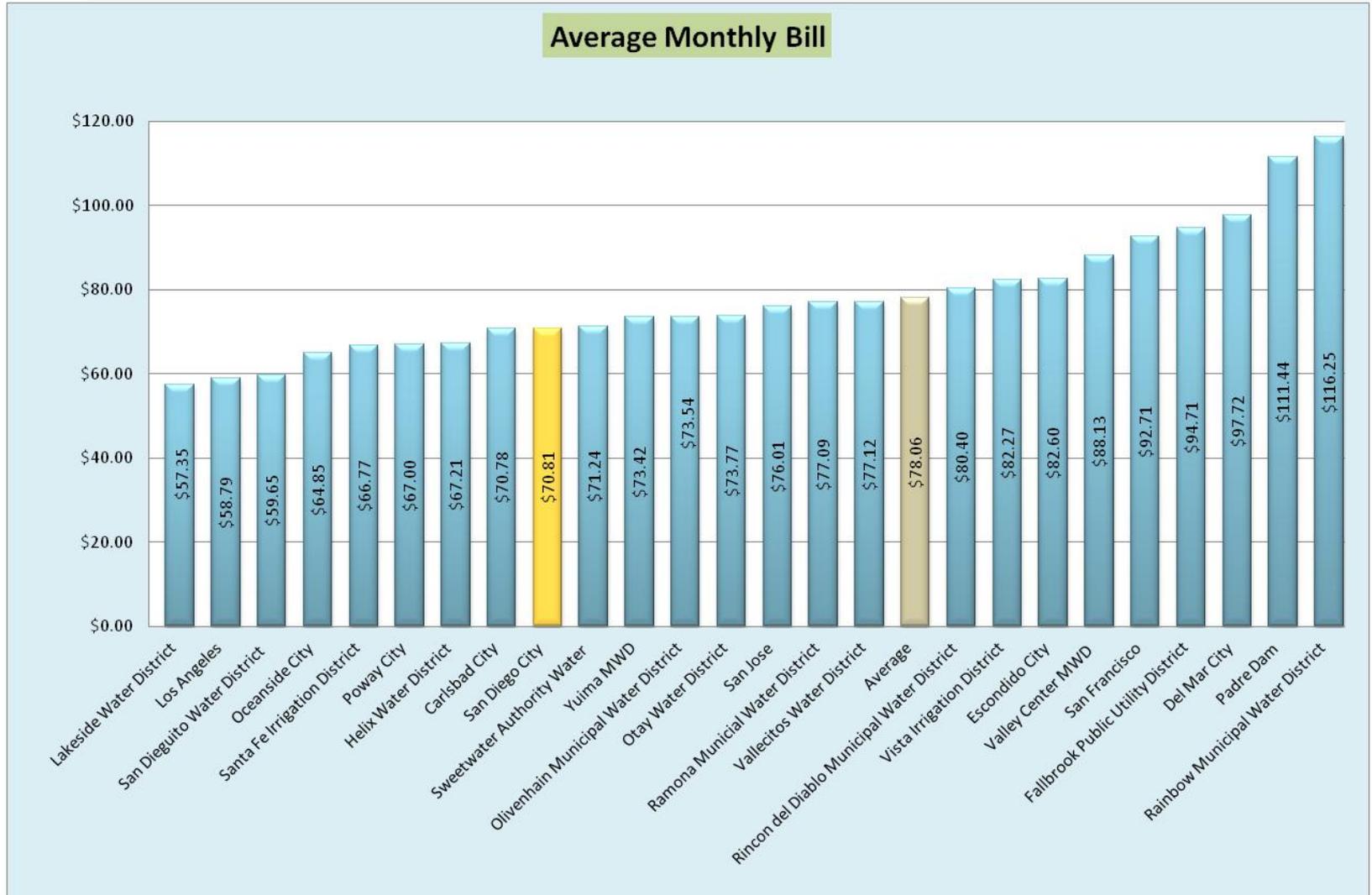
Water Fund Budget

Cost of Service Study Process

Proposed Rates

Public Outreach

# Water Rate Comparison



# Excellence in Serving Our Customers: Management for Value

## Capital Investments

- Use of Grants and State Revolving Fund Loans
  - Saved **\$177,600,000** for 2010-2015
- Asset management / condition assessment of facilities
  - Saved **\$50,000,000** for transmission main replacement
- Investment in infrastructure continues
  - Water main breaks reduced by **43%** since FY 2013
  - Wastewater spills reduced by **24%** since FY 2013

# Excellence in Serving Our Customers: Management for Value

## Streamlining Operations

- No rate increase for operating costs since 2012
- Permanent staff reductions **329.78** positions since 2007 - 2016
- Energy use **\$12,100,000** annual savings for energy generation
- Efficiency savings **\$1,604,200** in the past three years

# Excellence in Serving Our Customers: Management for Value

- Efficiency and Optimization Study Savings
  - *Independent consultant CH2M Hill initial observations:*
    - *“Facilities and systems are effectively operated and maintained”*
    - *“Staff demonstrates technical and managerial skills”*
    - *“Meeting or exceeding regulatory compliance”*
    - *“Engaged in continuous improvement”*

# Excellence in Serving our Customers: Award–Winning Projects and Programs

- Pure Water San Diego
  - U.S. Water Prize
  - CA Association of Sanitation Agencies
  - Public Outreach
- Wastewater Collections
  - California Water Environment Association
  - Large Collection System of the Year
- Alvarado Water Treatment Plant
  - American Society of Civil Engineers
  - Outstanding Civil Engineering Achievement Award



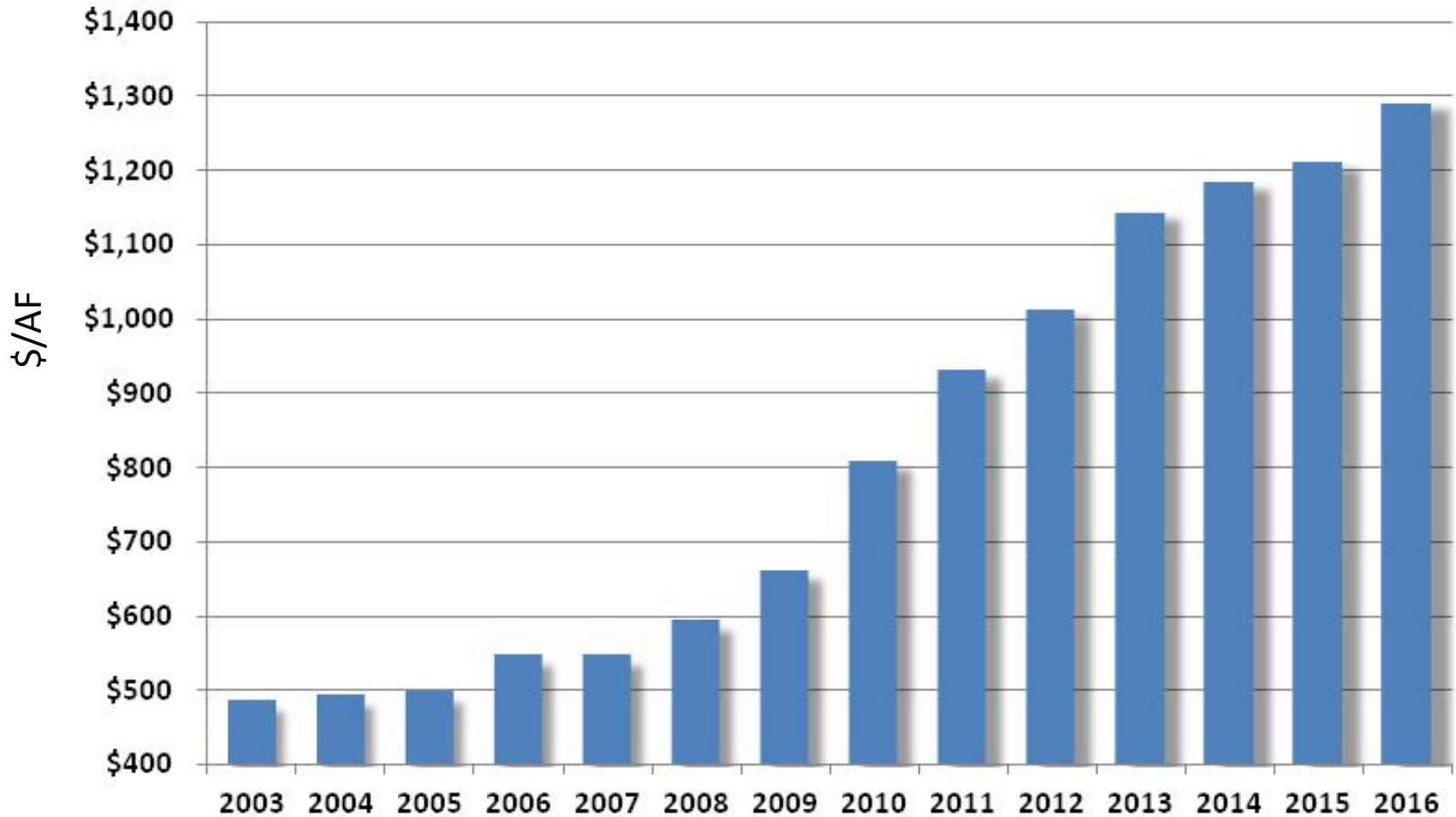
# Water Supply:

## 1.) Reliance on Imported Water

- Metropolitan Water District (MWD) and San Diego County Water Authority (CWA) price increases:
  - Imported water costs
  - Carlsbad desalination plant completion



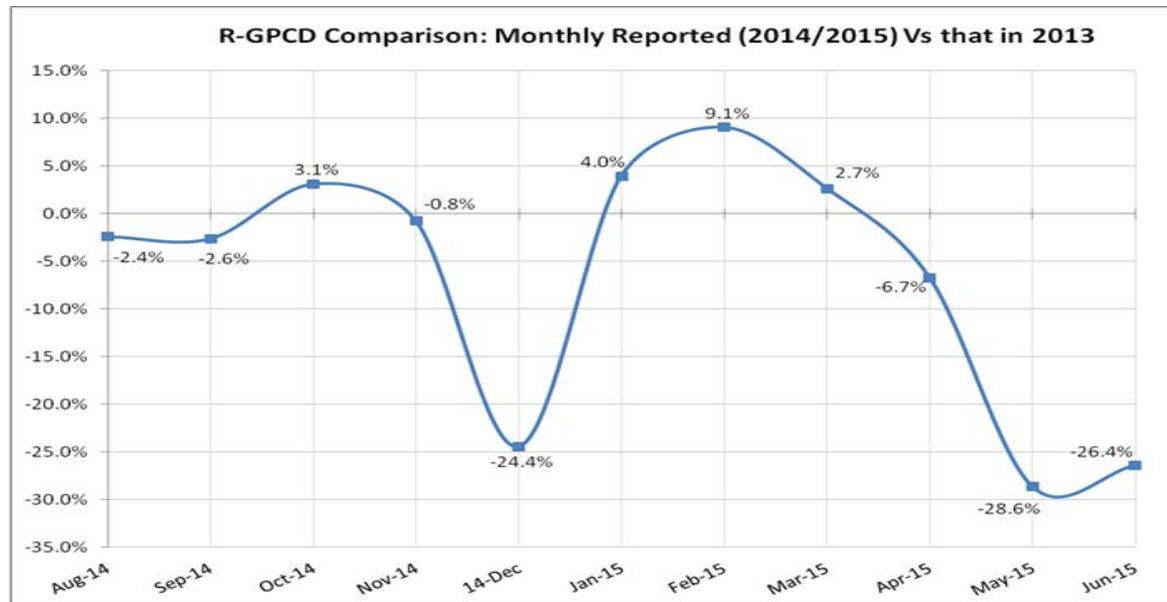
# Water Supply: Increasing CWA Water Costs



# Water Supply:

## 2.) State Mandated Water Restrictions

- State mandated 16% cut in water use
  - Mandatory enforcement and reporting per State Water Board
  - Limit outdoor irrigation – 2 days a week, 5 minutes per station



# Water Supply:

## 3.) Pure Water - A New Water Resource

- The Pure Water Program is a phased, multi-year program that:
  - Uses proven technology to produce a safe, sustainable and high quality water supply
  - Is drought-proof and locally-controlled to significantly improve our water reliability



- Is a cost-effective investment for San Diego's future water needs

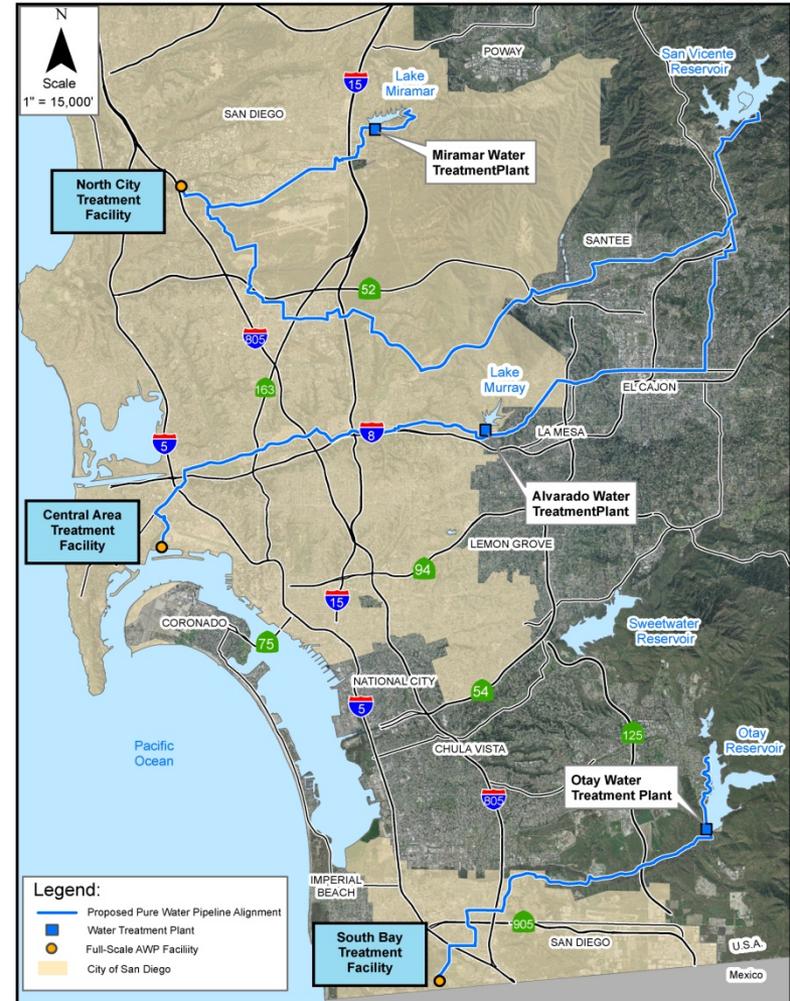
# Water Supply: Pure Water - A New Water Resource

Initial  
 Phase  
 2021

Up to 30 MGD  
 Recycled water will be purified at North City Plant and delivered to San Vicente or Miramar Reservoir

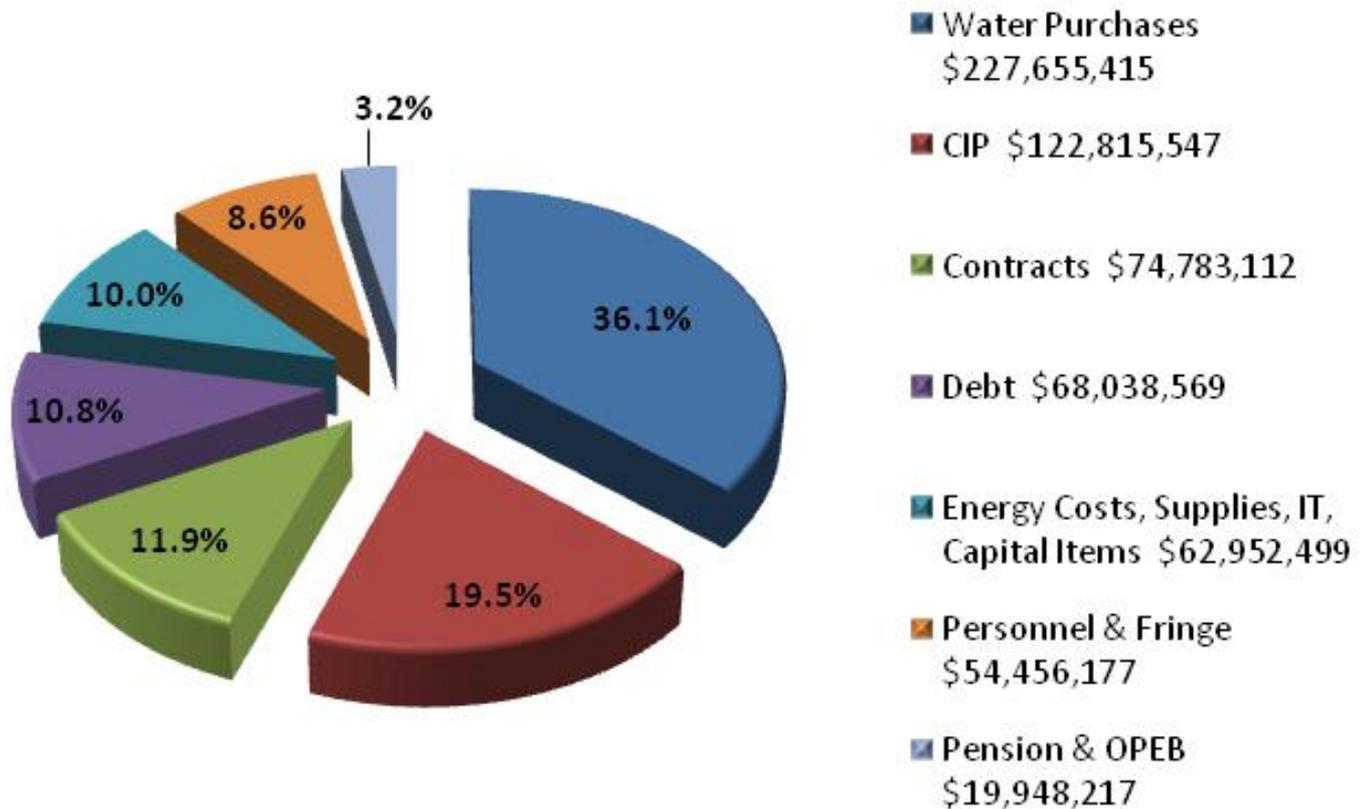
Long  
 Term  
 2035

83 MGD  
 Recycled water will be purified at the Central Area Treatment Facility and South Bay Plant and delivered to San Vicente and Otay Reservoirs



# Finances:

## Total Water FY 2016 Budget \$630,649,536



# Cost of Service Process

- Legal Requirements
- Financial Targets
  - Contractual debt coverage ratio
  - Cash balances
  - Reserves
- Rate Setting Drivers
  - Increased imported water costs
  - Investing in Water Reliability:
    - Carlsbad Desalination
    - Pure Water
  - Aging infrastructure and investment in efficiency
  - State drought mandate
  - Use of \$32M in Reserves

# Proposed Water Rate Increases

Rate Increase Driver	2016 January	2016 July	2017 July	2018 July	2019 July
Increased imported water cost Carlsbad Desalination, Pure Water, Aging Infrastructure, Smart Meters, State drought mandate, Reserve Requirement	9.8%	6.9%	6.9%	5.0%	7.0%
Department Operations	0.0%	0.0%	0.0%	0.0%	0.0%
<b>TOTAL INCREASE</b>	<b>9.8%</b>	<b>6.9%</b>	<b>6.9%</b>	<b>5.0%</b>	<b>7.0%</b>

## ◆ Conduct Review of Funds

The County Water Authority (CWA) Rate Increase that must be passed through to the City is projected to be 2.5% in 2017 and 2018, and 3.0% in 2019. The City will only pass through to its customers the actual CWA pass through rate increase impact between 2.5% and 7%. The CWA pass through will not exceed 7% annually through 2019.

Use of \$32M from the Rate Stabilization Reserve (January 2016).

# Water Consumption & Meter Charges

**Fixed Charge / Month**

Meter Size	Current Rates	Proposed FY 2016
5/8", 3/4"	\$20.31	\$22.26
1"	\$27.51	\$29.50
1.5"	\$43.96	\$46.04
2"	\$64.53	\$66.72
3"	\$112.86	\$115.32
4"	\$181.75	\$184.59
6"	\$352.44	\$356.23
8"	\$558.10	\$563.03
10"	\$798.72	\$804.98
12"	\$1,483.55	\$1,493.60
16"	\$2,580.72	\$2,596.85

**Commodity Charge (per HCF)**

Customer Class	Current Rates	Proposed FY 2016
Single Family		
Tier 1 (0-4 HCF)	\$3.90	\$4.24
Tier 2 (5-12 HCF)	\$4.36	\$4.75
Tier 3 (13-18 HCF)	\$6.23	\$6.79
Tier 4 (19+ HCF)	\$8.77	\$9.55
Other Classes		
Multi Family	\$4.65	\$5.12
Commercial/Industrial	\$4.47	\$5.02
Construction/Irrigation	\$4.95	\$5.67

Water sales are 80% variable (commodity) and 20% fixed (meter)

# Single Family Residential Bill Impact

Customer Class	Monthly Bills - Proposed Rates	
	Existing Rates	FY 2016
	(\$)	(\$)
4 hcf	\$ 35.89	\$ 39.24
7 hcf	\$ 48.99	\$ 53.50
12 hcf	\$ 70.81	\$ 77.27
24 hcf	\$ 160.81	\$ 175.32

# Other Customer Classes – Bill Impacts

Customer Class	Monthly Bills - Proposed Rates	
	Existing Rates	FY 2016
	(\$)	(\$)
Multi Family (2" meter, 100 hcf)	\$ 529.53	\$ 578.97
Commercial/Industrial		
3/4" meter, 100 hcf	\$ 467.31	\$ 523.76
2" meter, 300 hcf	\$ 1,405.53	\$ 1,571.23
Irrigation / Temp Construction (2" meter, 300 hcf)	\$ 1,548.63	\$ 1,767.72

# San Diego Tap Water Cost Comparison

PER GALLON COST (JULY 2015)		
Milk	\$	3.49
Coffee	\$	10.67
Soda	\$	3.99
Boxed Wine	\$	11.36
Vended Water	\$	0.35
Store Brand Water	\$	1.09
Name Brand Water	\$	1.49
San Diego Tap Water* - <b>DELIVERED</b>	\$	0.009

\* Based on average monthly bill at 12 HCF

# Recycled Water System

- North City Water Reclamation Plant (NCWRP)
- South Bay Water Reclamation Plant (SBWRP)
- Associated Distribution System
- Approximately 600 connections
- 3 Wholesale Customers with recycled water purchase agreements

# Modified Cost of Service

- Financial Sufficiency – The recycled water program should be able to cover its own costs through revenue collected from its own fees and charges
- Considers only costs related to the production and distribution of recycled water
  - O&M and capital expenses for the distribution system and tertiary (recycled water) component of the wastewater treatment system
  - Debt service
- Reduces revenue requirements using offsetting revenues
  - MWD/CWA credits
  - Other revenues

# Recycled Water

Timeline	Commodity Rate (\$/HCF)
Existing Recycled Rate	\$0.80
Proposed Recycled Rate	\$1.73
Proposed Potable Irrigation Rate	\$5.67

# Proposed Rates

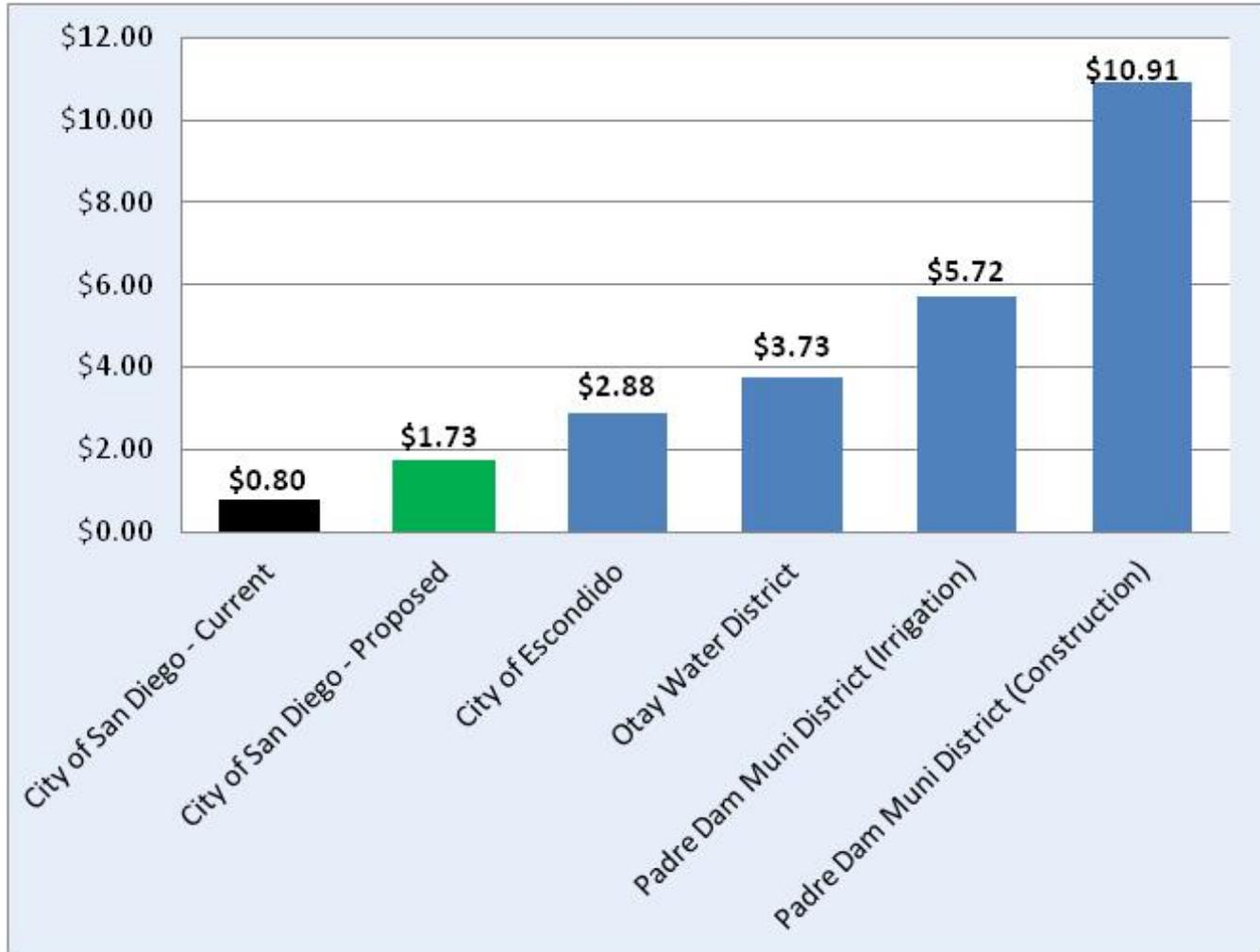
- The commodity rate for recycled water should be lower than the potable water rate to incentivize sales

Alternative	Commodity Rate HCF	Current Rate	Proposed Rate June, 2013	New Proposed Rate January 1, 2016 – June 30, 2020
1	Unitary	\$.80	\$2.261	\$1.73
2	Zone -North City	N/A	\$3.208	\$2.138
2	Zone -South Bay	N/A	\$1.300	\$1.173

# Recycled Water Customers

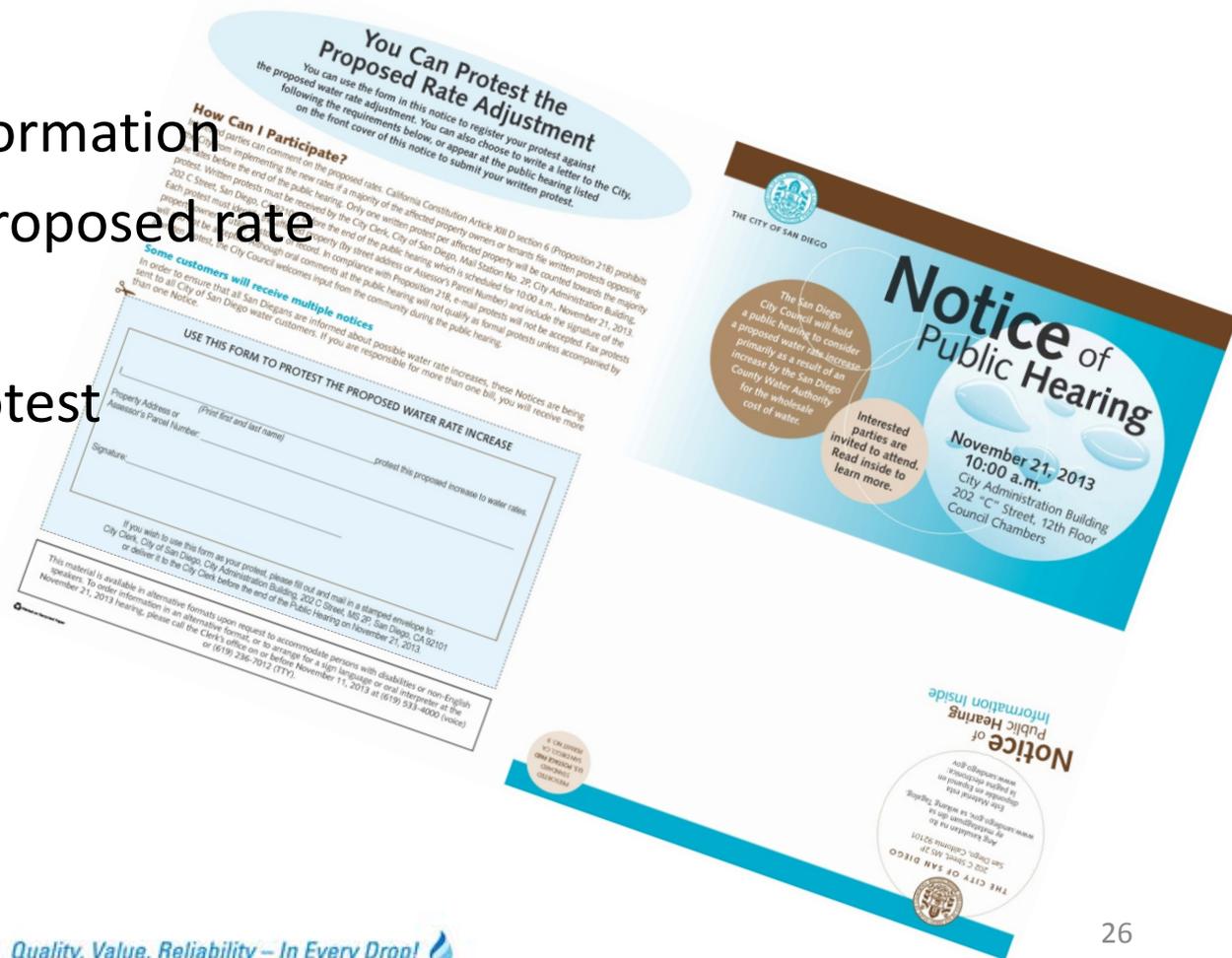
North City	615
South Bay	7
Total	622

# Recycled Water Rate Comparison



# Proposition 218 – Notice of Public Hearing

- Every customer will be mailed a Notice of Public Hearing
- Detailed information about the proposed rate adjustment
- Includes protest instructions



# Proposition 218 – Know Your Rights

- California Constitution prohibits implementing the new rates if a majority of the affected property owners or tenants file written protests opposing the rates
- Each protest must identify the affected property and include the signature of the property owner or utility customer of record
- By California law, only written protests allowed
  - No email or faxed protests

# Proposed Rate Increase Timeline

Date	Activity
July 20, 2015	Independent Rates Oversight Committee Approval on Potable Rates Proposal
July 2015	Council Briefings
July 2015	Stakeholder Outreach
August 5, 2015	Environment Committee
September 15, 2015	Council sets public hearing
September 2015	Mail public notices
September - November	Community and Stakeholder Outreach
November 17, 2015	Public Hearing at City Council
January 1, 2016	Rate increase effective

# Where to find more information

- Visit:  
[www.sandiego.gov/water/](http://www.sandiego.gov/water/)

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