COUNCILMEMBER TODD GLORIA
CITY OF SAN DIEGO

MEMORANDUM

DATE: October 19, 2015

TO: Halla Razak, Public Utilities Director

FROM: Councilmember Todd Gloria

SUBJECT: Proposed Water Rate Increases

In light of recent public comments and questions raised by the Utility Consumer Action Network related to the water Cost of Service Study (COSS), I am requesting that answers to the following questions be submitted to the City Council by November 17.

- According to the COSS (p. 20), the City is seeking to replenish its reserve balances to $86 million by 2020. The study notes that the reserve targets are based on City policy. While having a generous reserve policy helps provide the City with a favorable bond rating which in turn helps to lower borrowing costs, several other factors affect borrowing costs including repayment history, regulatory environment, and department management, among others. Given the severity of the rate increases, what is the minimum reserve required to meet the City's contractual obligations? If the City adopted a middle ground between what is requested and the minimum reserve, how much lower, if any, would the rate increase be for each year?
- According to the COSS (p.15) The Water Department's projected operation and maintenance (O&M) costs will increase from $424 million in 2016 to $486 million in 2020. This increase of almost 15% is well above inflation. Why are O&M costs anticipated to rise so substantially? The study says that one main cost driver is the Department's anticipation of annual increases for energy and utilities of 9%. Nine percent year over year seems extraordinarily high. What has been the average annual electricity rate increase for the Water Department since 2010?

- The COSS (p. 25-26) notes that one of the cost categories is peak cost hours. According to the study, peak demand is 2.25 times higher than average demand. The COSS also notes that the incremental plant investment to provide peak day/peak hour supply (or maximum day extra capacity) is $466 million (p.30). Would the City realize a substantial cost savings and reduced capital needs if peak demand were reduced to, say, 1.8 times as high as average demand?
- Have strategies been considered to reduce peak demand, perhaps by developing interruptible rates where customers could choose a special rate that allows the City to interrupt their service on those peak days and peak hours like SDG&E's demand response program that seeks to reduce peak electricity use?
- The City Council must be concerned not only with the Water Department having the funds to operate, but also rate shock for customers. I understand that several other rate scenarios were considered before the current proposal to increase rates by nearly 17% by July 2016 and 40% over the next several years was brought forward. Can you provide the City Council with the other rate design scenarios so we can make a more informed decision about the increase proposed?
- Was a 2 year rate increase considered? The drought is one reason given for why the rate increase is needed. Given the predictions of severe rain due to El Nino, would it be reasonable to limit the rate increase to the first two years and reevaluate after the next season in hopes of a break in the drought?

I appreciate your prompt response to these questions.

TG:sjh

cc: Honorable Councilmembers
Chief Operating Officer, Scott Chadwick
Assistant Chief Operating Officer Stacey LoMedico
Director of Federal Government Affairs and Water Policy, Alejandra Gavaldon
Director of Council Affairs, Brian Pepin