

DATE ISSUED: November 19, 2003

REPORT NO. 03-235

ATTENTION: Honorable Mayor and City Council

SUBJECT: Notice of Adjustment of City Water Rates Pursuant to Actions of the Metropolitan Water District of Southern California and the San Diego County Water Authority

#### SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE MAYOR AND CITY COUNCIL.

#### BACKGROUND

Section 67.0508 of the San Diego Municipal Code requires that water rates be automatically adjusted as necessary to proportionately compensate for any increase in the wholesale cost of water purchased by the City. Notice of such adjustment must be given to the Mayor and Council by report and to the public by publication in the City's official newspaper on or before the thirtieth day prior to the effective date of the adjustment.

#### DISCUSSION

On January 1, 2003, the Metropolitan Water District of Southern California (MWD) and the San Diego County Water Authority (CWA) implemented new rate structures. These modifications, referred to as the "unbundling" of rates, incorporate several important changes which resulted in the need to revise the methodology used to recover the cost of purchased water through ratepayer charges.

Prior to the unbundling of rates, the majority of MWD's water fees were volume based, and were expressed in terms of dollars per acre foot and whether the water was treated or untreated. The new unbundled rates include two tiers of supply rates, a system access rate, a water stewardship rate, a system power rate, a readiness to serve charge and a capacity

reservation charge. All of these charges are based on volume except for the readiness to serve charge and capacity reservation charge which are fixed annual fees. The water rate was unbundled to facilitate a water transfer market. The second tier of rates for treated and untreated water purchases reflect MWD's cost of acquiring new supplies, and was implemented to encourage efficient resource management.

CWA's new structure for water rates and charges replaced the existing water rate structure with rates and charges based on four cost centers: Customer Service, Storage, Transportation, and Supply. The Customer, Storage and Transportation charges implemented by the CWA consist of various fixed annual charges, while Supply remains a volumetric charge. The new fees and charges are designed to more equitably recover CWA's costs from its member agencies. CWA's previously existing Infrastructure Access Charge was not affected by the restructuring, and remains a meter based charge.

The MWD and CWA volumetric charges will continue to be collected as a part of the City's commodity charges. In addition, most of the new and existing fixed charges will also be collected as part of the commodity charges since they are calculated each year based on the volume of water sold in prior years. Because actual water sales vary from projections, the revenue generated from water sales (including the increment intended to offset MWD/CWA fixed charges) will vary as well, resulting in over or under-recovery of incurred costs. In order to compensate for these over or under-recoveries, a balancing account system will be utilized. Under the balancing account system, adjustments to water rates for the over or under-recovery of fixed charges will occur one calendar year after reconciling the revenue requirement for the fixed charges to actual billings. Once the balancing account system is implemented, it is anticipated that there will be an adjustment to the water rates in January 2005 to compensate for any over or under-recovery of fixed charges which occurs in calendar year 2003.

#### WATER RATE ADJUSTMENTS EFFECTIVE JANUARY 1, 2004

##### Increase in Currently Effective Base Fee Due to Higher Infrastructure Access Charges

At its June 26, 2003 meeting, the Board of Directors of the CWA voted to increase its meter-based Infrastructure Access Charge. The increase to each San Diego water customer's monthly costs will be as follows: under 1-inch: \$.15; 1-inch: \$.24; 1.5-inch: \$.45; 2-inch: \$.78; 3-inch: \$1.44; 4-inch: \$2.46; 6-inch: \$4.50; 8-inch: \$7.80; 10-inch: \$11.70; 12-inch: \$19.80; 16-inch: \$42.90.

##### Increase in Currently Effective Commodity Charges Due to Higher Wholesale Water Cost

At its March 11, 2003 meeting, the Board of Directors of the MWD set its water rates effective January 1, 2004. The weighted average cost of MWD's portion of wholesale water purchased will increase from \$367.36 per acre foot (AF) to \$378.89 per AF – an increase of 2.74 per hundred cubic feet (HCF), which equals 748 gallons.

At its June 26, 2003 meeting, the Board of Directors of the CWA voted to raise wholesale raw water rates beginning January 1, 2004. This increase will increase the average cost of CWA's portion of wholesale water purchased from \$112.84 to \$114.33 per acre-foot - an increase of .34 per HCF.

The current average water rate is \$1.634 per HCF. As of January 1, 2004, that rate will rise by 34 to \$1.664 per HCF, consistent with the calculations shown below:

Current Average Rate per HCF	\$1.634
2.74/HCF MWD Raw Water & Fixed Charges Increase	\$ .027
.3/HCF CWA Raw Water & Fixed Charges Increase	<u>\$ .003</u>
Average Rate per HCF Effective 1/1/04	\$1.664

### CONCLUSION

The new water rates and fees effective January 1, 2004 will raise the bill of a single-family domestic customer using 14 HCF per month by about 574, to \$34.54 per month. This represents a 1.7% increase in the current bill, which is \$33.97 per month.

Respectfully submitted,

---

Larry Gardner  
Water Department Director

---

Approved: Richard Mendes  
Utilities General Manager

GARDNER/CR