

FINAL DRAFT PROP. 218 NOTICE

IMPORTANT NOTICE

This Draft Final 218 is a working product and undergoing City review. While we have used generally accepted rate-setting methodologies, City policies and considerations may change the results in this notice. Further, as a Cost-of-Service study, the City is evaluating how current conditions affect the cost of providing service to its different customer classes and potentially recalibrating its rates to obtain appropriate cost recovery.

Proposed Water Service Rates and Charges

*The San Diego City Council will be holding a public hearing to consider proposed adjustments in water rates. The meeting will be held ***** . At this hearing the City Council will consider the recommendation to increase water rates on January 1, 2014 and January 1, 2015 to primarily recover the increased cost charged by the San Diego County Water Authority for wholesale water.*

Proposed New Water Rates Based on County Water Authority Action

During each of the past two years the San Diego County Water Authority (CWA) has increased several of the rates it charges for imported water. These rate increases apply to all county water agencies, including the City. The City's Public Utilities Department (Department), through efficiencies and cost-saving efforts was able to temporarily offset these CWA rate increases and not raise water rates for City customers in 2012 and 2013. By not passing on those increases to our customers the Public Utilities Department has absorbed approximately \$35 million in increased water costs since January, 2012. However, with the CWA once again raising wholesale water costs for 2014, the Department is proposing a rate increase sufficient to maintain minimum debt coverage ratios necessary for good financial ratings.

The overall increase in revenue due to the rate increase in 2014 would be 7.25 percent. All of the 7.25 percent will be to pay for the increased cost of water. In 2015, the overall increase in revenue will be at least 5.25 percent and no more than 7.5 percent. (The tables in this Notice assume a 7.5 percent increase.) The final amount of the 2015 increase will depend on the amount CWA raises its rates for 2015. All but 0.5 percent of the 2015 increase will be to pay for the increased cost of water. The 0.5 percent will be for the operations and maintenance of the City's water utility system.

Because local water supplies are very limited, the City must buy approximately 85-90 percent of the water it supplies to its customers from the CWA. The CWA bases its increases on the costs for its own infrastructure, operations and maintenance. The CWA increases also reflect the cost it pays to purchase water from the region's largest water wholesaler, the Metropolitan Water District of Southern California. The CWA has approved increases to both its fixed infrastructure access charge and to its commodity charge which is based upon the amount of water purchased.

Proposed Fee Changes

City of San Diego water rates consist of two parts: the Base Fee and the Commodity Fee. The Base Fee charge is an amount based on meter size designed to recover fixed costs, which do not vary with the volume of water used by a customer such as meter reading, customer billing, and debt service. The Commodity Fee is levied to recover the variable costs based on the amount of water used by water system customers. The proposed rate changes will affect both the Base Fee and the Commodity Fee. Under this proposed rate increase, the Base Fee will be decreasing for the majority of customers and the Commodity Fee will be increasing.

Proposed Water Base Fee Adjustments

The following table illustrates how the proposed water rate recommendations affect the Base Fee for water customers. In this rate adjustment, the Base Fee would be decreasing. More than 90 percent of Single Family

Residential customers have meters less than 1-inch in size. So, the vast majority of Single Family Residential customers will see their Base Fee decrease by 44 cents per month. This is due to the evaluation of projected costs and how these costs should be allocated. The allocation is applied to the base and commodity charges and also by customer class. This review should be completed routinely.

AN IMPORTANT NOTE: *The figures included in the table are based on charges per month. Single Family Residential customers receive a bill every two months.*

Meter Size	Meter Charge		
	Existing Rates	1/1/2014	1/1/2015
	(\$/monthly)	(\$/monthly)	(\$/monthly)
5/8", 3/4"	19.33	18.89	20.31
1"	28.46	25.59	27.51
1.5"	49.34	40.89	43.96
2"	75.44	60.03	64.53
3"	136.74	104.98	112.86
4"	224.15	169.07	181.75
6"	440.73	327.86	352.44
8"	701.64	519.16	558.10
10"	1,006.94	742.99	798.72
12"	1,875.82	1,380.05	1,483.55
16"	3,267.86	2,400.67	2,580.72

Proposed Water Commodity Fee Adjustments

The City is attempting to attain the following goals with its proposed commodity fee restructure: 1) to derive enough revenue to cover all costs of providing service, while maintaining adequate financial strength and; 2) to send a pricing signal that rewards low volume users, while imposing higher rates on high volume users to encourage conservation.

The Department's revenue requirement dictates an overall rate increase of 7.25% in 2014 and a 7.5% increase in 2015. Individual customer's bills will vary from very low volume users seeing a slight overall decrease in their total bill to average and high volume users seeing an increase in their total bill.

The City is proposing a four-tiered billing structure for Single Family Residential (SFR) customers to replace the existing three-tiered structure. Each tier is measured in hundred cubic feet (HCF). An HCF of water is approximately 748 gallons. As the table below illustrates, the first tier rate applies to water usage up to 3 HCF per month, the second tier rate applies to all water used from 4 HCF to 10 HCF per month, the third, tier rate applies to all water used from 11 HCF to 20 HCF, and the fourth tier rate applies to all water used in excess of 20 HCF per month.

Since the City's last rate case, Southern California has experienced severe drought conditions. As a result, consumer awareness regarding the need to conserve water is very high. Moreover, the increased use of water-efficient devices (toilets, dishwashers, washers, etc.) has helped customers conserve. To provide an incentive for those who conserve, the proposed rate structure for single-family residential customers now includes a fourth tier. This new tier replaces the existing Tier 1 and is much smaller. The three units of water included in Tier 1 are priced at the lowest rate since it represents the City's least expensive source of water – local supply. In addition to expanding the number of tiers, the proposed structure also adjusts the pricing differential between the tiers to reflect more accurately the costs for each tier.

Class	Existing Monthly Tiers [*]		Commodity	Proposed Monthly Tiers [*]		Commodity Proposed	
	From	To	Existing Rates	From	To	1/1/2014	1/1/2015
	hcf	hcf	\$/hcf	hcf	hcf	\$/hcf	\$/hcf
Single Family	0	7	3.61	0	3	3.52	3.79
	8	14	3.92	4	10	4.05	4.36
	15+		4.40	11	20	5.29	5.68
				21+		7.40	7.95
Multi-Family			3.92			4.34	4.67
Non Residential			3.76			4.17	4.49
Temp Construction			4.01			4.62	4.97
Irrigation			4.01			4.62	4.97

[*] Bi-monthly tiers are twice monthly allowances

Example:

When combined with new Base Fees, the new Commodity Fee will effectively raise total water rates for a typical Single Family Residential customer using 12 HCF/month by approximately 6.5% (\$4.20 per month). The exact amount of increase will vary among customers because of varying levels of water consumption.

Typical Bill Calculation for 12 HCF/month

Meter Size, Inches	3/4
Monthly Usage	12
Existing Bill	\$64.20
Proposed, January 1, 2014	\$68.40
Increase %	6.5%

NOTE:

Please note that the City bills its Single Family Residential customers bi-monthly. This means each bill these customers receive includes charges for two months of service.

Fire Service Rates [Reserved]

More information about water rates is available at www.sandiego.gov/water.

You Can Protest the Proposed Rate Adjustment

You can use the form in this notice to register your protest against the proposed water rate adjustment. You can also choose to write a letter to the City, following the requirements below, or appear at the public hearing listed on the front cover of this notice to submit your written protest.

How Can I Participate?

Interested parties can comment on the proposed rates. California Constitution Article XIII D section 6 (Proposition 218) prohibits the City from implementing the new rates if a majority of the affected property owners or tenants file written protests opposing the rates before the end of the public hearing. Only one written protest per affected property will be counted towards the majority protest. Written protests must be received by the City Clerk, Mail Station No. 2P, City Administration Building, 202 C Street, San Diego, CA 92101, before the end of the public hearing which is scheduled for 2:00 p.m., ***** . Each protest must identify the affected property (by street address or Assessor's Parcel Number) and include the signature of the property owner or utility customer of record. In compliance with Proposition 218, e-mail protests will not be accepted. Fax protests will also not be accepted. Although oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest, the Mayor and City Council welcome input from the community during the public hearing.

Some customers will receive multiple notices In order to ensure that all San Diegans are informed about possible water rate increases, these Notices are being sent to all City of San Diego water customers. If you are responsible for more than one bill, you will receive more than one Notice.

USE THIS FORM TO PROTEST THE PROPOSED WATER RATE INCREASE

I _____ protest this proposed increase to water rates.

Property Address or Assessor's Parcel Number: _____

Signature: _____

If you wish to use this form as your protest, please fill out and mail in a stamped envelope to:
City Clerk, City Administration Building, 202 C Street, MS 2P, San Diego, CA 92101.

This material is available in alternative formats upon request to accommodate persons with disabilities or non-English speakers. To order information in an alternative format, or to arrange for a sign language or oral interpreter at the ***** hearing, please call the Clerk's office on or before **** (10 days earlier) *** at (619) 533-4000 (voice) or (619) 236-7012 (TTY).