



UTILITY CONSUMERS' ACTION NETWORK

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Members of the City Council
City of San Diego
202 C St.
San Diego, CA 92101

RE: UCAN comments on Mayor's water allocation scheme

Dear City Council members,

On November 10, 2008, the City adopted a drought ordinance that permits the Mayor to present a water allocation ("rationing") proposal to the City Council in the event that the City reaches level 2. (§67.3806) The Mayor's office did so on March 20, 2009 by suggesting that all residential customers be required to reduce consumption by 20% or be subject to penalties.

Throughout the County, all eyes are on the City of San Diego which is, so far, the first, if not the only, water agency that has relied almost exclusively upon a water allocation response to expected water cutbacks.

Unfortunately, UCAN finds that the Mayor's proposal is deficient. UCAN has been researching the policies of a number of water agencies, both local to San Diego and in other regions. What we are finding is that in response to anticipated water restrictions, other municipal entities are promoting water policies that not only conserve water during the current drought condition, but also promote long-lasting behavioral change on the part of the consuming public. UCAN believes that the Council can fashion a more effective response than the Mayor's rationing proposal.

First, there are a number of basic principles that underlay UCAN's recommended response. They are:

- City of San Diego consumers will conserve if they know that water policies incorporate elements of equity and fairness
- City of San Diego rate structures were developed in a climate of industrial expansion, when water supplies seemed secure. Times have changed, and our current water scarcity market dictates clearer economic signals to customers.

- Residential, commercial, agricultural and industrial consumers have different water requirements, yet they all should and will respond to pricing signals to conserve.
- Those who have taken steps to be water efficient should be rewarded. Those customers who are wasteful or excessive in their water use should be required to reduce as well as pay for that excess usage.
- Reduced water usage must be viewed as a long-term commitment so the City should lay the foundation now for a new ethic of smarter water usage amongst all customers.
- Water reduction efforts should be easily understood by customers.

UCAN's review of the Mayor's water allocation scheme leads it to conclude that it fails to meet these principles. His proposal is problematic in the following ways:

1. It is overly complex. The basis for the 20% reduction, calculating the attendant penalties, the high user adjustments, the allocation window, the availability of variances all contribute to a scheme that will be very difficult to effectively communicate to customers.
2. It is unfair. Customers who have spent the past decade reducing their water consumption will be penalized by having to save the same amount (20%) as those customers who have been profligate users during that same time period. It is also unfair to exempt customers whose monthly consumption is less than 7hcf. UCAN submits that the majority of such customers are customers who have vacation homes or part-time residencies in San Diego. Few, if any, full-time households in San Diego can keep their monthly water consumption below 7hcf.
3. It is short-term oriented. A meaningful long-term response to water restrictions dictates a more comprehensive approach that includes clearer economic signals, prescriptive rules of water etiquette and stronger efforts towards facilitating efficiency.
4. Its reference to interior and exterior usage is misleading. Customers' interior and exterior use will not be monitored or measured, it was merely an arbitrary basis for justifying the 20% figure. Customers with little external water usage will still be required to cutback a full 20%.
5. Its provision for variances will be unwieldy and viewed as unfair. The city can expect long lines of consumers requesting variances. Helix Water District experienced a huge work load increase during their water rationing initiative in the mid-1990s contributing to its choosing not to implement rationing at this time. The protocols for allowing variances will be controversial and viewed dimly by those customers who will be laboring under the 20% curtailment. And it will serve to undermine customers' confidence in the entire scheme.

But it is not enough just to be critical of the Mayor's proposal. UCAN has examined the water reduction policies of other municipalities throughout the world as well as throughout the Southern California region. Our multi-pronged recommendations are fully discussed our August 6, 2008 *San Diego's Challenge of the Century* report that it issued and put on the UCAN website.¹

However, beyond those recommendations, UCAN has also recently surveyed the water reduction efforts of some local municipalities including the Otay, Padre Dam and Helix Water Districts, as well as the Cities of Long Beach and Irvine Ranch. We believe that there are some approaches used by these districts that may be helpful in formulating an alternative to the Mayor's proposal. Specifically, UCAN urges the City to do the following:

1. Adopt a more steeply tiered rate structure that lowers water rates for customers who use relatively little water and that raises them for customers who use more water.
2. Transfer more of the fixed charge components into variable charges so as to give a greater incentive to customers to reduce their consumption.
3. Adopt more prescriptive prohibitions on water use and fund the compliance costs with fines imposed upon violators.
4. Begin working on a more robust water allocation plan such as the one adopted by Irvine Ranch, that is based upon specific customer demographics. It should be implemented in the Spring of 2010.

The basis for UCAN's four-point recommendation is found in each of the water districts that we surveyed most recently. We note that:

- Otay has created a series of rate schedules that has been developed for each drought stage, providing for increasingly stronger price signaling to consumers. Tiered block rate schedules exist for all sectors: residential, C&I, agriculture, and are based on hcf billing units. The rate structure is designed to be revenue neutral, resulting in neither too little nor excessive revenues to the district, and has the least effect on conserving customers. Water budgets are being developed for irrigation customers. On-line water rate calculators based on customer billing ID are provided.
- Helix is not implementing rationing. It is updating its rate structure to establish 5-tiered block rates for single-family residential (up from the current 3-tier scheme.) C&I will remain at uniform base rate; while multi-family residential will move from uniform to 3-tier. Water budgeting is under development for irrigation accounts, which will incorporate a three-tier budget-based structure with tier 2 representing up to 20% overage, and tier 3 representing 20% and over.

¹ http://www.ucan.org/water/water_conservation_efficiency/a_solution_san_diegos_water_crisis

- The City of Long Beach implemented an emergency water shortage plan in 2007. It relied upon a set of water prohibitions: most important of which are outdoor uses of water (50 – 70% of total use). All measures are mandatory. The City has no plans to implement rationing at any time, as it feels it punishes consumers who are already conserving. A system of communications and citizen-policing, or 'Water Cops', allows for web, email, hotline phone reporting of violators anonymously, triggering a series of letters from the city and follow-up visit by staff. Over 5,000 contacts have been made since the program started in August 2007. Most notably, Long Beach has succeeded in less than two years in reducing its consumption and is now tracking at 18% below ten-year average consumption overall.
- Irvine Ranch has developed a hybrid that combines individualized allocation and improved rate design. Its allocation-based tiered rate structure is employed for all customer types, in which billing is determined by a combination of per-customer allocation ('budget'), and percentage use of that allocation. The rates are consistent across customers; however allocations are variable subject to individual requirements. Allocations are calculated *daily*, hence there are no seasonal variations. There are no plans to ration, short of DWR reaching Stage 10 drought level.

Based upon the premise that the City is too poor to "implement a true per-customer water budget, which could be incorporated into a progressive allocation-based tiered block rate structure", the Mayor's staff has proposed what UCAN views as a "lazy-City alternative". The City's 3-tier usage-based rate structure is in place for residential customers only and it is heavily weighted towards fixed costs so that substantial variation in water usage has only a negligible impact upon customers' bills. As set forth in the attached Rate Comparison Chart, the City's rate structure simply doesn't encourage wise water use compared to other water agencies' rates.

The City doesn't have to be a pioneer – other water districts throughout the state (and world) have led the way. But its failure to adopt creative approaches and to downplay price signals dooms it to underachievement and controversy by selecting a rationing model that penalizes conservers, rewards wasters, and fails to promote a smarter water usage ethic. UCAN urges the City Council to aspire for more and trust its citizenry to respond to true leadership.

Respectfully submitted



Michael Shames
Executive Director

Residential Tiered Block Rates Comparison

	City of SD	Helix WD	Irvine Ranch WD	Padre Dam WD (western customers)	Otay WD (Stage 1)	Otay WD (Stage 2)	Otay WD (Stage 3)	Otay WD (Stage 4)
billing unit	hcf	hcf	Hcf	100 gallons	hcf	hcf	hcf	hcf
base fee	\$33.04	\$34.80	\$23.55	\$28.80	\$20.85	\$20.85	\$20.85	\$20.85
meter size	3/4"	3/4"	3/4"	3/4"	3/4"	3/4"	3/4"	3/4"
Tier 1								
unit cost	\$2.80	\$1.70	\$0.91	\$3.05	\$1.12	\$1.12	\$1.12	\$1.12
Tier 2								
threshold, hcf	15	11		20	6	6	6	6
threshold, outdoor %			41%					
threshold, indoor hcf			6					
unit cost	\$3.03	\$2.35	\$1.07	\$3.29	\$1.74	\$1.74	\$1.74	\$1.74
Tier 3								
threshold, hcf	29	31		107	11	11	11	11
threshold, outdoor %			101%					
threshold, indoor hcf			13					
unit cost	\$3.40	\$3.12	\$2.14	\$3.54	\$2.26	\$2.37	\$2.49	\$2.60
Tier 4								
threshold, hcf					27	27	27	27
threshold, outdoor %			151%					
threshold, indoor hcf			19					
unit cost			\$4.28		\$3.48	\$4.52	\$5.57	\$6.61
Tier 5								
threshold, hcf								
threshold, outdoor %			201%					
threshold, indoor hcf			25					
unit cost			\$8.56					