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County of San Diego

Jeanine Townsend, Clerk to the Board
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814

Subject: Comment Letter regarding Conservation Water Pricing and Implementation of Directive 8 of Executive Order B-29-15

We appreciate the Governor's and State Water Board's leadership in managing California's current drought. As noted in the State Water Board's June 10 *Solicitation of Comments*, water pricing can be an effective means of reducing water demand, provided it is "carefully tailored to local circumstances…." The State Water Board also acknowledged that "water suppliers must carefully construct and document their rate structures to comply with the constitutional limitations of Proposition 218…." The Water Authority appreciates the State Water Board's acknowledgment, evidenced by the manner in which the State Water Board has phrased its questions, that the power to impose local water rates is vested by law in the local water suppliers – not the State Water Board.

Before addressing the questions raised in the State Board's workshop notice, it is critical to distinguish between using tiered – or inclining block – rates as a tool to achieve long-term water demand reduction goals even in the absence of drought emergencies, and the effectiveness such rates can play specifically in response to current and future drought emergencies. Retail water agencies in San Diego County have been using inclining block rate structures since the 1990s as one important water conservation tool to achieve and sustain long-term water conservation. Over the years, those inclining block structures have been refined and expanded consistent with the mandates of California Constitution Article X, section 2 and Article XIII D, section 6, to recover costs of service and reduce water use consistent with gallons per capita day (gpcd) goals established through SBX7-7 of 2009. These rates have been one factor among many in reducing per capita water use in San Diego County by 31 percent since 1990 and 24 percent since just 2007.

It is important for the Water Authority, as a regional wholesale water supplier with 24 retail member agencies, to emphasize that pricing is only one of a suite of tools available to water utilities to reduce demand and promote greater water use efficiency over a long planning horizon. Inclining block pricing has its limitations and alone cannot guarantee greater water use efficiency. For example, research has shown that the impact of water pricing on household water use is closely tied to household income levels and that historically the price elasticity of water -- i.e., the effectiveness of raising prices in discouraging water use – may

be fairly low depending on the community. But when inclining block pricing is combined with other programs such as public education and outreach, comprehensive market transformation to facilitate low water use landscaping, setting efficiency standards for water using appliances and compliance with local Landscape Ordinances, utilities are able to better ensure permanent long-term water savings are achieved. This highlights the need for local flexibility and the importance of using a combination of conservation tools.

The July 8 workshop is focused on Directive 8 of the Governor's April 1 Executive Order B-29-15 directing the State Board to "promote water conservation pricing mechanisms" in response to current drought conditions. To achieve immediate, enhanced conservation in response to drought conditions, public education, expanded deployment of water conserving devices, water use restrictions and enforcement (including penalties) would likely prove to be more effective and appropriate under emergency conditions than focusing on inclining block pricing by itself.

Each of the State Water Board's questions is addressed below:

I. What actions should the State Water Board take to support the development of the conservation pricing by water suppliers that have not yet developed conservation rate structures and pricing mechanisms?

Existing law already provides broad authority for local agencies to implement inclining block pricing and to tailor rate structures to local needs. There are widely varying levels of conservation pricing experience in the state, ranging from more than two decades of experience with active refinement and enhancement of rate structures, as seen with retail purveyors in San Diego County, to other parts of the state that are at the very early stages of implementation or no implementation at all.

Currently, a number of stakeholder groups are proactively working to develop guidance and approaches for rate structures that support and encourage water conservation while ensuring local agency flexibility in adopting sustainable rates and meeting constitutional, statutory and common law cost of service requirements. For example, the California Urban Water Conservation Council has used a stakeholder process to develop Best Management Practices 1.4. The Alliance for Water Use Efficiency has developed a rate model and handbook for water rates. Other groups, including the Association of California Water Agencies, California Urban Water Agencies and American Water Works Association have sponsored training opportunities for agencies. The Department of Water Resources has also supported these efforts. Overall these efforts have been effective in encouraging adoption of conservation-based rate structures. The water industry is engaged and interested in promoting conservation through pricing signals, and these efforts are already actively improving rate structures in response to changing circumstances. The State Water Board can promote, support and facilitate the implementation of inclining block pricing by using its array of communication vehicles as a clearinghouse for information and resources developed by these industry groups.

II. What actions should the State Water Board take to support water suppliers that have already developed conservation rate structures and pricing mechanisms to improve their effectiveness?

There is significant expertise in the water industry in the areas of water rates that can be used to develop and provide guidance and education on how to develop water rates that comply with State Constitutional requirements, ensure fiscal sustainability and encourage conservation. Water rate structures can be an important tool in managing drought response during extraordinary events such as what we are currently experiencing throughout California. We have specific experience in San Diego County that we would offer for your consideration. During the last drought (2008-2011), there was recognition that the then-existing tiers in most of the inclining block structures were not designed to quickly achieve significant and immediate water savings in an extraordinary drought shortage situation. They were designed to reduce demand over the long term, while collecting sufficient revenues for the utility to meets its financial operating requirements. To effectively transform our general-purpose rate structure into a drought-specific rate structure that achieves immediate demand reduction, the San Diego County Water Authority commissioned the development of a generic drought water rate model which was prepared for the benefit of our retail member agencies. The model assisted retailers in identifying pricing tiers designed to both achieve certain levels of customer savings and collect the required amount of revenue to operate the utility on a cost of service basis. Dr. Tom Chestnut of A&N Technical Services, a widely recognized expert in conservation pricing and water rate setting, was the leader in developing the model, which was used by several of our retail member agencies to put in place special drought pricing rate structures consistent with Proposition 218. We would be happy to make that model available to the State Water Board or any agency interested that may want to update, refine and tailor it to its own circumstances.

We ask that the State Water Board recognize and support these existing efforts and available technical information by soliciting and posting the information on the State Water Board's website and disseminating it through other communication tools at your disposal. The current postings on the State Water Board website are a good start on this effort. The State Water Board has experience and a successful track record in facilitating the development of sound technical information needed to make decisions that achieve widely held public policy goals. In that role, it should work with stakeholders state-wide to identify whether there are any gaps in knowledge that need to be filled. The State Water Board could then encourage those groups with the expertise to develop additional guidance that can be used by the water industry.

III. What actions can the State Water Board take to assist water suppliers in demonstrating that existing rate structure harmonize competing legal authorities associated with water rates?

As discussed in the response to Question #I, there are various interest groups actively engaged in evaluating the compliance of existing and new rate structures with legal authorities and requirements. Supporting this ongoing effort directly by funding the engagement of these stakeholder groups and/or expert panels would be of great value to California water utilities.

Thank you for the opportunity to provide our comments regarding Conservation Water Pricing and Implementation of Directive 8 of Executive Order B-29-15 to the State Water Board. If you have any questions regarding this letter, please contact Lisa Marie Harris at (858) 522-6600.

Sincerely,

Maureen A. Stapleton
General Manager