



**How do you put a Price on the
Cost of Wasting Water?**

2018 CSMFO Annual Conference

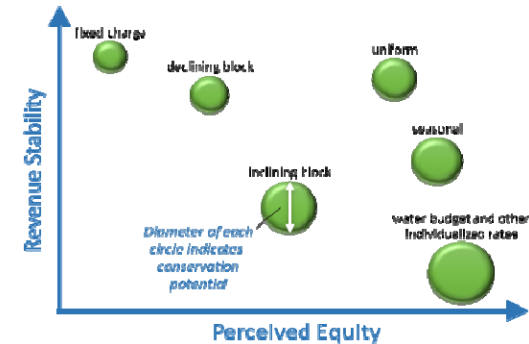
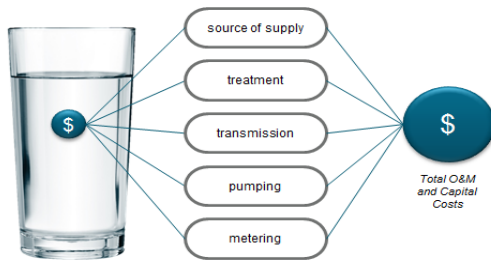
Introductions

Katherine Godbey – Finance Director
Coachella Valley Water District

Leslie Strohm – Finance and Business Services Manager
Soquel Creek Water District

Mark Hildebrand – Principal
Stantec Consulting, Inc.

Rate setting basics



Revenue Requirements

- Operating Costs
- Capital Costs
- Financial Policies

Cost of Service Allocation

- Review Classes
- Fair/Equitable
- Compare to Revenues

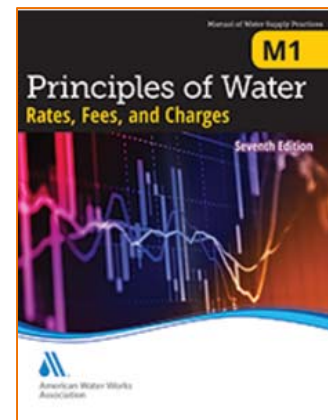
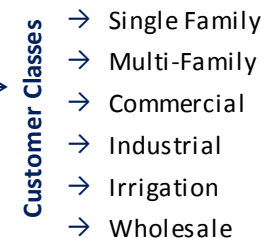
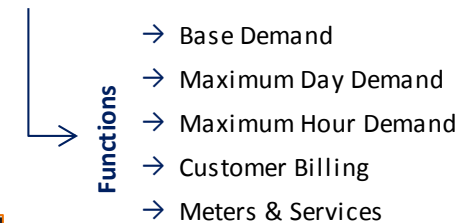
Rate Design

- Set Objectives
- Identify Options
- Quantify Impacts

Traditional cost of service

- M1 provides detailed **inter-class** cost allocation
- **Intra-class** cost allocations in M1 are less specific
- Communities rarely focus on tying conservation rates **directly** to cost

Illustration of Base-Extra Capacity Cost Allocation Cost of Service





and Prop 218

Passed in 1997... the original idea was to prevent utilities from using rate revenue to change light bulbs at City Hall

*“Fees shall not exceed the **proportional cost** of providing the service **attributable to the parcel** on which it is imposed”*

The “proportionality” requirement of the law was shaped by eventual court rulings

CTA v. City of San Juan Capistrano (2015)

Court opinion: The utility failed to demonstrate that the tiers correspond to the actual cost of providing service at a given level of usage.

San Juan Capistrano published Opinion:

*"...we certainly do not (agree)... that a **mere manual** used by utilities throughout the Western United States can trump the plain language of the California state Constitution. The M-1 manual might show working backwards is reasonable, but it **cannot excuse utilities from ascertaining cost of service** now that the voters and the Constitution have chosen cost of service"*

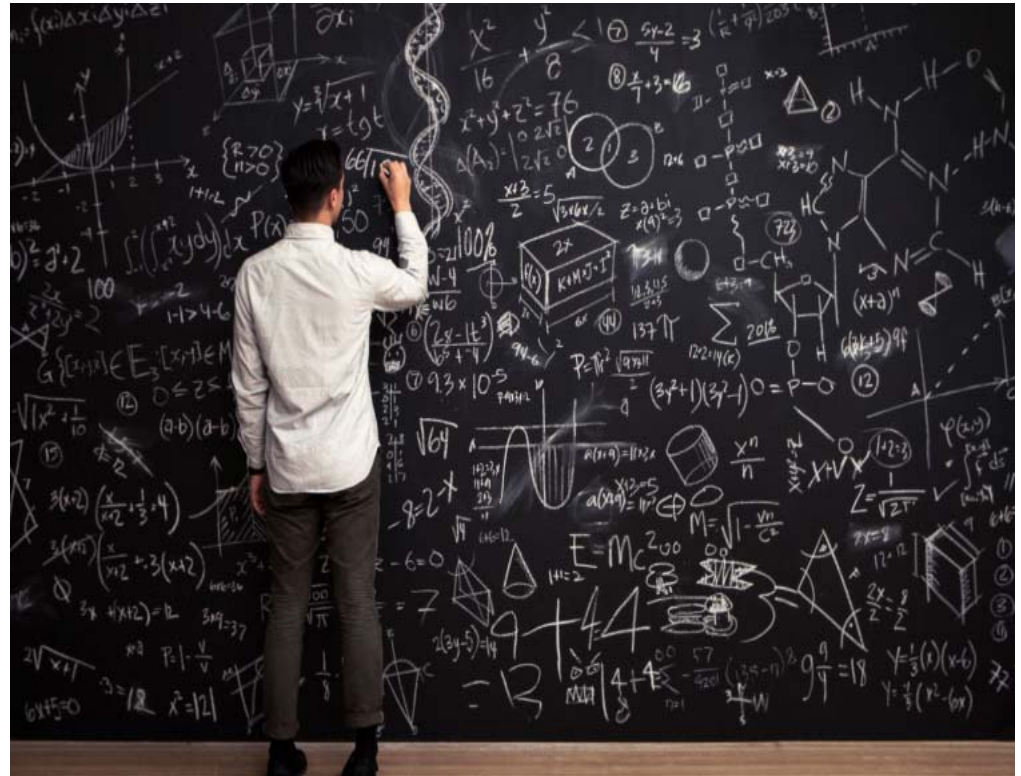
.... So what's next?

Panic!



Utilities in California must demonstrate a nexus to the incremental cost of water service in order to justify different rates in a conservation rate structure.

This caused utilities across the country to consider the issue of how to tie cost of service to each of the components of their water rates.



What options are there to justify tiers?

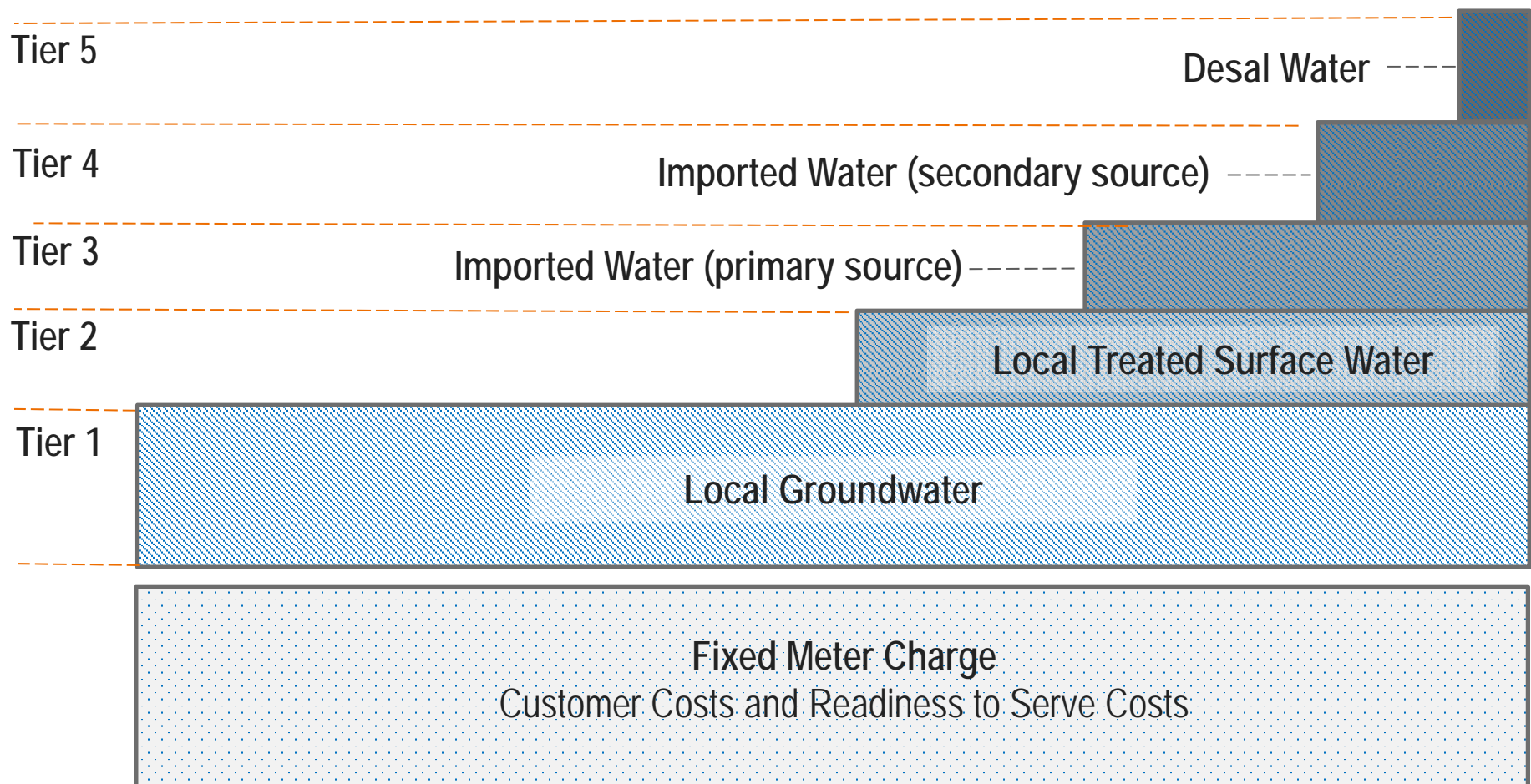
Quantifying the marginal costs of water service

- Sources of supply
- Allocation of max day and peak hour costs
- Water conservation programs
- Development of alternative supplies
- Avoided costs

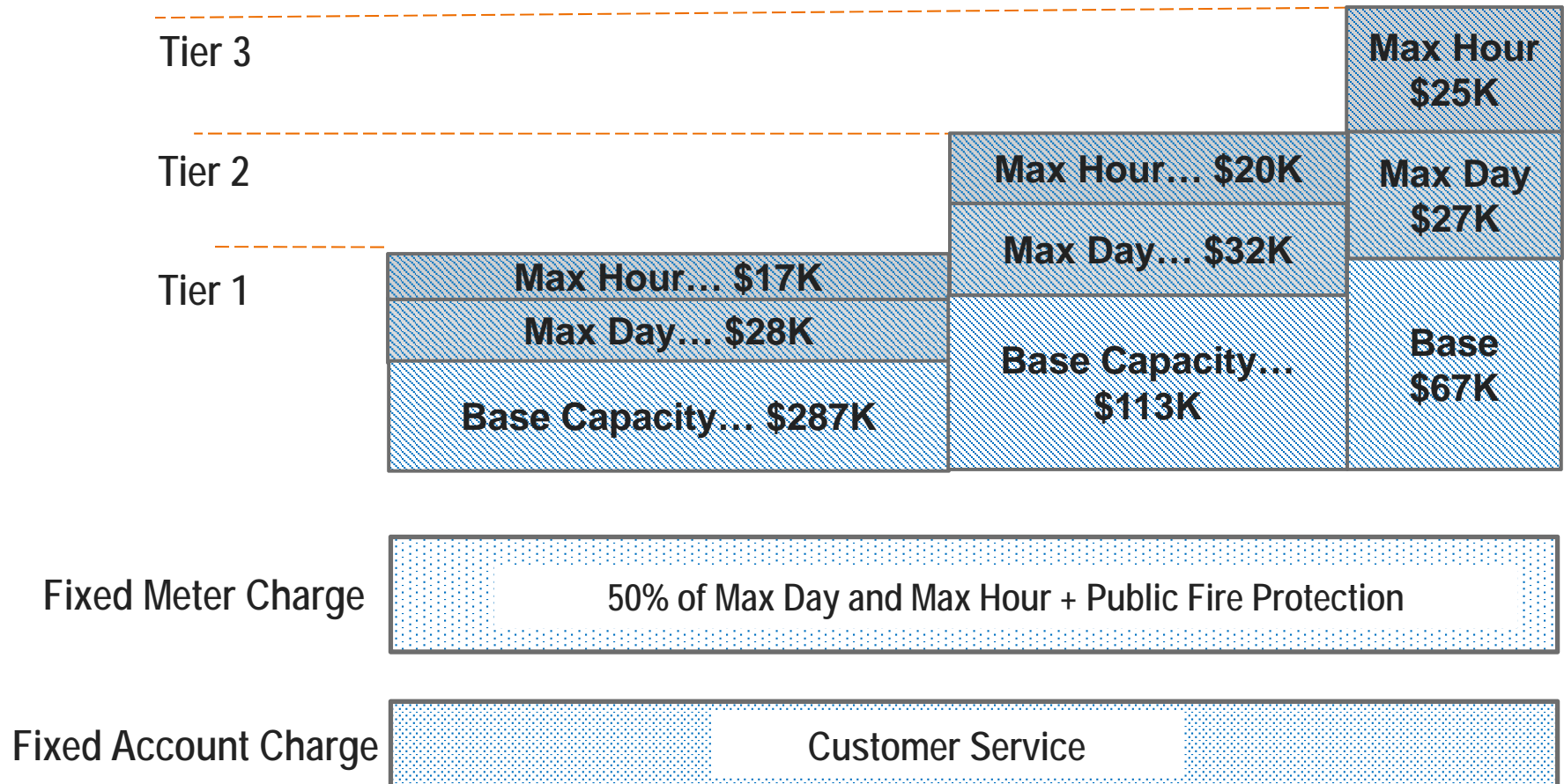
Other options: Use of unrestricted funds

- E.g., ad valorem property tax revenues

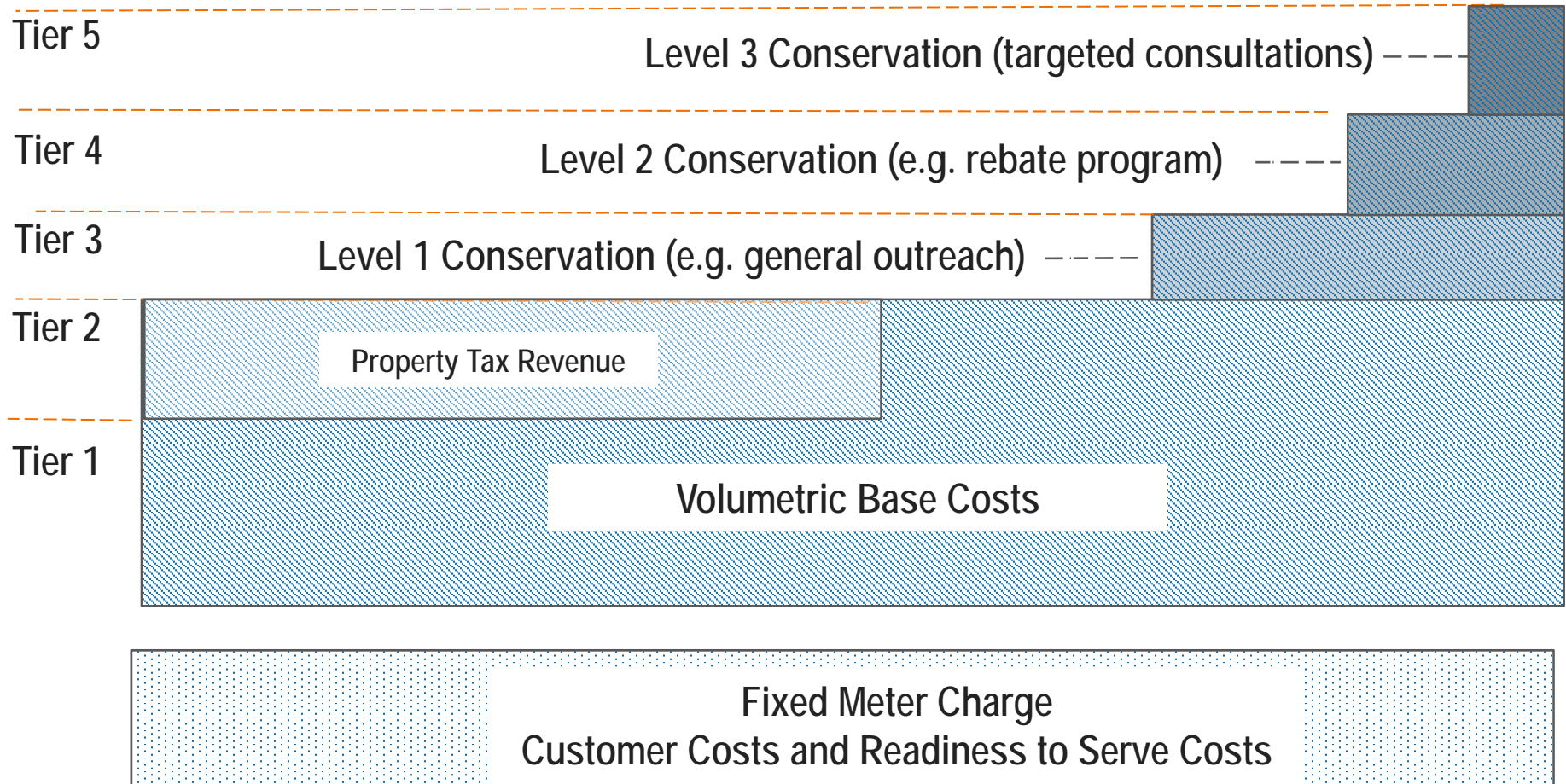
Theoretical No. 1 – Different Water Supply



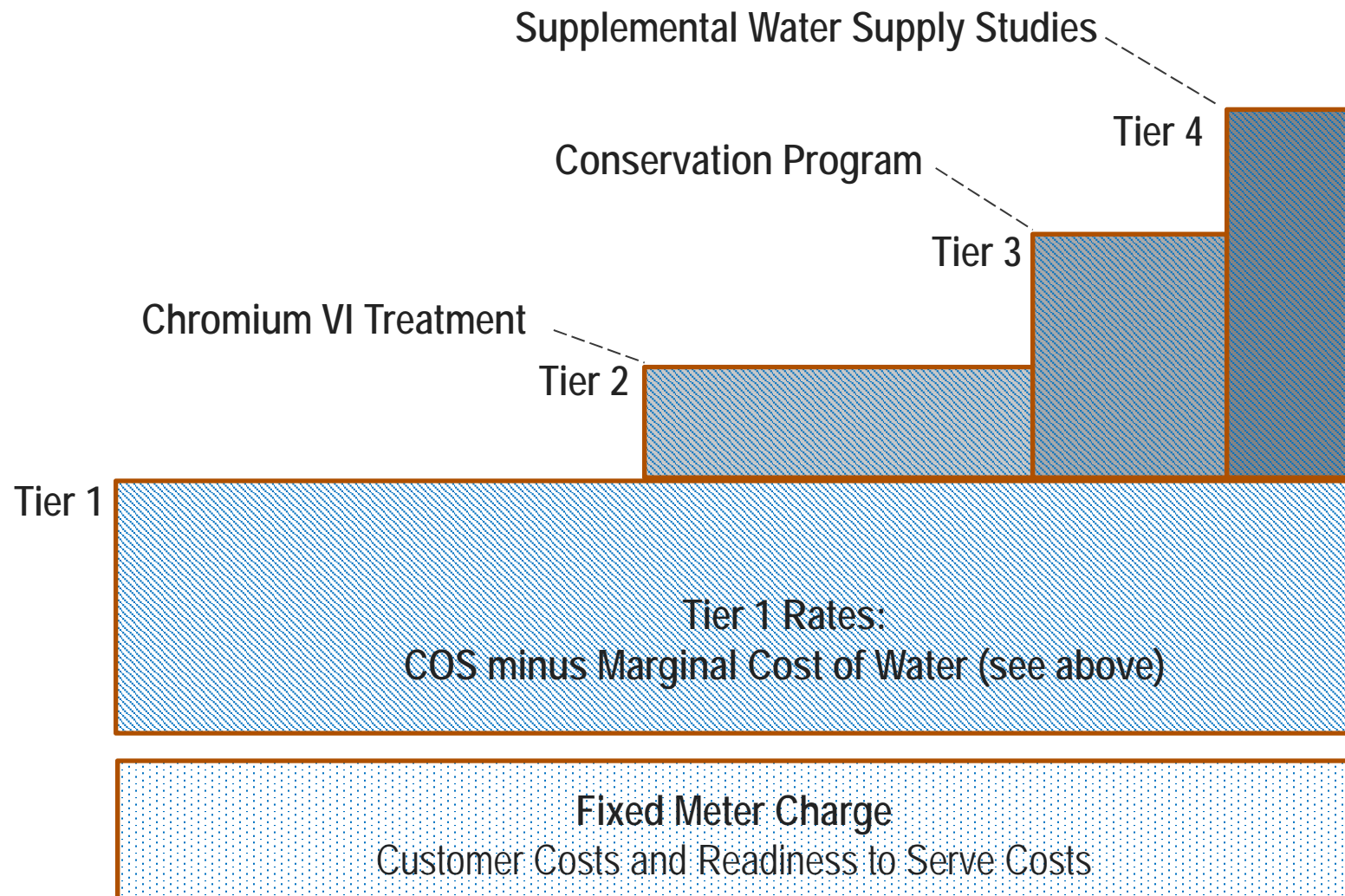
Theoretical No. 2 – Peaking



Coachella Valley Water District



Soquel Creek Water District



Soquel Creek Water District

Benefits

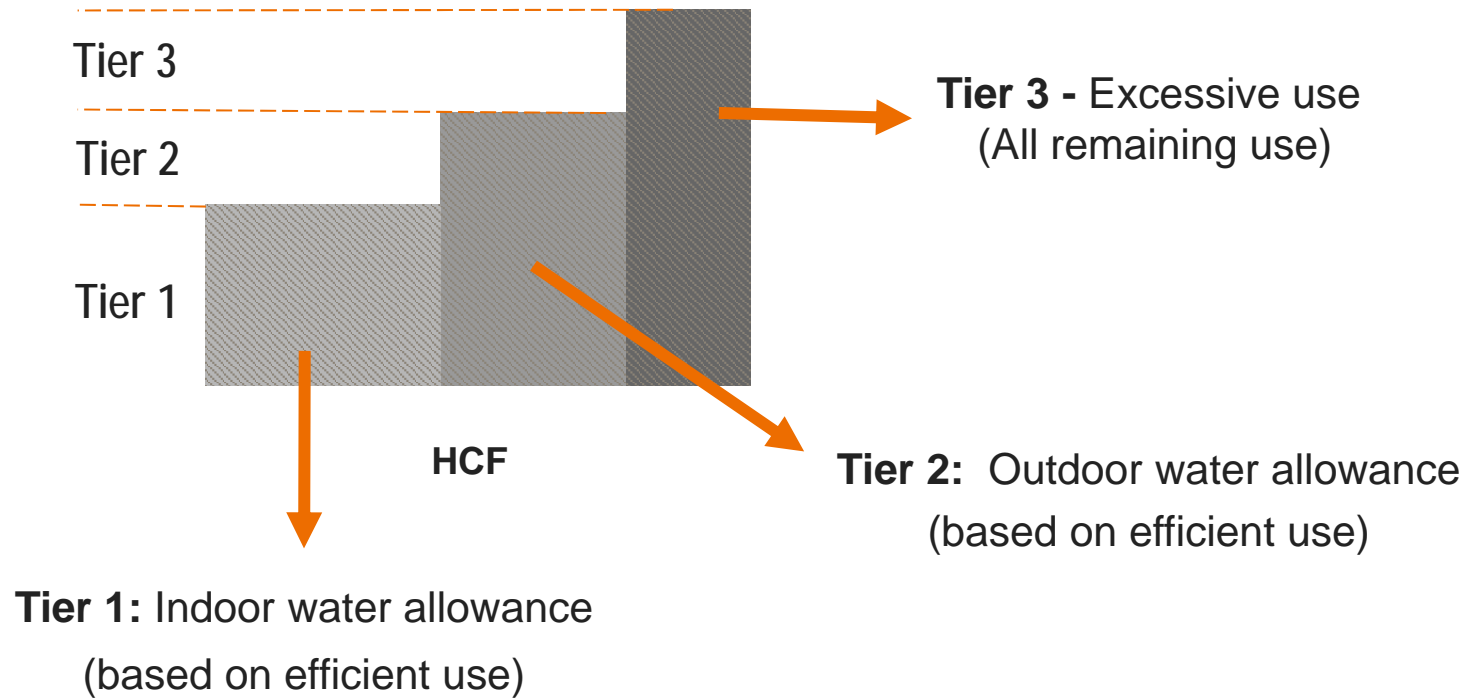
- ✓ Retained familiar tiered structure
 - Began with the question “if everyone used X amount of water...”
- ✓ Supported District’s water story
 - Limited water resources represent a real cost to the District
- ✓ Achieved equity between customer classes

Challenges

- ✓ Changes in regulatory requirements for Chromium VI
- ✓ Misperception that tiered rates aren’t legal
- ✓ Financial impacts during drought restrictions

Water use allocations for Single Family Residential

(how much water per tier?)



And to re-iterate the real benefits: (aside from meeting legal requirements)

- ✓ Enhances intra-class equity
- ✓ Provides transparency
- ✓ Creates narrative for customer service
- ✓ Helps utility understand its own costs
- ✓ Enhances defensibility (some states)

Questions & Discussion

Speaker Info:

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