

# WATER RATE STUDY

Workshop Presentation

NIPOMO COMMUNITY SERVICES DISTRICT



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Presentation

May 2014

# Topics

- Current Water Rate Schedule
- Water Shortage Rates
  - Voluntary/Price-Induced Reductions
- Supplemental Water Charges
  - Elements/Issues
- Next Steps/Timeline



# Current Tiers and Increases Remain

- Current water rates remains in place
  - Single-Family Residential Bi-monthly Volume Rates
    - » Tier 1: 0-24 Ccf.....\$1.97 per Ccf
    - » Tier 2: 25-40 Ccf.....\$2.46 per Ccf
    - » Tier 3: 40-100 Ccf.....\$3.45 per Ccf
    - » Tier 4: Over 100 Ccf.....\$5.91 per Ccf
  
    - » (Ccf is one hundred cubic feet or 748 gallons)

- Approved rate changes remain in place



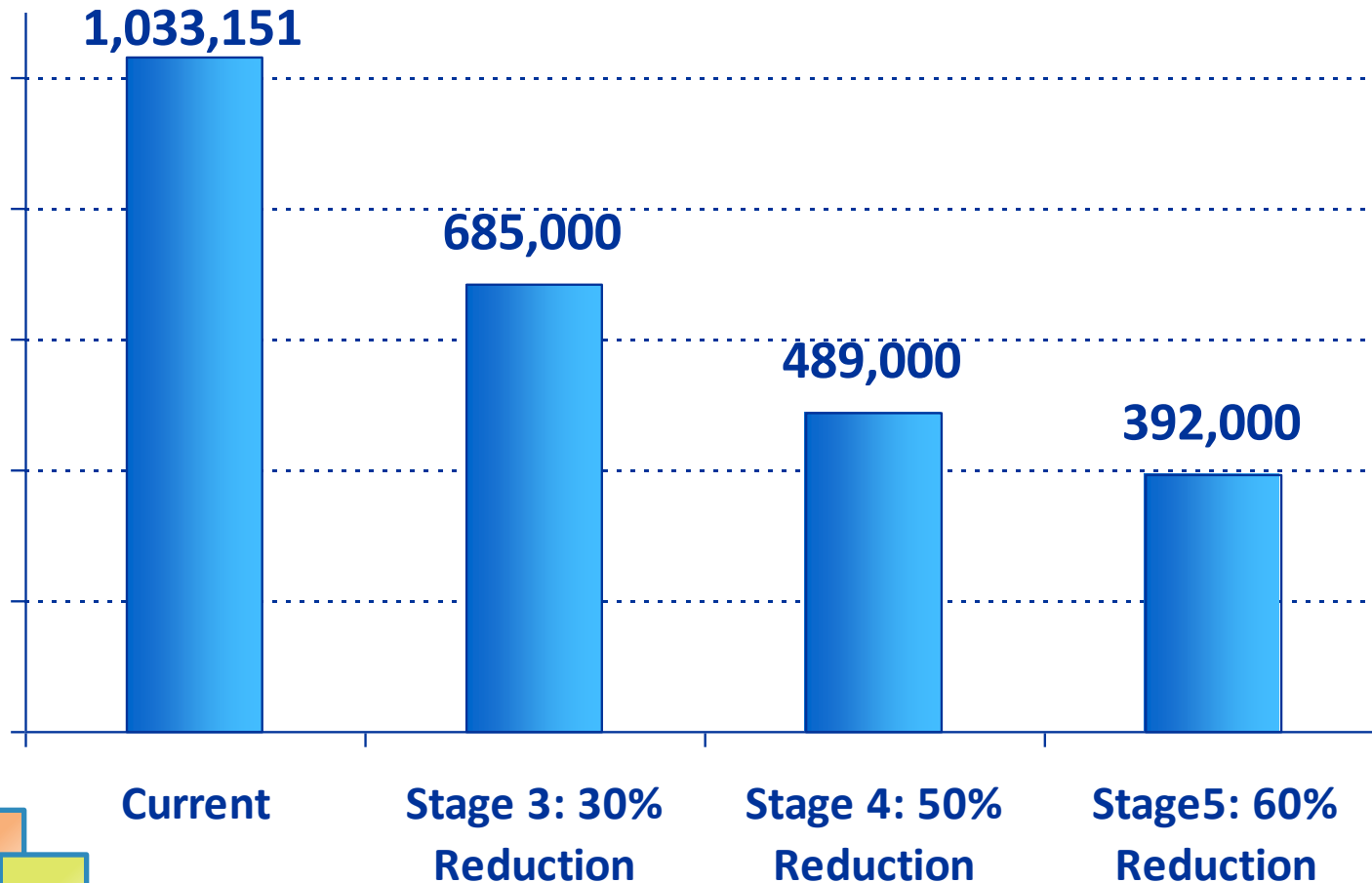
- Nov 1, 2014: 9.5% increase goes into effect
- Nov 1, 2015: 9.5% increase goes into effect

# Overview of Water Shortage Rates

# Key Elements of Water Shortage Response and Management Plan

Stage	Trigger	Response
I	All Times	On-going Conservation Education
II	Potentially Severe Water Shortage Begins	More Intensive Education
III	Severe Water Shortage Declared	30% Reduction in Production
IV	Severe Water Shortage More Than 1 Year or is Triggered by Both Key Wells Index and Coastal Criterion	50% Reduction in Production
V	Severe Water Shortage More Than 2 Years with Both Key Wells Index and Coastal Criterion Triggered	60% Reduction in Production

# Water Sales Volume Targets in Ccf



Water Sales Volume is a percentage of water production and includes water losses.

# Costs Change With Stages

Description	Stage 3	Stage 4	Stage 5
	30% Reduc	50% Reduc	60% Reduc

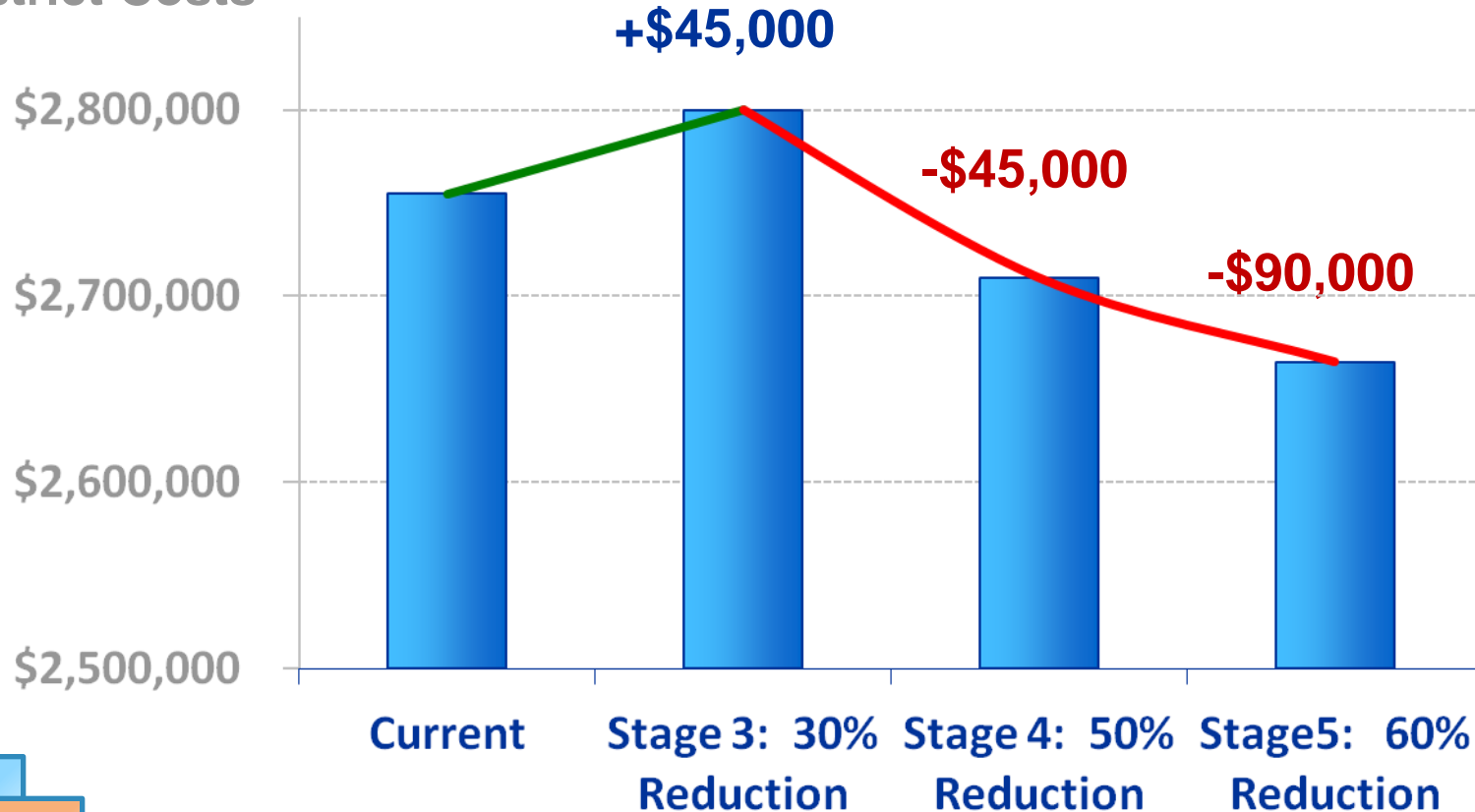
## Additional Stage Expense

Pumping Expense Decreases	<b>(\$160,000)</b>	<b>(\$250,000)</b>	<b>(\$300,000)</b>
Administration Expense Increases	\$50,000	\$50,000	\$50,000
Operations Expense Increase	\$50,000	\$50,000	\$50,000
Legal Expense Increase	\$75,000	\$75,000	\$75,000
Outreach Expense Increase	\$30,000	\$30,000	\$35,000
<b>Total Change in Expense</b>	<b>\$45,000</b>	<b>(\$45,000)</b>	<b>(\$90,000)</b>



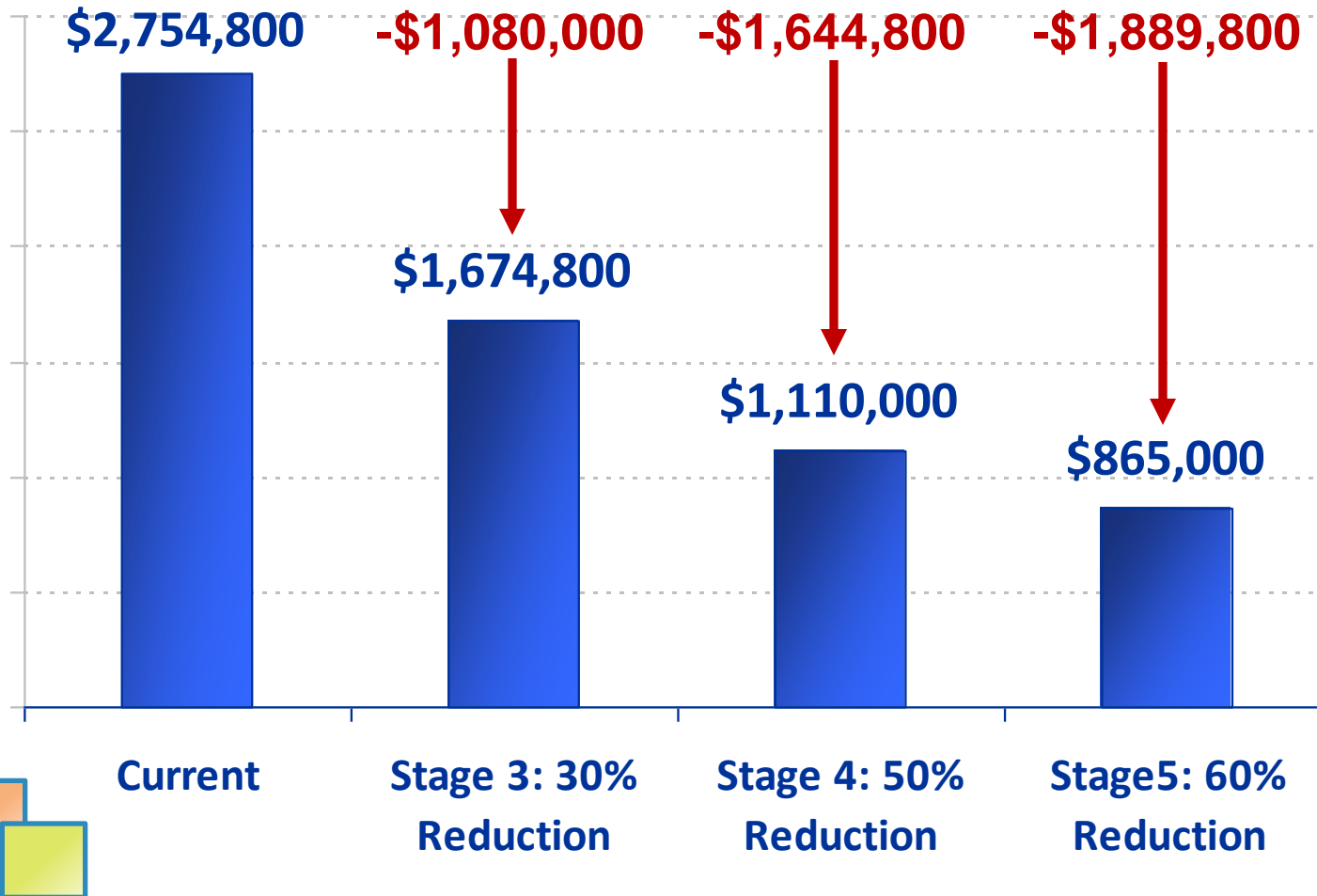
# Costs Change With Stages

## District Costs





# Revenue Falls as Conservation Increases



# Consumption Will Decrease With Rising Rates

- Price elasticity tells you the percentage change in demand for a 1 percent change in price

Elasticity of **-0.1** means that a.....

**1% increase in price** leads to a

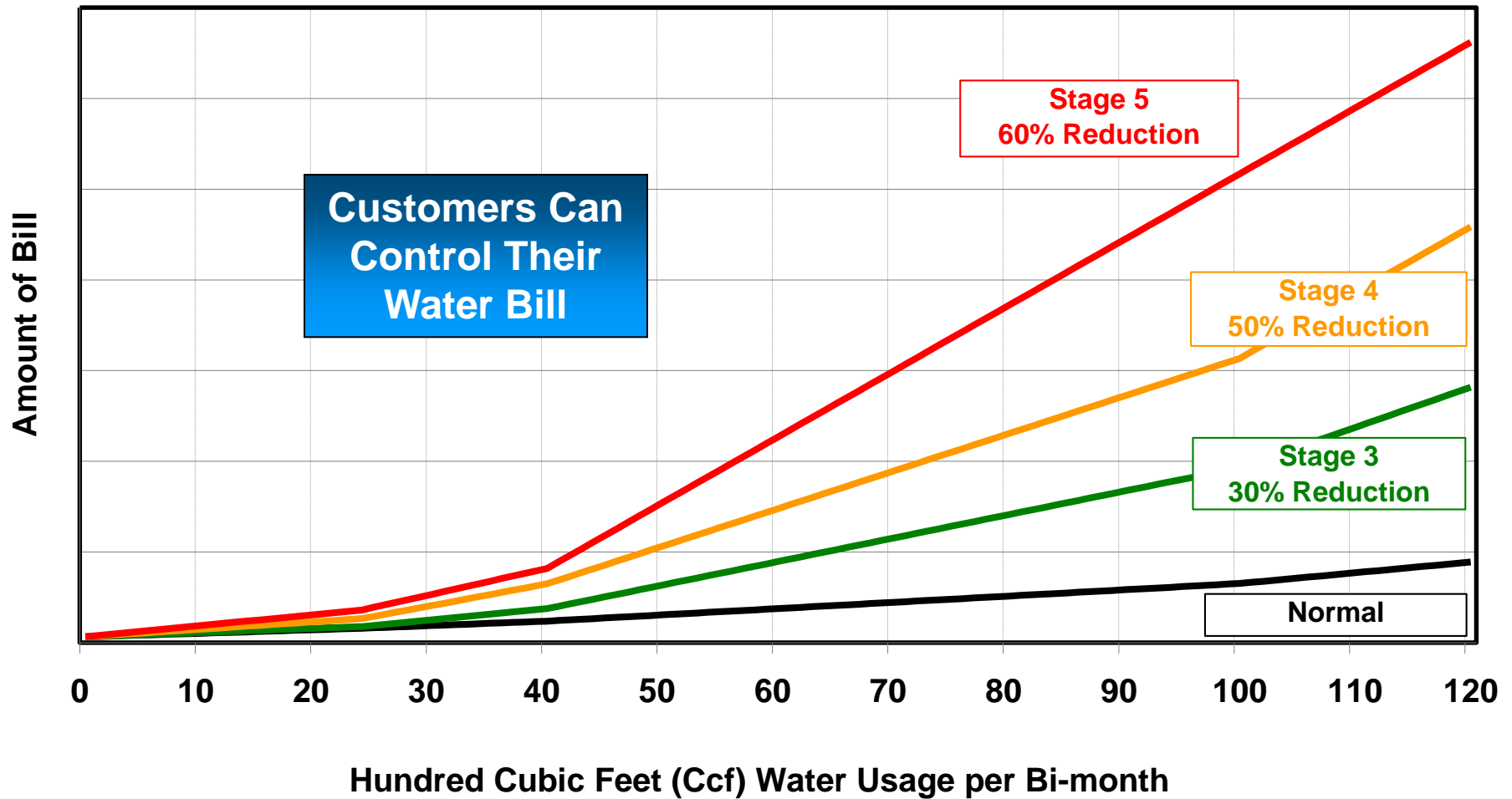
**.1% decrease in consumption**

# Rates Designed to Encourage Conservation and Balance Revenue

- Approach to Water Shortage Rates is to....
  - Use elasticity factors to raise rates enough to **decrease water use** to amounts needed
  - **Collect enough revenue** to cover falling revenue as conservation increases

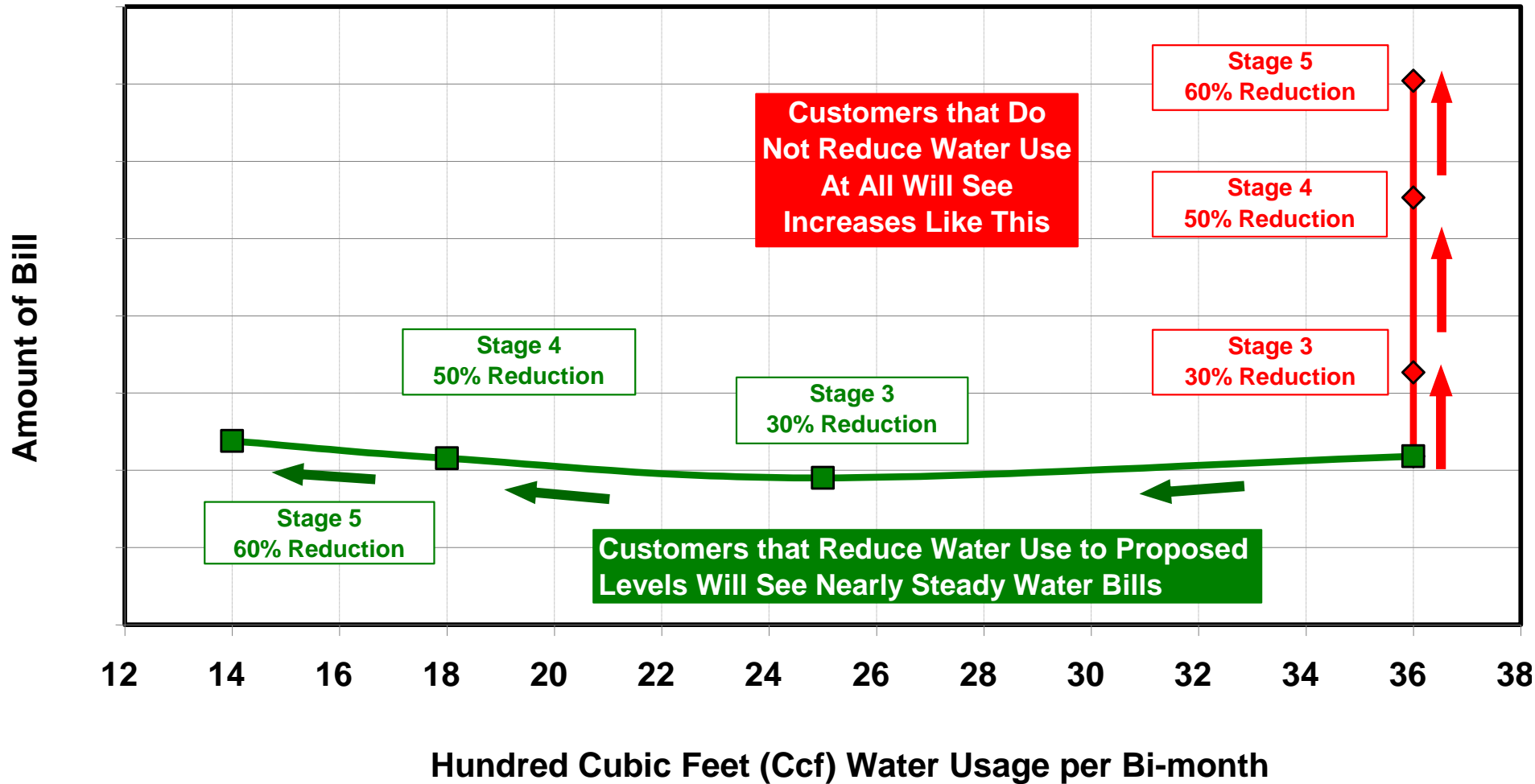


# Conceptual Single-Family Residential Bi-monthly Bill with Stage Reductions



# Impacts to Single-Family Residential Bi-monthly Bills

## No Reduction versus Assumed Customer Stage Reductions



# Water Shortage Rates with November 1, 2014 Increase

- Water shortage rates increase at same 9.5%
  - Financial plan assumed a 1 percent reduction with this increase
  - Use District operating and rate stabilization reserves as necessary for any shortfall



# DWR Urban Drought Guidebook

- “It is standard practice for water suppliers to maintain a dry-year contingency reserve fund to protect revenue through **two or more years** of supply reductions below normal demand levels.”  
(excerpt from 2008 DWR Urban Drought Guidebook, page 55)
  - Stage 3 reduction of 752 AF results in lost revenue of about \$1.08M.
  - **A two-year drought reserve for Stage 3 would equal \$2.2M.**



# Elements/Issues of Supplemental Water Charges



# Background

- Groundwater basin levels are dropping
  - Pumping twice the dependable yield
  - May invite seawater intrusion
- Basin has been Adjudicated
  - Stipulation Agreement: Rights to groundwater allocated to users
  - NMMA Physical Solution: supplemental water and % rights
  - Technical group appointed to manage basin
- Supplemental Water Project is currently underway
  - Bringing in supplemental water as a long-term water supply source
  - Project constructed in 3 phases
  - Phase 1 – 650 AFY initially
- Need to create New Supplemental Water Charges
  - Charges to recover all costs associated with new water supply

# New Supplemental Water Operating Fund

- Captures all revenue and obligations related to Supplemental Water
  - Revenues from charges to Purveyors and District customers
  - Supplemental Water cost from Santa Maria
  - Annual Project replacement
  - Portion of 2013 and 2013A COPs debt service
  
- Ensure all users pay their share of Supplemental Water Project
  - Purveyor's pay their Court mandated share
  - District customers pay their Court mandated share



# Challenges of Pricing Supplemental Water

- Annual budget will assume a % mix of well water and supplemental water to determine annual costs
  - Then water rates are established to recover those annual costs
  
- But the mix is a moving target:
  - Depends on the Project Phase that is completed and the groundwater available for pumping
    - 3 phases of Supplemental Water Project
      - » Phase 1 – 650 AFY
      - Phase 2 – 1,600 AFY
      - Phase 3 – 3,000 AFY
    - Water Shortage condition
      - » Normal Conditions
      - 30%, 50% or 60% reduction in basin pumping



# Supplemental Water Costs Bring Benefits

- **Drought Rates.** During Stage 3 Drought and above:
  - Customers who cut consumption by the appropriate amount would pay about same bill for less water
  - Customers who use more water would pay substantially more than they do now
- **Supplemental Water Rate.** When supplemental water arrives:
  - Customers will pay more, but enjoy the benefit of new water by not having to cut back water use, or cut back less

# Rate Making Challenges

- Revenue Stability
  - Ensure we are able to pay for new Supplemental Water
  - Maintain adequate reserves and a sound financial condition
- Community Acceptance
  - Fairness among customer classes
  - Consider impacts to customer bills
  - Simplicity of rates
- Lots of Variables
  - Take-or-Pay Supplemental Water
  - Groundwater Basin Condition



# We Understand Desire to be Fair

- Balance fairness with need for certainty
  - Items to be resolved:
    - Supplemental Water Delivery Volumes
    - Supplemental Water sales contracts with Purveyors
    - Groundwater Basin Health: 2014 Spring Measurements
    - Will a water shortage Stage III be declared?
  
- Considering fixed versus variable charges
  - Impacts on low and high consumption users are different
  - Fixed charges improve revenue stability
    - May implement initially to ensure Project costs are recovered



# What's Next and Timeline for Water Shortage Response Plan

March - May	Public Outreach
May	Learn and Report Basin Status Board to discuss feedback from workshops and define rate setting schedule
June	Likely 30% Conservation Cutbacks
May-October	Coordinate with Neighbors for Shared Conservation and Supplemental Water Responsibilities



# DISCUSSION

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