



IRVINE RANCH WATER DISTRICT

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June 30, 2015



The Honorable Felicia Marcus
c/o Jeanine Townsend, Clerk to the Board
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, CA 95814

RE: Comment Letter –Conservation Pricing Workshop

Dear Chair Marcus:

Thank you for the opportunity to provide comments for the State Water Resources Control Board's (SWRCB) consideration as it solicits input regarding conservation pricing and implementation of Directive 8 of Governor Brown's Executive Order B-29-15. The Irvine Ranch Water District (IRWD) recognizes the SWRCB's support for allocation-based rate structures and other conservation pricing approaches. We appreciate the Board's efforts to further discussions surrounding conservation pricing and its positive impact on demand management.

As previously discussed with the SWRCB, IRWD has a long-standing commitment to water conservation and the efficient use of water resources. The backbone of IRWD's water conservation efforts has been its allocation-based tiered rate structure, which is compliant with California Water Code Section 370.

Superior short-term and permanent water savings can be achieved from the adoption of a rate structure that promotes conservation. Since implementing its allocation-based rate structure in 1991, IRWD has seen the rate of landscape water use drop by 50 percent from 4.4 acre-feet per acre to an average of 2.2 acre-feet per acre per year within our service area. IRWD's residential gallons per capita per day (R-GPCD) has dropped 30 percent from 115 R-GPCD prior to implementation of the rate structure to an annual average of 80 R-GPCD in 2014 with changes to the rate and allocation structure that became effective on July 1, 2014. For 2015, the average is 68 R-GPCD. Further changes to the rate structure, which are designed to reduce potable outdoor water use by an additional 30 percent, will become effective on July 1, 2015.

As proven by IRWD's experience and the experience of other urban water agencies using allocation-based tiered rates, moving to an allocation-based tiered rate can achieve both immediate and sustained water conservation. Allocation-based rate structures can also be very effective in promoting revenue stability.

While IRWD firmly supports the use of allocation-based rate structures and the sustained conservation that results from their use, it is important for the SWRCB to remember that allocation-based rate structures are not the only rate structure that can obtain sustainable water savings. ***Rate setting is a local issue that should be left to the discretion of local agencies and agencies should retain the ability to determine how they structure their rates.***

The State’s role should remain one of supporting local agencies in implementing conservation rate structures. The SWRCB should help preserve flexibility in rate setting, and should advocate for legislative and other fixes that provide certainty to agencies using conservation rates structures. SWRCB policies should encourage and incentivize agencies to move towards conservation pricing and conservation rate structures. The SWRCB should send a signal through incentives or other methods that conservation rate structures are beneficial.

SWRCB support for conservation rates and its use of creative incentives encourages adoption of conservation rate structures. For example, the alternative compliance path that the SWRCB included in the first emergency drought regulations adopted in July 2014 highlighted the benefits of allocation-based rate structures. By allowing agencies to use allocation-based rate structures to obtain compliance with the regulations, the SWRCB helped open minds to that type of rate structure and encouraged agencies to consider implementing conservation pricing.

While incentives are important to furthering conservation pricing, incentives alone are not enough to gain widespread implementation of conservation-based rate structures. Many agencies have not adopted such rate structures due to perceived and/or real implementation challenges and costs. The SWRCB should provide assistance for agencies to overcome some of these obstacles through advice, grants and/or low cost State Revolving Fund loans. Below is a list of some of the challenges agencies face and suggestions for possible SWRCB action to assist local agencies:

- ***Implementing conservation rate structures is complex, but easier with the appropriate resources***— The SWRCB should provide support for implementing conservation rate structures. The SWRCB has already begun this process by developing a thorough website that is a resource to agencies interested in conservation rate structures. IRWD encourages the Board to continue expanding its website so that it serves as a resource center for local agencies. The website can provide detailed case studies on successful rate structures, provide information on best management practices (BMP) that agencies may be interested in using, and provide input into how conservation costs can be recovered in rates. One such resource is the California Urban Water Conservation Council, which adopted a new option within its retail pricing BMP, effective July 1, 2015, that promotes effective conservation pricing while offering agencies the necessary local flexibility in rate setting.

The SWRCB should also consider referring agencies to outside resources. For example, IRWD in partnership with other agencies with allocation-based rate structures is in the process of developing a web-based “how to guide” on implementing allocation-based rate structures. This guide may be useful to agencies interested in allocation-based rate structures and will be available for the SWRCB’s use once it is complete.

- ***Smaller agencies often do not have the resources to implement conservation rate structures***— In addition to being complex, changing rate structures is an expensive process that requires a substantial investment. It requires both technical competency and financial resources. Often smaller agencies do not have the technical or financial resources to undertake such a process. The SWRCB should consider providing technical and financial support to smaller agencies seeking to implement conservation rate structures.
- ***Implementing conservation rate structures may require agencies to implement new billing systems***—The cost of the billing system can be recovered through customer charges when the structure is first implemented; however, its implementation requires an up-front investment. The

SWRCB could help agencies in implementing these new systems by providing low interest loans or grants to assist with up-front implementation costs.

- ***Access to weather stations or evapotranspiration data is necessary for implementation of an allocation-based rate structure, but access is often perceived as unobtainable—*** The Department of Water Resources (DWR) provides free access to evapotranspiration (ET) data through its California Irrigation Management Information System (CIMIS) network, and there may be a CIMIS station in the agency's climate zone. DWR also provides free access to Spatial CIMIS. This provides free daily ET data throughout the state with a 2 km² resolution. Spatial CIMIS can also be used where there are multiple climate zones and zip codes in a service area. Most billing systems can import this information with a relatively simple program. The SWRCB could provide low interest loans or grants to assist with the cost of programing needs or weather station implementation costs.

IRWD urges the SWRCB to consider how it can best aid agencies with these challenges, and urges the Board to consider providing more resources to agencies looking to move towards conservation pricing. The SWRCB may also want to consider creating a work group of agencies that have implemented an allocation-based rate structure to assist those agencies that may be interested in moving towards a conservation-based rate structure.

One of the largest challenges facing agencies seeking to use conservation pricing is compliance with Proposition 218. The SWRCB should provide guidance, support and resources on how to comply with Proposition 218. Since the passage of Proposition 218 in 1996, California courts have ruled on a diverse set of issues surrounding how water rates are to comply with Article XIII D of the state constitution. While the courts have consistently upheld the constitutionality of tiered rates, the rulings have left some uncertainty on how to comply with the constitution. Water providers need clarification. A clear path needs to be defined so that water providers can thoughtfully calculate their cost of service, price tiers according to water supply and related infrastructure costs, and then move forward with the assurance that they are abiding by the full intent of the law. Uncertainty results in costly court challenges, which unnecessarily burden ratepayers and minimizes confidence in conservation pricing.

As has been made clearer through recent court decisions, conservation rate structures must be supported by cost of service studies and a strong administrative record. IRWD recommends that the SWRCB consider providing training and "how to do" guidance on completing cost of service studies and creating an administrative record for rate setting. The SWRCB should also consider providing funding for cost of service studies and conversions enabling agencies with limited financial resources to complete the necessary work to implement conservation pricing.

Finally, conservation rate structures are complex and not all of the issues surrounding them can be dealt with in one public hearing. ***IRWD suggests that the SWRCB form a technical work group to discuss the various issues surrounding conservation rate structures and the various actions the SWRCB could take to aid agencies before the Board considers taking action related to conservation pricing.*** Given the complex nature of rate setting and its interplay with local factors, the SWRCB should refrain from adopting a one-size fits all approach to Directive 8.

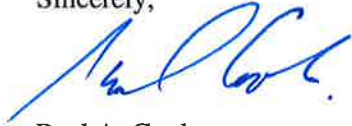
Conclusion

We agree with the SWRCB that the management of any limited resource includes the practice of conservation. We have implemented aggressive water conservation programs with a core feature of pricing

that rewards customers for conserving. Our rate structure results in water being conserved both locally and statewide through reductions in dependence on imported water. These benefits are realized in both wet and dry periods. Future SWRCB action on conservation pricing should seek to provide guidance, support and resources to local agencies, which have or are moving to implement conservation rate structures.

Thank you again for considering our comments on conservation pricing. Please do not hesitate to contact me at (949) 453-5590, or our Sacramento Advocate, Maureen O'Haren, at (916) 498-1900 if we can be of assistance to you or your staff.

Sincerely,

A handwritten signature in blue ink, appearing to read "Paul A. Cook".

Paul A. Cook
General Manager