



TO: BOARD OF DIRECTORS

FROM: EXECUTIVE COMMITTEE

SUBJECT: SAWS PROPOSED RATE STRUCTURE ADJUSTMENT

STATUS: ADOPTED

DATE: 05/20/2010

RECOMMENDATION: That the Board of Directors of The Greater San Antonio Chamber of Commerce adopt the following statement as policy:

STATEMENT: The Chamber supports the concept of San Antonio Water System using its rate structure as a conservation tool and recognizes that the least expensive option for additional water supply is conservation. However The Chamber opposes the rapid rate of increase of the new proposed rate structure in the upper blocks of both the residential and commercial irrigation structures. While The Chamber supports the proposed structure's intention to make excessive outdoor irrigation more expensive for Residential and Commercial Customers, we do not believe all commercial irrigation is discretionary, as businesses within the City of San Antonio are required to meet certain landscaping and irrigation standards.

Consequently, The Chamber strongly urges SAWS to consider establishing a base quantity for non-discretionary commercial irrigation use to be charged at the current commercial rate. This would clearly identify discretionary irrigation use above the base allotment which is proposed to align with residential-based irrigation rate structure tiers. An alternate recommendation would be to establish a gradual increase in the commercial irrigation rates to promote conservation over a number of years that would give commercial owners time to make changes to landscaping and watering systems to deal with increased costs.

BACKGROUND:

SAWS' existing rate structures include the combination of tiered rates, seasonal rates, and individualized rates. The rates correspond to a rate "block structure" or "block rate" which was designed to aggressively promote water conservation. Currently, the cost for both the residential and general/wholesale block rates increase based on each 100 gallons of water usage. Customers are billed for the exceeding portion of water use which exceeds Block 1, or the preceding block. For example a customer who uses 8,500 gallons of water in one month would pay \$.2435 per 100 gallons for the first 7,481 gallons (Block 1) and \$.2838 per 100 gallons (Block 2) for the balance of 1,019 gallons of water. The current block rate structure is modified during the months of July through October to reflect seasonal rates for usage during peak months.

In accordance with its policy to perform rate studies once every five years, the SAWS Board of Trustees authorized a new Comprehensive Cost of Service and Rate Design Study to be initiated in 2008 and concluded in 2009. The Board appointed a Rates Advisory Committee (RAC) to review the effectiveness of the current rate structures and

provide recommendations regarding the most appropriate structure for all rates assessed by SAWS. The committee represented a diverse set of interests throughout the community, including low water users, high water users, businesses and neighborhood leaders. The RAC held 16 public meetings in 2008 and 2009. The RAC's chief considerations were conservation/demand management, financial sufficiency¹ and rate stability. Taking these objectives into account, the RAC developed recommended changes to rates for the Residential, General/Wholesale, Irrigation, Wastewater, and Recycled Water classes of users. The Comprehensive Cost of Service Rate Design Study recommendations were reported in December 2009.

RESIDENTIAL CUSTOMERS

The RAC recommendations focus on enhancing the Rate Structure as a water conservation tool with the intention to reduce the amount of water that is used for outdoor irrigation. Outdoor irrigation constitutes 25 percent of the water used in San Antonio. This proposal would make discretionary outdoor irrigation more expensive for Residential Customers through the following recommended adjustments:

- Modify existing Water Delivery block rates by reducing Block 1 and Block 2 rates to reward customers that use water efficiently and provide an incentive to others to reduce water usage while pressing more costs to Blocks 3 and 4 to discourage higher discretionary usage and promote conservation.
- Extend Water Delivery seasonal rates from four months to six months (May to October) to promote conservation and reduce peak demand.
- Change the uniform Water Supply Fee to correspond to the recommended tiered Water Delivery blocks and rate differentials to discourage higher discretionary usage and promote conservation.
- Revise Residential Meter Charges to better reflect the fixed costs of billing, service-on-demand availability, and fire protection availability, and to improve revenue stability.
- Do NOT change the differential between non-seasonal and seasonal block rates since the seasonal rate was extended an additional two months.

With these recommendations, residential customers who use less than 17,205 gallons per month would see a bill decrease, and customers who use more than 17,205 gallons per month would see a bill increase. The RAC determined that charging more per gallon for higher water use sends a price signal for customers to become more conscious of their water usage, while rewarding those who conserve water with lower water bills. As a result of the proposed Rate Structure, 93 percent of residential bills will decrease, as they do not exceed 17,205 gallons per month. The 7 percent of bills that exceed 17,205 gallons per month would see a significant price increase.

COMMERCIAL CUSTOMERS

Commercial customers typically have two meters: General Class and Irrigation Class. General Class meters are for "domestic" water use, while Irrigation meters are

¹ *Financial Sufficiency* - The rate structure should not only adequately recover the costs associated with providing service, but also ensure enough revenues are generated to meet bond coverage requirements.

exclusively for outdoor water use. The RAC recommended not changing the existing commercial wastewater rate structure or existing Recycled Water rates given that no changes are warranted at this time. However, the committee recommended that SAWS consider Recycle Rate increases at the same time adjustments to Water Delivery and Water Supply Rates are considered in the future. The RAC proposed the following recommendations for General Class customers:

General Class

- Increase the first Block Rate or Base from 90 percent to 100 percent to represent the usage needed to operate a business.
- Reduce the number of Blocks from five to four since the usage difference between the existing 4th and 5th block rates is not significantly different.
- Revise General/Wholesale Class Meter Charges to better reflect the fixed costs of billing, service-on-demand availability, and fire protection availability, and to improve revenue stability.
- Do not tier the Water Supply Fee since there is less discretionary General class commercial or industrial usage as compared to Residential consumption.

The Water Supply Fee would remain flat and Seasonal Rates do not apply to the General Class since this water is not for outdoor use. Consequently, SAWS projects no significant impact to General Class bills for commercial customers.

Irrigation Class

Currently, residents pay more for outdoor water use than businesses. The RAC recommended that all customers pay the same amount for outdoor water use. Under the proposed Irrigation Class rate structure, commercial customers would pay the same rate as residential customers for outdoor water use under a rate structure that includes a tiered Water Supply Fee. The proposed recommendations are as follows:

- Modify the Irrigation Block Rate structure to align the Irrigation Block Cut-Offs with the recommended changes in the Residential Block Rate structures. For example, the Block 3 Irrigation cut-off would include the difference between the Block 2 and Block 3 cut-offs for Residential customers to represent outdoor discretionary usage (Block 1 would include zero usage to align with residential rate structure).
- Added seasonal rates to Irrigation to promote more water conservation and peak demand management. (Seasonal period will cover May through October).
- Revise Irrigation Class Meter Charges reflecting the fixed costs of billing, service-on-demand availability, fire protection availability, and improve revenue stability.
- Change the uniform Water Supply Fee to match the Residential tiered block rate cut-offs and differentials to discourage high discretionary use and promote conservation.

Approximately 5,720 of SAWS' 22,210 commercial customers have active irrigation water use. Median usage for commercial irrigation is currently 17,206 gallons per month and costs \$78.38 per month. SAWS predicts that 80% of the 22,210 customers will not see an impact to their monthly bills; however 20% will see an increase in irrigation cost

between 0% and 65% in seasonal months, which would now be extended to six months out of the year. SAWS acknowledges that the steep commercial irrigation rate increase is intended to create a communication point to encourage each customer to seek additional conservation ideas from SAWS.

SAWS' justification for converting the commercial irrigation rate to the residential rate is the belief that all irrigation is discretionary. However, the City of San Antonio requires commercial projects to meet certain landscaping and irrigation standards in the Unified Development Code.²

SUMMARY

Based on historical use, SAWS projects that the Rate Structure Proposal will be revenue neutral and will save 1.4 billion gallons of water per year. All required revenues to operate the water and wastewater systems are recovered under the recommendations. For average levels of consumption, the recommended rates result in combined charges that are the second lowest among the top ten Texas water utilities.

The rate structure adjustment change requires approval by SAWS Board of Trustees and San Antonio City Council. If approved, the new rate structure would affect SAWS bills beginning in July 2010. This rate structure proposal is scheduled to be presented to City Council on June 10 in conjunction with the SAWS rate increase proposal.

Monthly Bills Assuming Rate Structure and 6.5% Rate Increase

Percentile	Meter Size	Water / Wastewater (Gallons)	Current Bill	Rate Structure	2011 Bill 6.5% Increase	Total Bill Change
Residential (Seasonal)						
20th	5/8"	2,992 / 2,373	\$24.40	\$22.76	\$24.20	-0.8%
40th	5/8"	4,489 / 4,102	\$31.89	\$29.44	\$31.37	-1.6%
60th	5/8"	6,733 / 4,102	\$37.76	\$34.82	\$36.87	2.4%
80th	5/8"	9,725 / 7,844	\$54.46	\$51.59	\$54.77	0.6%
99th	1"	36,657 / 12,850	\$213.42	\$251.08	\$260.11	21.9%
Commercial - General*						
20th	5/8"	1,496	\$22.03	\$21.57	\$22.80	3.5%
40th	5/8"	5,237	\$40.26	\$39.74	\$42.13	4.6%
60th	5/8"	13,810	\$82.04	\$81.37	\$86.45	5.4%
80th	1"	43,390	\$235.58	\$237.09	\$251.70	6.8%
99th	8"	12,889,763	\$5,474.79	\$5,482.45	\$5,827.48	6.4%
Commercial - Irrigation (Seasonal)**						
20th	5/8"	6,733	\$31.81	\$29.81	\$30.50	-3.5%
40th	3/4"	20,199	\$86.91	\$123.34	\$126.32	45.3%
60th	1"	44,138	\$209.63	\$319.91	\$327.71	56.3%
80th	2"	98,749	\$509.37	\$794.27	\$813.64	59.7%
99th	4"	665,809	\$3,272.71	\$5,259.92	\$5,389.34	64.7%

*Water and Wastewater amounts are identical since all use is indoors

**No Wastewater charges since all use is outdoors

² See Unified Development Code, page 6

- Pros-
1. SAWS purports that 93% of residential bills will see a decrease in bills while those who use disproportionately large amounts of water will be incentivized to conserve.
 2. The proposed rate structure change is predicted to reduce demand by 1.4 billion gallons of water or 4,300 acre feet of water a year.
 3. Conservation is the cheapest source of water because the water we save is water we don't have to buy. This would help SAWS delay the need for additional and costly water resources.
 4. For average residential water users, the recommended rate structure change will result in combined charges that are the second lowest among the top ten Texas water utilities.
- Cons-
1. SAWS suggests that the Rate Structure proposal is revenue neutral. While low water use will become more affordable, if large water consumers do not change their usage high discretionary water use will become much more expensive.
 2. The 1.4 billion gallons of water SAWS projects this proposal will conserve is the equivalent to approximately 4,300 acre-feet, which represents a very small amount of total SAWS demand. Therefore, the proposed costs to customers do not appear to be consistent with the cost benefit realized by SAWS.
 3. SAWS has acknowledged the main reason for the steep commercial irrigation rate increase is to create a communication point between the customer and SAWS so that additional conservation ideas can be discussed on a customer-by-customer basis. The Chamber questions how much additional water use can be cut when SAWS customers have already been subject to Stage 1 and 2 drought management restrictions which limit when, where and how a customer can irrigate. Under this condition, a price signal seems to have very little impact.
 4. Based on the SAWS presentation which shows an irrigation water rate increase equivalent to as much as 64 percent, the Chamber is also concerned about the impacts to local school districts, large-scale corporate campuses, and large resort properties who all depend on irrigated areas to meet their intended purposes.

IMPLEMENTATION: The Chamber will communicate this position to the SAWS Board of Trustees, to the Mayor and members of the City Council, the media and The Chamber membership through public testimony, letters, media releases and publication in *The Chamber Today*.

City of San Antonio Unified Development Code- Excerpts

Division 3 of Article 5 of the Unified Development Code entitled, "**Landscaping and Tree Preservation**" (attached) dictates how a commercial property must landscape, irrigate, and maintain a commercial development. This section of the code includes **35-510 Buffers, 35-511 Landscaping, 35-512 Streetscape Planting Standards, and 35-523-Tree Preservation.** The mandatory landscaping requirements apply to:

- A. The construction or erection of any new building or structure for which a permit is required.
- B. Any enlargement exceeding one thousand (1,000) square feet or ten (10) percent in area, whichever is greater, of the exterior dimension of an existing building for which a building permit is required.
- C. Any construction of a new parking lot or expansion of an existing parking lot within the street yard by more than two thousand (2,000) square feet or ten (10) percent in area whichever is greater. Parking lots in residential zoning districts shall be subject to the requirements of Subsection (e) of this section.

The **Landscaping Ordinance** creates mandatory criteria including required irrigation. The code states, "Landscaped areas shall be irrigated within a system that is suitable for the type of plantings installed. An irrigation system will be required on projects when any one of the following are used to meet the requirements of this chapter:

- A. An area greater than 2,000 sq. ft. of new landscaper or;
- B. More than 10 trees will be installed or;
- C. Projects which exceed 4,3000 square feet of impervious surface.

The code is very specific on the type of irrigation system that should be installed, the pressure that it will operate under, and the type of watering schedule that is allowed.

Under **General Maintenance**, the code requires the property owner to maintain plants in a healthy condition at all times and if dead plantings are not replaced after notification, the property owner is considered to be in violation of the Unified Development Code.

Under **Tree Preservation and Canopy**, the City Council has just adopted a revision to the Tree Ordinance which requires mandatory tree canopy for both commercial and residential projects. These new canopy requirements will increase tree plantings significantly within commercial projects.

The Landscape and Tree Preservation Ordinances were passed by the City Council to comply with the City of San Antonio's adopted master plan, which establishes the character of the city based on citizen input. The master plan of the City of San Antonio envisions, "The purpose of these landscaping, street tree screening and buffer requirements, is to provide standards that will protect the health, safety, and general welfare of the public, enhance property values and improve the appearance of the community through preservation of natural resources, trees and native plants and maintain the ecological balance of the area."