

NOTICE OF PUBLIC HEARING PROPOSED CHANGE IN WATER RATES FOR THE AGRICULTURAL RATE CLASS

The City of Escondido (City) will conduct a public hearing on Wednesday, September 2, 2015 at 4:30 p.m. at 201 North Broadway, Escondido, California in the City Council Chambers to consider the adoption of changes in water rates specific to those customers in the Agricultural Rate classification. Specifically, the Council will consider pass-through of penalties for any excessive water use imposed by the San Diego County Water Authority on those customers participating in the Transitional Special Agricultural Water Rate or the Special Agricultural Water Rate. The Council will also consider all written protests to these changes. *(Further details at the end of this notice)*

Background Information

The Transitional Special Agricultural Water Rate (TSAWR) is a rate consideration given to commercial agricultural water users meeting certain eligibility requirements and voluntarily choosing to participate in the program. Participants pay less per unit volume of water purchased than members of other customer classes. The lower rate for TSAWR customers is given with the understanding that they will not benefit from emergency storage projects constructed by the San Diego County Water Authority (SDCWA). Because they do not benefit from additional emergency storage, they do not support the funding of these storage projects with their water rates (hence their lower rate for water). In times of curtailed supply, water deliveries to them will be reduced before limits will be imposed on other customers.

On May 14, 2015, the Board of Directors of the SDCWA authorized a limit on water deliveries to TSAWR customers. Deliveries to these customers will be limited in Fiscal Year (FY) 2016 (July 2015 through June 2016) to be 15% less than deliveries during FY 2015. SDCWA calculations of the water delivery limits are done at the retail agency level (e.g., Escondido) and are not calculated for individual customers. For the City of Escondido in FY 2016, total deliveries to TSAWR customers over 2,750 acre-feet (af) will be subject to a financial penalty.

General Information

Penalties will be imposed on the City of Escondido for deliveries in excess of the FY delivery limit as follows:

Use by TSAWR Customers as a Percentage of the Allocation	Total Use by all TSAWR Customers within the Escondido Water Service Area (in acre-feet)	Penalty	
		Per acre-foot	Per 1,000 gallons
Up to 100%	Up to 2,750	No penalty	No penalty
100% to 115%	More than 2,750 and up to 3,162	\$1,480	\$4.54
More than 115%	Equal to or more than 3,163	\$2,960	\$9.08

For example, if total TSAWR deliveries are 3,000 af, the SDCWA will charge a penalty of \$370,000 (250 af x \$1,480 per af). If total TSAWR deliveries are 3,200 af, the SDCWA will charge a penalty of \$722,240 ([412 af x \$1,480 per af] + [38 af x \$2,960 per af]).

At the hearing scheduled for September 2, 2015, the Escondido City Council will consider the staff proposal from the Utilities Department to pass through to TSAWR customers any penalties imposed by the SDCWA for excess deliveries.

In no case will the penalty charged to individual customers per af of overuse exceed the penalty imposed by the SDCWA per af of overuse. However, the exact amount of penalties that will be charged, if any, will not be known until FY 2016 deliveries are tabulated.

The SDCWA will calculate penalties based on the total deliveries to Escondido for TSAWR customers. It is possible that some individual customers will exceed the individual limit while the total deliveries to Escondido are below the limit necessary for penalties. In this case, no penalty will be charged to any customers.

Staff will propose that each TSAWR customer be assigned an individual annual water use limit for FY 2016 based on the amount of water they used in FY 2015. Staff will propose that any penalty imposed by the SDCWA be passed-through to only those TSAWR customers that exceed their individual FY 2016 water use limit. These limits have been calculated for individual customers using the same methods that the SDCWA used to calculate the agency-wide delivery limit. For example, if 10 customers are over the individual limit and the City is charged a penalty of \$10,000, each of these 10 customers will be charged a fraction of the \$10,000 penalty equal to the that customer's fraction of the excess use by those 10 customers. This manner of calculation will limit the individual penalty per af to a maximum of the penalty per af imposed by the SDCWA.

Examples to Illustrate Proposed Rate Impacts

To assist customers in understanding how potential penalties will be passed through, pending Council approval, the following three examples are provided:

EXAMPLE 1: TEN TSAWR CUSTOMERS EXCEED THEIR INDIVIDUAL ANNUAL LIMITS; ALL OTHER TSAWR CUSTOMERS ARE AT OR BELOW THEIR INDIVIDUAL ANNUAL LIMITS; THE TOTAL WATER VOLUME DELIVERED TO ALL CUSTOMERS IS AT OR BELOW THE CITY'S LIMIT

Result if pass through is approved: In this case, the City would not be charged a penalty by the SDCWA because the City's water deliveries to TSAWR customers did not exceed the limit. Therefore, no customers – even those who exceeded their individual annual limits – will pay a penalty.

EXAMPLE 2: TEN TSAWR CUSTOMERS EXCEED THEIR INDIVIDUAL ANNUAL LIMIT BY A TOTAL OF 200 ACRE-FEET; ALL OTHER TSAWR CUSTOMERS ARE BELOW THEIR INDIVIDUAL ANNUAL LIMIT BY A TOTAL OF 100 ACRE-FEET; THE TOTAL WATER VOLUME DELIVERED TO ALL CUSTOMERS IS IN EXCESS OF THE CITY'S LIMIT BY 100 ACRE-FEET

Result if pass through is approved: In this case, the City would be charged a penalty of \$148,000 (\$1,480 per acre-foot x 100 acre-feet). This penalty will be distributed among the customers whose deliveries exceeded their individual annual limits. Other customers will receive no penalty. The fraction of the total penalty charged to each overusing customer will be equal to the fraction of the total overuse by all customers that is attributed to that individual customer. In this particular example, a customer who used 20 acre-feet in excess of their individual annual limit would be charged a penalty of \$14,800 (that is, 10% of the total penalty) because that customer's overuse was 10% of the total overuse of those exceeding their individual annual limits.

EXAMPLE 3: TEN TSAWR CUSTOMERS EXCEED THEIR INDIVIDUAL ANNUAL LIMIT BY A TOTAL OF 1,000 ACRE-FEET; ALL OTHER TSAWR CUSTOMERS ARE BELOW THEIR INDIVIDUAL ANNUAL LIMIT BY A TOTAL OF 500 ACRE-FEET; THE TOTAL WATER VOLUME DELIVERED TO ALL CUSTOMERS IS IN EXCESS OF THE CITY'S LIMIT BY 500 ACRE-FEET

Result if pass through is approved: In this case, the City would be charged a penalty of \$870,240 ([\$1,480 per acre-foot x 412 acre-feet] + [\$2,960 per acre-foot x 88 acre-feet]). In this example, 88 acre-feet of the overuse is penalized at the higher rate. As with example 2, this penalty will be distributed among the customers whose

deliveries exceeded their individual annual limits. Since the penalty charged in this example covers both penalty bands (\$1,480 per acre-foot for up to 115% overuse and \$2,960 per acre-foot for overuse above 115%), the fraction of the penalties charged to each customer will be equal to the fraction of that customer's overuse within each penalty band. For this particular example, consider two customers with individual annual limits of 40 acre-feet. The first customer exceeds the individual annual limit by 6 acre-feet, or by 15%. The second customer exceeds the individual annual limit by 12 acre-feet, or 30%. Both customers will pay an equal share of the penalty for the first 412 acre-feet of Citywide TSAWR overuse (\$609,760 times 6 acre-feet divided by 412 acre-feet, or \$8,880). However, only the second customer will pay a share of the penalty for the last 88 acre-feet of overuse (\$260,480 times 6 acre-feet divided by 88 acre-feet, or \$17,760).

There are two important points about the proposed pass through that can be observed in these examples. First, for customers whose overuse is in the lower penalty band (\$1,480 per acre-foot), the actual penalty charged to a customer, if any, will be equal to or less than \$1,480 per acre-foot. Second, any overuse in the higher penalty band (\$2,960 per acre-foot) will be charged the full penalty rate.

Public Hearing

The City of Escondido will conduct a public hearing on Wednesday, September 2, 2015 at 4:30 p.m. at 201 North Broadway, Escondido, California 92025 in the City Council Chambers to consider the adoption of changes in water and wastewater rates, and all written protests.

Written Protests Accepted Prior to the Public Hearing

Protests must be submitted in writing to the City Clerk's office by 5:30 p.m. on Tuesday, September 1, 2015, and will also be accepted at the Council Chambers at the public hearing. All written protests must be signed by the owner and contain a description of the property (address and/or Assessor Parcel Number). You may also fax your protests to 760-735-5782 or send your written protest to:

**City of Escondido
Office of the City Clerk
201 North Broadway
Escondido, CA 92025**

Important note: Protests sent by email will not be accepted.

At the time of the public hearing, the City Council will receive a final tabulation of all written protests received by the City Clerk. The Council will then carefully consider the public input. The rate increase and future pass-through may be approved by the City Council unless a majority of customers file written protests.



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IMPORTANT INFORMATION ENCLOSED REGARDING YOUR WATER RATES