



6/27/17

**MEMORANDUM**

FC 14 (01-02-07)

**TO:** Board of Directors**FROM:** Water Conservation and Demand Management Committee**SUBJECT:** 06/15/17 Water Conservation and Demand Management Committee Meeting Summary**DATE:** June 27, 2017

The Water Conservation and Demand Management Committee (Committee) met on June 15, 2017 and discussed the following topics:

**Agenda Item 1 -The Water Conservation and Demand Management Components of the Water Supply Master Plan (AMI, Leak Detection, Rainwater Harvesting, Stormwater Capture, Model Ordinance, etc.).**

**Ms. Tracy Hemmeter, Senior Project Manager, presented to the Committee:**

Staff presented an update on and the Board discussed Water Supply Master Plan development on April 25, 2017. Discussion topics included the “no regrets” package of water conservation and demand management components that staff plans to include in all water supply strategy/portfolio alternatives; the initial water supply strategy/portfolio alternatives staff developed and their performance against planning objectives; and stakeholder input on the level of service goal. Based on feedback from the Board as well as the internal technical team, staff has further refined the water supply strategy/portfolio alternatives and is focusing largely on the following three – 1) Local Flexibility, 2) Secure Imported Supplies, and 3) Low Cost. Other portfolios, including ones with Pacheco Reservoir Expansion, will also be presented to the Board in September 2017.

Each of the strategy/portfolio alternatives includes the “no regrets” package, consisting of:

- new development model ordinance,
- graywater program expansion,
- leak repair incentives,
- advanced metering infrastructure,
- stormwater recharge,
- agricultural land recharge,
- rain gardens, and
- rain barrels.

The water supply strategies/portfolios are still being refined, but the three aforementioned strategies/portfolios are summarized in Table 1 and discussed below.

Project	Base Case	Strategy 1: Local Flexibility	Strategy 2: Secure Imported Supplies	Strategy 3: Low Cost
“No Regrets” Package		•	•	•
Butterfield Recharge		•		•
Additional Groundwater Banking		•	•	•
Los Vaqueros Expansion		•		
Sites Reservoir				•
Water Rights Purchase				•
Additional Potable Reuse		•		
California WaterFix			•	
District Lifecycle Cost	Not applicable	To be determined	To be determined	To be determined
Percent of Years that Meet the Level of Service Goal	70%	100%	100%	100%
Number of Years (out of 94) with Water Use Reductions	27	9	6	9

**Strategy 1: Local Flexibility** – This strategy/portfolio builds on the “Ensure Sustainability” strategy adopted by the Board in the 2012 Water Supply and Infrastructure Master Plan. It optimizes existing supplies (adds recharge, banking, and, potentially, exchange capacity) and meets future increases in demands with water conservation, demand management, and water reuse. One of the key benefits of this strategy is the ability to phase in the projects as they become needed. Either the projects can be pushed back or begun earlier, depending on how supplies and demands change over time. This flexibility helps manage risk and uncertainty. Another key benefit of this strategy is that it relies on developing local drought-proof supplies.

**Strategy 2: Secure Imported Water Supplies** – This strategy/portfolio contains California WaterFix, additional groundwater banking, and the “no regrets” package in the other strategies/portfolios. The key benefits of this strategy are that it secures our State Water Project and Central Valley Program contract supplies and addresses risks associated with through-Delta conveyance (levee failure and water quality reductions). A key consideration with this strategy/portfolio is its implementation complexity and uncertainty. Another important consideration is that it relies on a single project to be effective and lacks the flexibility to adjust to changes in demand and supply projections. Staff is continuing to work on cost allocation alternatives for the California WaterFix, which could change the estimated costs and yields for the project.

**Strategy 3: Low Cost** – This strategy/portfolio adds additional groundwater recharge and banking capacity and increases Delta-conveyed supplies through purchasing additional contract supplies (water rights purchase) and participating in the Sites Reservoir project. The key benefit of this project is its relatively low cost. Also, it has some flexibility with implementation. However, this strategy/portfolio increases our reliance on Delta-conveyed supplies and does not address risks associated with through-Delta conveyance.

Staff is working with Expert Panel convened to provide input into the Water Supply Master Plan and California WaterFix business case analysis to further evaluate and refine the strategies/portfolios and will provide verbal updates at the Committee meeting.

## **Agenda Item 2 -Sustainable Groundwater Management Act (SGMA) Update – Potential Basin Triggers Related to SGMA Authorities and the Use of Similar Tools in Other Basins**

**Ms. Vanessa De La Piedra, Groundwater Management Manager presented to the Committee:**  
**The key components of the SGMA’s potential triggers related to SIGMA authorities and use of similar tools in other basins.**

SGMA provides the District with various authorities to ensure groundwater sustainability. Per the District’s 2016 Groundwater Management Plan (GWMP), the District will evaluate the regulation of pumping and implementation of different fee types as potential tools that may be needed to ensure continued sustainability. The Board referred related stakeholder engagement to the Water Conservation and Demand Management Committee (Committee).

At the April 27, 2017 Committee meeting, staff presented an updated stakeholder engagement plan for the evaluation of new SGMA authorities. Major elements of this plan, including the topic of this agenda item, are reflected in the 2017 Committee workplan to ensure an open forum for discussion and opportunity for stakeholder input.

The June 15<sup>th</sup> meeting provided information on how other basins have used authorities that are similar to the SGMA authorities being evaluated and describes potential basin conditions that could trigger consideration of SGMA authorities. Related discussion by the Committee and stakeholders will help inform the staff analysis of these authorities and the development of a draft implementation framework for these authorities, should they ever be needed.

At the April 27, 2017 Committee meeting, staff also provided an update on public comments received by the California Department of Water Resources (DWR) on the District’s GWMP, which was submitted as an Alternative to a Groundwater Sustainability Plan (GSP). The complete set of comment letters submitted to DWR and related District responses was included as Attachments 1 through 5 (separated by commenting entity) in our agenda packet.

### **Summary and Next Steps**

While a number of agencies had authorities available to regulate pumping before SGMA, few have followed through with implementation, and the pumping regulations have generally been in response to overdraft or salt water intrusion. As discussed in previous Committee meetings and noted in the GWMP, these authorities have important limitations related to water rights and land use authority that must be carefully considered.

Discussion by the Committee and stakeholders at the June 15<sup>th</sup> meeting will help inform the preliminary staff analysis, which will be included on a Committee agenda in August 2017 for review and input by the Committee and stakeholders. That analysis will include consideration of the following:

- Which specific SGMA tools are best suited to help ensure sustainability or further the District's ability to manage groundwater?
- How might these authorities be implemented – who would be affected, what actions would be required, etc.?

### **Agenda Item 3-Sustainable Groundwater Management Act (SGMA) Update – Discussion of Fixed Charges and/or Tiered Fees**

#### **Mr. Darin Taylor, Chief Financial Officer presented to the Committee:**

SGMA provides the District with various authorities to ensure groundwater sustainability. Per the District's 2016 Groundwater Management Plan (GWMP), the District will evaluate the regulation of pumping and collection of different fee types as potential tools that may be needed to ensure continued sustainability. The Board referred related stakeholder engagement to the Water Conservation and Demand Management Committee (Committee).

As stated in the GWMP, fixed charges are of interest due to the potential to reduce revenue volatility. This agenda item focuses on the fees that can be collected pursuant to SGMA, and is intended to promote discussion by the Committee and stakeholders to inform the potential implementation of different fee types.

#### **BACKGROUND:**

At the April 27, 2017 Committee meeting, staff presented an updated stakeholder engagement plan for the evaluation of new SGMA authorities. Major elements of this plan, including this discussion of SGMA fees, are reflected in the 2017 Committee workplan to ensure an open forum for discussion and opportunity for stakeholder input.

SGMA allows GSAs to impose fixed charges and fees charged on a volumetric basis, including, but not limited to, fees that increase based on the quantity of groundwater produced annually, the year in which groundwater production at a well began, and impacts to the basin. As noted in the GWMP, fees imposed pursuant to SGMA must comply with applicable provisions of Proposition 218.

Currently, the District collects volumetric fees based on the quantity of groundwater produced in accordance with the District Act. Staff will conduct a preliminary analysis of the various fees that can be collected pursuant to SGMA to determine if they further sustainable groundwater management or reduce volatility in revenue and rates, and will seek Committee, stakeholder, and Board input as described below. Of particular interest is the concept of a fixed charge, which if implemented, would help reduce revenue volatility associated with swings in water usage. Revenue volatility was a serious issue during the recent historic drought. If the Board wishes to pursue implementation based on the preliminary analysis, a fixed charge would address a portion of the District's revenue requirement. Accordingly, the volumetric charge would be lower, such that the implementation of the fixed charge would be revenue neutral to the Water Utility Enterprise Fund. It is expected that the majority of revenue requirements would continue to be based on volumetric fees. The high-level plan to evaluate the fixed charge concept includes, but is not limited to, the following steps:

1. June 2017 – Obtain Committee and stakeholder input on the fixed charge concept
2. July 2017 – Complete internal finance staff assessment of feasibility
3. August 2017 – Obtain Committee feedback on the preliminary feasibility analysis
4. October 2017 – Obtain feedback from the Water Retailers Finance Subcommittee on the preliminary feasibility analysis
5. October 2017 – Provide Committee and Water Retailer input to the Board and obtain Board direction on whether to pursue implementation

If the feasibility analysis indicates the fixed charge concept is beneficial and the Board directs staff to pursue implementation, the proposed development process would include, but not be limited to, the following steps:

1. October 2017 to February 2018 – Request for Proposal (RFP) process to engage consultant
2. March to October 2018 – Detailed fixed charge proposal preparation including subsequent revisions, and review with the Committee, Water Retailers, and Board
3. October to November 2018 – Board approval of fixed charge proposal to be incorporated in to FY 2019-20 groundwater charge proposal (Feb 2019 PAWS report)

These steps are consistent with the steps taken by Zone 7 Water Agency, which implemented a fixed charge component for their calendar year 2017 rates. The fixed charge component recovers 35% of the Zone 7 revenue requirement, and the volume-based rate now recovers 65% of the revenue requirement, which will help revenue stability and future fiscal sustainability.

Regarding the concept of a tiered wholesale charge, staff has explored that with the water retailers in past years, and has reported to the Board the many challenges associated with the concept, including the fact that a wholesale tiered charge would not impact the price signal to the end consumer. The retail agencies control the price signal to the end consumer, and the majority of retailers, with the exception of the City of Santa Clara and the City of Milpitas, have tiered rates. In addition, the water retailers have expressed unanimously that they do not support a wholesale tiered charge.

Staff is requesting Committee and stakeholder input on the concept of fixed charges and tiered rates as well as the related evaluation steps above.

**Agenda Items to add to work plan:**

Discussion of potential South County Water Treatment Plant

Board member comments and suggestions can be forwarded to Ms. Glenna Brambill, Management Analyst II, at 1-408-630-2408 or by email to [gbrambill@valleywater.org](mailto:gbrambill@valleywater.org).

Thank you.

*Richard P. Santos*

Director, District 3

Water Conservation and Demand Management Committee Chair