



## MEMORANDUM

FC 14 (01-02-07)

**TO:** Board of Directors

**FROM:** Water Conservation and  
Demand Management  
Committee

**SUBJECT:** Water Conservation and Demand  
Management Committee Meeting Summary  
for March 25, 2019

**DATE:** April 9, 2019

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This memorandum summarizes agenda items from the meeting of the Water Conservation and Demand Management Committee held on March 25, 2019.

### ACTION ITEMS

#### 4.1 FIXED/VARIABLE CHARGES:

Mr. Darin Taylor reviewed the following:

#### Agenda Memo Summary:

The District currently charges customers solely on the volume of water used, most California water providers—and all the District's retailers—have rate structures that incorporate a fixed charge with a volumetric charge. Like most utilities in California, the District required mandatory conservation during the drought and continues to ask its customers to use water efficiently. The District's current rate structure is challenging during drought because revenues plummet with reduced water sales, and the resulting volatility required the District to raise rates significantly higher than planned.

California's Sustainable Groundwater Management Act (SGMA) gave the District additional authority to regulate groundwater pumping and new authority to assess different types of groundwater charges. In 2016, the District agreed to evaluate these new authorities in cooperation with water retailers and stakeholders to determine if implementation would help the District more sustainably manage groundwater into the future.

The District engaged Raftelis to develop a fixed charge proposal and assist with implementation. Although progress was made in developing a model that could be used to analyze the impacts of a fixed charge, it became very clear after a couple of meetings that the majority of retailers strongly opposed the implementation of a fixed charge. Staff recommended suspending the effort to the Water Conservation and Demand Management Committee on October 31, 2018 and to the full Board on November 27, 2018. The Water Conservation and Demand Management Committee requested an update on the effort at a future meeting, which is the purpose of this agenda item. Below is a summary of the key reasons cited by retailers for their opposition:

1. **Take or pay contracts** for treated water are perceived as redundant to a fixed charge. Several retailers expressed interest in opening the treated water contracts and removing the take or pay provision to gain support for the fixed charge.
2. **Mid-year increase capability** already exists to address impacts of drought, which is a tool that negates the need for a fixed charge.
3. **Revenue neutrality skepticism** was a concern in that the District may not be able to achieve it, or may not be able to achieve it equitably amongst all the retailers.
4. **SGMA authority** for a fixed charge for treated water was a concern. Retailers could see the SGMA authority connection to groundwater charges but struggled with the connection to treated water even though the groundwater and treated water systems are intrinsically linked.
5. **Applying a fixed charge to major customers only** was a big concern. Many well owners are small unmetered water users, and attempting to apply a fixed charge to unmetered customers who pay annually or semiannually does not make practical sense and would be administratively burdensome. But this was seen as an equity issue for the retailers. If the District implemented a fixed charge, then every customer should pay it.
6. **Impact to CPUC regulated retailers.** Both San Jose Water Company and Great Oaks Water Company have what is called "incremental cost balancing accounts" (this is not applicable to California Water Service Company that has a full cost balancing account), which only allows recovery of incremental per unit cost changes of purchased treated water and groundwater extraction on an actual usage basis.

Thus, a fixed charge would not allow cost recovery under the current arrangement with the CPUC. CPUC regulated retailers have to file a rate case, which allows for future recovery at the time the District implements the price change (July of each year) at which time the actual unit price, for recovery purposes, would be uncertain with the implementation of a fixed charge. For a publicly traded company like SJW, this would complicate financial reporting since balancing accounts are booked. The obvious solution to this would be for the CPUC to allow conversion to a full cost balancing account, however that has been denied for both companies several times over the last decade.

Staff had hoped that this effort would result in a “win-win” for both the District and the retailers (revenue stability for the District and cost stability for the retailers). If it is not possible to achieve a “win-win”, then staff would not recommend further pursuit of a fixed charge.

**Chief Taylor’s added summary:**

- SGMA (the Sustainable Groundwater Management Act) allows Valley Water to implement a fixed charge that would complement its volumetric groundwater charge.
- A fixed charge would allow Valley Water to receive a portion of water revenue from groundwater pumpers on a more stable basis, which would minimize the revenue impact when water use decreases such as in a drought.
- Staff analyzed this opportunity and discussed it with the Retailers at a Water Retailers Finance Subcommittee meeting in September 2018, and the Quarterly Retailer meeting in October 2018.
- The Retailers generally strongly opposed a fixed charge for various reasons.
- The Committee reviewed the reasons for Retailer opposition at its March 25 meeting, and agreed with staff’s intent to not proceed with further development of a fixed charge at this time.

**The Committee took no action.**

## **5.2 STORMWATER RESOURCES PLAN (SWRP) GREEN STORMWATER INFRASTRUCTURE – UPPER PENITENCIA CONCEPT**

Mr. Gabriel Vallin reviewed the following:

**Agenda Memo Summary:**

On Monday, February 25<sup>th</sup>, 2019, the Santa Clara Valley Water District (Valley Water) Water Supply and Conservation Unit staff updated the Committee on the suite of conservation and stormwater capture projects that are in the Water Supply Master Plan. The project suite update included a discussion of the Stormwater Resources Plan, which includes the Upper Penitencia Creek Green Stormwater Infrastructure Project (SIP). The Committee requested a review and status update for the Upper Penitencia Flood Risk Reduction Project, which includes the SIP. This memo provides a general description of the Upper Penitencia Flood Risk Reduction Project, status, next steps, and the coordination between water utility and watersheds.

The Upper Penitencia Flood Risk Reduction Project is a multi-objective capital project which will provide flood risk reduction along with the additional benefits of supporting and improving ecological processes and functions, maintaining and enhancing water supply, and improving recreational opportunities. The project reach is Upper Penitencia Creek from its Coyote Creek confluence up to Dorel Drive just downstream of Alum Rock Park. The capital project is currently in the planning phase with the project team working on alternatives development, and a draft Planning Study Report is scheduled to be completed by the end of June 2019. The alternatives being developed include elements such as floodplain bench widening, setback floodwalls and berms, and flood detention basins. A multi-discipline Valley Water project team has met regularly to discuss project concepts and alternatives.

The SIP is a stormwater component of the overall Upper Penitencia Flood Risk Reduction Project. Stormwater capture projects must be included in a Stormwater Resources Plan to be eligible for grant funds from any voter-approved State bonds. Valley Water submitted the SIP to the Bay Area Stormwater Resources Plan. Project concepts submitted to the Stormwater Resources Plan were prioritized using metrics to assess their benefits including: water quality improvements, water supply (capture and use), flood management benefits, and environmental and community benefits. The SIP concept scored highly and was chosen for conceptual design. The concept design for the SIP included coordination, which will continue, between Water Utility, Watersheds, the Santa Clara County, and the City of San Jose.

The SIP project location is at the Penitencia Creek City Park, adjacent to the creek near the intersection of Penitencia Creek Road and Piedmont Avenue. The preliminary design includes a subsurface cistern to capture runoff from city drainage to irrigate the proposed sports fields (includes pretreatment of water). An approximately 5-acre lawn area will serve as detention storage for overflow during floods. There is a tri-party agreement between Valley Water, the City of San Jose, and the Santa Clara County for the joint-use of public land along Upper Penitencia Creek. This agreement helps us coordinate with the City and County to design stormwater and flood protection concepts that meet all the tri-party partners' needs.

Mr. Vallin handed out the Resilient Landscape Vision for Upper Penitencia Creek by San Francisco Estuary Institute (SFEI) and the Aquatic Science Center which can be found on line at [https://www.valleywater.org/sites/default/files/UpperPenVision\\_FINAL\\_121418-website.pdf](https://www.valleywater.org/sites/default/files/UpperPenVision_FINAL_121418-website.pdf)

**The Committee took no action.**

If you have any questions or concerns, you may contact me at, [gbrambill@valleywater.org](mailto:gbrambill@valleywater.org) or 1.408.630.2408.

Thank you!

Glenna Brambill, Management Analyst II,  
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