

Tiered Rates FAQ

April 2015



Securing Your Water Supply

What is the background on the San Juan Capistrano tiered rates legal issue?

On April 20, the California Fourth District Court of Appeal released its decision in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano*. The court held that the City of San Juan Capistrano's inclining, tiered water rate structure violated California's Proposition 218's proportionality requirements. Proposition 218 requires that water rates reflect the proportional cost of providing water service. Specifically, the court ruled that the City did not correlate its rates within each tier to the prices of water used within each tier.

It is important to note that the court clearly stated "tiered water rate structures and Proposition 218 are thoroughly compatible" so long as the rates reasonably reflect the cost of service attributable to each parcel.

How does the San Juan Capistrano legal decision on tiered rates impact Western who has water budget-based tiered rates?

Western is pleased that the court recognized that tiered rate structures can be structured in compliance with California state law. Western proactively reviews its rates each year as part of its budgetary process to make certain it is only collecting what it needs to recover its costs of service. As part of that ongoing review, Western engaged a rate consultant to design its existing rates to make certain it is recovering sufficient revenues to continue to provide safe and reliable drinking water and to make certain the rates are in compliance with state law.

Western is confident that its rate structure is fully compliant with the requirements of Proposition 218 because the structure was established using a proper cost of service methodology. Western's rate structure was carefully designed to provide equity and fairness among all ratepayers by providing the lowest possible cost water to customers who remain within their individual monthly water budget. The cost increases in the higher tiers are based on the need to secure additional, more expensive water supplies from sources such as groundwater desalination, as well as to fund conservation programs that target

water waste. Based on the high percentage of customers who are routinely within their billing period water budgets, Western's rate structure has been very successful in promoting water-use efficiency, particularly during the State's record drought conditions.

How does Western's water budget-based tiered rate structure benefit customers?

There are multiple benefits to Western customers.

1.) Western's rate structure provides customers with a meaningful signal of efficient water use with every water bill.

California is experiencing a record drought and water agencies throughout the state have been directed to dramatically reduce water use. Under the proposed State Water Resources control Board draft drought regulation, Western is being asked to reduce water use by 32%. Tiered rate structures have a 25-year history of promoting sustained water savings, and are an effective tool to both promote conservation and help keep water rates low.

Every customer's water budget is custom-tailored for each household's water needs. Water budgets are constructed based on the number of household residents and the unique size of a property's irrigated area. If the needs of a household change, customers use an adjustment form to inform the District.

2.) Western's rate structure, in concert with customer's efficient use, allows Western to charge the lowest price for efficient water uses.

Water budgets allow Western to calculate and categorize the total customer water demands based on efficient use. Knowing this information, the District can compare the sources and cost of individual water supplies and determine the applicable tier price.

For example, to meet customer needs in Tier 1, Western purchases a blend of local groundwater and imported water. Local groundwater is the least expensive source. This intentional blending for the most

essential and indispensable water use (indoors for residential) allows Western to charge the lowest rate in the first tier. In the absence of this intentional blending, the cost of local groundwater would be mixed into all water demands (indoor and outdoor) and the marginal cost of the water used indoors would go up. In addition, the cost of excess water use by some customers would be charged to all customers.