



# RIVERSIDE PUBLIC UTILITIES

## Board Memorandum

**BOARD OF PUBLIC UTILITIES**

**DATE:** AUGUST 26, 2019

**ITEM NO:** 14

**SUBJECT:** CONCEPTUAL APPROVAL OF WA-12 AGRICULTURAL SERVICE WATER RATE SCHEDULE

**ISSUE:**

Consider the proposed WA-12 Agricultural Service water rate schedule.

**RECOMMENDATIONS:**

That the Board of Public Utilities:

1. Receive the presentation on the proposed WA-12 Agricultural Service water rate schedule;
2. Conceptually approve the proposed WA-12 Agricultural Service water rate schedule, closing WA-9 Grove Preservation Service upon approval of WA-12 Agricultural Service water rate and transitioning existing WA-3 Irrigation Metered Service and WA-9 Grove Preservation Service Customers to the WA-12 Agricultural Service water rate schedule upon the effective date of the WA-12 Agricultural Service water rate schedule; and
3. Direct staff to prepare all documents necessary for public noticing of the proposed WA-12 Agricultural Service water rate schedule, and schedule a public hearing to be held at the October 15, 2019 Board of Public Utilities meeting, followed by final rate recommendations to the City Council.

**BACKGROUND:**

During the process of considering the electric and water five-year rate plans, the City Council recommended the establishment of an Agricultural Water Rates Task Force (Task Force) to provide rate alternative recommendations for the existing WA-3 Irrigation Metered Service (WA-3) and WA-9 Grove Preservation Service (WA-9) water rates; in the meantime, the existing rates would be frozen at current levels for one year. The rate freeze commenced on July 1, 2018 and continues to be in effect. The Board of Public Utilities (Board) appointed a Task Force of 16 community members and stakeholders, including current customers that fall within the WA-3 and WA-9 water rate schedules. The Task Force met over a thirteen-month period to develop a recommended agricultural water rate. Staff was unable to estimate the fiscal impact for the rate proposed by the Task Force, as the proposed rate did not set forth the allocation of water for crops.

The Task Force presented its final rate recommendation to the Board and the City Council on May 21, 2019 and June 25, 2019, respectively, with both bodies supporting the proposal. Both the Board and the City Council unanimously received and filed the presentation by the Task Force and directed staff to develop a financial impact analysis of the rate proposal and to use available existing published data to establish the initial crop factors for the agricultural water rate proposal. The Board also directed staff to estimate the fiscal impact of the rate freeze for WA-3 and WA-9 customers, and to prepare a revised rate proposal that establishes a true budget-based rate, where indoor use is charged as the first tier of use

(WA-1A Tier one), the agricultural rate is the second tier of use, and the third and fourth tiers of use cover all use that exceeds agricultural use (WA-1A tiers two and three). The City Council directed staff to present the final rate proposal to the City Council for final adoption by October 1, 2019; to use existing University of California Riverside data on crop factors; to allow several adjoining properties to amalgamate to qualify for the agricultural water rate; and to create a Task Force to explore other ongoing opportunities.

## **DISCUSSION:**

The WA-12 Agricultural Service (WA-12) water rate schedule is the proposed water rate resulting from the efforts of the Task Force, as modified by staff to comply with Prop 218. This water rate schedule reflects all of the recommendations made by the Task Force along with additional staff recommended modifications to facilitate its implementation. Staff is developing the necessary public noticing to comply with the requirements of Proposition 218 and has established a schedule to have the public hearing for this rate at the Board of Public Utilities on October 15, 2019, which includes the required 45-day notice period. If WA-12 is conceptually approved by the Board, staff will commence the public hearing process, including the Prop 218 voter protest notification mailer, and will present the rate for approval by both the Board and the City Council in October 2019. Per the Board and City Council's request, staff has developed the financial impact analysis for the WA-12 water rate schedule.

### **How WA-12 Compares to Existing WA-3 and WA-9**

The existing WA-3 Irrigation Metered Service and WA-9 Grove Preservation Service water rate schedules apply to qualifying properties that meet the agricultural requirements of each rate. The WA-3 rate schedule has been closed to new customers since May 31, 2003, and WA-9 has been available to qualifying customers since that time. The WA-12 rate is designed to allocate an appropriate amount of water based on the efficient irrigation of the qualifying agricultural crops being grown. All other indoor domestic use, outdoor ornamental landscape use (including pools), or inefficient irrigation is designed to be billed at the same rates as WA-1A or WA-6 customers. The WA-12 water rate schedule establishes both specific Qualifying Criteria and Qualifying Agriculture requirements for properties, and allocates a specific volume of water to meet the needs of the actual planted areas. In summary, a water budget allocation will be developed for each customer to serve the agricultural uses on the property. All other water use on the property will be billed using the same tier allocations, rates, and criteria as other Riverside Public Utility (RPU) customers.

### **Summary of Recommendations to Modify the Task Force Proposed Agricultural Water Rate**

In order to comply with Prop 218, staff has modified the Task Force proposal to ensure compliance with Prop 218 and to aid in the application of the rate. The following is a summary of the modifications to the Task Force proposed water rate:

1. Revised the area for eligible customers to be "City of Riverside and contiguous area" for consistency with other water rate schedules, which include areas outside of the Riverside city limits.
2. Added formal tiered rate structure tables consistent with the Task Force Rate Proposal to include the monthly Agricultural Water Allocation (Water Allocation) within the other applicable tiers, the actual cost per hundred cubic feet (CCF), the summer/winter variability, and with/without residence scenarios. For qualifying properties with residences, the Water Allocation is set after the tier 1 CCF allocation according to Board direction. For qualifying properties without residences, the Water Allocation remains as set first in the tier structure.
3. Added language and multiplier for the Surcharge Area Outside of the City.
4. Added a requirement that customers complete a WA-12 Agricultural Service Application Form.
5. Added a requirement for physical, onsite inspections to verify information in the application form.
6. Excluded ornamental turf from the definition of pasture.
7. Restricted qualifying vines to grape vines.
8. Defined "livestock" as "animals kept or raised for use other than pleasure."
9. Allowed parcels smaller than ½ acre to participate in this rate if multiple contiguous parcels have a combined area of one-half acre of Qualifying Agriculture and each contiguous parcel has its own water service.
10. Added definitions for:
  - a. Agricultural Water Allocation (AWA)

- b. Irrigated Area Allocation (IA)
  - c. Crop Factors (Kc)
  - d. Reference Evapotranspiration (ETo)
11. Added ability to reduce the WA-12 water allocation for current Gage shareholders, or customers receiving water from Gage under the Utilities' WA-8 rate, so as to ensure a property does not receive a double allocation of agricultural water (under WA-12 and from the Gage Canal Company).
  12. Added a limit to the rate of \$684,000 of undercollection of costs in order to comply with Prop 218, as discussed further herein.
  13. Required that customers used a forced sprinkler irrigation system instead of a gravity-fed irrigation system.

Monthly Agricultural Water Allocation (Water Allocation)

Because a WA-12 customer will not have separate meters, RPU must estimate the amount of water used for agricultural uses and the amount of water used for household or outside, non-agricultural uses. The solution is for a customer to provide, in the Application Form, a description of crops at the service address. Staff will then estimate how much water is needed for those crops, and assign a Water Allocation. Thus, the Water Allocation is an allocation tailored to the agricultural needs of each customer.

The Water Allocation is calculated by using a formula that considers: (1) Riverside's climate (ETo), (2) the needs of various groupings of crops (Kc), and (3) the planted area of qualifying agriculture (IA). The detailed methodology for calculating the Water Allocation is set forth in the Monthly Agricultural Water Allocation (AWA) Formula and Methodology (Attachment 6). The tier structures differ if a residence is located on the property. Of the current 190 WA-3 and WA-9 customers, 169 have a residence on the property. The current number of WA-3 customers has reduced due to customers discontinuing service with RPU.

WA-12 (with residence)

Tier 1 – 0 to 9 CCF	Charged equivalent to WA-1A Tier 1
Tier 2 – Water Allocation	Calculated based on ETo, Kc, IA factors
Tier 3 – up to next 26 CCF > (Tier 1 + Tier 2)	Charged equivalent to WA-1A Tier 2
Tier 4 – All CCF usage > (Tier 1 + Tier 2 + Tier 3)	Charged equivalent to WA-1A Tier 3

WA-12 (without residence)

Tier 1 – Water Allocation	Calculated based on ETo, Kc, IA factors
Tier 2 – All CCF usage > Tier 1	Charged equivalent to WA-6

The four (4) initial Kc factors to be used in the Water Allocation calculation were developed for the crop groupings shown below. See Establishing and Verifying the Initial Crop Factors (Attachment 7) and the Irrigation Training & Research Center Report 03-001 for a more detailed explanation of how the initial Kc factors were developed and verified.

Crop Factor (Kc)	Crop Grouping
0.45	Immature trees (first 5 planted years)
0.53	Grape vines and row crops
0.69	Citrus, avocado, fruit/nut trees, nursery stock
0.89	Pasture with qualifying livestock

Prop 218 and New Customer Program Limit

As part of the Five (5) Year Water Rate plan, RPU studied the existing 197 customers on WA-3 and WA-9, and estimated that the utility was undercollecting the costs to service these customers by approximately \$684,000. Prop 218 requires that only costs necessary to provide service be included in water rates. To comply with Prop 218, RPU offset the undercollection with non-rate revenue. All other non-rate revenue was allocated to other customer classes to reduce rate increases.

In addition, the Task Force proposal opened the rate to all properties within the RPU service territory that are at least one-half acre. (The WA-3 rate is closed to new customers and the WA-9 rate is restricted to the City's Greenbelt area except for qualifying parcels over five (5) acres with a meter that does not serve

a residence). Staff estimates that there are approximately 12,800 half-acre parcels in the City's sphere of influence.

All WA-3 and WA-9 customers will transition to the WA-12 water rate schedule, and under the WA-12 Water Allocation methodology, the undercollection will decrease because water used for household needs and non-agricultural outdoor needs will be billed at the appropriate rate.

Under the proposed WA-12 and as requested by the Task Force, new agricultural customers may be added to the rate. However, staff is unsure as to how many customers will apply and qualify for WA-12, meaning that the undercollection of costs could grow beyond the \$684,000 that is currently offset by non-rate revenue. Staff proposes that WA-12 be capped at \$684,000 of undercollection of costs. This means that new customers with qualifying agriculture can qualify for WA-12 until the \$684,000 undercollection is reached. When the \$684,000 cap is reached, the General Manager will immediately declare the rate closed to new customers, subject to approval of the Board and the City Council. The rate will remain closed until such time as additional non-rate revenues are established to subsidize the cost to provide WA-12 to new customers. The Board and City Council may, by resolution, identify such additional non-rate revenues and increase the program limit.

If the Board and City Council approve the program limit as presented, the fundamentals of the Cost of Service Study remain valid under Prop 218 and will support all RPU water rate classes and schedules.

Reevaluation of Allocations and Actual Usage

Staff suggests that WA-12 be reevaluated after implementation. Staff will analyze how much water was annually allocated to each customer as compared to their actual historical usage, the level of participation, and the ongoing financial impacts of this rate. This evaluation will be included in the rate review process established by the City Council and will include meetings with the ongoing Agricultural Water Rates Task Force.

WA-9 Grove Preservation Service Closure and Transition

Upon City Council approval of the WA-12 water rate schedule, the WA-9 water rate schedule will be closed to new customers. Existing WA-9 customers, along with existing WA-3 customers, will transition to the WA-12 water rate schedule on January 1, 2020.

Next Steps

Public Hearing – Board of Public Utilities	October 15, 2019
Rate Schedule Recommendation – City Council	Subsequently in October 2019
Rate Effective	January 1, 2020

**FISCAL IMPACT:**

Staff is unable to estimate the first full year of undercollection of costs, because the number of new customers that will apply and qualify for the new rate is unknown. However, staff has estimated that the first full year of undercollection of costs from the current 190 WA-3 and WA-9 customers will decrease from \$684,000 to \$271,000 when these customers transition to WA-12. There will be a one-time cost of \$27,500 with annual maintenance of \$1,900 to add WA-12 to the City's billing system.

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Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Proposed WA-12 Agricultural Service Rate Schedule.

2. Recommended Water Schedules WA-3 Irrigation Metered Service and WA-9 Grove Preservation Service (redlined).
3. Task Force proposed Agricultural Water Rate.
4. WA-12 Agricultural Service Application Form.
5. WA-12 Monthly CCF Water Allocation Calculator.
6. Monthly Agricultural Water Allocation (AWA) Formula and Methodology.
7. Establishing and Verifying the Initial Crop Factors.
8. Fiscal Impact Summary and Impacts of Current WA-3 and WA-9 Customers and Projected New WA-12 Customers Under Program Limit.
9. Presentation