

RESOLUTION OF THE BOARD OF PUBLIC UTILITIES APPROVING AN AMENDMENT TO THE SUBREGIONAL SYSTEM 2008 RECYCLED WATER PRICING POLICY ESTABLISHING GOALS FOR PRICING RECYCLED WATER TO SUBREGIONAL SYSTEM CUSTOMERS IN ROHNERT PARK

WHEREAS, in May 2008 the Board adopted the Subregional System 2008 Recycled Water Pricing Policy to establish policy on pricing recycled water so as to align the value of the recycled water resource with regional objective of having this resource available for water supply; and

WHEREAS, the Policy provides general guidance for selling recycled water to existing customers, yet at this time the Subregional System will benefit from specific guidance on pricing recycled water as contracts with Rohnert Park customers expire and new contracts are negotiated; and

WHEREAS, staff proposes to amend the Policy with specific language to guide negotiations with current users in Rohnert Park and to achieve regional consistency; and

WHEREAS, the Subregional Technical Advisory Committee reviewed and supported the proposed amendment to the Policy, and it is attached as Exhibit A.

NOW, THEREFORE, BE IT RESOLVED that the Board of Public Utilities approves an amendment to the Subregional System 2008 Recycled Water Pricing Policy establishing goals for pricing recycled water to Subregional System customers in Rohnert Park.

DULY AND REGULARLY ADOPTED by the City of Santa Rosa Board of Public Utilities this 4th day of December, 2008.

AYES: (6) **LOWE, DOWNEY, GALVIN, HOLT, LINDSAY AND SWINTH**

NOES: (0)

ABSENT: (1) **DOWD**

ABSTAIN: (0)

APPROVED: _____

Seejay Lowe
Vice Chairman Richard Dowd

Seejay Lowe

ATTEST: _____

Gina Perez
~~Joyce Babcock~~ Gina Perez
Recording Secretary

APPROVED AS TO FORM:

City Attorney

Exhibit A

**Santa Rosa Subregional System 2008 – Amendment 12/08
RECYCLED WATER PRICING POLICY**

INTRODUCTION

The Santa Rosa Subregional Water Reclamation System (Subregional System) has had a policy in place since the early 1990's which includes recycled water policies and pricing structures designed to maximize disposal. Because recycled water has become valued regionally as a water supply resource, the Subregional System is establishing this new Recycled Water Pricing Policy with policy guidelines and pricing structures that reflect the water supply value as well as the disposal value.

A. POLICY ELEMENTS RELATED TO ALL RECYCLED WATER USE

1. The Subregional System benefits from the recycled water disposal at urban and agricultural use provides. Recycled water has also been used for regional water supply, and communities benefit from adding recycled water to the water supply mix, thereby reducing the dependence on potable water for diversifying their supply sources, and recycled water can serve, and
2. The Subregional System can provide recycled water because it can be available even under conditions of weather or regulatory water shortage. Recycled water is not limited (e.g.,
3. Santa Rosa currently has numerous contracts with end users of recycled water in the urban areas and in agriculture. Upon expiration or termination, where contracts are renegotiated, new contract provisions will reflect this policy document.
4. Recycled water pricing has historically had the goal of encouraging reuse and meeting regulatory compliance for disposal. Recycled water has now become a valuable resource and the rates charged for the use of recycled water, both wholesale and retail, should reflect its value as a reliable and sustainable water resource.

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Absent Dowd

B. POLICY ELEMENTS SPECIFIC TO URBAN REUSE

1. Policies related to use of recycled water in the urban sector should be developed and carried out by the city or utility that provides retail water service. These policies include but are not limited to whether use will be mandatory or voluntary, which users will be eligible to use recycled water, and discretionary design standards for end-use facilities (such as landscape turf limits).
2. Previous pricing policy in the urban sector had allowed Subregional System members the use of recycled water at no cost. In the early 1990's when recycled water disposal was the sole driver for urban reuse, this policy was appropriate. Today, with regional water resources relying on increased use of recycled water, the value has changed and this model is no longer appropriate.

C. POLICY ELEMENTS SPECIFIC TO AGRICULTURAL REUSE

1. Subregional System operation requires flexibility to respond to weather conditions and operational variables. Supply that can be interrupted in response to variables provides the Subregional System with the benefit of operational flexibility. Pricing interruptible supply to reflect the benefit to the Subregional System is reasonable.

2. Rates charged for water should be take into consideration the relative reliability of the water supply, the time of year it is provided to the end user, and other site-specific factors which may affect the impact on the Subregional System to provide the water under the conditions agreed to by the City of Santa Rosa and the end user.

D. RATE STRUCTURES

1. Urban Use

The Subregional System currently serves urban recycled water customers in the cities of Santa Rosa and Rohnert Park, with the rates set by individual contracts or operating agreements with each end user. Both cities have completed feasibility studies on expanding the use of recycled water in their communities, and all or part of these expansions will likely be built over the next decade. The Cities of Cotati and Sebastopol, and other regional agencies may also seek to use recycled water from the Subregional System in the future.

- Existing and Future Santa Rosa Urban Reuse Project The Subregional System will sell recycled water to the City of Santa Rosa water utility for the Santa Rosa Urban Reuse Project on a wholesale basis. The City of Santa Rosa will set retail rates and establish all end user policies. The Subregional System will continue to provide service to the end users within the City of Santa Rosa Urban Growth Boundary for all current contracts and operating agreements until those agreements expire or are otherwise terminated, at which time the Santa Rosa water utility will provide recycled water service under the conditions of this Policy and Santa Rosa City Code.

Wholesale Recycled Water Rate for Santa Rosa Urban Reuse Project: The wholesale recycled water rate for the Santa Rosa Urban Reuse Project was set by Santa Rosa City Council at \$225 per acre foot in 2008 dollars, adjusted annually consistent with the percent changes in Sonoma County Water Agency's wholesale water rate applicable to the City of Santa Rosa. Initial connections to the Santa Rosa Urban Reuse Project are expected by January 1, 2010. This wholesale rate provides greater revenue and lower net operating costs to the Subregional System; and provides recycled water to the Santa Rosa water utility at a rate that allows for adequate revenue from retail sales to cover the cost of operating the recycled water distribution system.

- Existing Rohnert Park Urban Reuse Project The Subregional System will continue to provide recycled water service directly to the end user in Rohnert Park. Some of the existing users have potable water from the City of Rohnert Park as the alternate source of supply (if recycled water were not available), and others have private wells as the alternate source of supply.

When current contracts expire or are otherwise terminated, new contracts will be negotiated with the goal of the end user paying 95% of the cost of their alternate source of supply with the potential for a phase-in period which would result in the end user reaching 95% of the cost of their alternate supply no later than the end of 2013. In no case should the end user pay less than the rate in their current contract during the phase-in period. If the alternate source of supply is potable water from the City of Rohnert Park, the end user should also pay fixed charges by meter size at the rate of 90% of the City of Rohnert Park potable water fixed charges.

- Other Future Urban Reuse Projects

The Cities of Rohnert Park, Cotati and Sebastopol, as Subregional System agencies, are eligible to direct a portion of the recycled water that is land applied to their

service areas for urban reuse. Regionally, other cities or special districts may also be interested in Subregional System recycled water for urban application.

The approach to rate setting for urban reuse for other agencies will be guided by the Policy Elements of sections A and B of this Policy, and will consider the specific interests of the agency and the Subregional System as well as market conditions for water and Subregional System costs of recycled water operations at such time as a project is identified. Flexibility exists to tailor the specific approach to the needs and interest of the parties involved.

A number of factors may influence the choice of institutional structure for future urban reuse projects, which in turn will influence rates and rate structures. Operation of a retail urban recycled water systems by the Subregional System may most effectively meets all parties' needs; or a wholesale/retail model may be most appropriate; or a hybrid of these approaches may be most effective.

2. Agricultural Use

The Subregional System will continue to provide recycled water to agricultural users under individual contracts. When current contracts expire or are otherwise terminated, any new contracts will be in accordance with the provisions of Sections A and C of this Policy. Water rates will continue to be determined by contract for agricultural recycled water delivery from the Subregional System. Rates will be designed to reflect the market conditions for water and the degree to which the use provides flexibility to the Subregional System, in accordance with this Policy.