

ORDINANCE NO. 92

**AN ORDINANCE OF THE BOARD OF DIRECTORS
OF THE NAPA SANITATION DISTRICT, AMENDING ARTICLE IX
OF THE DISTRICT'S SEWER USE ORDINANCE,
RELATING TO RECYCLED WATER RATES**

WHEREAS, the Napa Sanitation District's National Pollutant Discharge Elimination System (NPDES) Permit establishes May 1 through October 31 as a non-discharge period to the Napa River; and

WHEREAS, the District has built tertiary treatment facilities at its Soscol Water Recycling Facility (SWRF) and a distribution system for recycled water; and

WHEREAS, the District produces "Title 22 Unrestricted" recycled water for customers to use in accordance with state law; and

WHEREAS, the District relies on recycled water customers to use recycled water in the summer months in order for the District to comply with its dry weather non-discharge period; and

WHEREAS, the demand for recycled water has grown, with potential future customers in the Milliken-Sarco-Tulocay (MST) creeks area and Carneros area exploring options to create a Community Facilities District or other mechanism to build and pay for recycled water distribution systems to these areas; and

WHEREAS, the District will need to build new tertiary treatment facilities at the SWRF to meet the projected future demand for recycled water, which is estimated to cost \$14 million and will be financed through SRF loan or some other vehicle; and

WHEREAS, the rate for recycled water was originally set at 75 cents per 1,000 gallons, and has increased by CPI annually since 2002, to the calendar year 2011 rate of 91 cents per 1,000 gallons, with this rate established purposely below the cost of service to encourage recycled water usage; and

WHEREAS, the contracts of all existing recycled water customers expire on October 31, 2015; and

WHEREAS, potential future recycled water users requested that the District establish a rate for recycled water that will extend beyond the October 31, 2015 date, to provide better information for them as they consider paying for and expanding the recycled water distribution system; and

WHEREAS, the District needs to establish its future recycled water rate to show financiers that the District has the means to generate sufficient revenue to pay for debt service on the tertiary treatment capital improvements; and

WHEREAS, based on the *Recycled Water Cost of Service and Rate Study Report*, prepared by Raftelis Financial Consultants, Inc., and dated February 2012, the Napa Sanitation District Board of Directors makes the following findings:

- A) According to the *Recycled Water cost of Service and Rate Study Report*, the Cost of Service for recycled water is approximately \$2.93 per 1,000 gallons. This calculation includes anticipated future renewal and replacement. The calculation excludes the existing capital costs for tertiary treatment and distribution, and the current operating costs to treat water to tertiary levels, as these costs are considered part of the cost of the District to comply with its dry weather non-discharge period, and therefore are more appropriately allocated to sewer uses and paid through the sewer service charge.
- B) The *Recycled Water Cost of Service and Rate Study Report* assumes 1,823 acre-feet of water will be sold in fiscal year 2016/17, for both existing customers and new customers. These recycled water usage estimates are too low and should be adjusted to increase Napa State Hospital to 200 acre-feet per year (AFY), increase MST to 500 AFY, increase infill to 50 AFY, and increase usage from existing customers to 1,000 AFY, for a total of 2,350 AFY. The impact of these changes is to decrease the cost per 1,000 gallons.
- C) The *Recycled Water Cost of Service and Rate Study Report* includes costs associated with the renewal and replacement of distribution pipeline and recycled water equipment of \$735,270 annually. These costs are included as part of the \$2.93 per 1,000 gallons rate recommendation. While it is appropriate to collect revenues in anticipation of these expenses, it is also important to promote connections by new users through lower rates, if possible. The District should therefore not include these expenses in its rate calculation initially, but instead should gradually build these expenses into the rate until the recommended amount is being collected. This can be accomplished by excluding these costs in calendar years 2016-2018, and increasing the rate by 2.0% above the CPI inflator annually starting in calendar 2019.
- D) It is in the District's interest, because of its dry weather non-discharge period, to continue to encourage existing large recycled water users to keep using recycled water. This interest is significant enough to justify reducing the costs of recycled water for these users, in exchange for long-term "must pay" contracts that encourage these users to use recycled water in large quantities, even when weather and other conditions may lessen demand.
- E) It is in the interest of the District and the community to provide recycled water to meet the demand. Because of limitations of storage, the District will likely not be able to meet all of the demand for recycled water in the peak demand months. To

encourage increased availability of water, the District therefore finds that it is advantageous to encourage customers to take recycled water during the wet season months, and for those customers to store the recycled water on their own properties until such time as it is needed for irrigation or other purposes. This can be accomplished by establishing a lower rate for recycled water in the non-peak demand months of January, February and December that represents the operating costs to produce the water on an intermittent basis – calculated at approximately \$1.20 per 1,000 gallons. If the District could concentrate this non-peak demand usage to a one-month period and not have the non-peak demand usage be intermittent, then costs could be reduced even further – calculated at approximately \$1.05 per 1,000 gallons. These cost calculations exclude capital costs as the capital costs should be fully borne by peak demand water customers.

- F) By incorporating the findings noted above, the Cost of Service including renewal and replacement expenses is \$2.33 per 1,000 gallons. If the renewal & replacement expenses are removed, the Cost of Service is \$1.37 per 1,000 gallons for all anticipated use. Including an adjustment for decreased rates for “must pay” contracts, the rate per 1,000 gallons of recycled water, excluding renewal and replacement costs, is \$1.25 for customers with “must pay” contracts and \$1.57 for all other customers.
- G) It is appropriate to establish a monthly meter charge for those costs that are based not on the amount of water used, but on a per-meter or per-account basis. These costs include the cost to read meters monthly, provide annual user training, conduct cathodic protection and leak detection testing, and account invoicing.
- H) It is in the interest of the District to reduce administrative inefficiency by allowing for an administrative waiver of recycled water charges when the cost of collecting those charges exceeds the cost of invoicing and monitoring those charges. For this reason it is appropriate to authorize the Director of Administrative Services to waive charges in these instances.

NOW, THEREFORE, BE IT ORDAINED BY THE BOARD OF DIRECTORS OF THE NAPA SANITATION DISTRICT:

SECTION 1. Section 919 of ARTICLE IX is hereby added to the Sewer Use Ordinance as follows:

Sec. 919 Recycled Water Rates. Rates are hereby prescribed for the purchase of recycled water from the District.

- A) **CPI Defined.** For use in calculating recycled water rates under this section, the Consumer Price Index (CPI) shall be defined as the Consumer Price Index for All Urban Consumers, San Francisco-Oakland-San Jose Metropolitan Area (1982-84 = 100), published by the U.S. Department of Labor’s Bureau of Labor Statistics, comparing the current January to the

prior year January index, or the most comparable index if this index is no longer published by the Bureau.

- B) **Rates Through 2015.** For calendar year 2011, the rate shall be \$0.91 per 1,000 gallons of recycled water. For each subsequent calendar year, from 2012 through 2015, the rate shall automatically be adjusted as of the first day of January based on the changes in the CPI.
- C) **Peak Period Rates.** Effective January 1, 2016, during the months of April through November, the rate shall be \$1.57 per 1,000 gallons of recycled water. For calendar years 2017 and 2018, the rate shall automatically be adjusted as of the first day of January based on the changes in the CPI. Starting January 1, 2019 and for each subsequent calendar year, the rate shall automatically be adjusted as of the first day of January based on the changes in the CPI plus 2.0%.
- D) **Intermittent Non-Peak Period Rates.** Effective January 1, 2016, during the months of January, February and December, the rate shall be \$1.20 per 1,000 gallons of recycled water. For each subsequent calendar year, the rate shall be set at 75% of the recycled water rate established per subsection (C) “Peak Period Rates” above.
- E) **March Rates.** Effective 2016, during the month of March, the rate shall be \$1.05 per 1,000 gallons of recycled water. For each subsequent calendar year, the rate during the month of March shall be set at 67% of the recycled water rate established per subsection (C) “Peak Period Rates” above.
- F) **“Must Pay” Contracts Allowed.** Effective January 1, 2016, the District may establish “must pay” contracts that include the following terms and conditions:
 - 1. Users agree to contract for a minimum of 150 acre feet of water during the Peak Period of April through November, whereby the user shall pay for the contracted amount of water, even if the user does not use that water during the Peak Period.
 - 2. Effective in 2016, the rate for recycled water used under a “must pay” contract shall be \$1.25 per 1,000 gallons. Starting in 2017 and for each subsequent year, the “must pay” contract rate shall be set at 80% of the recycled water rate established per subsection (C) “Peak Period Rates” above.
 - 3. For recycled water used in excess of the amount of water contracted during the Peak Period, users shall pay at the rate established per subsection (C) “Peak Period Rates” above.
 - 4. For recycled water used from December through March, users shall pay the rate established in subsection (D) “Intermittent Non-Peak Period Rate” and subsection (E) “March Rates” above. Any amount of recycled water used from December through March does not count as water used under the “must pay” contract.

PASSED AND ENACTED at a regular meeting of the Board of Directors of Napa Sanitation District duly held on the **7th day of March, 2012**, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Jill Techel, Chair
Napa Sanitation District

ATTEST:

Cheryl Schuh, Secretary
Napa Sanitation District

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