

PURISSIMA PIPELINE

Water Rates—the long-term outlook

Last month, the *Purissima Pipeline* explained some of the facts driving our current discussions of revised water rates. In the longer term, here are some of the factors that will affect water rates:

Inflation. The general rate of inflation in the United States has been hovering at approximately 3% per year for some years. Increasing general costs tend to increase water costs to at least this rate. Although 3% sounds fairly benign, if 3% inflation continues indefinitely, the general level of prices—including water rates—doubles every 24 years. On a shorter time scale, 3% per year means that water rates should increase 10% every three years, due to general inflation alone.

Cost. The District purchases all of its water from the San Francisco Public Utilities Commission (SFPUC). The SFPUC is undertaking a massive \$4.3 billion construction program for seismic upgrades and improvements that are long overdue. The expense of this upgrade, and the SFPUC's adoption of better provisions for ongoing maintenance, will increase the price the District pays for water considerably faster than the general inflation rate.

Availability. For the past several years, the District has consumed more water than the "assurance" provides. (The assurance is 792,831 units per year, a unit being 100 cubic feet or 748 gallons.) As long as the water is available, exceeding our allotment is not problematic—in fact, it yields more income for the SFPUC. But if there is a drought, mandatory rationing will be imposed with penalty charges for excess use. The District has formally requested an increase of its supply assurance. No action has been taken by the SFPUC except that the District's needs through 2030 have been included in the SFPUC's plans.

Conservation. The State of California has recommended that rates for water (and other utilities) use increasing block rates to encourage conservation. The District has used this rate strategy for over fifteen years. The District's water use is increasing, even though the Town is largely built-out. The explanation may be that residents are installing more water-intensive landscaping (lawns, for instance) than in the past. In 2000, our customers used an average of 441.5 units for the year, or 37 units in an average month. Future rates can be expected to provide financial incentive to conserve for users who substantially exceed these averages.

Infrastructure. The District is continuing to improve its facilities to enhance reliability, redundancy, and fire protection. The biggest concern is that replacement costs are increasing faster than the general rate of inflation and must be taken into account.

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Board Member
September 2007