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APR 30 2008

JERRY SANDERS  
MAYOR

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SAN DIEGO  
COUNTY GRAND JURY

April 29, 2008

Honorable Kenneth So  
Presiding Judge  
San Diego County Superior Court  
Main Courthouse, Third Floor  
220 West Broadway  
San Diego, CA 92101

Dear Judge So:

Subject: 2007-2008 San Diego County Grand Jury Report entitled "Water Conservation: Sober Up San Diego, The Water Party Is Over".

Assuring water supply reliability for our San Diego region is a key priority of my administration. I have committed the City to a path leading to diversification of the regional water supply portfolio and more efficient use of existing water supplies. I also continue to support diverse and affordable new sources of water, such as the development of greater desalination capacity and the extension of the city's existing water reuse system as hedges against further demands on water supplies. San Diegans are responding to my aggressive conservation efforts to raise awareness of the need for heightened voluntary water conservation, as well as responding to the advocacy efforts of the San Diego County Water Authority.

I have elected to respond to each and every finding and recommendation because water supply issues are a critical priority, and an issue that impact every aspect of our lives, our communities and regional economy.

Pursuant to California Penal Code Section 933.05(a), (b), and (c), the City of San Diego provides the following responses to the findings and recommendation in the above-entitled Grand Jury Report:

#### **Discussion 1: Conservation Water Rates**

**Finding:** Water conservation would be increased if all users' rates were put into tiered block structures.

**Partially Disagree.** Tiered block rates provide a disincentive to use a lot of water for some customers, and thus can lead to reduced water consumption. However, not all users can be put into tiered block rates since customers vary in size and type of water use.

For example, for commercial/industrial users, a tiered block rate structure would not necessarily impact the amount of water they use for business operations since consumption is more a function of business type and scope, rather than a result of discretionary water use. Health facilities may not have the ability to significantly lower water consumption for health reasons. Industrial customers who have water as a manufacturing ingredient could be unfairly impacted by a tiered block rate structure. For the restaurant industry, water usage and therefore rates, would be different for a larger restaurant (50 plus tables) than smaller restaurants (10 or fewer tables). Depending on how big the restaurants are, conservation measures may not be enough of an incentive to knock them into the lower tiers. Because customers within these classifications are so diverse, it is difficult, if not impossible, to design an equitable tiered block structure for all users.

**Recommendation 08-05:** Put the water rates for multiple-family residences, and for commercial, industrial, and agricultural users into tiered block structures to make charges proportionate to use.

**Response:** The recommendation has not yet been implemented, but could be implemented if appropriate and allowable in the future. In December 2006, a Cost of Service Study was conducted by Raftelis Financial Consultants, Inc. to review the process by which the City allocated the cost of service to the users of the water system. In adherence to the Cost of Service Study, the City developed the current rate structure based on the base-extra capacity method endorsed by the American Water Works Association, a nationally recognized industry group. This method allocates costs and classifies customers by using several factors including average daily usage and peaking factors (periods of maximum usage). As a result of that study the City Council and Mayor approved increasing the number of customer classes (adding classes with separate rates for Other Domestic, Commercial/Industrial, and Agricultural/Construction classes) and approved four annual rate increases beginning with fiscal year 2008 and ending with fiscal year 2011.

The City will be doing another cost of service study at the end of the currently approved rate period (fiscal year 2011) and at that time, the Cost of Study will be directed to look into the feasibility of either creating additional customer classes which might allow equitable tiered structures or investigating the use of other mechanisms (such as water budgets) which might result in additional conservation.

## **Discussion 2: Water Restrictions**

**Finding:** Mandatory water restrictions in a Stage 2 water alert should be made permanent.

**Disagree.** The San Diego Municipal Code clearly specifies the course and sequence of actions necessary to implement water conservation measures in the City. Mayor Sanders has been following the Code and has been actively working to encourage far greater water conservation throughout the city.

To date, neither the City's Water Department, the San Diego County Water Authority (CWA) or the Metropolitan Water District have called for, nor implemented mandatory restrictions on water use. However, as part of a regional supply management effort, the San Diego CWA has been working with the local water agencies on a Regional Drought Model Ordinance with the objective of recommending a more consistent, region-wide approach to water use restrictions in the event of supply shortages and to consider which, if any, restrictions should be made permanent. Water agencies are not obligated to adopt the CWA model drought ordinance, but are encouraged to review it for consideration. The City is currently reviewing the model ordinance for possible incorporation into its existing drought response plan set out in Municipal Code. It is anticipated that provision of the Regional Drought Model Ordinance may come forward for Council consideration in early Fiscal Year 2009.

**Finding:** The City of San Diego faces bleak prospects for the future in terms of the chance of growth colliding with the projected long-term dwindling of water supplies at reasonable cost.

**Disagree.** There is no doubt that the City of San Diego's water supply reliability is challenged but it is far from bleak. San Diego has proactively conserved water since the early 1990's. As a result, the City of San Diego has added more than 270,000 residents since 1987 without increasing overall demand for water. In this time, the City has also improved its plumbing regulations, increased its water conservation programming and worked closely with the San Diego County Water Authority to develop a long-term plan for water supplies to the City.

For example, in 2003, the Quantification Settlement Agreement (QSA) established two major water supply reliability programs for the San Diego region. First, San Diego will have an additional 77,700 acre-feet per year (AFY) of dedicated Colorado River water supplies established by 2009, upon completion of the canal lining projects in the Coachella and All-American canals. Second, a permanent water transfer from the Imperial Irrigation District (IID) to the Water Authority was established. The ramp-up schedule for the water transfer currently transfers 50,000 AFY from the IID to the Water Authority. By 2021, the maximum annual water transfer will be achieved and the Water Authority will purchase 200,000 AFY of transfer water every year from the IID.

Combined with ongoing conservation programs and the development of local supplies, the QSA program will reduce the San Diego region's dependence on the Metropolitan Water District from 76% in 2007 to 29% in 2020.

**Recommendation 08-06:** Consider more carefully their growth policy as it relates to San Diego's long-term water prospects and begin more rigorously enforcing the requirement that any large project proposal be able to ensure a 20-year supply of water.

**Response:** This recommendation has been implemented. Since January 2002, California state law has required 20-year Water Supply Assessments for approval of large scale development projects. Water demands needs are based upon the community plans approved by the City Council as measured with SANDAG Regional Growth Forecasts. These growth forecasts are then used to derive overall future water demands for San Diego and incorporated as part of both the City's Urban Water Management Plan and the County Water Authority's supply planning documents.

The Water Department complies fully with SB610/221, the State of California Urban Water Management Planning Act (UWMPA), and already offers significant safeguards for long-term demand on regional water supplies. Compliance with SB 610/221 is carried out through the City's Urban Water Management Plan (UWMP). The City's 2005 UWMP was adopted by the San Diego City Council on September 11, 2006, and was filed with the Department of Water Resources (DWR). It stands as the City's foundational water planning document and is fully consistent with the California UWMPA.

Under SB 610/221, the Development Services Department (DSD) ensures that major projects are sited and designed to minimize impacts to water resources. Pursuant to SB 610, prior to approval of any discretionary permit for a future project, DSD requests the Water Department prepare a water supply assessment (WSA) to be included in the environmental documentation of certain large proposed projects.

**Recommendation 08-07:** Publish the current water restriction stages and conditions in order to induce greater participation in conservation efforts.

**Response:** The recommendation has been implemented. The current water usage restrictions are published under San Diego Municipal Code 67.3806. Copies are available via the internet on the City of San Diego's website and from the City upon request. Upon activating the provisions of the Municipal Code, the City is required to publish the restrictions. This information was also published in the most recent Urban Water Management Plan of 2005. The restrictions will also be posted in a prominent location on the Water Department's website.

**Recommendation 08-08:** Base the cost of new water meters on the current and projected water conditions.

**Response:** The recommendation has not yet been implemented, but could be implemented if appropriate and allowable in the future. Some jurisdictions in other States have been successful in implementing similar "new supply fees, however, Proposition 218 in the State of California may preclude the implementation of this type of future supply related fee. During Fiscal Year 2009, we will investigate the feasibility of implementing this type of fee.

Currently, the cost of new water meters or new connections to the water system are currently addressed as capacity (developer) fees. These are one-time fees used to recover some or all of the costs of providing the system additional capacity when a new user connects to the water system. The use of such funds is in fact restricted by law (both the San Diego Municipal Code and State Code Section 66001) to only paying for expansion of the water system. Examples of these costs include those related to increasing capacity in treatment plants, pumping stations, storage reservoirs, and water mains. Capacity fees do not incorporate the current or projected water conditions (supply) because that is not an issue of system capacity. Inclusion of current or projected water supply issues to the capacity fees could be considered if large capital improvement projects were planned to add additional storage capability to the water system. If such projects occur, their costs would automatically be included in capacity charges.

**Recommendation 08-09:** Formalize concrete triggers for water alerts to make them automatic and less arbitrary.

**Response:** This action has not been implemented, but may be implemented in the future. The City's current restrictions and triggers for water alerts are being reviewed and updated as part of a regional effort led by the San Diego County Water Authority (CWA), working with all its member water agencies including the City of San Diego. CWA's "Model" Drought Ordinance is designed to achieve greater county-wide consistency in drought response actions, including triggers, while also allowing individual agencies to modify the "model" ordinance based upon particular demographics and constituencies. Water agencies are not obligated to adopt the CWA model drought ordinance, but are encouraged to review it for consideration. The City is currently reviewing the model ordinance for possible incorporation into its existing drought response plan set out in Municipal Code.

**Recommendation 08-10:** Make some or all of the voluntary usage restrictions in Stage 1 water watch permanently mandatory in San Diego.

**Response:** This action has not been implemented, but may be implemented in the future. The City is currently reviewing the current drought response plan set out in the Municipal Code for possible modification. This review is being performed as part of region-wide effort coordinated by the County Water Authority to achieve a greater county-wide consistency in drought response planning.

### **Discussion 3: Water Conservation Education**

**Recommendation 08-11:** Periodically distribute to all residents information on water conservation and pursue other methods such as media coverage to get the public's awareness of the need for a maximum effort at conservation.

**Response:** The recommendation has been implemented. Mayor Sanders is leading an extensive public education campaign to promote greater water conservation. The Mayor's efforts, including weekly press conferences, public presentations and news releases are in addition to the

aggressive and well publicized water conservation program he requires from the Water Department. The program includes regular water bill inserts, messages on the combined water/sewer bills sent to all customers, free water conservation audits, web-based water use calculators and an extensive list of other initiatives. The Water Department has also included water conservation information in its annual Consumer Confidence Report that is published annually and mailed to each dwelling unit.

#### **Discussion 4: Water Reuse**

**Finding:** The cost of laying purple pipe versus the low cost of recycled water is inhibiting the extension of the purple pipe systems.

**Partially Agree.** The challenge to connect new customers to the recycled water system extends beyond the recycled water rate and cost to build new pipelines. While new development is conditioned to install recycled water pipelines in anticipation of future delivery (which keeps the cost in line with anticipated costs for new construction), costs can be quite high for existing potable customers interested in retrofitting their current plumbing system to accept recycled water. The rate currently charged by the City for recycled water is \$350 per acre foot, approximately 30 percent of the rate charged to commercial and industrial customers for potable water. The low rate for recycled water does limit the City's ability to expand the recycled water pipeline system.

**Finding:** Recycled water could be used for reservoir augmentation.

**Disagree.** Augmentation of reservoirs with recycled water has not yet been approved by California state regulators. Additional study and demonstration of treatment technologies is required to secure the necessary state permits for reservoir augmentation. Funding for this strategy was not identified in the water rate case approval by Council in 2007.

**Finding:** The City Council of San Diego has recently approved of a "pilot study" on the reuse of reclaimed water as potable water. This pilot study calls for the San Diego Water Department to conduct reservoir augmentation for a period of one year to assess the viability of this as an available option for increasing San Diego's available water supplies.

**Partially Disagree.** The San Diego City Council approved the development of an implementation plan for the NC-3 strategy as set forth in the 2006 Water Reuse Study including but not limited to:

1. An independent energy and economic analysis of all water supply augmentation methods in the Long Range Water Resources Plan;
2. A current flow and detention study at the San Vicente Reservoir; and
3. A one-year indirect potable reuse demonstration project.

The Council's action regarding the NC-3 strategy does not call for conducting reservoir augmentation, but rather for a demonstration project. Under the action, no water will be sent to the reservoir.

**Recommendation 8-12:** Raise the cost of recycled water to at least 80% of that of potable water, and use this income to finance expansion of the recycled water distribution system.

**Response:** This action requires further analysis. Currently, the Water Department is conducting a Recycled Water Pricing Study (Pricing Study) to determine the cost of producing and distributing recycled water. The scope of the Pricing Study includes development of recommendations for recycled water commodity rates, base fees, capacity charges, alternative rate structures and a Recycled Water Rate Model. Inputs to the Pricing Study include cost of operation and maintenance for production and distribution facilities as well as capital costs for the most feasible expansion projects. It is anticipated that the Recycled Water Pricing Study will be completed in Fiscal Year 2009.

**Recommendation 8-13:** Approve the use of recycled water for reservoir augmentation.

**Response:** This requires further analysis. On December 3, 2008 the City Council approved the development of a plan for implementation of the NC-3 strategy, as set forth in the 2006 Water Reuse Study. The Water Department is currently undertaking a project scoping effort in order to implement a 12-month Advanced Water Treatment (AWT) demonstration project, as approved by City Council. The Scoping Study is identifying regulatory requirements, project costs, public notification requirements, and optimum project scheduling in order to complete the demonstration project as directed. Upon Council identification and approval of funding, the Water Department will be conducting the AWT Demonstration Project to obtain information required for regulatory approvals for conducting reservoir augmentation. The study will also provide additional details and considerations not evident at this point and help refine the approach to reservoir augmentation.

**Recommendation 8-14:** Implement the use of recycled water in all appropriate City facilities.

**Response:** This recommendation has been implemented. The irrigation systems for several City properties were designed or retrofitted to accept recycled water. The sites, primarily parkland and open space areas, are adjacent to the existing distribution pipelines; many were identified in the Recycled Water Master Plan.

The Park and Recreation Department has nineteen recycled water meter connections, with three more parks expected to come on-line Spring 2008. Over the course of the next three years recycled water retrofit of parklands and open space as well as related pipeline extension projects are planned.

The Water Department is actively pursuing grants for parkland retrofits.

Page 8  
Judge So  
April 29, 2008

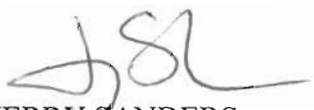
Late last year, an analysis was conducted to identify all City properties fronting recycled water pipelines and the feasibility to retrofit the irrigation systems to use recycled water. Seven City properties, not previously listed in the Master Plan, were identified. Retrofitting or pipeline extension costs for the seven properties are estimated at \$1 million. Two facilities in the Fire Department are budgeted for retrofitting in Fiscal Year 2009.

**Recommendation 8-15:** Support the pilot study in using reclaimed water as a source of potable water approved by City Council.

**Response:** The recommendation has not yet been implemented, but may be in the future. The Water Department is currently undertaking a project scoping effort in order to implement a 12 month Advanced Water Treatment demonstration project, as approved by City Council. The Scoping Study will identify regulatory requirements, project costs, public notification requirements, and optimum project scheduling in order to complete the demonstration project. With Council identification and approval of funding, the Water Department will be conducting the Advanced Water Treatment Demonstration Project (AWT Demo Project) to obtain information required for regulatory approvals for conducting reservoir augmentation. The study will also provide additional details and considerations not evident at this point and help refine the approach to reservoir augmentation. Approval of the recommendation will be affected by the results of the AWT Demo Project and cost considerations.

Please contact Jim Barrett, Director of Public Utilities, at (619) 533-7555 if you have additional questions.

Sincerely,



JERRY SANDERS  
Mayor

cc: San Diego County Grand Jury  
Chief Operating Officer  
San Diego City Council  
Director of Public Utilities  
City Clerk  
Administration Department Director





THE CITY OF SAN DIEGO  
MAYOR JERRY SANDERS

RECEIVED

MAY 08 2008

May 5, 2008

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MAY 13 2008

SAN DIEGO  
COUNTY GRAND JURY

Honorable Kenneth So  
Presiding Judge  
San Diego County Superior Court  
Main Courthouse, Third Floor  
220 West Broadway  
San Diego, CA 92101

Dear Judge So:

Subject: 2007-2008 San Diego County Grand Jury Report entitled "Water Conservation:  
Sober up San Diego, The Water Party is Over."

This letter affirms that, as a member of Mayor Sanders' staff at the City of San Diego, my response to the Grand Jury's subject report was included in the Mayor's letter of April 29, 2008. My apologies that we did not express this directly within the Mayor's letter.

Sincerely,

J. M. Barrett  
Director of Public Utilities



**Water Department Director**

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