



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: John Stufflebean

**SUBJECT: RECYCLED WATER INDUSTRIAL
USE DISCOUNT FOR 2010-2011**

DATE: 05-24-10

Approved

Date

6-1-10

COUNCIL DISTRICTS: City-wide

RECOMMENDATION

Adopt a resolution setting the wholesale discount for recycled water used for industrial and agricultural purposes at \$325 per acre foot compared to Santa Clara Valley Water District rate for untreated water, effectively increasing the rate for industrial and agricultural recycled water effective July 1, 2010 from \$175 per acre-foot to \$195 per acre foot.

OUTCOME

Approval of this rate resolution will allow South Bay Water Recycling (SBWR) to reduce the discount offered to industrial and agricultural customers of recycled water by \$20 per acre foot (AF) from \$345/AF to \$325/AF when compared to the wholesale rate charged by the Santa Clara Valley Water District for untreated water, raising the effective industrial rate from \$175/AF to \$195/AF. Based on current usage, this will increase revenues from the sale of recycled water by approximately \$50,000 per year in 2010-2011.

BACKGROUND

The City is the administering agency for the San José/Santa Clara Water Pollution Control Plant (Plant) and SBWR, which provides approximately 10,000 AF per year of recycled water to water retailers in San José, Santa Clara, and Milpitas. On March 4, 1997, San José City Council adopted resolution 67182 setting the rate for recycled water used for industrial and agricultural use at \$20/AF, representing a discount of \$220/AF as compared to the untreated water rate set by the Santa Clara Valley Water District (SCVWD) which at that time was \$240/AF. This discount was designed to encourage industrial and agricultural use of recycled water by making it significantly less costly than potable water.

Year	SCVWD* Untreated Water Rate	SBWR Irrigation Discount	SBWR Irrigation Rate	SBWR Industrial Discount	SBWR Industrial Rate
1997-1998	\$240	\$60	\$180	\$220	\$20
2003-2004	\$405	\$225	\$180	\$385	\$20
2004-2005	\$405	\$165	\$240	\$365	\$40
2007-2008	\$520	\$165	\$355	\$365	\$155
2008-2009	\$520	\$145	\$375	\$345	\$175
2009-2010	\$520	\$125	\$395	\$345	\$175
2010-2011**	\$520	\$105	\$415	\$325	\$195

*All discounts and rates in dollars per acre-foot (\$/AF)

**Proposed

As shown in the table above, over the next seven years the SCVWD untreated water charge rose to \$405/AF, increasing the resultant discount for industrial and agricultural use to \$385/AF. On June 15, 2004, San José City Council adopted resolution 72167 fixing the discount offered for industrial and agricultural use at \$365/AF compared to the SCVWD untreated water charge for a resultant rate at that time of \$40/AF. By 2008 SCVWD water rates increased to \$520/AF and on June 17, 2008 the Council adopted Resolution No.74448 further reducing the industrial and agricultural discount to \$345/AF so that the resultant industrial and agricultural rate was \$175/AF. The same resolution implemented a three-year phased reduction of the discount offered for recycled water used for irrigation purposes, from \$165/AF during 2007-2008 to \$105/AF beginning on July 1, 2010, raising the rate for irrigation water for the 2010-2011 fiscal year to \$415/AF. This proposed action would again reduce the discount for recycled water used for industrial and agricultural purposes by \$20/AF beginning July 1, 2010 effectively raising the industrial/agricultural rate for 2010-2011 to \$195/AF.

ANALYSIS

Recycled water has been widely used in the SBWR service area for over ten years, with more than 600 customers using in excess of 10,000 AF per year annually (over 9 million gallons per day). In view of the growing acceptance of recycled water, the current discount rate appears to be greater than that needed to encourage recycled water use. The reduction in the discount is necessary to bring the revenue from the sale of recycled water closer to the service delivery cost. It is anticipated that this rate structure will continue to provide sufficient incentive for customers to use recycled water as well as allowing the SBWR program to reach cost recovery. For example, in the service area of the San José Municipal Water System (Muni), the proposed industrial rate for recycled water, including retailer markup, will still represent a savings of over 50% when compared with the cost of potable water.

POLICY ALTERNATIVES

Alternative #1: Do not change the discount for industrial and agricultural use of recycled water.

Pros: Industrial and agricultural customer recycled water bills will not increase.

Cons: The tributary agencies of the San José/Santa Clara Water Pollution Control Plant will

continue to subsidize the use of recycled water by industrial and agricultural customers.

Reason for not recommending: The City and Plant tributary agencies have directed staff to recover an increasingly greater share of the cost of operating South Bay Water Recycling so that additional funds can be made available for other Plant improvements.

PUBLIC OUTREACH/INTREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- ✓ **Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This issue was discussed with the South Bay Water Recycling retailers at their May meeting.

COORDINATION

This memo was coordinated with the City Attorney's Office, and the City Manager's Budget Office. This item is scheduled to be heard by the Treatment Plant Advisory Committee (TPAC) on June 10, 2010.

COST SUMMARY/IMPLICATIONS

A \$20/AF decrease in the discount provided to industrial and agricultural customers with an effective date of July 1, 2010, is estimated to generate \$50,000 in additional revenue to the Treatment Plant Operating Fund in 2010-2011. The resultant rate increases for 2010-2011 is consistent with Council Policy that programs be self-supporting whenever possible. The recommended rate increase is reflected in the 2010-2011 Proposed Operating Budget.

BUDGET REFERENCE

Not applicable.

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CEQA

Not a Project, File No. PP10-067 (a), Increases or Adjustments to Fees, Rates & Fares.

/s/

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Director, Environmental Services

For questions please contact Mansour Nasser, Deputy Director, at (408) 277-4218.