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Zone 7 to Increase Wholesale Water Rates
Despite Cost-Cutting Measures, Many Expenses Beyond Agency's Control

Zone 7 Water Agency will increase wholesale treated water rates by 9.25 percent in 2010 to address continuing challenges in providing high-quality, reliable water supplies given the effects of ongoing drought and court ordered Delta pumping restrictions.

The rate increase was unanimously approved by Zone 7's Board of Directors on Wednesday night (Director Steve Kalthoff was absent). Meanwhile, Board members pledged to continue pursuing actions -- many of them already under way -- to cut costs where feasible in an effort to hold down rates in 2011.

"We are actively trying to get leaner and meaner and more efficient," said Board President Dick Quigley. "The Agency is already saving nearly \$1 million this fiscal year and again next year by not filling several vacant positions, is exploring further staffing realignments through its strategic planning process and is pursuing separation of various services from Alameda County as a way to streamline operations."

The rate increase will boost the monthly bill for the typical household by \$3.08, if fully passed on to customers by the retailers -- the cities of Pleasanton and Livermore, the California Water Service Company (serving parts of Livermore) and the Dublin San Ramon Services District. Wholesale water costs comprise only a portion of the water bill charged by retailers, meaning the increase in monthly household water bills would be less than 9.25 percent. Retail rates would remain comparable to those of other Bay Area water providers.

The biggest components of the rate increase include: 1) skyrocketing costs of water-treatment chemicals, 2) costs to operate a new demineralization plant that is helping to soften local groundwater supplies and facilitate regional use of recycled water, and 3) increased utility costs for operating wells and treatment plants.

The Agency also faces continuing costs of addressing reduced water deliveries from the State Water Project due to court-imposed pumping restrictions from the ecologically fragile Delta, through which 80 percent of the Agency's water supply is conveyed. Among other things, Zone 7 is contributing to a statewide effort to evaluate alternatives for a long-term fix to the Delta. The Bay Delta Conservation Plan aims to improve long-term reliability of these imported supplies and to improve the quality of those supplies.

The water-supply crisis brought on by both drought and Delta pumping restrictions has required Zone 7 to use more local groundwater that requires more electricity for pumping. Additionally, the imported water quality has progressively declined, requiring more chemicals at higher doses to maintain treated water quality. This has come at a time when chemical costs are skyrocketing, in some cases more than doubling over the past two years, due to increased regulation and other factors.

Other financial pressures include reduced revenue from water sales due both to the slowed economy and to calls for water conservation, and addressing the needs of Zone 7's aging infrastructure.

Board members said they were strongly encouraged by cost-cutting measures already being undertaken by Agency management. Last year, when the Board held down the level of the 2009 water rate increase, a 16 percent increase was projected for 2010. The need for that has since been brought down by:

- Allowing eight positions within the Agency to remain vacant, saving nearly \$1 million this fiscal year and again in fiscal year 2010-11.

- Shifting maintenance and engineering services from contracts to more cost-effective in-house personnel. For example, though it has involved increased staffing, the net annual savings for maintenance services alone is estimated at \$177,000.
- Taking \$7.6 million from various reserve funds over the 2009-10 and 2010-11 fiscal years. In light of the current water-supply crisis, and because the Agency is self-insured, both staff and the Board warned that cutting deeper into reserves to avoid a rate increase would expose the Agency to unnecessary risk and require bigger rate increases in future years to meet funding requirements.
- Continuing to defer non-critical capital improvement projects and equipment purchases.

As much as possible, Zone 7 avoids borrowing money, particularly in this economic environment.

“We are pay-as-you-go, and that is really prudent,” Quigley said.

The rate structure also includes investing an additional \$400,000 on water conservation programs in furtherance of efforts to meet the governor’s call for a 20 percent reduction in per-capita water use by the year 2020.

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Zone 7 Water Agency is one of the 10 active zones of the Alameda County Flood Control and Water Conservation District. The District was established by the State Legislature in October 1949 to solve problems of flooding, drainage, channel erosion and water supply and conservation in Alameda County. In 1957, by popular vote, Zone 7 became a special district governed by a seven-member board of directors. Along with flood protection, Zone 7 supplies water to all of eastern Alameda County and a population of more than 190,000. Treated water is sold wholesale to local retailers, including the cities of Livermore and Pleasanton, the Dublin San Ramon Services District, and the California Water Service Company. Zone 7 also distributes untreated water to local agriculture operations and golf courses.