



# WATER AGENCY

Delivering Quality, Reliability and Safety

## ZONE 7 Answers Your Questions About Untreated Water

### Zone 7 Water Agency Mission Statement

Deliver safe, reliable, efficient, and sustainable water and flood protection services.

### Background

Zone 7 held meetings in August 2019 with its Untreated Water Users (UWU) and stakeholders to propose untreated water rates for 2020. As a result of the input received during those meetings, the Zone 7 Board decided to approve a one-year rate increase for 2020 and to revisit proposed rates for 2021 and beyond at a later time. Zone 7 will also hold workshops with its UWU to review the discussions started in August 2019, and provide an update on actions requested by UWU to set 2022 water rates.

Due to the sudden shut-down in March 2020 caused by COVID-19 and the impacts of the pandemic on the community and ratepayers, the Zone 7 Board voted in June 2020, to extend UWU adopted 2020 rates through 2021 with no rate increase.

In March 2020, a survey was conducted of UWU to identify topics of interest and questions to be explored at a series of workshops. The first two workshops are set for May 6 and May 26, 2021. This fact sheet provides answers to questions identified from the March 2020 survey as well as an update on the status of other aspects of the UWU rate setting process.

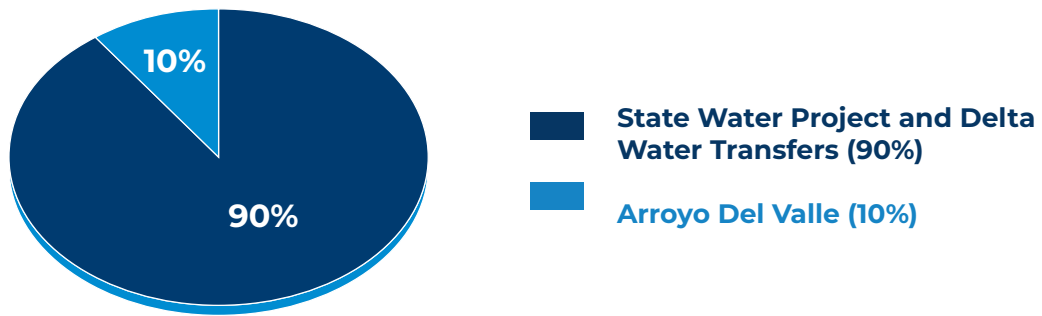
Q.

### What are the sources of water supply for UWU?

A.

In normal years, Zone 7's incoming or new water supplies come from the State Water Project (SWP)—owned and operated by the State of California Department of Water Resources (DWR)—and Arroyo Del Valle, captured in Lake Del Valle. Excess water is stored in the local groundwater basin and groundwater banks in Kern County. In the future, Zone 7 plans to continue purchasing supplemental water from other agencies through water transfers. The SWP continues to represent the primary source of water supply (90%) for UWU.

The primary source of water delivered to UWU is the SWP delivered through the Delta and the South Bay Aqueduct and supplemented by water transfers also delivered through the same system. A portion of UWU also receive water from Lake Del Valle, which is a combination of SWP and Arroyo Del Valle water. UWU receive water directly from groundwater banking programs at Semitropic Water Storage District (Semitropic) and Cawelo Water District (Cawelo) during dry years. To reliably serve UWU, Zone 7 uses the local groundwater basin to store water and manage demands regionally. The South Bay Aqueduct, operated by DWR, is the sole conveyance facility used to serve UWU.



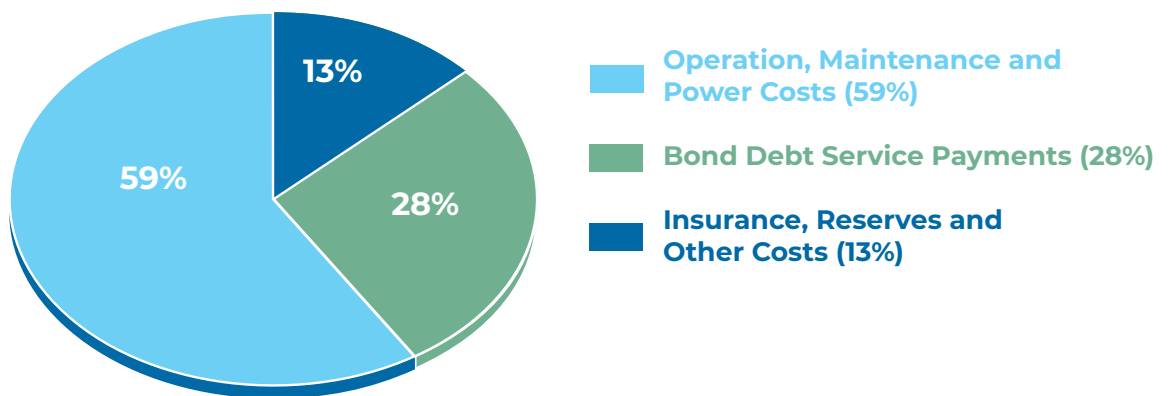
### Does Zone 7 have control over the costs charged by the DWR?

**No.** While Zone 7 provides input to DWR by serving on a variety of committees, the costs associated with managing and maintaining the water supply and infrastructure are largely determined by DWR. Zone 7 is one of 29 public water agencies throughout the State who contract for water from the SWP. The annual payments by the SWP contractors, including Zone 7, is about \$1.1 billion per year to cover operations, maintenance, and power (59%); bond debt service payments for SWP facilities (28%), and insurance, reserves, and other costs (13%).

The SWP's annual costs include the salaries of a diversified team of engineers, biologists, specialists in water development and power generation, hydroelectric plant technicians, and civil maintenance workers, as well as expenses (equipment, supplies etc.) required to design, construct, and operate and maintain SWP facilities. Annual costs also include power purchases, exchanges, and sales.

**Source:**

<https://water.ca.gov/Programs/State-Water-Project/Management/Financing-and-Cost-Recovery>





## How are UWU rates determined?

Rates are determined annually following discussions with UWU and other stakeholders, and a Cost-of-Service (COS) Study performed by a third-party consultant. Zone 7 uses information received from the COS Study along with Zone 7's water operations plan to establish rates for the next calendar year. The water operations plan determines the sources of water supply available to Zone 7 based on the projected SWP allocation. Rate discussions start in early summer and rates are adopted by the Zone 7 Board in October. A link to the COS Study for the CY 2020 rates is below.

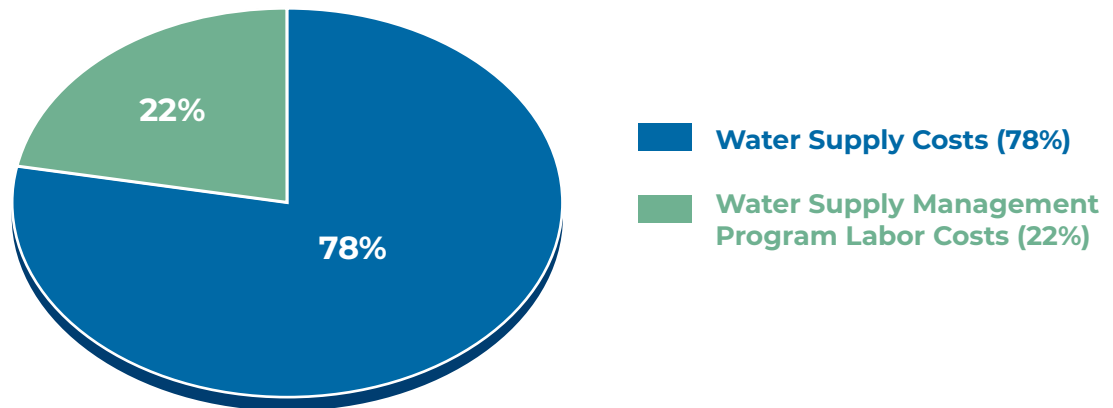
### Final Report / October 2019:

[http://www.zone7water.com/images/pdf\\_docs/finance/2019\\_untreated\\_water\\_rate\\_report.pdf](http://www.zone7water.com/images/pdf_docs/finance/2019_untreated_water_rate_report.pdf)



## What are the cost components of the UWU rate?

The UWU rate is made up of water supply and water supply administrative costs. Water supply includes the delivery of water from the SWP and other indirect sources including local groundwater, local Arroyo Del Valle water, transfers from other water districts, and groundwater banking programs at Semitropic and Cawelo. The water supply administrative costs include Zone 7's cost of managing a reliable water supply portfolio to ensure delivery of water to UWU customers. Future rates could include overhead as part of the water supply administrative cost calculation.



## What is Zone 7's overhead cost?

Overhead is part of Zone 7's cost of doing business. At Zone 7, overhead includes governance (Board of Directors), administrative staff, and general office expenses (utilities, building maintenance, etc.). While Zone 7 has not historically included these costs in the UWU rates, the recommendation from the 2019 COS Study was to include an overhead cost component in future rates to fully recover Zone 7's actual cost of service for all customers.



## What are the potential factors that could impact the untreated water rate?

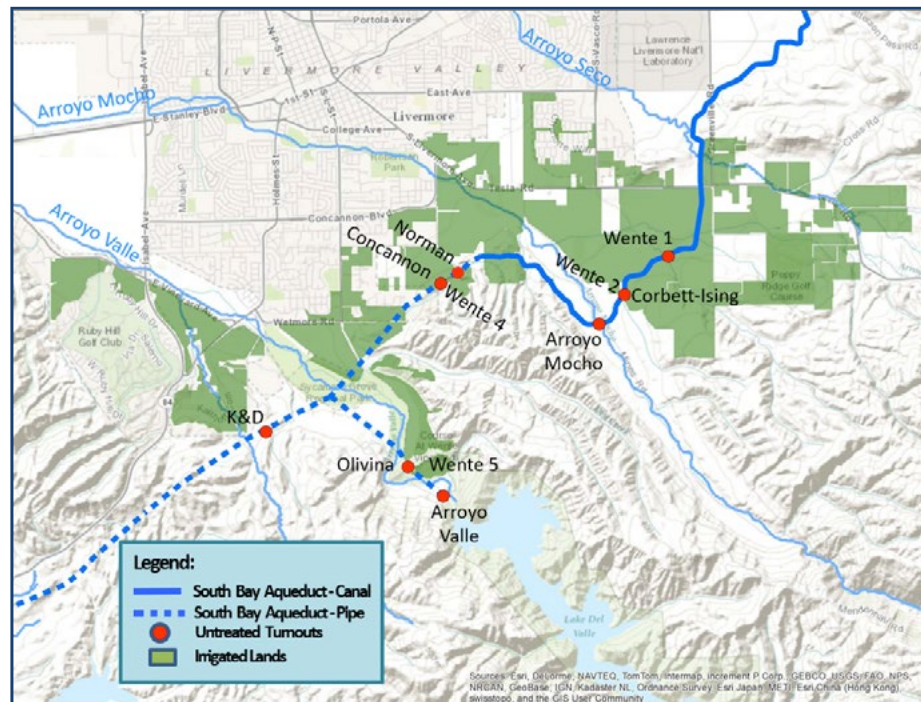
The following are a few examples of factors that could impact UWU rates:

1. **Drought conditions** - The SWP is Zone 7's primary source of incoming water supply. In critically dry years such as 2021, the SWP allocation can be very low. The expected SWP allocation for calendar year 2021 is 5% (average allocation is typically between 40% and 60%), which is equivalent to about 4,000 acre-feet of water (demand from UWU is currently about 5,000 acre-feet per year). In dry years, Zone 7 must procure other water sources to meet the demands for treated and untreated water which impacts water supply costs directly;
2. **Increasing SWP Supply and Operational Costs** - Infrastructure projects led by DWR, such as improved SWP Delta Conveyance, will impact SWP costs which in turn will increase Zone 7's treated and UWU rates. As noted earlier, Zone 7 does not control these costs;
3. **Rate Reconciliation / Readjustment (True-up) Charge** - As recommended in the 2019 COS Study and used to finalize the calendar year 2020 UWU rate, Zone 7 will analyze and consider an annual water readjustment charge based on actual water deliveries.



## Does Zone 7 control turnout water users' mark-up of Zone 7 costs to end-users' water rates?

No. Mark-up of Zone 7 costs to end-users are determined individually by the turnout water users, independent of Zone 7. The map below shows the untreated water distribution system.



## Acronyms and definitions

The following terms and acronyms have been used throughout this Fact Sheet to improve document clarity and readability.

### AF

- [Acre-feet or 325,851 gallons of water](#)

### COS

- [Cost-of-Service](#)

### DWR

- [California Department of Water Resources](#)

### SBA

- [South Bay Aqueduct](#)

### State

- [State of California](#)

### SWP

- [State Water Project](#)

### UWU

- [Untreated Water Users](#)

### Zone 7

- [Zone 7 of the Alameda County Flood Control and Water Conservation District](#)
- [Also referred to as Zone 7 Water Agency](#)

### Zone 7 Board

- [Zone 7 Water Agency Board of Directors](#)

### Still have questions?

We're here to answer any additional questions you may have. Please contact Elizabeth Foss, Financial Analyst at (925) 454-5011 or via email at [efoss@zone7water.com](mailto:efoss@zone7water.com).