

**Metropolitan Domestic Water Improvement District  
Board of Directors Public Hearing**

**June 6, 2011**

**Resolution 2011-2  
Adjustment to the Bulk Water Charge**

**Synopsis**

The Board of Directors is requested to review the information presented by staff and consider comments from the public regarding the proposed adjustment to the bulk water charge in the District's rate structure before taking possible action to adopt Resolution 2011-2.

**Background**

At the May 9, 2011 meeting, the Board directed staff to schedule a public hearing on June 6, 2011 to discuss adjusting the bulk water rate. The bulk water rate is calculated using the fourth tier amount of the District's rate structure, which is \$5.40. That amount is then the bulk water charge for residential customers. The bulk water charge for commercial customers, which includes construction water, is three times the residential amount; therefore, the commercial charge is currently \$16.20 per 1,000 gallons. In April 1999, the District established a high commercial bulk water charge for two main reasons: 1) the District was challenged with meet all of the demands on the system, which is why the first Capital Improvement Program was underway. It was at the same time as a lot of construction activity occurring throughout the District. 2) The District was trying to send a message about conserving its potable water for something more than just dust control. Subsequently, with each rate increase, the commercial bulk water charge has increased and commercial bulk water continues to be three times that rate, becoming the most expensive construction water in the region.

The District is planning to drill a new well to replace Matter well that will be located on Pima County land. Using Type 2 rights, Ashton Construction wants to drill a well in the same vicinity to have water for the construction of the Magee Road expansion and the related flood protection of the Carmac Wash. Ashton has made it clear that they want to drill the well because they calculate it to be less expensive that using the District's bulk water.

At the May 9, 2011 meeting, under the discussion of the replacement of Matter Well, the concept of adjusting the bulk water charge was discussed as a way to avoid the conflict of having two wells drilled in the same vicinity and possibly providing the District to benefit financially from selling construction water. A representative from Ashton said that if the bulk water charge was lower, then Ashton would not have to drill the well and the District could gain additional revenues.

The issue was discussed further at the May 23, 2011 study session. Various pros and cons for modifying the bulk water rate were discussed by Board members and staff. Staff also provided information that within the last year, the District had nine non-residential bulk water customers and 6 residential bulk water customers. Of the residential customers, they used a total of 5,000 gallons of water last month. For a comparison, back in the late 1990s, the District averaged 25 to 30 bulk customers per month and the usage was over one million gallons per month.

### Issues

From canvassing other utilities, the District's bulk water charge is significantly higher than other water providers.

Tucson Water	\$ 3.36 per 1,000 gallons plus \$0.1335 for CAP/conservation fees
Oro Valley	\$ 6.38 per 1,000 gallons plus \$0.75 for preservation fee
Marana	\$ 3.43 per 1,000 gallons
Mesa	\$ 5.70 per 1,000 gallons
Glendale	\$ 2.29 winter/\$2.85 summer per 1,000 gallons
Scottsdale	\$ 4.60 per 1,000 gallons is the highest amount under a tiered structure
Metro Water	\$16.20 per 1,000 gallons

An overall reason for considering lowering the bulk water rate is because Ashton and other construction firms are going to use water for construction projects. If they do not purchase District water, they still are withdrawing water from the same aquifer that the District uses. ADWR has issued a permit to allow Ashton to drill a well using Type 2 rights; however, the County has not given permission for Ashton to drill a well at its property. Ashton plans to utilize 21 million to 26 million gallons of water over two years for the Magee Road construction project. (This could equate to one million gallons a month). If Ashton drills the well, it will be basically next to the location where the District intends to drill its new well to replace the Matter Well. Ashton has indicated a willingness to consider using the District's bulk water if the cost was more competitive with that of Tucson Water. By lowering the rate, the District would increase the likelihood that Ashton would not drill its well and Ashton and other construction firms would purchase bulk water from the District so the District would benefit by generating revenue from water that will be pumped from the aquifer whether it is through a District meter or not. The District's system is now able to handle any additional demand that construction water would place upon the infrastructure, which was a primary reason for having the bulk water charge so high.

Based on the discussion at the May 23, 2011 study session, staff has put together three scenarios for the Board to consider at the public hearing. The scenarios involve setting the bulk water rate at \$7.00 per 1,000 gallons, \$5.40 per 1,000 gallons, or \$4.50 per 1,000 gallons.

First Scenario – Setting the bulk water rate at \$7.00 per 1,000 gallons. This amount is less than half the current rate amount. It is slightly less than Oro Valley's rate set at \$6.38 plus \$0.75 for their preservation fee. The \$7.00 amount was suggested as a way to continue to push the conservation aspect of the bulk water rate and keeps the rate above the amount set for residential bulk water

customers. At \$7.00 per 1,000 gallons, it is unlikely that Ashton will use the District's water since their project manager has stated that Ashton has budgeted approximately \$90,000 for water for the project. Ashton would pay \$147,000 for the projected water usage of 21 million gallons. This would mean Ashton would probably pursue its own well and pump the two million gallons from the same aquifer used by the District but with no monetary benefit to the District. While Ashton would probably not use the bulk water, other contractors may be more inclined to increase their usage of the District's water based on the lower rate; however, it would still be more than double Tucson Water's rate.

Second Scenario – Setting the bulk water rate at \$5.40 per 1,000 gallons. This amount would make the commercial bulk water rate the same as the residential bulk water rate. This would mean no impact to or change for the residential customers. Based on the bulk water consumption of the last twelve months, the District would have received approximately \$22,000 in revenue from the bulk water sale at \$5.40 rather than the \$66,000 generated from the current \$16.20 per 1,000 gallons. However, the 21 million gallons projected to be used by Ashton would generate \$113,400. Additional revenue may also be generated by other construction firms who may be more inclined to use the District's water for construction since it is closer to Tucson Water's rate and the fuel and maintenance savings of not having to haul water from outside of the District. The \$5.40 would be less than Oro Valley but still higher than Tucson Water and Marana. This rate would still project to cost Ashton more than the overall \$90,000 that they have budgeted for construction water on this road project.

Third Scenario – Setting the bulk water rate at \$4.50 per 1,000 gallons. This rate would make the District's bulk water more competitive with Tucson Water's and Marana's rates. Based on the bulk water consumption of the last twelve months, the District would have received \$18,300 in revenue from the bulk water sale at \$4.50 rather than the \$66,000 generated from the current \$16.20 per 1,000 gallons. However, it is almost certain that we could see more construction firms working within the District using the District's bulk water and save on their expenses for hauling water. For the water Ashton is projected to use, the \$4.50 rate would generate \$94,500. The \$4.50 rate would be lower than the current residential bulk water rate. Staff would recommend having the overall bulk water rate be set at \$4.50 for both residential and commercial customers. With only a handful of residential customers, there would be no significant impact to revenues.

All necessary notices required by statute for the June 6, 2011 public hearing has taken place. At the public hearing, staff will provide an overview of the proposed adjustment to the bulk water charge and then the public will have an opportunity to comment. The Board will then be able to discuss the proposal and determine whether to approve it or not. If approved, the adjustment is intended to become effective June 6, 2011.

### **Recommendation**

It is recommended that the Board of Directors listen to the presentation, comments from the public, and discuss the options for modifying the District's bulk water rate. Staff does recommend that the bulk water rate be lowered so that the District would benefit financially from selling that water since

construction firms will be using water from the same aquifer. It would be advantageous if Ashton did not drill a well near the District's new well to replace Matter Well.

**Suggested Motion**

I move to approve Resolution 2011-2 with the establishment of the bulk water rate to be at \$\_\_\_\_\_.

Respectively submitted,

Mark R. Stratton, P.E.  
General Manager