

Response to customer analysis:

“Revenue Stability, Fairness and Equity. I see the stability because it calls for 131% increase in the “Minimum Monthly Fee” and guarantees a steady revenue stream. I don’t see it being fair or equitable because water conservers are paying nearly the same rate as large users. With a .06 cent raise in usage rates the financial impact is negligible. The 13,000-gallon per month average use will cost an additional \$7.80.”

First, a correction. The first increase of \$.06/1,000-gallons results in a \$.78 per month increase in the usage rate for the average user. Ultimately, the rate increases to \$.68/1,000 gallons which represents a monthly increase of \$2.08 over current usage rates for the average user. Note that this is the USAGE rate, not the minimum fixed rate.

The rate structure consists of two components, the minimum fixed rate and a variable charge based on metered usage. The minimum fixed rate is designed to pay for the assets and infrastructure that are common to all users. Everyone uses the pipes, the pumps, the tanks and the equipment and labor to maintain that infrastructure. The usage rate represents the actual cost to move the water. Increasing this rate requires justification. Since nearly all the actual cost of pumping water is the price of electricity, it is difficult to justify an increase beyond this. These facts are a consideration in the rate analysis.

“Fairness and equity” are requirements based on the constitutional requirement that charges do not exceed the cost of providing the service and that they are proportionally allocated. Our rate structure accomplishes this.

“Minimize Rate Impacts to reduce financial hardship on user categories” the homeowners are impacted disproportionately because the rates do nothing to Standby Rates (non-residents) and relatively little to connection fees (future residents).”

Water rates are considered “property-related fees and charges”, and are governed by Article XIII D, Section 6 of the CA Constitution. These charges are subject to the limitations and procedural requirements of this section. This is the Proposition 218 process the District is going through now. Although this process does not require a ballot procedure, it does provide for the submission of letters of protest which can block the increase.

Standby fees are considered “special benefit assessments” and are governed by Article XIII D, Section 4, which is another can of worms. Raising standby fees requires a separate engineer’s determination and report (which we do not have), and a formalized ballot protest proceeding wherein only the affected property owners are allowed to cast ballots. It is highly unlikely that absent owners would be in favor of an increase. This likelihood makes it unwise to invest the substantial amount of money an engineer’s determination would cost the District.

The subject of connection fees is addressed in the rate study in Section 5. We recognize that these fees need adjustment. The existing fees fail to cover actual costs. Connection fees are covered by CA Government Code § 66013. If the fees do not exceed the estimated reasonable cost of providing the connection, the District can amend the fee through ordinance or resolution without further process. It is the District's position that development should not be subsidized by ratepayers. We will be addressing this soon.

“Maintain simplicity for ease of administration and implementation as well as customer understanding and acceptance. The new metering system “AMI” doesn’t promise this because in addition to new meters a new software system for data collection and billing will be required. The implementation period for just the meters will take between 1.5 and 3 years (1.5 years assumes installation of 15 meters per a week or 3 per day).”

The estimate in the PER includes all hardware, software and setup to implement the system. It does not include labor to replace the meters. Most of our meters are original in the system. They are well beyond their design life. They are notoriously inaccurate. As analog meters age, they tend to slow down, which results in lost revenue.

The District has been gradually replacing water meters over the past few years. The replacement meters are designed to accept a cellular endpoint which adds remote read capability. The addition of these endpoints is a relatively simple and quick process. We have already replaced approximately 200 meters with AMI-ready units. This accounts for roughly 15% of the total number of District meters. We have 144 more of these meters in stock. Once these are installed, 27% of the total will be accounted for.

The time-consuming part of replacing a meter is digging out the old one. Depending on roots and rodents, it can take anywhere from 15 minutes to an hour to replace one. If we consider the average to be ½ hour, replacing the remaining meters will take approximately 500 man-hours.

We read meters quarterly. It takes 3 employees approximately 40 hours to read the meters. This equates to 120 man-hours each quarter, or 480 hours annually. We do it the old-fashioned way, with pen and paper. The Accounts Receivable Clerk must then decipher the scribbling and manually enter each reading into the system. She spends 10-12 hours each quarter transcribing and error-checking. This is a time consuming and error prone process.

Meter reading efficiency, accuracy and labor cost savings are not the only advantages inherent to remote read meters. The real-time data available provides enhanced leak detection, allows customers to monitor their own usage and receive alerts, and provides

the District with usage pattern telemetry that aids in operating the system. This system would also enable the District to bill monthly rather than quarterly. This would smooth out cash flow for the District. Customers also generally prefer monthly billing since it makes their budgeting process smoother.

“Project List: New well – The study points out multiple times that additional capacity due to growth is a non-factor over the rate period. This is a low priority compared to other projects.”

Additional capacity is not the goal of a new well, redundancy is. Well No. 4 is our workhorse. It supplies the bulk of our water during the high-use, summer season. As noted in the Engineering Report, were Well No. 4 to fail during peak usage season, No. 3 and No. 9 are inadequate to meet demand. Such a failure would result in low pressure and flows, and likely require enforced curtailments.

Another issue is the regulatory environment in the state. Development of new agricultural wells in the Shasta Valley has already been suspended due to concerns about water supply sustainability. Development of municipal wells, particularly wells near the Shasta River, may be next to face a moratorium. Timely development of a new resource for the LSCSD may very soon become a critical issue.

“Tank Refurbishment – The tanks are a critical part of the water infrastructure. This is the highest priority during the rate period. This work was identified as a high priority previously.”

On this point we are in total agreement.

“Tank 2 Replacement – Why this tank is different than the other tanks in the system and isn’t eligible for refurbishing isn’t explained in the study. However, if the engineering analysis calls for a complete replacement, then it is a high priority.”

From the Engineering Report: “Tank 2, located on Stag Mountain, does not have sufficient storage capacity. During high use periods, and when Tank 4 calls for water, the level in Tank 2 drops quickly, indicating that the system draws significantly from Tank 2. These quick drops in water level can present challenges with providing fire flows in and around Tank 2.”

Two options were presented to deal with this problem, tank replacement with a larger tank, or erecting an additional tank. Replacing the existing tank with a larger tank eliminates the need to refurbish the existing tank. With this consideration, the total cost is slightly less than erecting a separate new tank. However, this presents significant logistical challenges. Foremost is the inadequate footprint space available to install the larger tank. Next is the question of downtime and the ability to adequately serve the community during

construction. Erecting a separate tank eliminates these challenges. However, this option is not without its own challenges, foremost being the need to purchase a land parcel.

“Permanent Generators – The District has used portable generators since it acquired the Water District some years ago. These trailered generators are shared between the Water and Sewer departments. A strategy that provides flexibility and cost effectiveness. This a low priority project.”

While adequate to operate sewer station pumps and water booster pumps, the portable generators are not capable of running the large well pumps. Well No. 3 already has a permanent generator installed; however, this generator is near the end of its useful life and will need to be replaced soon. No. 4 and 9 do not have permanent generators.

The engineering report recommended installing permanent generators at each of the Districts booster stations, also. We removed these from the proposal in the interest of minimizing costs and in favor of replacing the aging Well No. 3 generator. These stations can be operated with the portable generator. We disagree with the assessment that this is a low priority project.

Notwithstanding the importance of maintaining the reliability of the system during routine power outages, in the event of wildfire, it is imperative that the wells continue to operate to provide a reliable supply of water for firefighting efforts. It is unreasonable to expect water utility workers to shuttle between wells in potentially extreme hazardous conditions with portable generators. Further, as it stands now, the District does not have the capability to run Wells No. 4 and 9 during any power outage.

“Add B-57 to SCADA – The B-57 designation is confusing. This type of designation is usually associated with the Districts sewer pump stations. Additionally, SCADA is an obsolete system that was supposed to be replaced with a new telemetry system. This is a low-cost project and has minimal impact on the rates for the study period.”

The “B” designation signifies “Building”. All District pump stations, water and sewer, have a numerical designation with the prefix “B”.

The term SCADA (Supervisory Control and Data Acquisition) is a generic term describing a concept, not a product. You are correct that the old system was obsolete. The District has deployed a new SCADA system in the water system. The company providing the product is XIO. It provides real-time data and control of pumps and tank water levels. Our system operators can monitor and control the system with an app on their phones.

“Meter Replacement – AMI”

We addressed this earlier.

The District's primary consideration is to make sure that the District is solvent and able to perform its regulatory responsibilities which include providing a safe, reliable supply of potable water to our customers and a reliable source of water for firefighting purposes. Current rates are insufficient to perform this mission. Please note that the original recommendations in the Engineering Report total nearly \$8M. We have already cut projects that have reduced that number by more than half. The resulting rate increase requirement is significantly less than the original.

The water tank inspection that produced the photos I have included in the information sheet and on the website were taken in 2017. The report stated that the coatings were at the end of their lives... Seven years ago. We have recently discovered that a tank inspection was done in 2014. This report stated that the tanks should be recoated within 12-24 months... Ten years ago. Refurbishing our tanks has become a time critical project.

Our problem is one of perspective. The community has been paying an unrealistic and unsustainable price for water for many years. When you're paying a very low price for a product, any increase seems large. The average water user in Lake Shastina pays \$4.21 per month more today than in 2002. We pay the same as we paid in 2011. Operating and maintaining our water system is unsustainable at these rates. Even after all the increases are implemented, we will be paying significantly less than other comparative communities.

We understand and sympathize with the impact of increasing rates on household budgets. Costs have also increased for the District over the past 20 years, costs that have not been passed on to our customers. Systems wear out and require replacement. Ever-changing regulatory requirements impose additional costs, and more regulation is on the horizon. If the LSCSD is to remain solvent and capable of providing clean drinking water, our charges must be appropriate to accomplish this.

There are a few important things to keep in mind. Fees and charges for water service may ONLY be used for the purpose of providing drinking water and water for fire suppression. This is also true of revenue collected for each of the services the District provides, Revenue may NOT be used to provide pickleball courts, dog parks and swimming pools, amenities which are in the purview of the local home and property owners associations, not the LSCSD which is a government agency. Fees and charges must also only be at a rate that accurately reflects the actual cost of providing the service.

There is a lot of misinformation on social media. If you have any questions, please don't pose them to folks on social media who are unlikely to have correct information. Please call the office and I will be happy to answer any questions you may have.