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June 22, 2016

Jeanine Townsend, Clerk to the Board
State Water Resources Control Board
1001 I Street, 24th Floor
Sacramento, California 95814

Dear Ms. Townsend,

Re: Municipal Water District of Orange County's comments on the Proposed Drinking Water Fee Regulations

The Municipal Water District of Orange County (MWDOC) would like to thank the State Water Resources Control Board (State Board) for giving us the opportunity to submit comments on the Proposed Drinking Water Fee Regulations (Proposal). MWDOC, a wholesale water agency to 28 cities and water agencies in Orange County, provides over 220,000 acre-feet of imported water per year, which is slightly less than half of the County's water demand. We are also a member of the Metropolitan Water District of Southern California (MET), which is the nation's largest wholesaler of urban water supply.

We recognize the importance of the State Board's Division of Drinking Water's (DDW) role and responsibility in ensuring safe, reliable drinking water throughout the State of California. Moreover, we understand the current fees do not generate sufficient revenue to cover the existing Drinking Water Program's (Program) costs. Therefore, we support the effort to establish new fee regulations to properly recover the Program's total cost of service. However, we suggest the Proposal require additional revisions and modifications to achieve the State Board's goal of creating a more equitable source of funding that MWDOC and other water agencies can support.

Below are MWDOC's comments to the proposed drinking water fee regulations:

The proposed fee regulations create inequity among the different size water systems.

MWDOC finds the proposed per connection fee decrease, from \$6/connection to \$4/connection for smaller water systems¹, to be counterproductive as the current fees do not sufficiently recover the Program's costs. Moreover, we find the DDW spends significantly more time and resources (approximately \$60 per service connection) to provide regulatory and technical review for smaller water systems, which creates an imbalance between the fees charged and the benefits/services received among the different water systems. As a result, the allocation of increased fees for large water systems not only lacks the cost of service nexus but in fact creates more inequity. Typically, larger water systems have in-house resources and staff that reduce the need for DDW's program services, but the Proposal substantially increases the fees for larger water systems when no additional services or benefits will be received.

MWDOC supports the Association of California Water Agencies' (ACWA) alternative proposal of declining per-connection fees for large water systems with a modification that increases fees for smaller systems.

MWDOC finds ACWA's alternative proposal of a declining per-connection tier structure more equitably allocates costs for large water systems. It accounts for the economies of scale in determining the level of fees by recognizing the fact that larger water systems have additional resources and staff that reduces the need of DDW program services while still maintaining an adequate funding level for the program to operate.

However, because the current fees have not collected the necessary funds to fully recover the Program's costs from both the large and small water systems, we believe there should be increases for small water systems. It is not fair or reasonable to raise the fees on only the large water systems. Smaller water systems need to pay their fair share of the program costs and be assessed the increase in fees according to the benefits and services they receive from the Program.

There are many small systems that can afford an increase and do not need to be subsidized. However, it is important to note that MWDOC does not identify small

¹ Small water systems are defined as community water systems that serve 1,000 service connections or less; and large water systems are community water systems that service more 1,000 service connections

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and disadvantaged communities to be similar. We believe it is justifiable to provide a discounted per connection fee for disadvantaged communities (those with household incomes less than 60 percent of the statewide median) that require more assistance because of limited technical and/or financial resources.

Revise the wholesaler's fee structure to include a base fee plus hourly-fee-for-serve charge.

As a wholesale water agency, we understand that wholesale water systems can vary widely in their complexity and services provided. As such, the proposed fee regulations to charge wholesalers based on "total production" can be problematic. The numerous changes from year to year, due to water fluctuations in supplies and demands, can greatly affect the Program's revenue stability. In addition, total production can result in a situation whereby consumers pay multiple times for the same delivery of water for situations where there are intermediary wholesalers, such as within the MET service area. This results in duplicate fees that are not representative of the DDW's cost of service. To avoid such problems, MWDOC recommends setting a fee structure with a base fee plus hourly fee for service. It would prevent overcharging for the same delivery of water and ensure stable revenue and correlate with actual cost of service.

In conclusion, MWDOC supports the development of new fee regulations that fully funds the total costs of the Program. However, the State Board's Proposal needs further revisions and modifications to ensure costs are allocated in a fair and equitable manner, preventing the double billing and cross-subsidization among the different water systems. Therefore, we ask the State Board to work with the technical workgroup on revising the fee regulations similar to ACWA's alternative proposal of a declining tier structure, and modify the fee-for-service model for wholesale water system.

If you have any questions, please contact me at (714) 593-5026 or at rhunter@mwdoc.com.

Sincerely,



Robert J. Hunter
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