

Explanation for New Contract with Russian River Utility and New Rate Structure
Austin Creek Mutual Water Company - October 20, 2021

I. Our New Contract with Russian River Utility

Federal and State laws require that our water system is maintained by a certified operator. In 2020, we contracted a water operator to service our system monthly and make additional repairs as needed. Unfortunately, this omitted long-term maintenance and failed to prevent or deal with emergencies. Board members had to scramble to find outside contractors for emergency repairs, or too often, did the work themselves. During this year's drought, it has been necessary for a board member to check the operation of our well daily. What we had hoped would be a cost-effective approach has led to ongoing crisis management and unplanned expenses. Russian River Utility (RRU) is a local company with a 38-year history of managing water systems in our area. They currently manage water systems for Cazadero, Camp Meeker, Carmet/Sereno Del Mar, Fitch Mountain, Freestone, Jenner, Occidental, Rains Creek, Redwood Empire, Russian River County, and Salmon Creek. RRU will check our water system daily and have a team available 24/7 to respond to emergencies and make repairs. They will read our meters and handle payments. They will also prepare the complex technical reports required by State and Federal law. Our contract with RRU means that our drinking water will be in the hands of competent, licensed professionals. The monthly rate for the comprehensive services provided by RRU is more than what we paid our water operator, but we expect to recover some of this cost from better preventative maintenance and avoiding the high premiums for emergency repairs.

II. Increase in Maintenance Fee

Since the water company's beginnings in 1959, the annual maintenance fee paid by each of us has been remarkably low. This is the benefit of an "if it ain't broke – don't fix it" approach. However, over the years the components of our system: pipes, storage tanks, wells, etc. have aged and are now routinely failing. Last March, in one week we had three critical components fail: the pump in our main well, the pipe that carries water from the well to a storage tank, and the control system that signals the pump to refill the storage tank. Our post-mortem revealed that the pump may have failed because our well was not able to keep up with it, the pipe failed because a tree root pushed a rock through it, and the control system failed because an old transformer had burned out. Neighbors rolled up their sleeves to deal with this disaster, but it was luck that got us up and running in just a few days. Luck that one of our neighbors is knowledgeable about water systems, luck that another of our neighbors had the skills and a friend who could repair water mains, luck that one of our board

members knows how to fix electronic systems, and luck that another of our board members had decided to get our back-up well ready before it was too late. But we cannot keep relying on luck. We need to keep our system in good repair, and we need professionals to respond to problems. This year we prioritized the most urgent, safety-critical repairs, at a cost that lowered our assets from \$88,178 in January to \$73,878 in July. We still need to replace a booster pump and have an electrical panel rewired (both critical), which we expect will cost another \$5,000 – \$10,000. The increase in our maintenance fee will cover the cost of our new contract with RRU and a \$3,029 increase in the cost of our insurance policy but will only give us an extra \$1,000 towards rebuilding our assets. While it is a big increase, it reflects the real long-term costs of running a water system and brings us in line with what many other water companies charge. If repair costs remain high, we will need to consider further rate increases, loans, or grants to meet those costs.

III. Tiered Rates for Water Usage

Our new tiered rate structure for water usage is based on the cost of getting water to our homes. Our previous rate of \$5 per unit for the first 50 units (1 unit = 1,000 gallons) would be reasonable if we considered only the cost of the electricity needed to pump water from our well to our storage tanks. However, our water rights limit how much water we can take from our well, and when we reach that limit, we are required to switch to a different source of water. The only other source for us is delivery by truck, at a cost of about \$75 per unit. Our tiered rate structure is intended to adjust the price of each unit of water to reflect how much of it comes from our well versus how much is delivered by truck.

Our water rights allow us to take up to 3,259,000 gallons per year from our well, which averages to 8,929 gallons per day. We are also limited to 9,235 gallons in a single day. From the well to our homes, as much as 40% of our water is lost from leaks, so the amount we can actually use may be only about 5,357 gallons per day on average, and 5,541 gallons in a single day. With 65 active connections in our system, that works out to an average of 82 gallons per day per connection, or about 2.5 units per month (7.5 units per quarter). A simple approach to unit pricing on a monthly basis would be to charge \$5/unit for the first 2.5 units and \$75/unit for every unit above that. This would be the right approach if everyone used the same amount of water. However, some households use less than their share, which allows other households to use more without having water trucked to us. Based on these considerations, we are trying out a rate structure that increases the cost of a unit in tiers: \$5/unit for the first two units, \$10 for the 3rd and 4th units, \$20 for the 5th and 6th units, \$40 for the 7th and 8th units, and then a maximum rate of \$75/unit for the 9th unit and above. This price structure may need adjusting; under many scenarios it would not cover the cost of water deliveries. However, even with the current drought restrictions we have managed to take less than 8,250 gallons/day from our well, so it is our hope that we can

continue to use water responsibly and not become too dependent on water deliveries. We also hope that we can reduce the leaks in our system, a 20% loss of water to leaks is considered normal, 40% is high. If we can find and repair leaks, we could ease up on the rate structure and have more water for gardening, etc. During times (like now) when the State mandates water restrictions, a different rate structure will be applied to reflect the added expense of getting water delivered when it is in short supply. It will also start at \$5/unit for the first two units, but then go to \$25/unit for the 3rd and 4th unit, and \$100/unit for the 5th unit and above. For a household that uses no more than their share of our water, unit charges will be about the same as they were before under either the normal or restricted-use rate structures: \$10 or \$20 for 2 or 3 units. A household that uses 25 units (10 times their share), will be billed \$1,425 in normal times, and \$2,160 during times of water restriction.

It is important that we do not violate our water rights. The State monitors our water usage and requires us to report the amount taken from our well every month, or with drought restrictions, every week. We do not have a water rights license, we have only a water rights permit. Between now and 2027 we will need to apply for a license, and at that time our system will be inspected and our record of water usage will be reviewed. Granting of the license is dependent on our compliance with all of the conditions in our permit. If we violate the permit, the State's policy is to reduce our allowance of water.

IV. Monthly Billing

As soon as everything is in place, we will convert to monthly meter reading and billing. Monthly meter readings will help us to spot leaks quickly and will let our tiered rate structure track usage more closely. Monthly billings will also provide better feedback on how you are doing and help avoid large water bills.

V. Our Decision Process

We appreciate that we have made some big changes in the operation of Austin Creek Mutual Water Company, that our water bills will be bigger, and that these changes may seem sudden. However, we did not rush into these changes, they were discussed over many months during our board meetings. We also received valuable input and guidance from our neighbors who joined our board meetings, and we had in-depth discussions with RRU before finalizing our contract. In the end, we agreed these changes were necessary to keep ACMWC solvent and to provide us all with a safe and reliable supply of drinking water. We thank you for your cooperation and understanding.

Thank you,

ACMWC Board of Directors