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(November 5, 2012)



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*Minimum Criteria for a Proposed Recycled Water Project*

*Order Instituting Rulemaking (R.) 10-11-014*

## I. PURPOSE

These minimum criteria requirements for recycled water projects are intended to guide an Investor-Owned Water and Sewer Utility (“IOWSU”)<sup>1</sup> in the preparation and submission of all recycled water projects (“Project”) for Commission approval in a General Rate Case application, a stand-alone application, [or a Tier 3 Advice Letter](#).<sup>2</sup> These minimum criteria are intended to assist an IOWSU in providing a complete showing in support of the prudence of the proposed Project and the reasonableness of the associated costs. To the extent applicable to the proposed Project, the IOWSU-applicant must provide information regarding the following minimum criteria:

## II. MINIMUM CRITERIA

1. Background of the Proposed Recycled Water Project
  - a. General Information, including Project name and description (e.g. proposed technology, whether for indirect potable or nonpotable reuse, whether part of an existing recycled water system, etc.);
  - b. Past history, present [status](#), [stage](#) and projected timeline of Project development,
  - c. Status of any related projects;
  - d. Location of the proposed Project (include city/district /county and a summary description of the geographical and hydrological conditions) and applicable Integrated Regional Water Management (“IRWM”) planning area;
  - e. Confirmation that the wastewater treatment plant providing recycled water for Project is fully permitted by the county, state and federal agencies as required by laws and regulations.
  - f. Name(s) and description of relationship with partnering entities, if any.
2. Need for the Proposed Recycled Water Project
  - a. The current cost, availability and demand for potable and recycled water

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<sup>1</sup> The use of “IOWSU” in these criteria refers to Class A investor-owned water and comparable size sewer utilities and to smaller size Commission regulated water and sewer utilities that are engaging in the production, distribution or use of recycled water.

<sup>2</sup> [Projects that are eligible to file under the Tier 3 Advice Letter should follow the Tier 3 Advice Letter template for ease of Commission review.](#)

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supplies in the service area of the proposed Project;

- b. Potential customer demand for the proposed Project's recycled water supply by prospective customer;
- c. Potential displacement of current potable delivery;
- d. The projected impact of the proposed Project on the recycled water supplies available in the applicable Integrated Regional Water Resources Plan ("IRWRP");
- e. Conservation/demand-side management efforts currently undertaken in the service area; and
- e.f. Leak Loss detection and other supply side conservation efforts currently undertaken in the service area.

3. General Structure of Proposed Project

- a. Summary and explanation of key terms and conditions of the proposed Project and contracts, including the following, as applicable:
  - Partnerships and Contracting parties;
  - Project cost;
  - Proposed cost-sharing and cost allocation;
  - Proposed price discounting;
  - Other incentives for recycled water use;
  - Proposed escalation rates.
- b. Explanation of how the foregoing contracts will benefit the participating customers, the overall customer base and the company's supply portfolio, including justification for the reasonableness of the key terms of the foregoing contracts.
- c. Additional project specifics related to partnering entities, including:

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- Justification for partnering with the entity selected, including a summary of other partnering options explored.
- Partnering entities' timeline and current status - Include any MOU's that may be in place.
- Water Purchase Agreement or other contract-related protections, including protections for water quality, guaranteed supply, future cost increases, stranded costs in the event of breach of contract.
- Funding provided by partnering entity
- Distribution of responsibility for partnership – who builds, owns, and operates? Who pays for the customer retrofits?

d. Project overview summary of the proposed project to be shown in Appendix A.

4. Project Cost-Benefit Analysis

a. Describe the cost-effectiveness of the Project. Factors to include in this analysis:

- If the IOWSU's most recent Urban Water Management Plan for this service area demonstrates a need for additional supply in the Plan timeframe, the Recycled Water Project costs may be compared against the cost of securing the next least-cost alternative source of potable water supply.
- Estimated impacts on energy usage
- Avoided costs of potable water treatment and distribution
- Quantifiable benefits of the project that would accrue directly to the ratepayers in the service area.

b. Describe any benefits or additional factors that would directly impact the ratepayers in the service area (e.g. supply reliability, system redundancy, etc.). Include a description of how these benefits or factors are relevant to this specific service area (e.g. scarcity of water within this region, lack of existing system redundancy, etc.)

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5. Supply Potential
  - a. Source of recycled water supply and projected availability; and
  - b. Demonstration and justification that the proposed scale/size of the proposed Project matches the anticipated need (detail customer assurances/commitments for the recycled water service).
  
6. Incentives
  - a. Marketing incentives/rate discounts, if any, to incentivize the use of recycled water produced by the proposed Project (include both pricing and non-pricing alternatives; wholesaler discounts and IOWSU-planned incentives, e.g. assistance with customer retrofitting costs); and
  - b. Describe the factors used/considered to establish the proposed incentives.
  
7. Due Diligence on Recycled Water Project
  - a. Information on existing and planned recycled water operations in the Project's Integrated Water Resource Planning (IWRP) area.
  - b. If an IWRP does not exist for the region, provide a list of wastewater treatment facilities located within and adjacent to the IOWSU service area, and any efforts made by the IOWSU to partner with these entities.
  - c. Efforts made by the IOWSU or its public partner(s) to seek public grants or low-interest loans, if at all. Describe the status and anticipated impact of such funds on Project costs.
  
8. Project Costs
  - a. Breakdown of utility plant required for the proposed Project, including the amount of the proposed Project's utility plant that is being proposed to be added to IOWSU rate base;
  - b. Breakdown of the proposed Project's utility plant, if any, that will be funded by public grants;
  - c. Cost sharing/cost allocation across Project partners;

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- d. Identify and quantify one-time and on-going expenses needed for the Project to be borne by the IOWSC (e.g., operation and maintenance expenses, administrative and general expenses, etc.); and
  - e. Amount and type of contributions to the Project, if any ([e.g. treatment plant upgrades, onsite retrofits, etc.](#)).
9. Revenue Requirement, Rates and Rate Design
- a. Total rate base increase associated with the proposed Project;
  - b. Total revenue requirement increase resulting from the proposed Project;
    - Net revenue requirement increase needed to cover the additional Utility Plant for the Project (last authorized rate of return times change in rate base); and
    - Revenue requirement resulting from: 1) added rate base (net revenue increase times net-to-gross multiplier) and 2) expense increases (e.g., depreciation expense/property taxes/marketing incentives/operation & maintenance/administrative and general/etc.)
  - c. Existing recycled water rates in the applicable service area;
  - d. Proposed recycled [and potable](#) water rates that will result from the addition of the proposed Project;
  - e. Explanation and justification for the rate design of the proposed recycled water rates; [and](#)
  - ~~e.f.~~ [Thorough analysis and disclosure of the rate impacts and fixed costs burden resulting from the shift of potable water customers to recycled water.](#)
10. Environmental Review, Permits and Certifications
- a. Demonstrate Project compliance with the California Environmental Quality Act (“CEQA”) and the National Environmental Protection Act (“NEPA”), to the extent applicable; and
  - b. Identification and status of all of the necessary permits/certifications

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from the relevant regulatory agencies with jurisdiction over the proposed Project (e.g. Regional Water Quality Control Board, California Department of Public Health, etc.)

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**Appendix A**  
Summary Project Table

<u>Project Name:</u>		
<u>1</u>	<u>Location</u>	
<u>2</u>	<u>Additional utility plant required for Project and the amount proposed to be added to rate base</u>	
<u>3</u>	<u>Total amount of recycled water to be produced and/or conveyed by the Project in AF or CCF per Yr</u>	
<u>4</u>	<u>Expected Project start and completion date</u>	
<u>5</u>	<u>Projected start date for recycled water conveyance to customers</u>	
<u>6</u>	<u>Lead agency for CEQA review and approval and status of CEQA review</u>	
<u>7</u>	<u>Source and wholesale price of recycled water, if applicable</u>	
<u>8</u>	<u>Proposed retail price of recycled water</u>	
<u>9</u>	<u>Public and/or private grants/loans pursued by project proponent, and/or project partners</u>	
<u>10</u>	<u>Status of any grant/loan funding applications</u>	
<u>11</u>	<u>Note Project affiliations with one or more DWR IRWM planning entities</u>	
<u>12</u>	<u>Status of any applicable permits</u>	