



## THE CITY OF SAN DIEGO

August 15, 2008

Jim Barrett  
Director of Public Utilities  
City of San Diego

**Subject:       Agreed-Upon Procedures Review of the Water Department's Proposed Rate Increase for the Indirect Potable Reuse (IPR) Demonstration Project, and the Combined Proposed IPR Rate Increase in Conjunction with the Previously Reviewed SDCWA Pass Through Rate Increase Calculations.**

We performed another agreed-upon procedures review that was requested by the Water Department related to the additional proposed rate increase to cover the costs of the IPR Demonstration Project, and the combined proposed IPR rate increase in conjunction with the previously reviewed San Diego County Water Authority pass through rate increase calculations (report dated July 11, 2008). In summary, the procedures we agreed to perform related to verifying the mathematical accuracy of the proposed rate increases calculated by the Water Department.

We conducted our work in accordance with Generally Accepted Auditing Standards. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. By specifying the procedures we agreed to perform, the Water Department is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect. Our review is intended solely for the information and use of the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We were not requested to, and did not conduct an audit of the water rate setting process which would have entailed additional procedures. Such additional procedures may have identified other matters, if they existed, that would have been reported to you. We initiated our agreed-upon procedures on August 4, 2008, and completed our work on August 13, 2008.



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The agreed-upon procedures and the results of our work in the report attached were provided in draft to the Water Department for review and comments and they concurred with its contents. Key contributors to this report were Kyle Elser and Farhat Popal. Please contact me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Eduardo Luna". The signature is written in black ink on a light-colored background.

Eduardo Luna  
City Auditor

cc: Jay M. Goldstone, Chief Executive Officer  
Alex Ruiz, Assistant Director, Water Department  
Rod Greek, Deputy Director, Water Department

## Water Department Agreed-Upon Procedures Review Report

### Background

The City of San Diego purchases water from the San Diego County Water Authority (SDCWA). On June 26, 2008, the Board of Directors of the SDCWA authorized an increase in the cost of water purchased from SDCWA, effective January 1, 2009. Therefore, the Water Department proposed an increase to the rates paid by the City of San Diego customers. We previously reviewed the accuracy of these calculations and issued a report dated July 11, 2008. Subsequently, the City of San Diego is planning an Indirect Potable Reuse (IPR) and Reservoir Augmentation Demonstration Project for half of FY2009 and all of FY2010. In order to pay for this project, the Water Department is proposing a percentage increase in commodity water charges in FY2009 through FY2010, and an equal percentage decrease in rates in FY2011. Prior to increasing rates, a Proposition 218 public notice to rate payers is required.

The Water Department prepared a calculation of the increased rates based on the SDCWA increase in the cost of water and the cost of the IPR project, which are to be revenue neutral to the City. They provided us with the calculations, which will be included in the public notice, and requested that we perform agreed-upon procedures on their calculations. Their additional calculations included the following:

- Estimated cost of IPR project.
- Projected revenue requirements based on Water Department's estimate of the cost of the project.
- Increased revenue to be generated based on estimated water sales.
- Revenue generated by IPR rate increase when taken in conjunction with the SDCWA pass through increase.
- Revenue generated by IPR rate increase without the SDCWA pass through increase.
- Allocation of rate increases to rate payers.

### Agreed-Upon Procedures and Results

1. Verify the mathematical accuracy of the Water Department calculations of revenues generated by the IPR Rate Increase substantially offset the costs for the IPR Demonstration Project as estimated by the Water Department.

**Result:** The calculation of revenues generated by the IPR rate increase were verified to be mathematically accurate, and were found to substantially offset the estimated costs of the project in both the case of the SDCWA Pass Through and the case of no Pass Through increase. Their calculations of estimated project costs, projected water purchases, projected water sales and regulations governing the allocation were not confirmed and are outside the scope of this review.

2. Verify the mathematical accuracy of the calculation of the estimated revenue generated does not change significantly when taken in combination with the SDCWA Pass Through Rate Increase.

**Result:** Total new revenue from IPR in the case of the SDCWA Pass Through was compared to total new revenue from IPR in the case of no Pass Through. With the Pass Through rate increase included, \$4,164 less is generated compared to the calculation without the Pass Through included. Because the IPR percentages are based on estimated water sales, it is difficult to arrive at the same exact figure as in the no Pass Through scenario. The \$4,164 difference appears to be immaterial.

3. Verify the mathematical accuracy of the allocation of rate increases to rate payers based on the percentage increase used.

**Result:** The Calculation of projected rates from January 1, 2009 through July 1, 2011 is mathematically accurate.