

Suggested Motion

I MOVE TO approve Ordinance 2014-05 on second and final reading.

Monday, March 3, 2014

MEMORANDUM

To: Mark Gorman – CBS Administrator

From: Garry White, Director

Subject: CBS Water Rates for Export

Introduction

The CBS has permits for 29,235 Acre feet/year (Af/yr) or 9,526,253,985 US gallons of water available for export. The CBS has entered into agreements with various private entities for the sale of its water allocation since the CBS acquired the water resources in 2000. The pricing structure for water sales has either been set by water purchase agreements or Sitka General Code (SGC).

New ways to package and export water are being pursued by private industries which are currently not covered by SGC. The SCIP Board has recommended adjusting SGC 15.05.625 to include the new water export methods.

Background

The CBS pricing structure for water export has evolved over the years based on export methods.

Bulk water sales

The export of water in bulk has limited history in the global market. SEDA has completed significant research on the subject and is not aware of regular bulk water sales/shipments taking place anywhere in the world. Due to the lack of comparable sales, The CBS is one of the leading entities setting the price in this emerging venture.

The CBS has set a price of \$0.01/gallon.

Sales price for the export of raw water in bulk have been traditionally set by water purchase agreements.

Bottled water sales

In 2010, the CBS adjusted SGC 15.05.625 to include a bottled water rate. Previously, the price for bottling water was set per water purchase agreements with guaranteed water allocations. The operator of the bottling plant located at the SCIP in 2010 requested lower water rates for bottling operations. They did not wish to enter into a guaranteed water allocation purchase agreement, but rather purchase water as it was available at a lower price. (The CBS had roughly 6 billion gallons of water available at the time that was not under contractual obligations.)

The pricing structure for bottled water was set by researching competing water prices in the US and taking into account the CBS proposed four - 14% annual water rate increases schedule to go into effect. The rate was set lower than the bulk water rate, as jobs would be created with a bottling production plant and that no water allocation would be guaranteed.

Currently the rate for raw water for bottling is \$1.69/1000 gallons. This rate is comparable with the following rates:

Juneau, AK (AK Brewery)	\$2.43/1000 gallons	>500,000 gallons/month - \$0.70/1000
Milwaukee, WI (MillerCoors Brewery)	\$1.791/1000 gallons	>15,000 gallons/month - \$0.976/1000
Macon County, GA (Nestle water)		\$2.67/1000 gallons

Tote/Container water sales

The sale of water in totes or containers has never been addressed by the CBS. The SCIP Board addressed the new emerging water sales industry after learning about a potential private venture to ship water in container sizes larger than traditional bottles and less than larger bulk water tanker shipments.

The SCIP Board recommended a rate of \$0.01/gallon be set on the price of water export in container sizes of greater than 5 gallons. The board recommended the rate based on following points:

- Water for bottling purposes was given a lower price based on the potential for job creation. Packaging water in containers larger than five gallons will create fewer jobs than regular bottling operations using smaller containers.
- Potential contractual issues with the current bulk water purchase agreement with True Alaska Bottling (TAB) concerning water pricing. The current water purchase agreement sets the price of bulk water at \$0.01/gallon.

Section 5.1 of the agreement states the following: "Providing that TAB is in compliance with all terms of this agreement Sitka agrees to not sell water for export to other entities for a price less than the price currently charged to TAB for equivalent Blue Lake water without offering the same price to TAB."

November 12, 2013 Assembly Action

In Assembly met in November 2013 to address the SCIP Board's recommendations. The Assembly approved the following motion:

A motion was made by Hackett to AMEND the main motion to read: "Direct the Municipal Attorney to work with the Sawmill Cove Industrial Park Board to define bulk water in preparation for an ordinance on bulk water rates." The motion to AMEND PASSED by the following vote.

The SCIP Director and the CBS Attorney met and discussed the definition of bulk water and its relation to the existing TAB bulk water purchase agreement and determined the following:

- The TAB water purchase agreement does not define what water volume amount is considered “bulk water”.
- The definition of bulk water has multiple interpretations depending on different sources. (Cambridge Dictionary does not define “bulk water”).
 - Bottled water has a set definition with multiple sources.
 - “water that has been treated in order to make it very clean or that has come from a special place, sold in bottles”
- Section 5.1 of the existing TAB bulk water purchase agreement as currently written would leave the CBS open to prices changes based off the loose definition of bulk export.

Current SGC 15.05.625

A. Water Service—Sawmill Cove Industrial Park.

1. Unmetered treated water, domestic use: base rate, thirty dollars and eighty cents per unit, per month.
2. Metered water: ninety-six dollars and thirty cents per month minimum.
 - a. Treated water: one dollar and ninety-three cents per one thousand gallons.
 - b. Treated water, fish processing use: one dollar and forty-five cents per one thousand gallons.
 - c. Raw water for heating: sixty-seven cents per one thousand gallons.
 - d. Raw water for industrial processing: ninety-six cents per one thousand gallons.
 - e. Raw water for water bottling at Sawmill Cove Industrial Park: one dollar and sixty-nine cents per one thousand gallons.

Proposed Change to SCG 15.05.625

A. Water Service – Sawmill Cove Industrial Park

2.

E. Raw water for bottling at Sawmill Cove Industrial Park in container sizes of five gallons or less: one dollar and sixty-nine cents per one thousand gallons.

F. Raw water for bottling at Sawmill Cove Industrial Park in container sizes greater than five gallons: one cent per gallon.

Recommendations

The SCIP Board recommends the CBS Assembly approve and adopted the proposed changes to Sitka General Code 15.05.625 as outlined above.

CITY AND BOROUGH OF SITKA

ORDINANCE NO. 2014 – 05

AN ORDINANCE OF THE CITY AND BOROUGH OF SITKA AMENDING THE SITKA GENERAL CODE AT CHAPTER 15.05 ENTITLED "WATER SYSTEM" AT SUBSECTION 15.05.625 ENTITLED "WATER AND WASTEWATER RATES – SAWMILL COVE INDUSTRIAL PARK" TO FURTHER DEFINE WATER VOLUMES AND ADDRESS TOTE/CONTAINER WATER SALES FOR BULK WATER

1. CLASSIFICATION. This ordinance is of a permanent nature and is intended to be a part of the Sitka General Code of the City and Borough of Sitka, Alaska.

2. SEVERABILITY. If any provision of this ordinance or any application to any person or circumstance is held invalid, the remainder of this ordinance and application to any person and circumstances shall not be affected.

3. PURPOSE. The Sawmill Cove Industrial Park Board desires to address tote/container water sales and to further define water volumes to address new and emergency water sales industry further defining bulk water rates.

4. ENACTMENT. NOW, THEREFORE, BE IT ENACTED by the Assembly of the City and Borough of Sitka that the Sitka General Code Section is amended to read as follows (new language underlined; deleted language stricken):

Chapter 15.05
Water System

15.05.625 Water and wastewater rates—Sawmill Cove Industrial Park.

- A. Water Service—Sawmill Cove Industrial Park.
1. Unmetered treated water, domestic use: base rate, thirty dollars and eighty cents per unit, per month.
2. Metered water: ninety-six dollars and thirty cents per month minimum.
a. Treated water: one dollar and ninety-three cents per one thousand gallons.
b. Treated water, fish processing use: one dollar and forty-five cents per one thousand gallons.
c. Raw water for heating: sixty-seven cents per one thousand gallons.

- 43 d. Raw water for industrial processing: ninety-six cents per one thousand gallons.
- 44 e. Raw water for water bottling at Sawmill Cove Industrial Park: in container sizes of five
- 45 gallons or less: one dollar and sixty-nine cents per one thousand gallons.
- 46 f. Raw water for bottling at Sawmill Cove Industrial Park in container sizes greater than
- 47 five gallons: one cent per gallon.

48 * * *

49
50 **5. EFFECTIVE DATE.** This ordinance shall become effective on the day after the day of its
51 passage.

52
53 **PASSED, APPROVED, AND ADOPTED** by the Assembly of the City and Borough of Sitka,
54 Alaska this 25th day of March, 2014.

55
56
57 _____
Mim McConnell , Mayor

58 ATTEST:

59
60 _____
61 Colleen Ingman, MMC
62 Municipal Clerk
63