



June 18, 2014

**Attention: Administrative and Finance Committee**

**Adopt the Water Authority's rates and charges for calendar year 2015 and extend the Transitional Special Agricultural Water Rate Program. (Action)**

**Purpose**

To establish rates and charges sufficient to meet the Water Authority's revenue requirements in conformance with state law and board policies and to extend the Transitional Special Agricultural Water Rate (TSAWR) program.

***Staff recommendations***

- a. Conduct the Public Hearing
- b. Accept Carollo Engineers' San Diego County Water Authority Desalination Cost Allocation Cost of Service Rate Study dated May 13, 2014 and letter amending the study, included in Attachment A of this report.
- c. Adopt Ordinance No. 2014-\_\_ an ordinance of the Board of Directors of the San Diego County Water Authority setting rates and charges for the delivery and supply of water, use of facilities, and provision of services;
- d. Adopt Ordinance No. 2014-\_\_ an ordinance of the Board of Directors of the San Diego County Water Authority extending the Transitional Special Agricultural Water Rate Program through December 31, 2015; and
- e. Find the actions exempt from CEQA pursuant to Public Resources Code § 21080(b)(8) and authorize the General Manager to file a notice of exemption.

***Alternative***

Do not set the rates and charges at the recommended increased amounts or set the rates and charges at some lesser amount than recommended. Setting rates and charges at lower than the recommended amount may result in larger rate increases in future years.

**Fiscal impact**

The proposed water rates and charges, in combination with existing taxes, the System Capacity Charge, the Water Treatment Capacity Charge, the Infrastructure Access Charge (IAC), investment income and the Standby Availability Charge are expected to raise revenues sufficient to meet the Water Authority's revenue requirement, bond covenants and other key fiscal policy goals.

## **Background**

### ***Metropolitan Water Rate Increases***

On April 8, 2014, MWD's Board of Directors adopted rate and charge increases for calendar years 2015 and 2016 resulting in a 1.5% annual "average" rate increase in each year. Based upon MWD's adopted CY 2015 rate and charge schedule, the cost of treated and untreated water to the Water Authority will increase by 3.7% and decrease by 1.9%, respectively (excluding the impact of MWD's fixed charges). The increase in the treated rate is being driven by the 15% increase in MWD's treatment surcharge.

### ***2013 Comprehensive Cost of Service Review***

In 2013, the Board of Directors retained Carollo Engineers (Carollo) to perform a comprehensive cost of service review of the Water Authority's rates and charges. That review along with the General Manager's recommended budget and staff's recommended revenue requirement allocation formed the basis for setting the CY 2014 rates and charges.

### ***Drought Messaging and Water Demand Uncertainty***

With ongoing extreme drought conditions in California, a ramp-up in conservation messaging across the state, and the National Oceanographic and Atmospheric Administration predicting the chances of El Niño increasing during the remainder of the year - exceeding 50% by the summer, water demand forecasting for CY 2015 was especially challenging. Additionally, current drought conditions and a historically low 5% State Water Project Table A allocation have caused MWD to rely heavily on its storage supplies to meet the needs of its customers in 2014. As a result, consideration was given to the possibility of the drought continuing into 2015 and potential for MWD to implement water supply allocations to protect its storage reserves in projecting CY 2015 water sales. While water sales to-date in CY 2014 have trended above forecasted estimates, the Water Authority took a conservative approach in its forecasting and is projecting that the current demand trend will subside and drop next year - resulting in a 1% decrease in CY 2015 sales due to conservation messaging, a strong probability of an El Niño event, and the potential for MWD mandatory supply allocations.

### ***Special Agricultural Water Rate Program***

In October 2008, faced with a prolonged drought, rising water costs and the realization that in the future, any "surplus" water should be stored in its own regional storage portfolio in order to meet variable municipal and industrial water demands, the MWD Board voted to terminate the Interim Agricultural Water Program (IAWP) through a five-year phase-out of the program resulting in termination December 31, 2012.

In response to MWD's phase-out of IAWP, the Water Authority's Board approved the TSAWR program in October 2008 and made it available to IAWP participants. The TSAWR program enables participants to purchase water at MWD's full service Tier 1 rate, which is at a discounted rate from the Melded Supply Rate, in return for a lower level of water supply reliability. TSAWR deliveries are also not included in the Storage Charge allocation to member agencies. At that time, the Board also formed a Special Agricultural Water Rate (SAWR) Board Workgroup to develop a recommended permanent program when IAWP terminated at the end of 2012. In March 2010, the Board approved the Workgroup's recommendation for a permanent SAWR program that began January 1, 2013 and only continued the Storage Charge exemption. With the SAWR program set to

switch from the transitional program to the permanent program on January 1, 2013, members of the agricultural community raised concerns over the financial impacts of the change. In response, on April 26, 2012, the Board voted to extend the TSAWR program for two additional years ending December 31, 2014. This action not only provided agricultural customers with additional time to prepare for the higher cost of water, but also provided time for important water supply issues that could affect the rate structure to be resolved.

On April 24, 2014 in response to stakeholder requests, the Board directed staff to provide the CY 2015 rates and charges with and without an extension of the current TSAWR Program at the May Board meeting. Additionally, the Board directed an analysis of the TSAWR program as part of the A&F Committee's future work on fiscal sustainability. After reviewing and discussing the CY 2015 rate and charge alternatives prepared by staff, the Water Authority's Board of Directors, on May 22, 2014, directed staff to prepare the CY 2015 rates and charges to include the continuation of the TSAWR program through December 31, 2015 and to mitigate the rate impact of this action by reducing the CY 2015 Rate Stabilization Fund (RSF) support by \$7.1 million.

#### ***May 22, 2014 Board Meeting***

At the May Board Meeting, the Water Authority staff gave a report on the proposed rates and charges for CY 2015 including alternatives for continuation of the TSAWR program. Carollo also presented on their findings as well as provided a summary of its report on the San Diego County Water Authority Desalination Cost Allocation Cost of Service Rate Study. The report was provided to the Board as part of the agenda materials. The Water Authority's May Board report also highlighted the drivers of the CY 2015 rate and charge increases. The highlighted drivers are summarized below:

- ***Increasing MWD treatment costs*** – With MWD's treatment rate increasing by 14.8%, the Water Authority's treatment costs are expected to increase by approximately 1.5% in CY 2015.
- ***Cost of desalinated water*** – With the construction of Carlsbad Desalination Project moving ahead of schedule, the Water Authority expects to take delivery of approximately 16,000 acre feet in CY 2015 with a net increase in water costs of approximately \$22 million.
- ***Securing a prudent financial position and advancing towards Board policy targets*** – The RSF is currently below the established maximum funding level that provides 3.5 years of protection against wet weather. The Water Authority is targeting a RSF deposit of approximately \$22 million in FY 2015 which will bring the RSF to approximately 79% of its established maximum funding level.

Based upon the Board's direction to prepare rates and charges to include the continuation of the TSAWR program through calendar year 2015, the proposed water rates and charges would result in an Municipal and Industrial (M&I) "all-in"<sup>1</sup> increase of 2.9% in the untreated water rate and a

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<sup>1</sup> The "all-in" water rate is the estimated average cost of water that includes the Water Authority's Melded Supply, Melded Treatment (if treated rate) and Transportation rates along with the Storage and Customer Service charges expressed as a \$/AF estimate. The actual average cost will vary for each member agency depending on their Customer Service and Storage charge allocations.

2.6% increase in the “all-in” treated water rate for CY 2015. These increases are within the high/low guidance previously provided by staff to support member agency financial planning efforts. The proposed rates and charges balance the increased costs discussed above against the financial policies adopted by the Water Authority’s Board of Directors and prudent financial management to minimize the rate increases and mitigate near term rate and charge volatility.

*Previous Board Action: On May 22, 2014, the Board received the detailed cost of service study and the detailed adopted Resolution 2014-09 setting the time and place for the public hearing on June 26, 2014 to receive comments on the proposed rates and charges.*

### **Discussion**

The Water Authority Board and staff continue to actively manage costs, focus on projects with a long-term quantifiable payback and search for improved efficiencies and opportunities for consolidation or outsourcing. The Water Authority’s M&I “all-in” rate for untreated water is increasing by 2.9% and the rate for treated water is increasing by 2.6%. It should be noted that the actual cost of water will vary by member agency based upon each agency’s fixed charge allocations.

### **Setting Water Rates and Charges**

On an annual basis, the Water Authority staff develops proposed water rates and charges, which it presents to the Board of Directors for adoption. Water rates and charges include the Melded Supply, Melded Treatment, Transportation Rates and the Customer Service and Storage Charges. Each year the Water Authority undertakes the following cost of service analysis to determine water rates and charges.

- Step 1. Establish the revenue requirement—determine the total amount of revenue needed to recover the Water Authority’s annual operating (operations and maintenance of facilities, cost of water, treatment costs, etc.) and capital expenditures (cash and short and long-term debt)
- Step 2. Allocate the revenue requirement and offsetting non-commodity revenues (i.e. investment income, property tax, IAC, etc.) to rate categories (Melded Supply, Melded Treatment, Transportation, Storage and Customer Service) to determine the net revenue requirement for each rate category
- Step 3. Determine rates and charges based upon the net revenue requirements, water sales projections and other key financial management metrics (i.e. senior lien debt service coverage, fund deposits and withdrawals)
- Step 4. Allocate fixed charges (Storage and Customer Service) to member agencies based on specified allocation methodologies

### **Integration of Desalination Costs into Calendar Year 2015 Rates and Charges**

In addition to the direction provided by the Board with regards to the Fiscal Sustainability Task Force’s recommendations, a Desalination Cost of Service Study Phase II Member Agency Workgroup (Workgroup) was formed to assist staff in developing the desalination cost recovery methodologies. The methodologies were then provided to an independent cost of service consultant, who conducted an analysis to ensure the desalination cost recovery proposed by the Workgroup for rates and charges is consistent with the formalized cost of service based

methodologies. An open and transparent process was conducted and the activities performed are described below.

#### Desalination Cost of Service Study Phase II Member Agency Workgroup Process

The Workgroup was tasked with assisting Water Authority staff in identifying the methodology to be used for incorporating the costs of the Carlsbad Seawater Desalination Project into the Water Authority's rate and charge structure. In October 2013, the Workgroup began meeting to discuss the specifics of allocating Carlsbad desalination costs to their functional rate service categories. The Workgroup included up to two representatives from each member agency, Water Authority staff and Dr. Thomas Chesnutt of A&N Technical Services as an independent expert and facilitator of the process. The Workgroup met monthly through February of 2014 and covered the following:

- Rate setting principles, cost allocation and ratepayer equity
- Water Authority's rate and charge structure and process
- Application of the cost of service principles to Carlsbad desalination including the 9 desalination rate structure alternatives that were presented to the Board in 2012

Ultimately, the Workgroup discussion resulted in the following proposed allocation of Carlsbad desalination costs:

1. Pipeline costs connecting the desalination plant to the Water Authority's system are allocated to Transportation
  - a. Costs associated with required modifications to the Water Authority's existing Pipeline #3 due to desalination are allocated to Transportation
  - b. Improvements for delivering desalinated water to Twin Oaks Valley Water Treatment Plant for blending and to redistribute water through the aqueduct are allocated to Transportation
  - c. The new Desalinated Product Water Pipeline between the Carlsbad Desalination Plant and the Second Aqueduct is allocated to Transportation
2. Because its primary function is to produce water, the primary cost allocation of the desalination plant is to Supply, but with an allocation of the incidental treatment benefit resulting from the fact that produced desalinated water meets all state and federal drinking water regulations being allocated to treatment
3. The allocated treatment benefit associated with desalination is based on existing Water Authority melded treatment costs and will be benchmarked to the current Water Authority melded treated water surcharge payable by treated water customers only

These results along with Board policy and guidance were used when incorporating desalination costs into the CY 2015 rates and charges.

#### Desalination Cost Allocation Cost of Service Review

Consistent with best management practices, the Water Authority retained Carollo to perform an independent Cost of Service Study (the Study) on the Board and the Workgroup's direction with regards to the desalination cost allocation methodologies. The Study focused on the allocation of costs associated with the Carlsbad Desalination Plant to the revenue requirements for the appropriate rate and charge categories and ensuring compliance with existing legal requirements and Board policies. Carollo had independently, based upon the cost allocation methodologies,

calculated the CY 2015 rates and charges that are impacted by the Carlsbad Desalination Plant costs and determined that the allocation of these costs are consistent with California legal requirements, cost of service standards, and Water Authority Board policies. The Study was finalized on May 13, 2014 and was provided to the Board as part of the record of the rate setting action.

### **Extension of the Special Agricultural Water Rate Program**

As directed by the Board on May 22, 2014, the TSAWR program will be extended through December 31, 2015. As discussed above, the TSAWR program provides water at a discounted price in return for a lower level of supply reliability. The Ordinance extending the TSAWR program is provided as Attachment B.

Because this action was subsequent to the finalization of the Study, Carollo reviewed the impact of the TSAWR extension and found that only minor changes to the Study were necessary. Having reviewed the TSAWR program as part of the 2013 comprehensive cost of service review and determining that the program did not violate cost of service principles, Board policy or California legal requirements, Carollo's earlier findings were not changed by continuing the existing TSAWR program through December 31, 2015. A copy of the letter amending the report to incorporate the extension of the TSAWR program is included in Attachment A and for ease of reference a link to the Carollo Study is provided: [San Diego County Water Authority Desalination Cost Allocation Cost of Service Rate Study](#).

### **Prudent Financial Management and Long-Range Planning**

In 2006, following the recommendations of a Rate Model Working Group and Administrative and Finance Committee, the Board amended the Water Authority's financial policies regarding the RSF and Debt Service Coverage Ratio (DSCR). As part of the amendments, the Board established a target funding level for the RSF that better protects the Water Authority against the financial impact of 2.5 years of wet weather (3.5 years max). In addition, it established a target DSCR of 1.50x.

The overall benefits of the amendments included reduced rate volatility, increased protection against wet weather, a transparent and flexible RSF framework, and increased cash funding of the CIP. Furthermore, it strengthened key financial ratios—higher debt service coverage ratio, decreased debt ratio and increased cash days— to support the maintenance of the Water Authority's AA+ credit ratings and access to lower rates.

The Water Authority's Long-Range Financing Plan, updated by the board of directors in 2008, requires the revenues of the Water Authority be sufficient to: pay operating expenses, provide for maintenance and repair of facilities, provide for payment of principle and interest on debt, and provide reasonable reserves consistent with bond covenants and sound fiscal management. As a public agency enterprise, the Water Authority does not generate a profit. Revenues are set to meet the reasonably anticipated costs of providing service to the member agencies and do not generate revenues that are unrelated to the accomplishment of the Water Authority's purposes.

While the Water Authority's revenue structure remains constant, the cost structure continues to evolve with increasing contractual obligations. The adoption of the Water Purchase Agreement

from the Carlsbad Desalination Plant will impact the CY 2015 rates and charges as the projected production schedule has been moved up to the fall of 2015. This contractual obligation when combined with the Quantification Settlement Agreement (QSA) obligation contribute to increased supply costs and increasing levels of volatility in net revenues. As a result of this volatility, the target and maximum fund balance requirements for the RSF are increasing significantly. Without a change in the revenue structure, supply costs and fund balance requirements will continue to grow as desalination reaches full production and QSA water transfers ramp up through 2021.

In an effort to meet the Board’s objective of smooth and predictable rates and charges, as requested by member agencies, the proposed increases for CY 2015 rates and charges mitigate the impact of desalination costs and position the Water Authority to achieve and maintain the Board’s target RSF balance.

**Description of Proposed Rates and Charges**

Table 1 summarizes the Water Authority’s proposed CY 2015 rates and charges with agricultural water deliveries included in the Melded Supply Rate. A description of the Water Authority’s rates and charges is provided in subsequent sections. In addition to the Water Authority’s rates and charges shown in Table 1, certain MWD rates and charges are passed through to the member agencies.

<b>Table 1 – Summary of Water Authority Rates and Charges</b>			
<b>Water Authority Rates and Charges</b>	<b>CY 2013 Previous</b>	<b>CY 2014 Current</b>	<b>CY 2015 Proposed</b>
Melded Supply Rate (\$/AF)	\$714	\$732	\$764
Melded Treatment Rate (\$/AF)	\$256	\$274	\$278
Transportation Rate (\$/AF)	\$93	\$97	\$101
Untreated Special Agricultural Water Rate (\$/AF)	\$593	\$593	\$582
Treated Special Agricultural Water Rate (\$/AF)	\$849	\$867	\$860
Infrastructure Access Charge	\$2.65/ME	\$2.68/ME	\$2.76/ME
Customer Service Charge	\$26,400,000	\$26,400,000	\$26,400,000
Storage Charge	\$60,200,000	\$63,200,000	\$63,200,000
Standby Availability Charge per parcel or acre, whichever is greater <sup>1</sup>	\$10	\$10	\$10
System Capacity Charge	\$4,326/ME <sup>2</sup>	\$4,681/ME	\$4,681/ME
Treatment Capacity Charge	\$166/ME	\$119/ME	\$119/ME
<sup>1</sup> Fiscal Year Charge.			
<sup>2</sup> ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.			

Table 2 summarizes MWD's rates and charges that the Water Authority passes through to its member agencies.

<b>Table 2 – Summary of Water Authority Pass Through Rates and Charges</b>			
<b>MWD Rates and Charges</b>	<b>CY 2013 Previous</b>	<b>CY 2014 Current</b>	<b>CY 2015 Adopted</b>
Untreated Tier 2 Supply Rate \$/AF <sup>1</sup>	\$743	\$735	\$716
Interim Agricultural Water Program Untreated (\$/AF) <sup>2</sup>	NA	NA	NA
Interim Agricultural Water Program Treated (\$/AF) <sup>2</sup>	NA	NA	NA
Replenishment Water Rate Untreated (\$/AF) <sup>2</sup>	NA	NA	NA
Replenishment Water Rate Treated (\$/AF) <sup>2</sup>	NA	NA	NA
MWD Capacity Charge	\$6,753,920	\$8,268,900	\$10,738,140
Readiness-to-Serve Charge <sup>3</sup>	\$23,240,691	\$24,498,074	\$25,043,402
<sup>1</sup> Agencies exceeding their Tier 1 allocation may pay the difference between the MWD's bundled Tier 1 and Tier 2 Supply Rates in addition to the Melded Supply Rate. <sup>2</sup> The Interim Agricultural Water Program was discontinued after 2012 and discussions on the replenishment program are continuing. <sup>3</sup> Fiscal Year Charge.			

*The following rates and charges will be effective July 1, 2014:*

**Standby Availability Charge.** The County Water Authority Act limits the maximum annual Standby Availability Charge to \$10 per acre or parcel, whichever is greater. Beginning before November 6, 1996, the Water Authority has determined that the maximum annual Standby Availability Charge should be levied on property within the Water Authority's service area. To provide necessary funding for the CIP, the General Manager recommends that the charge continue at the \$10 maximum for fiscal year 2014-2015. The Standby Availability Charge rate is effective July 1, 2014.

*The following rates and charges are being proposed effective on January 1, 2015:*

**Melded Untreated Supply Rate.** The Melded Untreated Supply Rate (Melded Supply Rate) will be set to recover the costs of providing water services to Municipal and Industrial customers. Costs include purchasing Tier 1 water from MWD, water purchases from IID, payments in connection with the All-American and Coachella Canal lining projects, payments to MWD under the 2003 Exchange Agreement for conveyance of IID and Canal Lining water, desalinated water and the portion of the Water Authority's revenue requirement allocated to the Supply rate. The revenue requirement may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, reserve withdrawals/deposits and coverage requirements. Table 3 below shows the calculation of the Melded Supply Rate.

**Table 3 – Untreated Melded Supply Rate Calculation**

	<u>CY 2015</u>
<b>Acre-Foot Sales (A/F) (000's)</b>	
MWD Tier I	258.1
IID	100.0
Canal Water Delivery Costs	80.2
Carlsbad Desalination Production	16.3
<b>TOTAL A/F SALES</b>	<b>454.6</b>
<b>Water Purchase Cost (in Millions)</b>	
MWD Tier 1 Water Purchases	\$150.2
QSA Exchange with MWD Costs	76.4
IID Water Purchases	62.4
Canal Water Purchases	1.0
Desalinated Water Supply Costs	28.1
Subtotal Water Purchases	<b>\$318.1</b>
<b>Additional Costs (in Millions)</b>	
Supply Revenue Requirement	\$20.2
IID Socioeconomic	3.1
QSA Environmental	5.3
Groundwater Storage	0.5
Subtotal Other Costs	<b>\$29.1</b>
<b>TOTAL SUPPLY COST</b>	<b>\$347.2</b>
<b>A/F RATE (Total Supply Cost /Total A/F Sales)</b>	<b>\$764</b>

Based upon this calculation, the Melded Supply Rate will increase from its current level of \$732/AF to \$764/AF in CY 2015.

**Water Authority’s Transitional Special Agricultural Water Program Rates.** With the TSAWR program continuing through CY 2015, the untreated agricultural water rate will be set to MWD’s Tier 1 rate and decrease from its current level of \$593/AF to \$582/AF. In addition, the treated agricultural water rate will decrease from \$867/AF in CY 2014 to \$860/AF in CY 2015. The TSAWR program rates correspond to a lower level of water supply reliability for its participants.

**Melded Treatment Rate.** The Melded Treatment Rate will be set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, the Levy and Olivenhain treatment plants, the Water Authority’s Twin Oaks Valley Water Treatment Plant, desalinated water costs allocated to this rate, and may recover certain other costs associated with the delivery of treated water. For CY 2015, the Melded Treatment Rate will increase from its current level of \$274/AF to \$278/AF. Table 4 shows the calculation of the Melded Treatment Rate.

**Table 4 – Melded Treatment Rate Calculation**

	<b>CY 2015</b>
<b>Acre-Foot Sales (A/F) (000's)*</b>	
MWD	81.8
Water Authority	77.9
Helix	25.6
Olivenhain	0.0
Carlsbad Desalination Production	16.3
<b>TOTAL A/F SALES</b>	<b>201.6</b>
<b>Cost (in Millions)</b>	
MWD	\$27.9
Water Authority	19.6
Helix	4.0
Olivenhain	0.0
Desalinated Water**	4.5
<b>TOTAL TREATMENT COSTS</b>	<b>\$56.0</b>
<b>A/F RATE (Total Treatment Costs/Total A/F Sales)</b>	<b>\$278</b>

\* Includes treated water deliveries intended for agriculture  
 \*\*Based on proposed cost of treated water (16,295AF\*\$278 = \$4.5M)

**Transportation Rate.** The Transportation rate is set to recover capital, operating, and maintenance costs of Water Authority-owned water delivery facilities, including facilities used to physically transport the water to member agency meters. The Transportation Rate is charged to each acre-foot of water delivered by the Water Authority as it occurs. For CY 2015, the Transportation Rate will increase from its current level of \$97/AF to \$101/AF.

**Infrastructure Access Charge.** The IAC is imposed on member agencies as a condition of maintaining connections to Water Authority facilities. It is apportioned based on water meters within each member agency. As the Desalination Pipeline Bonds debt service impacts the IAC, the methodology used to calculate the IAC was reviewed by Carollo as part of their Study and is provided in Attachment A. For CY 2015, the monthly IAC will increase from its current level of \$2.68/ME to \$2.76/ME.

**Customer Service Charge.** The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority. The Customer Service Charge will be allocated among the member agencies on the basis of each agency's three-year rolling average of member agency supply purchases from the Water Authority. For CY 2015, the Customer Service Charge will remain unchanged at \$26.4M.

**Storage Charge.** The Storage Charge is set to recover costs associated with the Emergency Storage Program and the Carryover Storage Program. Because agricultural users that participate in the SAWR program agree to reduced or interrupted service during times of water emergencies, they will not receive benefit from the storage program; therefore, the Storage Charge is based on all non-SAWR water deliveries and will be allocated among the member agencies using a pro rata share of each agency's three-year rolling average deliveries. For CY 2015, the Storage Charge will remain unchanged at \$63.2M.

**Capacity Charges.** Capacity charges are one time fees charged to new system connections. The fee is set to recover the proportionate cost of the system necessary to serve that connection.

**System Capacity Charge.** This charge recovers a portion of the capital costs for the conveyance and storage facilities necessary to operate the delivery system. Application of the methodology to the conveyance and storage system capital facilities results in no change from its current charge of \$4,681 for each new meter equivalent.

**Water Treatment Capacity Charge.** This charge recovers a portion of the regional water treatment facility to be collected from all future users of the facility. In keeping with the Water Authority’s policy of exempting agencies that cannot benefit from a service, the Water Treatment Capacity Charge excludes customers from the City of Del Mar, City of Escondido, and City of Poway. The Water Treatment Capacity Charge will remain at its current level of \$119 for each new meter equivalent connected to the treated water system.

Table 5 presents a summary of the Capacity Charge schedule that went into effect on January 1, 2014 and will continue through CY 2015.

<b>Table 5 Summary of Water Authority Capacity Charges</b>			
<b>Meter Size (Inches)</b>	<b>Factor</b>	<b>System Capacity Charge</b>	<b>Water Treatment Capacity Charge</b>
<b>Under 1"</b>	<b>1.0</b>	<b>\$4,681</b>	<b>\$119</b>
1"	1.6	7,490	190
1.5"	3.0	14,043	357
2"	5.2	24,341	619
3"	9.6	44,938	1,142
4"	16.4	76,768	1,952
6"	30.0	140,430	3,570
8"	52.0	243,412	6,188
10"	78.0	365,118	9,282
12"	132.0	\$617,892	\$15,708

*The following MWD rates and charges are passed on directly or allocated to the Water Authority’s member agencies in the same manner as MWD applies them to the Water Authority.<sup>2</sup>*

**MWD Capacity Charge.** For CY 2015, the Capacity Charge is \$11,100 per cubic foot second (cfs) of maximum daily flow requested by a MWD member agency. The Capacity Charge is a fixed charge levied on an agency’s maximum daily flows over the three previous fiscal years. It recovers the cost of providing peak capacity within the distribution system, and is designed to encourage member agencies to shift demands and avoid placing large daily peaks on the MWD system during the summer months. Daily flow measured between May 1 and September 30 for purposes of billing

<sup>2</sup> The Water Authority has opposed MWD’s cost of service methodology associated with these charges.

the Capacity Charge will include deliveries (except long-term seasonal storage deliveries) made by MWD to a member agency or member agency customer including water transfers, exchanges and agricultural deliveries. As part of a separate surface storage operating agreement to manage seasonal peaking, the Water Authority is expected to reserve its full available capacity. The Capacity Charge will be set at \$10,738,140. The Water Authority's Board has directed that the Capacity Charge will be recovered proportionally based on a five-year rolling average of member agency flows during coincident peak weeks.

**Readiness-to-Serve Charge.** MWD's Readiness-to-Serve Charge differs from the other MWD charges in that it is set on a Fiscal Year basis. The total Readiness-to-Serve Charge will decrease from its current level of \$166 million to \$158 million in Fiscal Year 2014-2015. The Water Authority's share is set at \$37,690,431. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is \$25,043,402. MWD's Readiness-to-Serve Charge will recover costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge will be allocated among MWD member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). This allocation will be revised each year. Revenues equal to the amount of MWD Standby Charges will continue to be credited against the member agency's Readiness-to-Serve Charge obligation unless a change is requested by the member agency. The Board has directed that the Water Authority's Readiness-to-Serve Charge will be passed through proportionally to member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity).

### **Proposed Rates in Compliance with Proposition 26**

In November 2010, the voters adopted Proposition 26, an initiative measure amending provisions of articles XIII A and XIII C of the California Constitution. The General Counsel has determined that the measure's amendment of article XIII C affects the Water Authority. Specifically, the measure adds a new definition of tax applicable to local government agencies. As newly defined, a "tax" is "any levy, charge, or exaction of any kind imposed by a local government" except one that falls within one of seven specific categories. One of these categories includes charges for benefits or privileges paid by a recipient that do not exceed the reasonable costs of providing the benefit or privilege. Another category includes charges for services or products that do not exceed the cost of providing the service or product. The General Counsel has opined that the Water Authority's proposed rate and charges comply with the requirements of Proposition 26.

### **Public Hearing**

As mentioned previously, this meeting of the Administrative and Finance Committee has been scheduled as the time, date, and place to receive public comments regarding proposed rates and charges, including the information presented in connection with the May 22, 2014 meeting and the additional information provided in this memorandum, and any other matters pertinent to the Board's setting of rates and charges.

**Summary**

The Water Authority has complied with the procedural requirements for continuing the Standby Availability Charge and increasing its rates and charges for water and other services. After consideration of public comments at the Public Hearing on June 26, 2014, the staff recommends that the Board adopt the ordinance setting the water rates and charges for calendar year 2015.

Prepared by: David G. Shank, Financial Planning Manager  
Reviewed by: Lisa Marie Harris, Director of Finance/Treasurer  
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments:

- A. Carollo Engineers' letter dated June 9, 2014 amending the San Diego County Water Authority Desalination Cost Allocation Cost of Service Rate Study to address extension of the TSAWR.
- B. Ordinance No. 2014-\_\_ an ordinance of the Board of Directors of the San Diego County Water Authority extending the Transitional Special Agricultural Water Rate Program through December 31, 2015.
- C. Ordinance No. 2014-\_\_ an ordinance of the Board of Directors of the San Diego County Water Authority setting rates and charges for the delivery and supply of water, use of facilities, and provision of services.

## PROJECT MEMORANDUM

**Project Name:** Cost of Service Rate Study **Date:** 6/9/2014  
**Client:** San Diego County Water Authority **Project Number:** 09141A.00  
**Prepared By:** Pierce Rossum, Carollo Engineers  
**Reviewed By:** Robert Grantham, Carollo Engineers  
**Subject:** Amendment Carollo's May 2014 Desalination Cost Allocation Report  
**Distribution:**

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The purpose of this memorandum is to amend Carollo's May 2014 *Desalination Cost Allocation Cost of Service Study – Phase II Report* to reflect the Board's May 22<sup>nd</sup> recommendation to adopt Rate Option #2B. This option includes the continuation of the Transitional Special Agricultural Water Rate (TSAWR) program through Calendar Year (CY) 2015 with a \$7.1 million reduction in the CY 2015 Rate Stabilization Fund (RSF) contributions. The Board adopted Resolution No. 2014-09 setting the time and place for a public hearing to receive comments regarding the proposed CY 2015 rates and charges. Upon review of the Board's recommendation and analysis of resulting rate and financial impacts, Carollo affirms that the cost allocations and rates remain consistent with California cost of service standards and requirements and the San Diego County Water Authority (Water Authority) Board policies.

### INTRODUCTION AND BACKGROUND

In establishing the CY 2015 rates and charges, the Water Authority faces several challenges. These challenges include incorporating the 2015 costs of Carlsbad Desalinated Project into the rate and charge structure, water supply and demand uncertainty should the region continue to face drought, addressing the expiration of the TSAWR program and achieving the Board's objective of providing smooth and predictable rates and charges. The Water Authority Board and staff continue to actively manage costs, focus on projects with a long-term quantifiable payback and search for improved efficiencies and opportunities for consolidation or outsourcing.

On April 24, 2014, in response to stakeholder requests to extend the TSAWR program, the Water Authority Board directed staff to provide the CY 2015 rates and charges with and without an extension of the current TSAWR program at the May Board meeting. Additionally, the Board directed an analysis of the TSAWR program as part of the Administrative and Finance (A&F) Committee's future work on fiscal sustainability.

Based upon the Board's direction, staff developed three different CY 2015 rate and charge options for Board consideration. The options are described below:

- **Option #1:** As scheduled, discontinue the TSAWR program on December 31, 2014 requiring agricultural customers to begin paying the full Merged Supply Rate, but maintain the Storage exemption.

## PROJECT MEMORANDUM

- **Option #2A:** Continue the TSAWR program through CY 2015 with full cost recovery through the Melded Supply Rate increase.
- **Option #2B:** Continue the TSAWR program through CY 2015 with a reduction in the CY 2015 RSF support of \$7.1 million. The reduction in the RSF Support mitigates the impact of the TSAWR program on the CY 2015 Melded Supply Rate.

During the May 22<sup>nd</sup> Board Meeting, the Board adopted Option #2B.

### SPECIAL AGRICULTURAL WATER RATE PROGRAM

In October 2008, faced with a prolonged drought, rising water costs and the realization that in the future, any "surplus" water should be stored in its own regional storage portfolio in order to meet variable municipal and industrial water demands, the Metropolitan Water District (MWD) Board voted to terminate the Interim Agricultural Water Program (IAWP) through a five-year phase-out of the program resulting in termination December 31, 2012. In response to MWD's phase-out of IAWP, the Water Authority Board in October 2008 approved the TSAWR. The TSAWR program enables participants to purchase water at MWD's full service Tier 1 rate, which is at a discounted rate from the Melded Supply Rate, in return for a lower level of water supply reliability. TSAWR deliveries are also not included in the Storage Charge allocation to member agencies. In its May 2013 *Cost of Service Study Phase I Report*, Carollo confirmed the appropriateness of this methodology as the rate structure accounts for a reduced level of service in return for a reduction in the cost of water supplies.

The Board also formed a SAWR Board Workgroup to develop a recommended permanent program when IAWP terminated at the end of 2012. In March 2010, the Board approved the Workgroup's recommendation for a permanent SAWR program that began January 1, 2013 and only continued the Storage Charge exemption. With the SAWR program set to switch from the transitional program to the permanent program on January 1, 2013, members of the agricultural community raised concerns over the financial impacts of the change. In response, on April 26, 2012, the Board voted to extend the TSAWR program for two additional years ending December 31, 2014. This action not only provided agricultural customers with additional time to prepare for the higher cost of water, but also provided time for important water supply issues that could affect the rate structure to be resolved.

### IMPACT OF OPTION #2B

Following the Board's recommendation of Option #2B, Carollo revisited its analysis of the Desalination Cost of Service and CY 2015 rate review to analyze potential impacts. Based on selection of Option #2B, the proposed CY 2015 Melded Supply rate remains unchanged at \$764 per acre-foot. This is possible with a reduction in the CY 2015 RSF support of \$7.1 million.

Table 1, on the following page, has been updated to reflect the decreased in Melded Supply related water sales and water purchase costs<sup>1</sup>.

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<sup>1</sup> Table 1 of this memo can be compared to Table 4.1 of Carollo's May 2014 *Desalination Cost Allocation Cost of Service Study – Phase II Report*.

**PROJECT MEMORANDUM**

<b>Table 1 Proposed Calendar Year 2015 Melded Supply Rate (with Option #2B)</b>	
<b>Projected Acre-Foot Sales (A/F) (000's)</b>	
MWD Tier I	\$258.1
IID	100.0
Canal Water Delivery Costs	80.2
<b><i>Carlsbad Desalination Plant Production</i></b>	<b><u>16.3</u></b>
Total A/F Sales	\$454.6
<b>Water Purchase Costs (\$ Millions)</b>	
MWD Tier 1 Water	\$150.2
QSA Exchange with MWD Costs	76.4
IID Water Purchases	62.4
Canal Water Purchases	1.0
<b><i>Desalination Plant Supply Costs</i></b>	<b><u>28.1</u></b>
Subtotal Water Purchase Costs	\$318.1
<b>Additional Costs (\$ Millions)</b>	
Supply Revenue Requirement	\$20.2
IID Socioeconomic	3.1
QSA Environmental	5.3
Groundwater Storage	<u>0.5</u>
Subtotal Other Costs	\$29.1
<b>Total Supply Cost</b>	<b>\$347.2</b>
Proposed A/F Rate (Total Supply Cost /Total A/F Sales)	\$764

**SUMMARY**

Based on the Board’s May 22<sup>nd</sup> recommendation to continue the TSAWR program (Option #2B) through CY 2015, Carollo worked with staff to verify the appropriateness and results of the recommendation. As detailed in Carollo’s CY 2014 Cost of Service Report (May 2013), the TSAWR program is appropriate and justified under cost-of-service principles as there is a clear nexus between the reduced level of supply reliability that agricultural customers received and the reduced supply rate they pay. In exchange for this reduced rate, TSAWR customers are subject to greater cutbacks in times of shortage and do not receive the benefits of storage or QSA water transfers. This methodology is unchanged and remains consistent with historical practices. Additionally, the reduction of Rate Stabilization Fund support does not alter these findings.

Upon full review of the Board’s recommendation and analysis of resulting financial and CY 2015 rate and charges impacts, Carollo affirms that the cost allocations and rates remain consistent with cost of service standards and principles and the Water Authority Board policies.

ORDINANCE NO. 2014-\_\_\_\_

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE  
SAN DIEGO COUNTY WATER AUTHORITY EXTENDING THE  
TRANSITIONAL SPECIAL AGRICULTURAL WATER RATE  
PROGRAM

- A. On December 8, 2011 the Water Authority Board of Directors adopted Ordinance No. 2011-05.
- B. On April 26, 2012 the Water Authority Board of Directors directed that both components of the Transitional Special Agricultural Water Rate Program as described in Ordinance No. 2011-05 be extended to December 31, 2014.
- C. The Metropolitan Water District of Southern California has terminated its Interim Agricultural Water Program.
- D. The Water Authority Board of Directors desires to extend the Transitional Special Agricultural Water Rate Program.

Therefore, the Board of Directors of the San Diego County Water Authority does ordain as follows:

- 1. Notwithstanding anything in paragraph C of Ordinance No. 2011-05 to the contrary, the Transitional Special Agricultural Water Rate Program is extended until December 31, 2015.
- 2. This ordinance shall be effective upon adoption.
- 3. The Clerk of the Board shall publish this ordinance pursuant to section 1.00.040 of the Administrative Code.

PASSED, APPROVED and ADOPTED this 26<sup>th</sup> day of June, 2014.

Ayes:

Noes:

Abstain:

Absent:

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Thomas V. Wornham,  
Chair

ATTEST:

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Michael T. Hogan,  
Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Ordinance No. 2014- \_\_\_\_\_ was duly adopted at the meeting of the Board of Directors on the date stated above.

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Doria F. Lore,  
Clerk of the Board

ORDINANCE NO. 2014-\_\_\_\_\_

**AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY SETTING RATES AND CHARGES FOR THE DELIVERY AND SUPPLY OF WATER, USE OF FACILITIES, AND PROVISION OF SERVICES**

WHEREAS, Subdivision (11) of Section 5 of the County Water Authority Act provides, in part that, the Authority's Board of Directors, "as far as practicable, shall provide each of its member agencies with adequate supplies of water to meet their expanding and increasing needs;" and

WHEREAS, Subdivision (13) of Section 5 of the County Water Authority Act provides that the Authority may: "Fix, revise, and collect rates or other charges for the delivery of water, use of any facilities or property, or provision of services. In fixing rates, the Board may establish reasonable classifications among different classes and conditions of service, but rates shall be the same for similar classes and conditions of service"; and

WHEREAS, Subdivision (j) of Section 7 of the County Water Authority Act provides in part, that the Authority's Board of Directors, "as far as practicable, shall fix such rate or rates for water as will result in revenues which will pay the operating expenses of the Authority, provide for required maintenance, and provide for the payment of the interest and principal of the bonded debt;" and

WHEREAS, the Long-Range Financing Plan adopted by the Board of Directors contemplates the establishment of sufficient rates and charges, when considered along with taxes and other revenues of the Authority, to provide revenues for accomplishment of the Authority's purposes and programs as determined by the Board of Directors; and

WHEREAS, pursuant to the County Water Authority Act, the Board of Directors has adopted ordinances and resolutions levying and fixing property taxes, water standby availability charges and other rates and charges for delivery and supply of water, use of facilities and provision of other services by the Authority, including, without limitation, a System Capacity Charge, water Treatment Capacity Charge, an Infrastructure Access Charge, a Readiness-to-Serve Charge and water rates and charges; and

WHEREAS, the Board of Directors, upon recommendation of the Rate Study Subcommittee and the Fiscal Policy Committee, enacted Ordinance 2002-03, "An Ordinance of the Board of Directors of the San Diego County Water Authority Setting Rates and Charges for the Delivery and Supply of Water, Use of Facilities and Provision of Services", which established a new structure for water rates and charges; and

WHEREAS, the rate structure is incorporated into the Water Authority's Administrative Code as section 5.00.050 of chapter 5.00; and

WHEREAS, since 2002, the Water Authority board of directors has regularly reviewed its budget, fiscal policies, revenue requirements, cost allocations, rates, and charges, and has adopted ordinances and resolutions establishing appropriate rates and charges for delivery and supply of water, use of facilities, and provision of services; and

WHEREAS, on May 21, 2002, the Authority filed a Notice of Exemption pursuant to the California Environmental Quality Act (CEQA) for the project described as "Establishment of water supply and delivery rates and charges including: Customer Service Charge, Emergency Storage Program Charge, Transportation Rate, Supply Service Charge, Capacity Reservation Charge and Readiness-to-Serve Charge, and maintaining the Infrastructure Access Charge and Standby Availability Charge" stating the project is exempt from the requirements of CEQA pursuant to the statutory exemption of Public Resources Code Section 21080(b)(8) and stating as the reason therefore: "Project involves establishment of water rates, tolls, fares, or other charges for the purpose of meeting operating expenses, including employee wages and benefits; purchasing and leasing supplies, equipment, or materials; meeting financial reserve needs and requirements; or obtaining funds for capital projects within existing service areas."; and

WHEREAS, the adoption of this ordinance is exempt from CEQA for the same reason; and

WHEREAS, the Finance Department has presented a report dated May 14, 2014 to the Administrative and Finance Committee (the "Report") along with a Desalination Cost Allocation Cost of Service Rate Study dated May 13, 2014 and letter amending the Desalination Cost Allocation Cost of Service Rate Study dated June 9, 2014 by Carollo Engineers (the "Desalination Cost Allocation Study") describing the proposed rates and charges to be collected from the member agencies; and

WHEREAS, on June 26, 2014 a duly noticed public hearing was held by the Administrative and Finance Committee which thereafter recommended the adjustments to the Water Authority's rates and charges as set forth in this ordinance; and

WHEREAS, the Board has considered the recommendations of the Administrative and Finance Committee and is fully informed; and

WHEREAS, the Board of Directors has considered its budget, fiscal policies, and prior rate setting actions, the information contained in the Report, the Desalination Cost Allocation Study, the testimony and other evidence presented during the public hearing, the recommendations of the Administrative and Finance Committee; and

WHEREAS, the Board of Directors hereby makes the following legislative findings and determinations:

1. The foregoing recitals are true and correct;
2. The rates and charges as proposed and recommended in the Report are exempt from the requirements of the California Environmental Quality Act pursuant to Public Resources Code Section 21080(b)(8);
3. Any and all protests, if any, to the rates and charges as proposed and recommended in the Reports are overruled;
4. The Report and Desalination Cost Allocation Study are approved;
5. The rates and charges as proposed and recommended in the Report and Desalination Cost Allocation Study are reasonably expected to generate revenues that meet, but do not exceed, the Authority's revenue requirements to fund its capital, operation, maintenance, and other costs, and the allocation of those costs

to the member agencies and others through the rates and charges are reasonable, fair, and proper.

NOW, THEREFORE, the Board of Directors of the San Diego County Water Authority does ordain as follows:

1. The Authority's revenues from taxes, water rates and charges consists of: ad valorem property taxes, including payments of member agencies in lieu of taxes; a standby availability charge levied pursuant to Section 5.2 of the County Water Authority Act, including payments of such charges pursuant to Section 5.3 of the County Water Authority Act; an infrastructure access charge levied pursuant to Section 5.00.050 (c) of the Administrative Code; a System Capacity Charge and a water Treatment Capacity Charge levied pursuant to Section 5.9 of the County Water Authority Act and Ordinance No. 2013-03; and water rates and charges having the following components as described in this ordinance: Customer Service, Storage, Transportation, Treatment and Supply.

2. Ad valorem taxes, the standby availability charge and the system and water treatment capacity charges are not affected by this ordinance. All other water rates and charges shall continue to be paid pursuant to existing authority until increased or adjusted as provided in this ordinance.

3. Commencing January 1, 2015, the amount of the Infrastructure Access Charge to be paid monthly by each member agency of the Authority, shall be \$2.76 per equivalent meter within the territory of the member agency and determined according to Table 1 attached hereto and made a part hereof.

**Table 1 - Infrastructure Access Charge Allocation**

<b>Member Agency</b>	<b>IAC Equivalent Meters (ME) as of 12/31/13<sup>1</sup></b>	<b>Monthly Rate (\$/ME)</b>	<b>CY15 Annual Charge</b>	<b>Monthly Charge</b>
Carlsbad M.W.D.	35,584	2.76	\$ 1,178,544	\$ 98,212
Del Mar, City of	2,496	2.76	82,668	6,889
Escondido, City of	34,875	2.76	1,155,060	96,255
Fallbrook P.U.D.	11,682	2.76	386,904	32,242
Helix W.D.	64,627	2.76	2,140,452	178,371
Lakeside W.D.	8,015	2.76	265,452	22,121
Oceanside, City of	56,218	2.76	1,861,944	155,162
Olivenhain M.W.D.	28,465	2.76	942,756	78,563
Otay W.D.	58,212	2.76	1,927,980	160,665
Padre Dam M.W.D.	26,050	2.76	862,776	71,898
Pendleton Military Reservation	-	2.76	-	-
Poway, City of	17,179	2.76	568,968	47,414
Rainbow M.W.D.	13,117	2.76	434,436	36,203
Ramona M.W.D.	10,203	2.76	337,920	28,160
Rincon Del Diablo M.W.D.	9,668	2.76	320,208	26,684
San Diego, City of	396,453	2.76	13,130,520	1,094,210
San Dieguito W.D.	15,046	2.76	498,324	41,527
Santa Fe I.D.	10,412	2.76	344,844	28,737
Sweetwater Authority	42,702	2.76	1,414,296	117,858
Vallecitos W.D.	26,247	2.76	869,304	72,442
Valley Center M.W.D.	14,758	2.76	488,784	40,732
Vista I.D.	35,123	2.76	1,163,268	96,939
Yuima M.W.D.	498	2.76	16,488	1,374
<b>Totals</b>	<b>917,630</b>		<b>\$ 30,391,896</b>	<b>\$ 2,532,658</b>

<sup>1</sup>Equivalent meters rounded to nearest whole meter; annual and monthly charges rounded to nearest dollar.

4. Effective January 1, 2015, the Customer Service Charge is fixed at \$26,400,000. Commencing January 1, 2015 the amount of the monthly Customer Service Charge to be paid by each member agency shall be determined according to Table 2 attached hereto and made a part hereof.

**Table 2 - Customer Service Charge Allocation**

<b>Member Agency</b>	<b>3-Year Average Deliveries (AF)<sup>1</sup></b>	<b>CY15 Annual Charge</b>	<b>Monthly Charge</b>
Carlsbad M.W.D.	16,379	\$ 963,619	\$ 80,302
Del Mar, City of	1,106	65,069	5,422
Escondido, City of	17,179	1,010,685	84,224
Fallbrook P.U.D.	12,115	712,757	59,396
Helix W.D.	23,916	1,407,040	117,253
Lakeside W.D.	3,430	201,796	16,816
Oceanside, City of	23,158	1,362,445	113,537
Olivenhain M.W.D.	19,545	1,149,883	95,824
Otay W.D.	30,762	1,809,808	150,817
Padre Dam M.W.D.	11,583	681,458	56,788
Pendleton Military Reservation	51	3,000	250
Poway, City of	11,325	666,279	55,523
Rainbow M.W.D.	20,473	1,204,479	100,373
Ramona M.W.D.	6,285	369,763	30,814
Rincon Del Diablo M.W.D.	6,167	362,820	30,235
San Diego, City of	172,867	10,170,211	847,519
San Dieguito W.D.	2,320	136,491	11,374
Santa Fe I.D.	5,238	308,165	25,680
Sweetwater Authority	5,071	298,340	24,862
Vallecitos W.D.	16,346	961,677	80,140
Valley Center M.W.D.	27,544	1,620,484	135,040
Vista I.D.	13,523	795,593	66,299
Yuima M.W.D.	1,672	98,368	8,197
<u>Contract Water</u>	<u>676</u>	<u>39,770</u>	<u>3,315</u>
<b>Totals</b>	<b>448,731</b>	<b>\$ 26,400,000</b>	<b>\$ 2,200,000</b>

<sup>1</sup>Three-year rolling average of M&I, SAWR and agricultural MWD deliveries (excludes wheeled water) based on FY11-FY13 period. Rounded to nearest acre-foot. Annual and monthly charges are rounded to nearest dollar.

5. Effective January 1, 2015, the Storage Charge is fixed at \$63,200,000. Commencing January 1, 2015 the amount of the monthly Storage Charge to be paid by each member agency to the Authority for Storage as set forth in Table 3 attached hereto and made a part hereof.

**Table 3 - Storage Charge Allocation**

<b>Member Agency</b>	<b>3-Year Average Deliveries (AF)<sup>1</sup></b>	<b>CY15 Annual Charge</b>	<b>Monthly Charge</b>
Carlsbad M.W.D.	16,379	\$ 2,534,214	\$ 211,185
Del Mar, City of	1,106	171,124	14,258
Escondido, City of	14,563	2,253,236	187,770
Fallbrook P.U.D.	7,844	1,213,650	101,138
Helix W.D.	23,916	3,700,363	308,363
Lakeside W.D.	3,430	530,701	44,225
Oceanside, City of	22,729	3,516,707	293,059
Olivenhain M.W.D.	19,423	3,005,192	250,433
Otay W.D.	30,760	4,759,290	396,608
Padre Dam M.W.D.	11,062	1,711,550	142,629
Pendleton Military Reservation	51	7,891	658
Poway, City of	11,277	1,744,815	145,401
Rainbow M.W.D.	11,909	1,842,600	153,550
Ramona M.W.D.	4,697	726,736	60,561
Rincon Del Diablo M.W.D.	5,917	915,498	76,292
San Diego, City of	172,759	26,729,851	2,227,488
San Dieguito W.D.	2,320	358,958	29,913
Santa Fe I.D.	5,213	806,572	67,213
Sweetwater Authority	5,071	784,602	65,384
Vallecitos W.D.	15,363	2,377,015	198,085
Valley Center M.W.D.	9,093	1,406,899	117,242
Vista I.D.	13,472	2,084,433	173,703
Yuima M.W.D.	117	18,103	1,509
<b>Totals</b>	<b>408,471</b>	<b>\$ 63,200,000</b>	<b>\$ 5,266,667</b>

<sup>1</sup>Three-year rolling average of firm, non-agricultural MWD deliveries based on FY11-FY13 period. Rounded to the nearest acre-foot. Annual and monthly charges are rounded to nearest dollar.

6. Effective January 1, 2015, the Transportation Rate is fixed at \$101 per acre-foot of water delivered by the Authority through Authority facilities. Member agencies shall pay the Transportation Rate for deliveries of Water Authority supplies in accordance with the procedures and processes of the Administrative Code relating to billing and payment of the Municipal and Industrial Water Rate. Payment of the Transportation Rate in connection with the wheeling of third-party water (non-Water Authority supplies) will be determined by an agreement approved by the Board of Directors. Wheeling of third-party water is also subject to a separate administration fee as stated in the agreement.

7. Effective January 1, 2015, the Melded Treatment Rate is fixed at \$278 per acre-foot.

8. (a) Each member agency shall reimburse the Authority on a per-acre foot of water delivered basis, except as otherwise provided in subdivisions (b) and (c), for rates, fees and charges of the Metropolitan Water District of Southern California, the Imperial Irrigation District, or other sources of supply that may become available to the Authority (collectively the Supply Charges). It is the intent of the Authority to charge the melded rate for supply

representing the cost of water to the Authority for the appropriate class of service. Effective January 1, 2015, the Melded Untreated Supply Rate (Melded Supply Rate) is \$764 per acre-foot to reflect the cost of the supply of untreated municipal and industrial water to the Water Authority.

(b) Effective January 1, 2015 as part of the Supply Charges, each member agency shall pay to the Authority a MWD Capacity Charge determined according to the method as set forth in Table 4 attached hereto and made a part hereof.

<b>Table 4 - Calendar Year 2015 MWD Capacity Charge Allocation</b>							
<b>(Capacity Charge)</b>							
<b>Member Agency</b>	<b>Coincident Peak Week Deliveries (AF)<sup>1</sup></b>					<b>5-year average share<sup>2</sup></b>	<b>CY2015 Charge</b>
	<b>8/25/2009</b>	<b>8/24/2010</b>	<b>9/12/2011</b>	<b>7/2/2012</b>	<b>9/3/2013</b>		
Carlsbad M.W.D.	429.3	351.9	410.4	451.6	361.0	3.1204%	\$ 335,073
Del Mar, City of	34.1	34.9	25.2	32.2	13.4	0.2177%	23,377
Escondido, City of	668.7	397.9	424.3	532.3	557.2	4.0175%	431,405
Fallbrook P.U.D.	450.8	382.5	415.6	226.9	338.6	2.8249%	303,342
Helix W.D.	861.7	146.4	425.3	851.4	893.4	4.9482%	531,345
Lakeside W.D.	96.1	90.4	83.9	88.4	95.1	0.7067%	75,886
Oceanside, City of	648.1	576.3	739.0	608.5	621.6	4.9720%	533,900
Olivenhain M.W.D.	553.1	550.3	518.4	604.2	565.6	4.3463%	466,712
Otay W.D.	871.0	839.2	944.1	1,088.4	1,078.1	7.5056%	805,962
Padre Dam M.W.D.	545.8	449.7	454.7	454.8	482.0	3.7164%	399,072
Pendleton M.R.	1.4	1.9	2.1	0.7	1.1	0.0112%	1,203
Poway, City of	220.3	333.8	238.6	287.0	353.1	2.2307%	239,536
Rainbow M.W.D.	865.7	667.8	657.2	708.1	613.1	5.4677%	587,129
Ramona M.W.D.	156.9	146.0	170.1	204.7	147.1	1.2841%	137,888
Rincon Del Diablo M.W.D.	204.1	178.8	156.6	170.0	172.9	1.3738%	147,521
San Diego, City of	4,932.0	5,178.0	4,556.2	4,673.9	4,056.7	36.4268%	3,911,560
San Dieguito W.D.	67.6	39.5	109.4	32.1	146.8	0.6156%	66,104
Santa Fe I.D.	187.9	145.2	249.0	136.1	314.5	1.6078%	172,648
Sweetwater Authority	443.3	-	29.1	-	-	0.7355%	78,979
Vallecitos W.D.	520.3	455.9	466.9	419.5	461.7	3.6187%	388,581
Valley Center M.W.D.	1,130.4	994.7	851.8	791.4	914.1	7.2901%	782,821
Vista I.D.	300.2	172.9	206.8	348.8	450.7	2.3033%	247,332
Yuima M.W.D.	29.5	121.9	80.3	47.5	144.1	0.6590%	70,764
<b>Totals<sup>1</sup></b>	<b>14,218.3</b>	<b>12,255.9</b>	<b>12,215.0</b>	<b>12,758.5</b>	<b>12,781.9</b>	<b>100.0000%</b>	<b>\$ 10,738,140</b>

<sup>1</sup> Charge is allocated based on five-year rolling average of member agency deliveries during regional peak weeks. Annual charges and totals may not foot due to rounding.

<sup>2</sup> Percentages shown are rounded. Totals may not foot.

(c) Effective July 1, 2014 as part of the Supply Charges, each member agency shall pay a MWD Readiness-to-Serve Charge determined according to Table 5 attached hereto and made a part hereof.

**Table 5 - Readiness-to-Serve Charge Allocation**

Member Agency	10-Year Average Deliveries (AF) <sup>1</sup>	FY15 RTS Charge <sup>2</sup>	Net Stand-By Charge Credits <sup>3</sup>	FY15 RTS Net Charge	Monthly Charge
Carlsbad M.W.D.	18,758	\$ 1,452,005	\$ (390,565)	\$ 1,061,440	\$ 88,453
Del Mar, City of	1,236	95,675	(24,671)	71,004	5,917
Escondido, City of	19,557	1,513,853	(226,518)	1,287,335	107,278
Fallbrook P.U.D.	9,861	763,313	(284,864)	478,449	39,871
Helix W.D.	31,176	2,413,248	(771,535)	1,641,713	136,809
Lakeside W.D. <sup>4</sup>	4,017	310,945	(166,671)	144,274	12,023
Oceanside, City of	27,257	2,109,889	(664,698)	1,445,191	120,433
Olivenhain M.W.D.	21,348	1,652,490	(400,458)	1,252,032	104,336
Otay W.D.	35,691	2,762,741	(945,402)	1,817,339	151,445
Padre Dam M.W.D. <sup>4</sup>	13,274	1,027,504	(528,820)	498,684	41,557
Pendleton Military Reservation	63	4,877	(36)	4,841	403
Poway, City of	12,873	996,463	(283,772)	712,691	59,391
Rainbow M.W.D.	13,493	1,044,456	(527,631)	516,825	43,069
Ramona M.W.D.	6,410	496,180	(404,197)	91,983	7,665
Rincon Del Diablo M.W.D.	6,919	535,581	(308,684)	226,897	18,908
San Diego, City of	194,884	15,085,430	(4,365,567)	10,719,862	893,322
San Dieguito W.D.	3,989	308,777	(164,608)	144,169	12,014
Santa Fe I.D.	8,020	620,806	(151,674)	469,132	39,094
Sweetwater Authority	9,280	718,339	(426,587)	291,752	24,313
Vallecitos W.D.	16,842	1,303,693	(436,092)	867,601	72,300
Valley Center M.W.D.	14,460	1,119,309	(668,873)	450,436	37,536
Vista I.D.	16,640	1,288,056	(410,346)	877,710	73,143
Yuima M.W.D.	121	9,366	(94,829)	(85,463)	(7,122)
Contract Water	742	57,436	69	57,505	4,792
<b>Totals</b>	<b>486,911</b>	<b>\$ 37,690,431</b>	<b>\$ (12,647,029)</b>	<b>\$ 25,043,402</b>	<b>\$ 2,086,950</b>

<sup>1</sup>10-year rolling average of firm MWD deliveries based on FY04-FY13 period and rounded to nearest acre-foot. Annual and monthly charges are rounded to nearest dollar.

<sup>2</sup>Effective date is July 1, 2014.

<sup>3</sup>Net of \$12,692,275 in stand-by charge credits and \$45,246 in MWD administrative fees.

<sup>4</sup>Lakeside W.D. is allocated 23.83% of Padre Dam M.W.D.'s deliveries prior to January 2008. Lakeside W.D.'s deliveries after January 2008 are being metered separately from Padre Dam M.W.D.'s deliveries. Lakeside W.D. is allocated 23.87% of Padre Dam's M.W.D.'s stand-by charge credits based upon parcel count.

(d) This section shall be administered in accordance with the Report approved by this ordinance.

9. For the purposes of this ordinance, including the tables, the City of National City and the South Bay Irrigation District are collectively referred to as Sweetwater Authority. Any reference in this ordinance to Sweetwater Authority as a member agency shall be construed as a reference to the City of National City and the South Bay Irrigation District.

10. This ordinance shall be effective upon adoption. In lieu of publication of the text of this ordinance, the Clerk of the Board may publish a summary prepared by the General Counsel.

11. The provisions of this ordinance shall prevail over any provisions of the Administrative Code relating to rates and charges to the extent of any conflict. All existing rates and charges shall continue in effect until adjusted as provided in this ordinance.

12. To the greatest extent possible the provisions of this ordinance shall be construed to be compatible with the provisions of Section 8.2 (e) of the Agreement Between the San Diego County Water Authority and the City of San Diego for the Emergency Storage Project (Joint Use of Lake Hodges Dam and Reservoir and of Section 8.2 (e) of the Agreement Between the San Diego County Water Authority and the City of San Diego for the Emergency Storage Project (Expansion of San Vicente Reservoir; however, the contract provisions shall control in the event of a conflict).

13. For the purposes of Section 6 of this ordinance, water delivered by the Authority through the following turnouts is deemed not to be “water delivered by the Authority through Authority facilities” – DeLuz 1, Fallbrook 3, Fallbrook 6, Rainbow 1, Rainbow 8, Rainbow 9 and Rainbow 10.

PASSED, APPROVED AND ADOPTED, this 26th day of June, 2014 by the following vote:

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

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Thomas V. Wornham, Chair

ATTEST:

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Michael T. Hogan, Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Ordinance 2014- \_\_\_\_\_ was duly adopted at the meeting of the Board of Directors on the date stated above.

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Doria F. Lore  
Clerk of the Board