



May 20, 2015

Attention: Administrative and Finance Committee

Resolution setting a Public Hearing date for the Water Authority's proposed calendar year 2016 Rate and Charge increases (Action)

Purpose

The purpose of this report is to review the proposed rates and charges for calendar year 2016 and to adopt a resolution setting a time and place for a public hearing for the consideration and adoption of the proposed rate and charge increases for water, services and facilities.

Staff recommendation

- a) Adopt Resolution Number 2015-__ setting the time and place for a public hearing on June 25, 2015, at or after 9:00 a.m., or as soon thereafter as may practicably be heard, during the Administrative and Finance Committee meeting, to receive comments regarding proposed rates and charges to be effective January 1, 2016.

Alternative

Direct staff to set a different time or date for the public hearing.

Fiscal Impact

The proposed water rates and charges, in combination with reserves, existing taxes, the System Capacity Charge, the Water Treatment Capacity Charge, the Infrastructure Access Charge (IAC), investment income, the Standby Availability Charge, and the new Supply Reliability Charge, are expected to raise revenues sufficient to meet the Water Authority's revenue requirement, bond covenants and other key fiscal policy goals. The TSAWR has been extended through December 31, 2020. The proposed M&I "all-in" rate increase for CY 2016 is \$72/AF or 6.6% for untreated water and \$74/AF or 5.4% for treated water. These increases are mitigated by rate relief measures that included the debt restructuring completed in FY 2015 and a projected draw of approximately \$8 million from the Rate Stabilization Fund (RSF) in FY 2016.

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 rate and charge schedule, the cost of both treated and untreated water will increase by 2.1% in CY 2016 (this excludes the impact of MWD's fixed charges). While the overall cost of MWD supplies increased 2.1%, the costs of transporting the Quantification Settle Agreement (QSA) water to the region increased by 3.3%.

Integration of Desalination Costs into Rates and Charges

The financial impact of the Carlsbad Desalination Plant project (the Project) was an integral part of the Board's evaluation. With the Project's approval in December 2012, staff worked with a

member agency workgroup and cost of service consultants to integrate the Project's costs into rates and charges. The process was both inclusive of a wide range of stakeholders and comprehensive in addressing each cost component of the Project. After a number of workshops and meetings, the Desalination Cost of Service Study Phase II Member Agency Workgroup recommended cost allocation methodology to be applied to the Project. 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 was consistent with the formalized cost of service based methodologies, was proportionate to levels of service and was in compliance with California law. This methodology, along with other components of the fiscal sustainability effort, was approved by the Board.

Fiscal Sustainability Process

The Board, member agencies and Water Authority staff engaged in an 18-month collaborative process that identified issues related to the long-term fiscal sustainability of the Water Authority. Central to this effort was a detailed review of the Water Authority's revenue structure and evaluating potential enhancements that would strengthen the Water Authority's future fiscal health. The Board's Fiscal Sustainability Task Force (FSTF) presented the initial analysis and recommendations at the March 2014 Board meeting. At that meeting, the Board deferred action on making any of the recommended changes to the existing rate and charge structure for CY 2015 and directed staff to continue to work with the Administrative and Finance (A&F) Committee and the member agency General Managers on the issues identified by the FSTF. While the A&F Committee led the effort, the Committee directed Water Authority staff to work with the member agency General Managers and Finance Officers (collectively "the Managers") to develop a comprehensive recommendation for the deferred actions.

With the Board's goal of addressing the deferred items prior to setting CY 2016 rates and charges, the A&F Committee and the Managers developed a complete package of recommendations that were approved at the March 2015 Board meeting.

One of the key actions taken as part of the fiscal sustainability review was the creation of the Supply Reliability Charge (SRC). This charge recognizes the importance of equitably recovering the cost of the Water Authority's investments in long-term water supply reliability in accordance with cost of service principals and California law. As adopted by the Board, the SRC recovers a portion of the water supply costs associated with the Carlsbad Desalination Plant and the Imperial Irrigation District's (IID) water transfers. Together these supplies are the cornerstones of the supply reliability diversification efforts and the Water Authority's most reliable water supplies. The SRC calculation methodology is presented in detail in Attachment A. In addition to recovering a proportionate share of the cost of water supply reliability, the SRC also helps to reduce water sales revenue volatility by increasing the amount of fixed revenues.

Comprehensive Cost of Service Reviews

Consistent with best management practices, the Water Authority retained Carollo to perform a series of independent cost of service studies. The first engagement with Carollo was to conduct a comprehensive cost of service study to determine the Water Authority's CY 2014 rates and charges. In 2014, Carollo, using the methodologies developed by the Desalination Cost of Service Study Phase II Member Agency Workgroup, conducted a cost of service study to determine the CY

2015 rates and charges and ensure proper implementation of the Project cost allocation methodologies.

In 2015, Carollo performed another comprehensive cost of service study to independently calculate the rates and charges for CY 2016 and ensure that the comprehensive fiscal sustainability recommendations of the A&F Committee and the Managers were implemented properly. This included calculating the SRC. The CY 2016 rate and charge cost of service study is included as Attachment A.

In each of these engagements, Carollo independently verified that the rates and charges were established in compliance with California legal requirements, cost of service standards, and Water Authority Board policies.

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 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. The Board also formed a Special Agricultural Water Rate (SAWR) Board Workgroup to develop a recommended permanent program to replace IAWP when it terminated at the end of 2012. Through the Workgroup’s recommendations and feedback from members of the agricultural community, the Board voted to extend the TSAWR program on April 26, 2012 for two additional years until December 31, 2014.

At the May 2014 Board meeting, the Board directed staff to provide the CY 2015 rates and charges with and without an extension of the current TSAWR Program and directed analysis of TSAWR program as part of the A&F Committee’s future work on fiscal sustainability. On May 22, 2014, the Board 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 approximately \$7.1 million.

As a part of the development and adoption of CY 2016 rates and charges, the staff provided analysis and the financial impacts of the TSAWR program at the March 6, 2015 Special Board meeting. On March 26, 2015, the Board approved the extension of the TSAWR program through December 31, 2020 based on the recommendation to continue the TSAWR program for the next five years and revisit the value of the program in conjunction with the review of the new Supply Reliability Charge. The recommendation recognized: 1) the benefits the M&I customers have been paying for by supporting the TSAWR program occur during supply shortages; 2) the new Supply Reliability Charge allocation methodology is impacted by the treatment of agricultural water demands; and 3) addressing the issue in one year increments is not efficient

and doesn't provide a sufficient planning window for customers. The five year period will also provide a track record to ascertain what the frequency of shortage cutbacks would be over an extended time period (since the 2009 cutbacks) and allow for a better understanding of the cost and benefits of the program

Mandatory Restrictions and Water Demand Uncertainty

On May 5, 2015, the State Water Resources Control Board (SWRCB) adopted an emergency regulation requiring a 25 percent reduction in overall potable urban water use statewide in accordance with Governor Brown's April 1, 2015, Executive Order. The emergency regulation places each urban water supplier into one of nine tiers based on an average of their July through September 2014 residential per-capita water use. The tiers are assigned to a conservation standard that range from a 12 percent to 36 percent reduction requirement for our member agencies. Starting June 1, 2015 and continuing through February 29, 2016, the SWRCB will compare water suppliers' potable urban water use with their use for the same month in 2013 to determine if they are on track to meet their conservation standard.

On April 14, 2015 the Metropolitan Water District of Southern California (MWD) Board approved implementation of its Water Supply Allocation Plan at a Level 3 Regional Shortage Level in response to dwindling supplies. A Level 3 supply cutback equates to a 15 percent reduction in MWD deliveries to its member agencies – compared to agencies' base period demands (FY 2013 and FY 2014). Unlike the nine month reduction period adopted by the SWRCB, MWD's supply allocation will be in effect for fiscal year 2016 – spanning July 1, 2015 through June 30, 2016.

Forecasting water demands for calendar year 2016 is especially challenging given the impact of the prolonged drought on local storage supplies, uncertainty surrounding the continuance of below average annual precipitation and elevated monthly temperatures, and member agencies' response to SWRCB regulations. Water Authority staff ultimately developed a conservative demand forecast for calendar year 2016 sales revenue based on the assumption of member agencies achieving their SWRCB conservation standards.

Previous Board Actions

On June 26, 2014, the Board authorized the following actions:

- *Adopted rates and charges and extended the Transitional Special Agricultural Water Rate Program through December 31, 2015; and*
- *Accepted Carollo's Engineer's San Diego County Water Authority Desalination Cost Allocation Cost of Service Rate Study dated May 13, 2014 and letter amending the study.*

On March 26, 2015, the Board authorized the following actions:

- *Approved the addition of the Supply Reliability Charge, as defined in the A&N Technical Service, Inc. memorandum, to the Water Authority's rate and charge structure and direct staff to return with a comprehensive review of implementation of the charge by December, 2020;*
- *Approved the allocation of non-commodity revenues to all rate and charge categories including treatment;*

- *Approved the permanent application of the debt and equity payments for the Carlsbad Desalination Plant to the Supply Rate; and*
- *Approved the extension of the Transitional Special Agricultural Water Rate Program through December 31, 2020.*

Discussion

Looking forward to CY 2016 rates and charges, the Water Authority faces two key challenges. These challenges include smoothing rates and charges as the cost of desalinated water impacts rates and charges and projecting water supply and demand as the historic drought gripping California continues to unfold. The main drivers behind the recommended CY 2016 rate and charge increases are:

- **First full year of desalinated water deliveries** – CY 2016 will be the first full year of production from the Project. The year-over-year net increase in the cost of water is \$39.5M. The increase in costs can be split between supply (\$34.1M) and transportation (\$5.4M).
- **Reduced water sales** – The CY 2016 water sales projection is approximately 64,000 acre feet lower than the already reduced projected CY 2015 water sales. This 13% reduction in sales puts significant upward pressure on rates as more costs are spread onto each unit of sales.
- **MWD rate and charge increase** – While MWD's rates and charges are reported to be going up an average of 1.5%, the cost of treated and untreated water increased 2.1% and the cost to transport QSA water to the service area went up 3.3%.

The recommended CY 2016 rate and charge increases have been mitigated by several critical proactive measures taken by the Board designed to smooth rates and charges. These actions include:

- **CY 2015 rate and charge increases** – The Board adopted CY 2015 rates and charges that provided for a significant RSF deposit to ensure funds are available to help smooth the required rate and charge increases in CY 2016.
- **Rate Stabilization Fund draw** – The CY 2016 rate and charge increases are mitigated by a projected \$8M draw from the RSF in FY 2016.
- **Series 2004A Certificates of Participation (COPs)** – The defeasance of these bonds reduced FY 2016 debt service by \$2.2M or provided approximately \$8/AF in rate and charge relief given the current reduced water sales projections and reduced senior lien debt service coverage.
- **Series 2008A COPs** – Restructured FY 2016 debt service payments by defeasing \$12.1M in principal or provided approximately \$52/AF in rate and charge relief given the current reduced water sales projections and reduced senior lien debt service coverage. This action is a one-time reduction in debt service and only impacts FY 2016 debt service payments.

The debt optimization actions alone, based upon the current reduced CY 2016 water sales projections, have provided \$60/AF in rate and charge relief. It is important to note that the debt actions significantly reduced the required FY 2016 draw from the RSF maintaining a higher balance in the RSF, which will provide critical financial resources for the Water Authority

should the drought persist. Water Authority staff are currently evaluating additional opportunities to reduce debt service and the Water Authority's cost of funds.

In May 2011, staff developed a high/low rate and charge forecast to support member agency financial planning efforts. The high/low rate and charge forecasts were based upon scenarios varying the level of water sales, MWD rate and charge increases, and CIP expenditures. The CY 2016 proposed rates and charges are within that guidance. The Water Authority's M&I "all-in" rate for untreated water is increasing by 6.6% and the rate for treated water is increasing by 5.4%. It should be noted that the actual cost of water will vary by member agency based upon each agency's fixed charge allocations. With the completion of the Fiscal Sustainability Process, the Water Authority's Long-range Financing Plan will be updated over the next year and new rate and charge projections developed.

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, Storage and Supply Reliability 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, Customer Service and SRC) 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, Customer Service and SRC) to member agencies based on specified allocation methodologies

Consistent with best management practices, the Water Authority retained Carollo to perform a comprehensive and independent Cost of Service Study (the Study) to determine CY 2016 rates and charges. The Study will ensure that the Fiscal Sustainability Recommendations are implemented in compliance with California legal requirements, cost of service standards, and Water Authority Board policies. The full Study is included as Attachment A.

Prudent Financial Management and Long-Range Planning

In 2006, following the recommendations of a Rate Model Working Group and A&F 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 is enhanced by the SRC, the cost structure continues to evolve with increasing contractual obligations. These contractual obligations include the Water Purchase Agreement from the Carlsbad Desalination Plant and the QSA. With the QSA obligation beginning its final ramp up to the full transfer amount of 200,000 acre feet in FY 2018, revenue volatility and the target and maximum fund balance requirements for the RSF are expected to increase. The increase continues through FY 2021 when the full 200,000 acre feet will be delivered.

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 2016 rates and charges mitigate the financial impact of both the full year of desalination costs and significant reductions in water sales levels while positioning the Water Authority to achieve and maintain the Board’s target RSF balance over near term. This includes the strategic build-up of the RSF balance in FY 2015 and the subsequent projected RSF drawdown over the next several years to maintain a smooth rate and charge profile.

Description of Proposed Rates and Charges

Table 1 summarizes the Water Authority’s proposed CY 2016 rates and charges. 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.

Table 1 – Summary of Water Authority Rates and Charges			
Water Authority Rates and Charges	CY 2014 Previous	CY 2015 Current	CY 2016 Proposed
Melded Supply Rate (\$/AF)	\$732	\$764	\$780
Melded Treatment Rate (\$/AF)	\$274	\$278	\$280
Transportation Rate (\$/AF)	\$97	\$101	\$105
Untreated Transitional Special Agricultural Water Rate (\$/AF) ¹	\$593	\$582	\$594
Treated Transitional Special Agricultural Water Rate (\$/AF) ¹	\$867	\$860	\$874
Infrastructure Access Charge	\$2.68/ME ⁴	\$2.76/ME	\$2.76/ME
Customer Service Charge	\$26,400,000	\$26,400,000	\$26,400,000
Storage Charge	\$63,200,000	\$63,200,000	\$63,200,000
Supply Reliability Charge ²	NA	NA	\$26,000,000
Standby Availability Charge per parcel or acre, whichever is greater ³	\$10	\$10	\$10
System Capacity Charge	\$4,681/ME	\$4,681/ME	TBD ⁵
Treatment Capacity Charge	\$119/ME	\$119/ME	TBD ⁵
¹ Per current Board Policy, TSAWR is set to end December 31, 2020. ² The Supply Reliability Charge will be implemented effective January 1, 2016. ³ Fiscal Year Charge. ⁴ ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge. ⁵ Both the System and Treatment Capacity Charges will be administratively adjusted effective January 1, 2016 for inflation per Ordinance No. 2005-03			

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

Table 2 – Summary of Water Authority Pass Through Rates and Charges			
MWD Rates and Charges	CY 2014 Previous	CY 2015 Current	CY 2016 Adopted
Untreated Tier 2 Supply Rate \$/AF ¹	\$735	\$714	\$728
Replenishment Water Rate Untreated (\$/AF) ²	NA	NA	NA
Replenishment Water Rate Treated (\$/AF) ²	NA	NA	NA
MWD Capacity Charge	\$8,268,900	\$10,738,140	\$12,406,380
Readiness-to-Serve Charge ³	\$24,498,074	\$25,043,402	\$22,145,912
¹ Agencies exceeding their Tier 1 allocation pay the MWD bundled Tier 2 Supply Rate (System Access Rate, System Power Rate and Water Stewardship Rate) instead of the Melded Supply Rate. ² Discussions on the future of the replenishment program are continuing. ³ Fiscal Year Charge.			

The following rates and charges will be effective July 1, 2015:

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 2015-2016. The Standby Availability Charge rate is effective July 1, 2015.

The following rates and charges are being proposed effective on January 1, 2016:

Melded Untreated Supply Rate (exclusive of TSAWR deliveries). The Melded Untreated Supply Rate (Melded Supply Rate) will be set to recover the costs of 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 on the following page shows the calculation of the Melded Supply Rate.

Table 3 – Untreated Melded Supply Rate Calculation

CY 2016

Acre-Foot Sales (A/F) (000's)	
MWD Tier I Deliveries	173.3
IID Deliveries	100.0
Canal Water Deliveries	80.2
Carlsbad Desalination Production	<u>42.0</u>
TOTAL A/F SALES	395.5/AF
Water Purchase Cost (in Millions)	
MWD Tier 1 Water Purchases	\$103.0
QSA Exchange with MWD Costs	78.9
IID Water Purchases	64.7
Canal Water Purchases	1.0
Desalinated Water Supply Costs	<u>80.0</u>
Subtotal Water Purchases	\$327.6
Additional Costs (in Millions)	
Supply Revenue Requirement	\$17.2
IID Socioeconomic*	0
QSA Environmental*	0
Groundwater Storage	<u>0.5</u>
Subtotal Other Costs	\$17.7
Offsetting Revenues (in Millions)	
Supply Reliability Charge Revenues	(26.0)
Cash and Reserves	<u>(10.7)</u>
Total Net Supply Costs	308.6
A/F RATE (Total Net Supply Cost /Total A/F Sales)	\$780/AF

*Cost recovery deferred to provide CY 2016 rate relief.

Based upon these options, the Melded Supply Rate will increase from its current level of \$764/AF to \$780/AF in CY 2016.

Transitional Special Agricultural Water Program Rates.

With the extension of the TSAWR program through December 31, 2020, the untreated TSAWR will be set to MWD's Tier 1 rate and increase from its current level of \$582/AF to \$594/AF. In addition, the treated TSAWR will increase from \$860/AF in CY 2015 to \$874/AF in CY 2016. 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 2016, the Melded Treatment Rate will increase from its current level of \$278/AF to \$280/AF. Table 4 shows the calculation of the Melded Treatment Rate.

Table 4 – Melded Treatment Rate Calculation

	<u>CY 2016</u>
Acre-Foot Sales (A/F) (000's)*	
MWD	57.7
Water Authority	43.4
Helix	25.6
Carlsbad Desalination Production	42.0
TOTAL A/F SALES	168.7 /AF
Cost (in Millions)	
MWD	\$20.1
Water Authority	11.5
Helix	3.9
Desalinated Water**	11.8
TOTAL TREATMENT COSTS	\$47.3
A/F RATE (Total Treatment Costs/Total A/F Sales)	\$280/AF

* Includes treated water deliveries intended for agriculture

**Based on proposed cost of treated water (42,000AF*\$280 = \$11.8M)

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 Authority as it occurs. For CY 2016, the Transportation Rate will increase from its current level of \$101/AF to \$105/AF.

Infrastructure Access Charge. The infrastructure access charge 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 2016, the IAC will remain unchanged at \$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 2016, 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 2016, the Storage Charge will remain unchanged at \$63.2M.

Supply Reliability Charge. The Supply Reliability Charge (SRC) is a new fixed charge created to recover a portion of the costs associated with the Water Authority’s highly reliable water supplies, which includes desalinated and IID transfer waters. The charge is allocated to member agencies based upon their pro rata share of the Water Authority’s 5-year rolling M&I deliveries (agricultural deliveries are not included). The SRC will be established effective January 1, 2016. The CY 2016 charge will be set at \$26.0M.

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. The current charge of \$4,681 for each new meter equivalent will be administratively adjusted for inflation effective January 1, 2016.

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 current charge of \$119 for each new meter equivalent will be administratively adjusted for inflation effective January 1, 2016.

Table 5 presents a summary of the current Capacity Charge schedule that went into effect on January 1, 2015 and will be administratively adjusted January 1, 2016.

Table 5 CY 2015 Water Authority Capacity Charges			
Meter Size (Inches)	Factor	System Capacity Charge	Water Treatment Capacity Charge
Under 1"	1.0	\$4,681	\$119
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.¹

¹ The Water Authority has opposed MWD’s cost of service methodology associated with these charges.

MWD Capacity Charge. For CY 2016, the Capacity Charge is \$10,900 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 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 Authority is expected to reserve its full available capacity. The Capacity Charge will be set at \$12,406,380. The 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 \$158 million to \$153 million. The Authority's share is set at \$34,766,044 for Fiscal Year 2016-2017. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is \$22,145,912. 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 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).

Summary

Staff is seeking Board direction for which rate and charge increases should be considered at the Public Hearing on June 25, 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 2015 Cost Allocation Cost of Service Report
B) Resolution of the Board of Directors of the San Diego County Water Authority fixing the time and place for a public hearing to consider: (1) Changes to the rates and charges for delivery and supply of water; (2) Continuing the existing Standby Availability Charge; and (3) Changes to the system and treatment capacity charges.

RESOLUTION NO. 2015-

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY FIXING THE TIME AND PLACE FOR A PUBLIC HEARING TO CONSIDER: (1) CHANGES TO THE RATES AND CHARGES FOR DELIVERY AND SUPPLY OF WATER, AND (2) CONTINUING THE EXISTING STANDBY AVAILABILITY CHARGE (3) CHANGES TO THE SYSTEM AND TREATMENT CAPACITY CHARGES.

WHEREAS, pursuant to the County Water Authority Act, the Board of Directors has adopted resolutions and ordinances setting rates and charges for delivery and supply of water, use of facilities and provision of other services; and

WHEREAS, the Director of Finance has provided a report recommending increases of Water Authority rates and charges a copy of which has been filed with the Clerk of the Board; and

WHEREAS, the Board of Directors desires to set a public hearing to consider comments regarding continuing the existing rates and charges

NOW, THEREFORE, IT IS HEREBY RESOLVED by the Board of Directors of the San Diego County Water Authority as follows:

1. The foregoing recitations are true and correct.
2. A public hearing will be held by the Board of Directors of the San Diego County Water Authority Administrative and Finance Committee on June 25, 2015, at 9:00 a.m., or as soon thereafter as the matter may be heard, in the Board Room of the Water Authority at 4677 Overland Avenue, San Diego, California 92123, to consider changes to the rates and charges for delivery and supply of water, use of facilities, and provision of other services as determined necessary by the Director of Finance
3. The Clerk of the Board is directed to cause the following notice to be published pursuant to Government Code Section 6066 in the newspapers of general circulation stated in paragraph 5, below:

Legal Notice

Notice is hereby given that the San Diego County Water Authority Board of Directors Administrative and Finance Committee will hold a public hearing at June 25, 2015, at 9:00 a.m. or as soon thereafter as may practicably be heard, at its offices located at 4677 Overland Avenue, San Diego, CA 92123. The purpose of the hearing is to hear objections, protests or comments from the public about proposed and recommended water rates and charges as specified below. The Water Authority also intends to continue the water standby availability charge at it existing level, and to levy property taxes as authorized by law. For further details see the memorandum dated May 20, 2015 on file with the Clerk of the Board.

The following rates and charges will be effective July 1, 2015:

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 2015-2016. The Standby Availability Charge rate is effective July 1, 2015. The amount of this charge has not changed since the adoption of Proposition 218 in 1996. The justification for imposition of this charge is the same as for when the charge was initially levied and as it was imposed before November 6, 1996.

The following rates and charges are being proposed effective on January 1, 2016:

Melded Untreated Supply Rate. The Melded Untreated Supply Rate will be set to recover the costs of 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, and may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, costs for acquisition of desalinated water pursuant to a water purchase agreement, and other supply costs. For CY 2016, the Melded Supply Rate may increase from its current level of \$764/AF to \$780/AF.

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, and the Levy and Olivenhain treatment plants and may recover certain other costs associated with the delivery of treated water, including certain costs of desalinated water. For CY 2016, the Melded Treatment Rate may increase from its current level of \$278/AF to \$280/AF.

Transportation Rate. The Transportation Rate is a uniform rate set to recover capital, operating and maintenance costs of the Water Authority's aqueduct system including all 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 2016, the Transportation Rate may increase from its current level of \$101/AF to \$105/AF.

Transitional Special Agricultural Water Program Rates (TSAWR). The untreated TSAWR may increase from its current level of \$582/AF to \$594/AF in CY 2016. The treated TSAWR may increase from \$860/AF in CY 2015 to \$874/AF in CY 2016.

Infrastructure Access Charge. The infrastructure access charge is imposed on member agencies as a condition of maintaining connections to Water Authority facilities. It is apportioned based on retail water meters within each agency. For CY 2016, the infrastructure access charge is recommended to remain at its current level

of \$2.76/ME. ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.

Customer Service Charge. The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority, to develop policies and implement programs that benefit the region as a whole. 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 purchases from the Water Authority (excludes member agency wheeled water). For CY 2016, the Customer Service Charge is recommended to remain at its current level of \$26.4M.

Storage Charge. The Storage Charge is set to recover costs associated with the Emergency Storage Program. The Storage Charge is based on all non-agricultural water deliveries and will be allocated among the member agencies using a pro rata share of each agency's three-year rolling average deliveries (including all users, member agencies and third-party wheeling throughput). For CY 2016, the Storage Charge is recommended to remain at its current level of \$63.2M.

Supply Reliability Charge. The Supply Reliability Charge (SRC) is a new fixed charge created to recover a portion of the costs associated with the Water Authority's highly reliable water supplies, which includes desalinated water and IID transfer water. The charge is allocated to member agencies based upon their pro rata share of the Water Authority's 5-year rolling M&I deliveries (agricultural deliveries are not included). The SRC will be effective January 1, 2016. The CY 2016 SRC will be set at \$26.0M.

System Capacity Charge. This charge recovers a portion of the capital costs for the conveyance and storage facilities necessary to operate the delivery system. The charge will be administratively adjusted to reflect inflation. The adjustment will be effective January 1, 2016.

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 Escondido, City of Del Mar, and City of Poway. The charge will be administratively adjusted to reflect inflation. The adjustment will be effective January 1, 2016.

The following MWD rates and charges are passed on directly or allocated to the member agencies as follows;

MWD Capacity Charge. For CY 2016, the Capacity Charge is \$10,900 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 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 \$12,406,380. 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 \$158 million to \$153 million. The Water Authority's share is set at \$34,766,044 for Fiscal Year 2015-2016. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is \$22,145,912. 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).

The Water Authority also intends to continue the Water Standby Availability Charge at the existing level, and to levy property taxes as authorized by law.

By Order of the Board of Directors
of the San Diego County Water Authority

Melinda Cogle,
Clerk of the Board

5. The newspapers in which said notice is to be published are:

San Diego Union-Tribune
350 Camino de la Reina
San Diego, CA 92108

North County Times
1722 S. Coast Hwy
Oceanside, CA 92054

PASSED, APPROVED AND ADOPTED, this 28th day of May 2015.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Mark Weston, Chair

ATTEST:

Jim Madaffer, Secretary

I, Melinda Cogle, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2015-__ was duly adopted at the meeting of the Board of Directors on the date stated above.

Melinda Cogle
Clerk of the Board