Proposed Calendar Year 2015 Rates and Charges

Administrative and Finance Committee
June 26, 2014

David Shank, Financial Planning Manager
Agenda

- Rate and Charge Drivers and Highlights
- Proposed CY 2015 Rates and Charges
- Key Financial Performance Metrics
CY 2015 Rate and Charge Drivers

- MWD’s Treatment Rate Increase
- Cost of desalinated water
  - Earlier water delivery increases CY 2015 costs
- Securing a prudent financial position
  - Smooth and predictable rates and charges
  - Position to achieve the RSF target levels
### Adopted MWD CY 2015 Rates

<table>
<thead>
<tr>
<th>Adopted MWD</th>
<th>CY 2014</th>
<th>CY 2015</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Supply</td>
<td>$148</td>
<td>$158</td>
<td>6.76%</td>
</tr>
<tr>
<td>System Access</td>
<td>$243</td>
<td>$257</td>
<td>5.76%</td>
</tr>
<tr>
<td>Water Stewardship</td>
<td>$41</td>
<td>$41</td>
<td>0.0%</td>
</tr>
<tr>
<td>System Power</td>
<td>$161</td>
<td>$126</td>
<td>-21.74%</td>
</tr>
<tr>
<td>Treatment</td>
<td>$297</td>
<td>$341</td>
<td>14.81%</td>
</tr>
<tr>
<td>Tier 1 Untreated</td>
<td>$593</td>
<td>$582</td>
<td>-1.85%</td>
</tr>
<tr>
<td>Tier 1 Treated</td>
<td>$890</td>
<td>$923</td>
<td>3.71%</td>
</tr>
</tbody>
</table>

Transportation decrease of 4.72%

- CY 2015 fixed charge increases
  - Readiness-to-Serve Charge (RTS) - $158M for a decrease of 4.8%
  - Capacity Charge - $11,100/cfs for an increase of 29.1%
CY 2015 Carlsbad Desalination Costs

- Excellent progress on the project
- Expected production date moved up to Fall 2015
  - Estimated delivery of 16K AF in CY 2015
- Financial impact of early production
  - Net increase of $22M in costs
- Rates and charges impacted
  - Supply
  - Transportation
  - IAC
Meeting Rate and Charge Goals/Objectives

- Smooth and predictable rates
  - Mitigating the CY 2016 rate impact of desalination
    - First full year of desalination costs
  - Facing potential supply challenges and demand uncertainty (Success of conservation efforts)

- Meeting Rate Stabilization Fund (RSF) target
  - RSF target increases significantly as revenues become more subject to volatility
Quantification Settlement Agreement

- Colorado River QSA Supplies
  - Imperial Irrigation District transfer
    - 200,000 AF/year for 45 to 75 years
  - Canal-lining projects
    - 80,000 AF/year for 110 years
- Key to supply diversification strategy
  - Provide 180,000 acre-feet in 2015
- By 2021, 34% of region’s supply
MWD Remains the Largest Share of Water Cost

MWD Represents 74% of the Cost of Water

Total Cost = $340M

- MWD Tier 1 Costs: 51%
- MWD Exchange Agreement Costs: 23%
- IID Water Purchases*: 18%
- Desalination: 8%
- Canal Water Purchases: <1%

Excludes MWD’s fixed RTS and CRC charges, which are not recovered on the Melded Supply Rate
*Excludes the debt service for capital projects and recovery of settlement expenditures
• MWD treatment costs increase by 14.8% while Water Authority costs decreased by approximately 8%
Proposed CY 2015 Rates & Charges

<table>
<thead>
<tr>
<th>Water Authority Rates and Charges</th>
<th>CY 2013 Previous</th>
<th>CY 2014 Current</th>
<th>CY 2015 Proposed</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variable Rates</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Melded Supply Rate ($/AF)</td>
<td>$714</td>
<td>$732</td>
<td>$764</td>
<td>4.4%</td>
</tr>
<tr>
<td>Melded Treatment Rate ($/AF)</td>
<td>$256</td>
<td>$274</td>
<td>$278</td>
<td>1.5%</td>
</tr>
<tr>
<td>Transportation Rate ($/AF)</td>
<td>$93</td>
<td>$97</td>
<td>$101</td>
<td>4.1%</td>
</tr>
<tr>
<td><strong>Fixed Charges</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Storage Charge (millions)</td>
<td>$60.2</td>
<td>$63.2</td>
<td>$63.2</td>
<td>0%</td>
</tr>
<tr>
<td>Customer Service Charge (millions)</td>
<td>$26.4</td>
<td>$26.4</td>
<td>$26.4</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Other Rates and Charges</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Untreated Special Agricultural Water Rate ($/AF)</td>
<td>$593</td>
<td>$593</td>
<td>$582</td>
<td>-1.9%</td>
</tr>
<tr>
<td>Treated Special Agricultural Water Rate ($/AF)</td>
<td>$849</td>
<td>$867</td>
<td>$860</td>
<td>-0.1%</td>
</tr>
<tr>
<td>IAC</td>
<td>$2.65/ME(^1)</td>
<td>$2.68/ME</td>
<td>$2.76/ME</td>
<td>3.0%</td>
</tr>
<tr>
<td>Standby Availability Charge(^2) per parcel or acre, whichever is greater</td>
<td>$10</td>
<td>$10</td>
<td>$10</td>
<td>0%</td>
</tr>
<tr>
<td>System Capacity Charge</td>
<td>$4,326/ME</td>
<td>$4,681/ME</td>
<td>$4,681/ME</td>
<td>0%</td>
</tr>
<tr>
<td>Treatment Capacity Charge</td>
<td>$166/ME</td>
<td>$119/ME</td>
<td>$119/ME</td>
<td>0%</td>
</tr>
</tbody>
</table>

\(^1\) ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge
\(^2\) Fiscal year charge
## Proposed CY 2015 “All-in” M&I Water Rate Breakdown

<table>
<thead>
<tr>
<th>Rates and Charges ($/AF)</th>
<th>Adopted CY 2014 Rates</th>
<th>Proposed CY 2015 Rates</th>
<th>Proposed CY 2015 Change in Rate</th>
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<tr>
<td>Melded Supply Rate</td>
<td>$732</td>
<td>$764</td>
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<td>Melded Treatment Rate</td>
<td>274</td>
<td>278</td>
<td>4</td>
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<td>Transportation</td>
<td>97</td>
<td>101</td>
<td>4</td>
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<tr>
<td>Storage*</td>
<td>144</td>
<td>140</td>
<td>-4</td>
<td>-2.8%</td>
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<tr>
<td>Customer Service*</td>
<td>56</td>
<td>54</td>
<td>-2</td>
<td>-3.6%</td>
</tr>
<tr>
<td><strong>Total Cost of Treated Water</strong></td>
<td>$1,303</td>
<td>$1,337</td>
<td>$34</td>
<td>2.6%</td>
</tr>
<tr>
<td><strong>Total Cost of Untreated Water</strong></td>
<td>$1,029</td>
<td>$1,059</td>
<td>$30</td>
<td>2.9%</td>
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*Fixed charges converted to $/AF using sales forecast and may not foot due to rounding*
Estimated Breakdown of the CY 2015 Treated Water Rate and Charge Increases

“All-in”* Increase Distribution
$34/AF

Melded Supply Rate Increase
$32/AF

Transportation 9% ($4)
Storage -9% (-$4)
Customer Service -4% (-$2)
Melded Treatment 9% ($4)
Desalination ($38)
QSA Supplies ($6)
Other ($2)
MWD Supply & Wheeling (-$14)

*Excludes Water Authority meter charge and MWD pass-through costs. Customer Service and Storage Charges converted to $/AF based on sales forecast.
# Proposed CY 2015 Rate and Charge Summary

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</tr>
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<tbody>
<tr>
<td>IAC</td>
<td>$2.68/ME/Month</td>
<td>$2.76/ME/Month</td>
<td>$0.08</td>
<td>3.0%</td>
</tr>
<tr>
<td>Standby Availability²</td>
<td>$10/acre or parcel less than 1 acre</td>
<td>$10/acre or parcel less than 1 acre</td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td>MWD Capacity Charge³</td>
<td>$8,268,900</td>
<td>$10,738,140</td>
<td>$2,469,240</td>
<td>29.9%</td>
</tr>
<tr>
<td>MWD Readiness-to-Serve²,³</td>
<td>$24,498,074</td>
<td>$25,043,402</td>
<td>$545,328</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

²Fiscal Year Charge
³Adopted by the MWD Board on April 8, 2014
Proposed All-in Untreated Water Rate

All-in Untreated Water Rate

- Proposed CY 2015 All-in Untreated Water Rate: $1,059 (2.9%)
- Current Rate: $1,029
- 2011 Rate Forecast Low Rate Scenario: $1,033
- 2011 Rate Forecast High Rate Scenario: $1,086
- Proposed CY 2015: $1,059
- Current Rate: $1,029
Proposed All-in Treated Water Rate

All-in Treated Water Rate

- **Current Rate**: $1,303
- **Proposed CY 2015 All-in Treated Water Rate**: $1,337 (2.6%)
- **2011 Rate Forecast High Rate Scenario**: $1,717
- **2011 Rate Forecast Low Rate Scenario**: $1,530

Calendar Year:
- 2014: $1,231
- 2015: $1,280
- 2016: $1,404
- 2017: $1,530

$/AF
History of Rate Increases

Board Adopted Treated and Untreated Rate Increases

Calendar Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent All-in Untreated Rate Increase</th>
<th>Percent All-In Treated Rate Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>3.1%</td>
<td>3.0%</td>
</tr>
<tr>
<td>2005</td>
<td>4.3%</td>
<td>9.2%</td>
</tr>
<tr>
<td>2006</td>
<td>4.1%</td>
<td>5.8%</td>
</tr>
<tr>
<td>2007</td>
<td>0.8%</td>
<td>4.1%</td>
</tr>
<tr>
<td>2008</td>
<td>8.1%</td>
<td>8.9%</td>
</tr>
<tr>
<td>2009</td>
<td>15.0%</td>
<td>12.0%</td>
</tr>
<tr>
<td>2010</td>
<td>18.1%</td>
<td>15.4%</td>
</tr>
<tr>
<td>2011</td>
<td>14.7%</td>
<td>11.3%</td>
</tr>
<tr>
<td>2012</td>
<td>7.5%</td>
<td>7.7%</td>
</tr>
<tr>
<td>2013</td>
<td>9.6%</td>
<td>9.7%</td>
</tr>
<tr>
<td>2014</td>
<td>2.6%</td>
<td>3.5%</td>
</tr>
<tr>
<td>2015</td>
<td>2.9%</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

Proposed CY 2015
Financial Performance Metrics – Debt Service Coverage Ratios

- Achieves the Board’s policy target of 1.50x in FYs 2014 – 2018
Financial Performance Metrics

Current Board Policy - RSF Fund Balance Requirements

- Rate Stabilization Fund
- RSF Target Ending Balance
- RSF Maximum Allowable Ending Balance

Fiscal Year

- Millions
- 2014
- 2015
- 2016
- 2017
- 2018
Significant withdrawals from the PAYGO fund are projected.
Impact of CY 2015 Rate Increase on Composite Monthly Residential Bill

- 5 Retail Agency Average Composite Cost (CY 2014)
  - Fixed Charge: $19.89 monthly
  - Commodity Charge: $54.32
  - Composite Monthly Residential Bill: $74.21

<table>
<thead>
<tr>
<th>Wholesale Charges</th>
<th>Proposed Increase in Monthly Retail Cost</th>
<th>Percent Retail Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Untreated</td>
<td>$1.03</td>
<td>1.4%</td>
</tr>
<tr>
<td>Treated</td>
<td>$1.17</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

Actual rate impact will vary by member agency

Notes:
1. Analysis based on retail rates for the City of Carlsbad, Helix Water District, the City of San Diego, Sweetwater Authority, and Otay Water District.
2. Tier 1 and Tier 2 pricing blocks vary by member agency.
3. Historic water demand used to calculate member agency specific weighting factors.
4. Individual member agency commodity charge calculated using its average single family residential water use (hcf).
5. Composite commodity charge is the sum of the individual member agency's commodity charge times its weighting factor.
Wholesale Monthly Household Cost

Estimated CY 2015 Wholesale Costs per Household*

- MWD Costs: $29.55
- IID/QSA & Desalination Supply costs: $8.38
- Water Authority Operating Costs: $4.25
- Water Authority Capital Costs: $19.29

TOTAL: $61.47/month

*Based upon 0.5 AF of consumption a year and includes meter charges and MWD pass-through costs

- Cost of water purchases is 62% of the wholesale cost of water
- The remaining 38% or $23.54/month is for the Water Authority to:
  - Deliver water and maintain the system
  - Rapidly diversify the region’s water supplies
  - Provide in-region emergency water storage
  - Develop in-region water storage capacity
Summary

• **Key rate and charge drivers**
  – Delivery of desalinated water – Fall 2015
  – Maintaining Board financial policies

• **Rate and charge volatility mitigation**
  – Very successful debt management
  – Improving sales environment and continued cost control measures

• **Some of the smallest annual increases in the past decade**
  – Treated increase 2.6%
  – Untreated increase 2.9%

• **Overall rate and charge increase will vary by member agency depending upon the fixed charge allocations**
Today’s Board Actions

1. 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.

2. 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;

3. 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

4. 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.