



# Allocation of Demand Management Costs

Finance and Insurance Committee  
Item 6a  
November 4, 2019

# Why Review Demand Management Cost Allocation Now?

- In 2018, Board approved Demand Management cost allocation study to incorporate into 2020 rate cycle
  - Costs are currently collected through Water Stewardship Rate
- Reasons now is appropriate time for Board to decide Demand Management cost recovery method for 2020 rate cycle forward:
  - Evidentiary foundation for current method ends in 2020
    - Allocation of Water Stewardship Rate 100% to transportation through 2020 has been based on 25-year capital planning period from 1996 to 2020.
  - Consultants recommend change for 2020 forward
    - Do not recommend retaining status quo after 2020.
    - Recommend new functionalization or non-functionalized charge.

# Why Review Demand Management Cost Allocation Now? (cont.)

- SDCWA full exchange agreement payments resume in 2021
  - In 2018, Board approved suspending billing/collecting Water Stewardship Rate on exchange deliveries 2018 to 2020 during Demand Management cost allocation study period; total uncollected to date ~ \$46 million.
  - Absent change, exchange agreement calls for billing/collection of Water Stewardship Rate to resume in 2021.
- Litigation
  - In 2017, Court of Appeal held administrative record for 2011-2014 did not support Water Stewardship Rate allocation to transportation.
  - Administrative records for 2015 forward provide additional support; those rates have been challenged but not yet litigated.

# Why Does Metropolitan Invest in Demand Management?

- An essential component of reliable water service
- A legislatively-directed activity for the provision of water service throughout the region (SB60)
- Demand Management investments:
  - Increase reliability of water service to the service area population and properties
  - Reduce and avoid future capital and other costs
  - Decrease the burden on various types of infrastructure
  - Free up system capacity
  - Reduce the region's reliance on importing water, freeing up scarce resources
  - Increase Metropolitan's ability to store scarce resources for emergencies
  - Ensure Metropolitan's services meet member agencies' demands

# Demand Management Improves Metropolitan's Reliability

- Demand Management investments provide regional benefits to all existing and potential system users
  - By developing and conserving locally, these actions improve reliability even for water systems without a physical connection to Metropolitan
  - Reliability measured in many ways: point in time, over time, over hydrologic cycles
  - Benefits realized by all member agencies
- Member agencies rely on Metropolitan even when not currently using Metropolitan services
  - The benefits of managing demand on Metropolitan improves system reliability for member agencies' potential use

# Metropolitan's Demand Management Costs, \$ in millions

	FY 2018/19 Budget	FY 2019/20 Budget
Conservation Program	\$43.0	\$43.0
Local Resources Program	\$44.1	\$40.8
Future Supply Actions	\$2.0	\$2.0
Total	\$89.1	\$85.8

- Metropolitan's LRP costs are long-term fixed costs
  - LRP agreements are 15 to 25 year commitments

# Current Demand Management Cost Recovery

- Water Stewardship Rate
  - 100% Volumetric
  - Assigned to transportation, which is applicable to all Metropolitan transactions (sales, wheeling, and exchanges)
  - Collected on all transactions (except SDCWA exchange deliveries 2018 to 2020)
- Current assignment based on 25-year planning period
  - 1996 IRP: "The Preferred Resource Mix of the regional reliability plan forms the basis for determining Metropolitan's facility requirements and capital expenditures from fiscal year 1995-96 through 2019-20...."
- Planned Transportation Infrastructure Investments
  - ~ \$ 3 billion in avoided transportation infrastructure investments

# Demand Management Cost Allocation Study

- Demand Management Budget
  - Costs of board-approved budget must be recovered
  - Demand Management budget must recognize the obligation to continue to pay contractual LRP and other incentives
- Updated functionalization is forward looking
  - Provided by Peter Mayer, WaterDM principle
  - May be applied to rate-design alternatives
- Rate design alternatives
  - Provided by Rick Giardina, Raftelis Financial Consultants, Inc.
  - Variable and fixed alternatives
  - Functionalized and non-functionalized alternatives



# Allocation of Demand Management Costs

- Proposed process
  - May 2019: Overview of Demand Management Cost Functionalization
  - July 2019: Demand Management Cost Functionalization for Metropolitan
  - Fall 2019: Incorporating Demand Management Cost Functionalization recommendations into the Cost of Service process
  - December 2019: Budget process
  - February 2020: Proposed water rates and charges for calendar years 2021 and 2022

# Summary

- Board to approve the most appropriate method to recover Demand Management costs
- Upcoming process to establish rates and charges for Calendar Years 2021 and 2022 is the appropriate time, and will establish replacement
- Cost recovery options will be presented by Rick Giardina, Raftelis
- Link to all material is available at [www.mwdh2o.com](http://www.mwdh2o.com), Financial Information Home page

