

Fiscal Years 2016/17 and 2017/18 Cost of Service for Proposed Water Rates and Charges

Finance & Insurance Committee
Item 8-b
March 22, 2016



Biennial Budget and Water Rates and Charges

January 28, 2016	Board letter 9-2
February 5, 2016	Budget, CIP and Ten-Year Forecast documents posted
February 8, 2016	Workshop #1
February 23, 2016	Workshop #2
March 2, 2016	Board letter 9-2
March 7, 2016	Workshop #3
March 8, 2016	Public Hearing
March 16, 2016	Cost of Service report, Revised CIP
March 22, 2016	Workshop #4
April 11, 2016	F&I Committee, Approve Biennial Budget and Water Rates and Charges, Workshop #5 if needed
April 12, 2016	Board, Approve Biennial Budget and Water Rates and Charges

Materials Provided

- Proposed Biennial Budget FY 2016/17 and 2017/18
 - Biennial Budget summary
 - Fund balances, Sources of Funds, Uses of Funds, Staffing Plan
 - Departmental budget
 - General District Requirements: SWC, CRA Power, Demand Management, Supply, Capital Financing
- Ten-Year Financial Forecast
- Capital Investment Plan
 - 11 long-term programs; 184 projects
- Presentation materials at 4 workshops
- Cost of Service report

Workshop #1 Overview

- Overview of Biennial Budget, Revenue Requirements and estimated Water Rates and Charges
 - Water Sales and Revenues
- Major Expenditures
 - Departmental and General District Requirements: SWC, CRA Power, Demand Management, Supply, Capital Financing
- Reserves
- Ten-Year Financial Forecast
- SDCWA exchange agreement set-aside

Workshop #2 Overview

- Follow up from Workshop #1
- Overview of Water Rates and Charges
 - Revenue Requirement
 - Cost of Service Analysis
 - Same methodology for preparing the cost of service analysis as adopted by the Board in 2001, and utilized in each succeeding rate setting process
 - Estimated Water Rates and Charges
 - Same unbundled rate components and charges as adopted by the Board in 2001 and utilized in each succeeding rate setting process
- Treated Water Cost Recovery proposal

Workshop #3 Overview

- General follow up from Workshop #2
- Follow up on Treatment Cost Recovery proposal

Workshop #4 Overview

- Capital Investment Plan
- Review of Cost of Service Report
- Follow up on Treatment Cost Recovery proposal
- Follow up from Workshop #3

FY 2016/17 and 2017/18 Cost of Service

- Biennial Budget
 - Provides Revenue Requirements: expenditures for Departmental and General District Requirements, Offsetting Revenues
- Cost of Service report
 - Includes all information presented to the Board throughout the Budget and Rate process, and input from Board and member agencies
 - Provides District Overview, Challenges, Revenue Requirement discussion, and Rate Structure Framework
 - Cost of Service Methodology is the same as methodology in place since 2001
 - Process names have been updated to conform to the AWWA M1, Principles of Water Rates, Fees and Charges, Sixth Edition

Cost of Service Process



FY 2016/17 and 2017/18 Cost of Service

- Process captures Metropolitan's uniqueness
 - Wholesale
 - No exclusivity
 - Facility sizing
 - Significant investment in facilities to provide reliability
 - variable demands, emergencies, outages
 - The distribution of costs to rate elements reflects the purpose for which the cost was incurred and the manner in which member agencies use the Metropolitan system
 - Average demands, peak demands, emergency service and available capacity (standby costs)

Proposed Rate Elements

Rates and Charges Effective January 1			
	2016 Approved	2017 Proposed	2018 Proposed
Tier 1 Supply Rate (\$/AF)	\$156	\$201	\$209
Tier 2 Supply Rate (\$/AF)	\$290	\$295	\$295
System Access Rate (\$/AF)	\$259	\$289	\$299
Water Stewardship Rate (\$/AF)	\$41	\$52	\$55
System Power Rate (\$/AF)	\$138	\$124	\$132
Treatment Surcharge (\$/AF)*	\$348	\$313	\$320
Readiness-to-Serve Charge (\$M)	\$153	\$135	\$140
Capacity Charge (\$M revenues)	\$43	\$34	\$37

*A proposal was presented to the Board for consideration to address fixed cost recovery of Treatment costs which are currently only recovered through a volumetric rate.

Proposed Full Service Costs and Charges

Rate Type	2016 Approved	2017 Estimated	% Increase (Decrease)	2018 Estimated	% Increase (Decrease)
Full Service Untreated Volumetric Cost (\$/AF)					
Tier 1	\$594	\$666	12.1%	\$695	4.4%
Tier 2	\$728	\$760	4.4%	\$781	2.8%
Treatment Surcharge*	\$348	\$313	(10.1%)	\$320	2.2%
Full Service Treated Volumetric Cost (\$/AF)*					
Tier 1	\$942	\$979	3.9%	\$1,015	3.7%
Tier 2	\$1,076	\$1,073	(0.3%)	\$1,101	2.6%
RTS Charge (\$M)	\$153	\$135	(11.8%)	\$140	3.7%
Capacity Charge (\$M)	\$43	\$34	(21.5%)	\$37	8.8%

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