



# Rate Refinement Workgroup

July 25, 2012

## Agenda

- Linking rate structure and water management actions: Tier 1 Baseline alternatives
- Timing to implement sales year type
- Defining the conditions to determine sales year type
- Tier 2 and incentive storage proposals
- Schedule/Process to move forward

# Tier 1 Baseline Alternatives

Information is DRAFT and For Discussion Purposes

## Potential Tier 1 Baselines: Three Different Approaches

- Historical budgeted sales
  - Total
  - Firm
- WSAP allocation year demand on MWD
- Resource based approach
  - Based on draft resource analysis

## Baseline - 1.7 MAF Budgeted Sales

- Historical Sales 2003-2012
  - Total
  - Firm
- Prorated historical sales to 1.7 MAF
- Distributed to agencies using 3 different patterns
  - 10-year max year sales by agency
  - 10-year average sales
  - 5-year average sales

## Baseline - WSAP Allocation Baseline

- WSAP Allocation Year Demands on MWD
  - Local supplies estimated using 2008-2012 average
  - Would require updated data from agencies
- Estimated aggregate WSAP baseline
  - Draft analysis: Baseline of 2.0 MAF
- Prorated WSAP baseline to 1.7 MAF
- Distributed to agencies in WSAP model

## Baseline - Resource Based Approach

- IRPSIM Analysis
  - 2012 starting conditions
  - 5-year simulation (2013-2017)
  - Range of historical hydrologies (1922-2004)
- What annual sales level could be supported without additional dry-year transfers?
  - Draft analysis: 2.1 MAF under IRP forecast
- Distributed to agencies using 3 different patterns
  - 10-year max year sales by agency
  - 10-year average sales
  - 5-year average sales

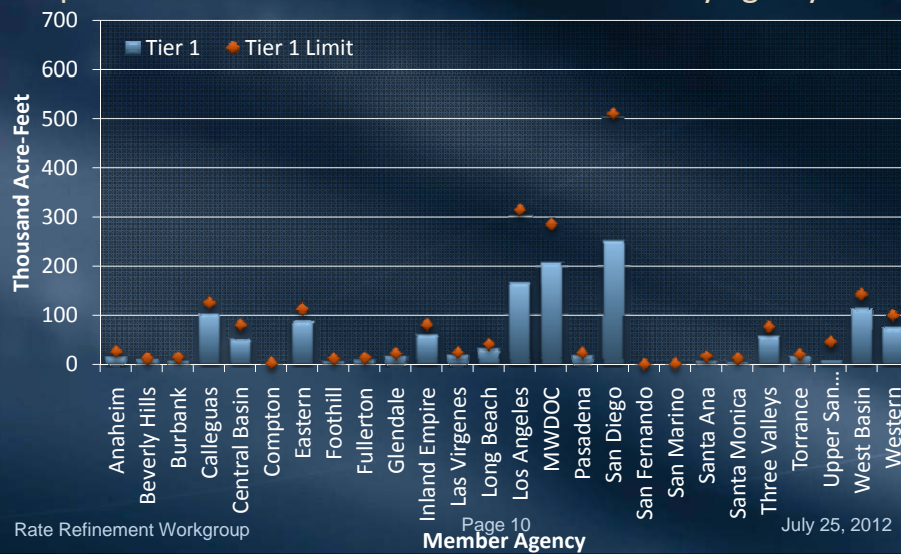
## Baseline Comparisons

- Compared potential baselines to FY 2003-2012 historical sales
  - 10-year min year by agency
  - 10-year average
  - 10-year max year by agency
- Calculated Tier 1 vs. Tier 2 by agency
  - Draft info package available for review

# Baseline Comparison Example

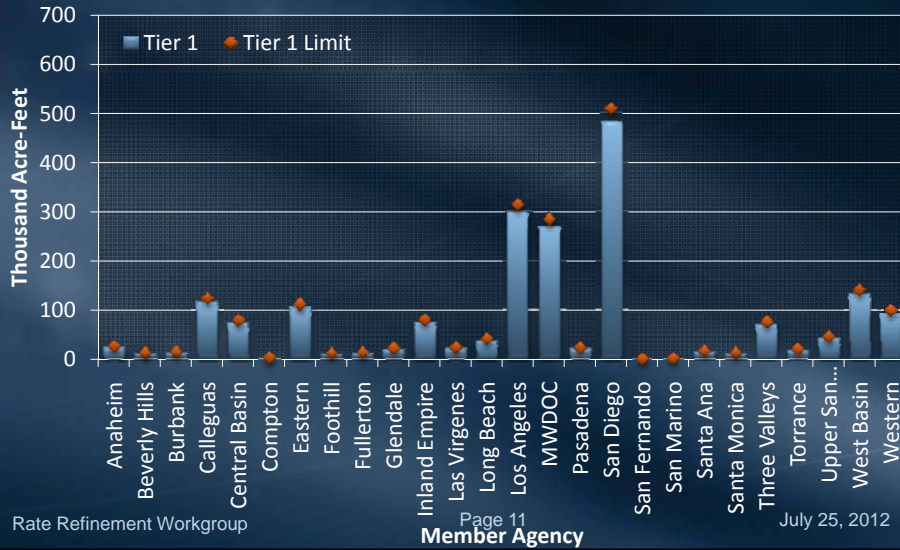
## Baseline – 2.1 MAF Resource Approach

Distribution Pattern – FY 2003-2012 Max Year Total Sales by Agency  
 Comparison Sales – FY 2003-12 Min Year Total Sales by Agency



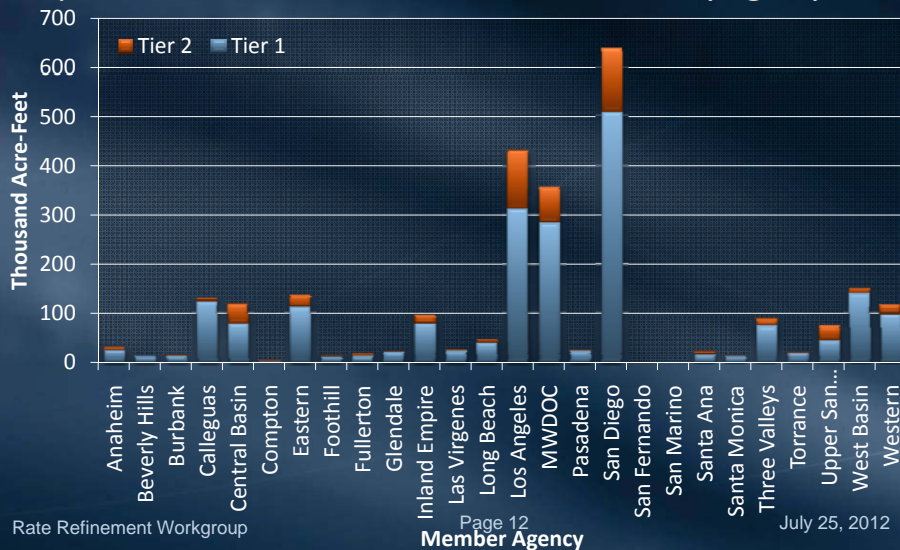
## Baseline – 2.1 MAF Resource Approach

Distribution Pattern – FY 2003-2012 Max Year Total Sales by Agency  
 Comparison Sales – FY 2003-12 Average Total Sales by Agency



## Baseline – 2.1 MAF Resource Approach

Distribution Pattern – FY 2003-2012 Max Year Total Sales by Agency  
 Comparison Sales – FY 2003-12 Max Year Total Sales by Agency



# Implementation

## Timing to Implement Sales Year Type

- WSDM reporting begins
  - Reports provided to WP&S Committee starting in October
  - Reports provided monthly
- April Board Meeting
  - Decision on allocation plan for next fiscal year
  - April may also be appropriate time to make Tier 1/Tier 2 determination for next fiscal year

## When Would Tier 2 Apply?

- Tier 2 implemented when April projections show draws from storage as necessary to meet demands under reasonable scenarios
  - In these years it is also likely that Metropolitan is pursuing transfers, exercising call options to meet demands
- Implemented at General Manager's discretion
- Tier 2 continues to be in rate structure in all years, but only in effect in these "Dry" years
- Tier 1 applies in all other conditions

## Transition Period for Tier 2 Approach

- Tier 1 limit for calendar year 2012 remains with current Purchase Order structure
- Determination of sales year type on a fiscal year basis
  - First determination would be in April 2013
  - Rates and Charges on a calendar year basis
- Tier 2 tracking on a fiscal year basis, not calendar year
  - Begins Fiscal Year 2012/13, as needed



## When Would Water For Storage be Available?

- It is a question of rates, not availability
- Tier 1 Full Service pricing available in “wet” and “normal” sales years without exposure to Tier 2
  - “Normal” = not in extremes for either surplus or shortages; supply at Tier 1
  - “Wet” = putting to SWP Groundwater Storage; spill possible
- Storage incentives also available in “wet” and “normal” sales year
- Implemented at General Manager’s discretion

## Water Supply and Drought Management Plan Stages

Surplus Stages					Actions	Shortage Stages						
5	4	3	2	1		1	2	3	4	5	6	7
					Shortage: Tier 2 Applies							
					Storage @ Tier 1 and Incentives							
					Put to SWP Groundwater Storage							
					Put to SWP Carryover							
					Put to Conjunctive Use Groundwater							
					Put to DWR Flexible Storage							
					Put to Metropolitan Surface Storage							
					Public Outreach							
					Take from Metropolitan Surface Storage							
					Take from SWP Groundwater Storage							
					Take from Conjunctive Use Storage							
					Tier 1 Reductions For Storage Incentives							
					Take from DWR Flexible Storage							
					Extraordinary Conservation							
					Call Options Contracts							
					Buy Spot Transfers							
					Implement Water Supply Allocation Plan							

## Concept for Tier 2 & Storage Incentive Availability based on Hydrologic & Operational Conditions



## How Could An Agency Buy Replenishment?

- Option 1- Tier 1 full service rate
- Option 2- Storage Incentives (In normal or wet years)
  - Incentive provided based on length of time water is stored and cost of alternative storage options (Ex. 5-year storage)
  - Agency can buy water at Tier 1 rate and receive a storage incentive
  - In a dry year, Tier 1 limit is reduced by the amount of water that received a storage incentive in wet/normal years (call)
  - If demands exceed the reduced Tier 1 limit, cost of supply above the Tier 1 limit up to the amount of the call is priced at Tier 2 PLUS the per AF incentive amount paid
  - Once demands exceed the Tier 1 limit plus the call amount, then priced at Tier 2
  - If no call during commitment period, then no further obligation exists

## Potential Storage Incentives\*

Storage Term (Years)	2011 Total Cycle Cost (Put + Take)	Incentive Factor	2011 Total Upfront Incentive
5	\$216	X 71%	= \$153

\* Analysis reflects work from 2011 Replenishment Workgroup process. Data must be updated for 2012

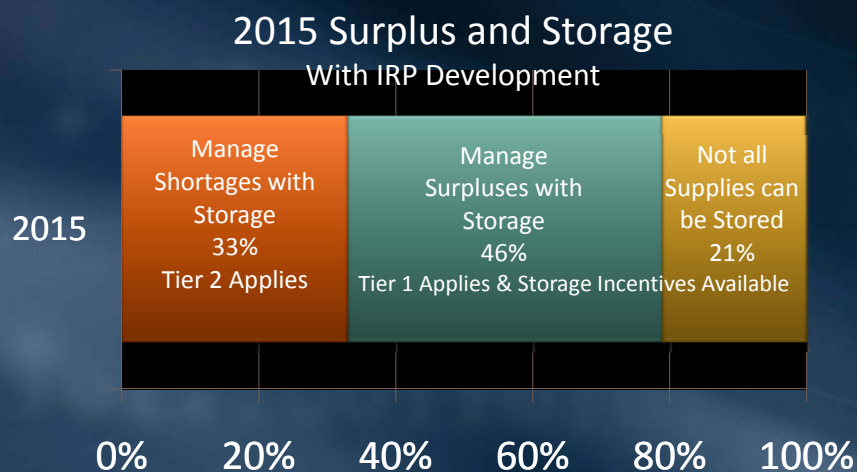
## Balancing Resource Concerns

- Tier 2 continues to be in effect, but not in years when plenty of water is available without draws from storage
  - Reduces the disincentive to take advantage of water for storage
  - Tier 2 rate continues to be linked to the cost of transfer supplies
- New Tier 1 baseline can help agencies have access to water necessary in dry conditions while maintaining a signal to invest in efficiency and local resources

## Balancing Resource Concerns (cont'd)

- Timing of Tier 2 tracking now aligned with allocation year
  - Simplifies tracking: lesson learned from allocations
- Storage incentives tied directly to the cost of MWD's storage programs
  - Prorated to reflect 5-year obligation to perform
  - Use work already done in Replenishment Workgroup
  - Instead of a call on production, performance is ensured through the reduced Tier 1 rate in dry years (agencies pay Tier 2 plus the incentives back, if over the Tier 1 limit)

## How Often Would Tier 2 Apply?



## Outstanding Issues: Refining Baseline

- Additional analysis may be required based on feedback
- Analyze alternative of “level pay plan”
- Narrow down the alternatives

## Outstanding Issues: Storage

- **Applicability of Capacity Charge**
  - Delivered only during periods when excess System Capacity exists
  - Deliveries can be interrupted
- **Applicability of Readiness to Serve Charge**
  - Recovers capital costs associated with standby service and emergency storage
- **Certification**
  - Storage incentives are meant for storage activity, so certification continues to be necessary

## Discussion

## Schedule/Process to Move Forward

- Member Agency Managers meetings
  - June 15, July 13, August 24, September 14
  - Managers establish priorities
- Rate Refinement Workgroup to meet between Managers meetings
  - Friday, June 29
  - Wednesday, July 25
  - Thursday, August 9
  - Wednesday, August 29 OR Thursday, August 30
  - Wednesday, September 26
- Board Information letter in October 2012
- Board Action letter in November 2012
  - Administrative Code changes

# Timeline : Rate Refinement

