

**San Diego County Water Authority
Cost of Service Study – Phase I
Capacity Charge Review & Analysis**

March 28, 2013

Agenda

- FY 2014 Cost of Service Rates
- Capacity Charges
 - Components
 - Calculations
- Next Steps & Questions

2014 Cost of _____
Service Rates
Phase 1

Cost of Service Objective

- Review Water Authority's projected calendar year 2014 revenue requirements, cost of service process and the appropriateness of rates and charges for consistency with legal requirements and Board policy

Key Governing Board Policies

- Ordinance No. Ordinance 2002-03
 - Transitioned the rate structure from a historical unit price ("postage stamp") water rate to assigning the revenue requirements to functional categories
 - Categories include Customer Service, Storage, Transportation and Supply

- Resolution No. 98-26
 - Established the Infrastructure Access Charge to pay at least 25 percent of the estimated annual fixed costs of the Authority.

Complete list of Ordinances relating to rates can be found at
<http://www.sdcwa.org/member-agency-dates-and-general-information>

Cost of Service Review Process

- Independently review existing rate methodologies for equity and consistency with American Water Works Association guidelines
- Meet with Water Authority staff to review operating expenditure allocation to rate and charge categories
- Analyze and review cost of service impact related to water system and water supply reliability improvements since 2000
- Allocate cost to functional categories (supply, treatment, transportation, storage and customer service)
- Develop 2014 rates
- Meet with Member Agencies
- Present to Board

2014 Rate Update Process

Revenue Requirement Analysis

Operations &
Maintenance Needs

Capital Funding

Debt Obligations &
Coverage

Policy Requirements

Offsetting Revenues

Functional Allocation/Rate Category

Melded Supply

Melded Treatment

Transportation

Storage

Customer Service

Member Agency Allocation

Water Demand

Rolling Water Demands

Meter Equivalents

Rates and Charges

Melded Supply

Melded
Treatment

Transportation

IAC

Storage

Customer
Service

MWD
Pass Through

Capacity Charges

Review & Analysis

Capacity Charge Prerequisites

- 45 - 5.9 of the County Water Authority Act permits the Water Authority to fix and impose capacity charges
- Subject to California Government Code 66000 and 54999
- One-time payment to purchase system capacity for new or upsized meters
- Requires a reasonable nexus between the fee and the cost to provide/construct capacity
- May include components for water resources, production, storage, distribution, and financial reserves

Capacity Charge Principles: Best Practices

- Achieve compliance with CGC 66013 and 54999
- Balance equity between existing and future customers
- Retain consistency over time, as appropriate
- Maintain administrative feasibility
- Adhere to existing board policy

Key Governing Board Policies

- Ordinance No. 90-2
 - Establishes Capacity Charge

- Ordinance No. 99-2
 - Capacity charge methodology updated based on independent engineers report - “Revised Capacity Charge Methodology and Analysis”

- Ordinance No. 2005-03
 - Hybrid methodology adopted based on Fixed Revenue Study recommendation
 - Member Agency Technical Advisory Committee recommended methodology
 - Establishes separate System and Treatment Capacity Charges
 - Allows for automatic annual ENR adjustments

Complete list of Ordinances relating to Capacity Charge can be found at <http://www.sdcwa.org/member-agency-dates-and-general-information>

Capacity Charge Methodologies

System Buy-In

- Based on premise that new users are buying into an existing system with available capacity
- Recovers value of existing facilities only
- Applicable when existing system has adequate surplus capacity **and** does not require major capacity improvements

(Current Replacement Value)
(Existing Meter Equivalents)

Incremental Cost

- Fee is based on the cost to construct additional capacity to meet new demands
- Recovers cost of capacity related capital improvements
- Applicable where there is limited capacity in the existing facilities to serve future customers

(PV Future Capacity CIP)
(Future Meter Equivalents)

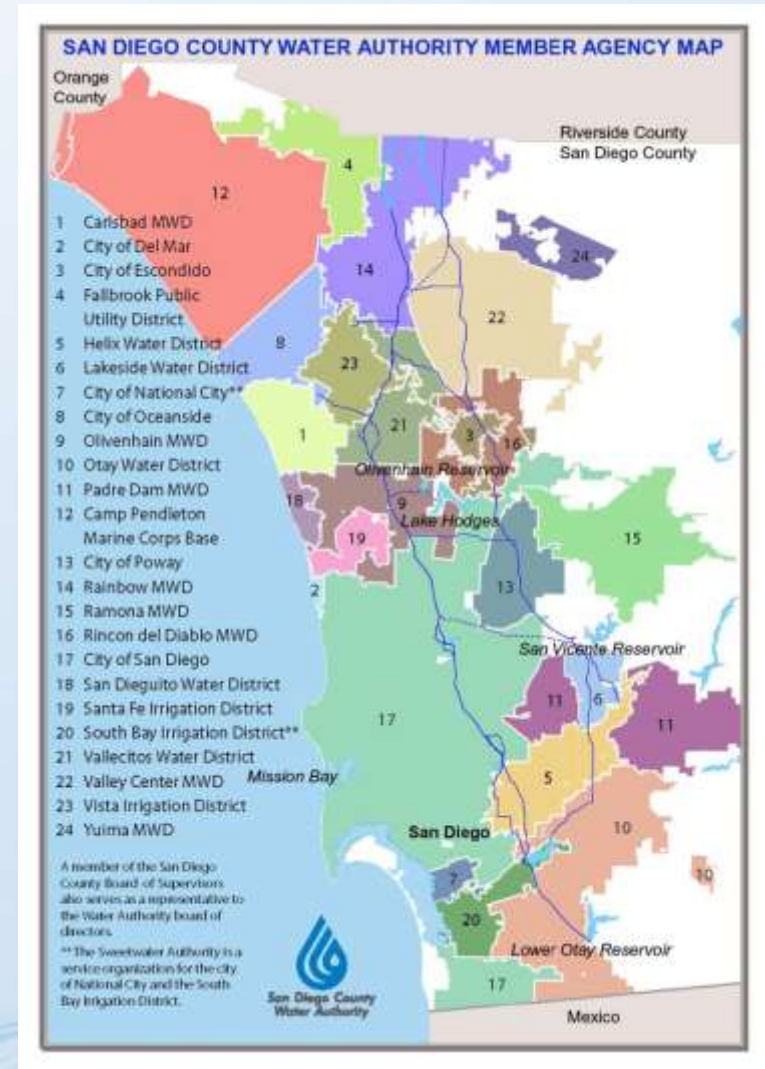
Hybrid Approach

- Recovers the value of available capacity in existing system and proportionate share of planned capital improvements
- Applicable when utility has some existing system capacity and plans to undertake major system improvements

(Current Replace Value + PV Future CIP)
(Total Meter Equivalents)

Member Agency Capacity Fee Methodology Examples

- City of Carlsbad:
 - Incremental Cost Approach
- City of Oceanside:
 - Buy-In Approach
- City of San Diego:
 - Hybrid (“Combined”) Approach
- Otay Water District:
 - Hybrid (“Combined”) Approach
- Olivenhain Municipal Water District:
 - Hybrid (“Combined”) Approach
- Padre Dam Municipal Water District:
 - Hybrid (“Combined”) Approach

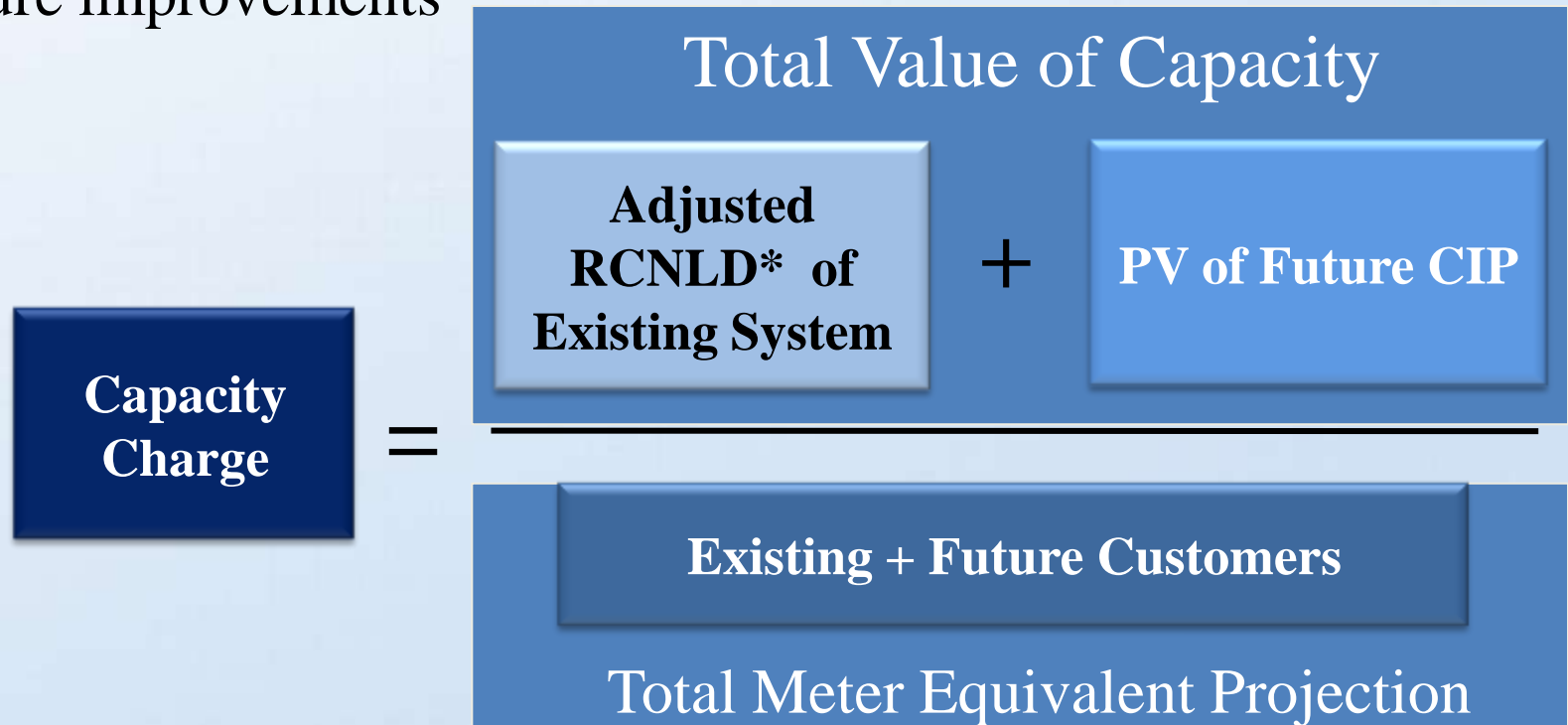


Capacity Charge

Components

Water Authority Capacity Charge Structure

Water Authority imposes a hybrid capacity charge to recover proportionate share of capacity for existing system and planned future improvements



* Replacement Cost New Less Depreciation

Capacity Charge Cost Basis

- Adjusted Replacement Cost New less Depreciation of Existing System
 - Escalated Asset Replacement Values
 - Plus: Applicable Reserves & Other Assets
 - Less: Depreciation
 - Less: Debt Principal
- Present Value (PV) of Future CIP
 - Value of CIP in today's dollars
 - Includes Total Capital Improvements
- Total Meter Equivalent Projections
 - Projected Population Growth

Total Value of Capacity (System)

- Adjusted Replacement Cost New less Depreciation of Existing System
 - Escalated Asset Replacement Values – \$3.80 billion
 - Plus: Applicable Reserves & Other Assets – \$0.73 billion
 - Participation and Capacity Rights, Equipment & Computer System
 - Reserves includes Debt Service Fund, PAYGO Fund, Operating Fund, Rate Stabilization Fund, Stored Water Fund
 - Less: Accumulated Depreciation – \$1.59 billion
 - Less: Debt Principal & Commercial Paper – \$1.9 billion
- Present Value of Future CIP
 - Future Costs - \$1.78 billion
 - Future and Replacement CIP, 2014 - 2030

Total Meter Equivalent Projection

- 177,000 Forecasted New Meter Equivalents
 - Utilizes two factors –
 - **Persons per new meter:** Total new meter and population growth
 - 10yr average (2003-2012)
 - **Connection factor:** Weighted average of meter equivalency
 - 10yr average (2003-2012)
 - SANDAG 2035 population projections
- 912,000 Existing Meter Equivalents
 - IAC totals as provided by member agencies as of January 2012

Capacity Charge

Calculations

CY 2013 Water Authority Capacity Charges: Hybrid (Combined) Approach

Water Authority currently imposes two capacity charges:

1. System Capacity Charge:

- Designed to recover non-treatment related system capacity costs
- Existing charge of \$4,326

2. Treatment Capacity Charge:

- Designed to recover treatment capacity costs for Twin Oaks Valley WTP and capacity rights in Levy WTP
- Existing charge of \$166

Estimated CY 2014 System Capacity Fee

Summary Detail

System Capacity Charge (<i>Preliminary Guidance</i>)	2014
Total Value of Capital Assets*	\$4,490,000
Total Liability and Asset-Related Adjustments*	(1,170,000)
PV Future Capital*	1,780,000
Total Value of Existing and Future Assets*	\$5,100,000
Total Number of Meter Equivalents	1,089,000
Calculated System Capacity Charge	\$4,681
<i>Existing Charge</i>	\$4,326

*Asset Values in Thousands

Estimated CY 2014 Treatment Capacity Fee

Summary Detail

Treatment Capacity Charge (<i>Preliminary Guidance</i>)	2014
Total Value of Capital Assets*	\$259,000
Total Liability and Asset-Related Adjustments*	(137,000)
PV Future CIP*	\$1,000
Total Value of Existing and Future Assets*	\$122,000
Total Number of Treated Meter Equivalents	1,026,000
Calculated Treatment Capacity Charge	\$119
<i>Existing Charge</i>	<i>\$166</i>

*Asset Values in Thousands

Questions & --- Next Steps

Next Steps

- April – May 2013 – Capacity Charge Stakeholder Outreach
 - Meet with Building Industry Association and Other Stakeholders
- Hold 3rd meeting with Member Agencies – April 16, 2013
 - Preliminary Guidance on CY 2014 Rates and Charges
- Board Presentation – April 25, 2013
 - Preliminary Guidance on CY 2014 Rates and Charges

Next Steps (continued)

- Board Presentation – May 30, 2013
 - Release Phase I Cost of Service Report
 - Set Public Hearing for CY 2014 Rates and Charges including System and Treatment Capacity Charges
- Board Presentation – June 27, 2013
 - Acceptance of Cost of Service Study – Phase I
 - Adopt CY 2014 Rates and Charges
 - Adopt CY 2014 System and Treatment Capacity Charges