

# Action Item 8-1

## Consider Change To Cost-of-Service Methodology

November 9, 2009  
Office of the CFO

# April 2009 Board Action: Review Cost of Service

- Board directives included:
  - Consider need to add/delete COS categories
  - Consider increasing fixed charges
    - RTS and Capacity Charges
    - Potential Treated Water Capacity Charge
  - Evaluate opportunities to increase property taxes to cover larger portion of State Water Project costs
  - 2011 rate proposal must recover full COS

# Many Aspects Were Considered

- Fixed Revenues vs. Fixed Costs
  - 80% fixed cost vs. 80% variable revenues
  - Currently managed with reserve policy
- Allocation of State Water Project costs
  - Conveyance vs. Supply
- Member Agency Commitments
  - Purchase Order Commitments
  - Need for continued commitments beyond 2012
  - Commitments to pay for fixed costs
- Additional Rate Structure Review
  - Follow IRP Update/Strategic Policy review

# One Adjustment Is Recommended: State Water Project Flex Storage

- Metropolitan has the ability to borrow water out of Castaic Lake and Lake Perris in dry years
  - Water must be replaced in storage within five years
  - This agreement provides a dry-year supply benefit to Metropolitan
- DWR charges for these facilities as transportation facilities (terminal reservoirs)
  - These costs are reflected in Metropolitan's Conveyance and Aqueduct function

# Diamond Valley Lake Is Treated Differently

- Diamond Valley Lake serves many purposes
  - Emergency Storage: provides emergency supply in the event of a catastrophe
  - Regulatory Storage: improves the capacity of Metropolitan's delivery system
  - Drought Storage: provides increased dry-year supply reliability
- Drought storage costs are assigned to the Supply function and recovered through Metropolitan's supply rates

# SWP Flex Storage: Current Approach

- Castaic and Perris Reservoir costs are included in Conveyance Function
  - Consistent with DWR's transportation billing
  - Costs recovered in SAR and RTS Charge
  - Staff estimates about \$20M in capital and O&M costs for both facilities

	Capital	O&M	Total
<b>Castaic</b>	<b>6.5</b>	<b>6.6</b>	<b>13.1</b>
<b>Perris</b>	<b>2.2</b>	<b>3.8</b>	<b>6.0</b>
<b>WSRB</b>	<b>1.3</b>	<b>0</b>	<b>1.3</b>
<b>Total</b>	<b>10.0</b>	<b>10.4</b>	<b>20.5</b>

- DWR official costs may vary substantially

# SWP Flex Storage: Alternate Approach

- Since a portion of Castaic and Perris reservoirs are used for drought storage, then a portion of their costs should be treated as supply costs
- Drought storage component could be included in Supply function
  - Capacity of reservoirs = 454 TAF
  - Drought share (Flex Storage) = 219 TAF, or 48%
  - Would be consistent with how Metropolitan treats its own reservoirs
- Approximately \$10M would be assigned to the Supply function instead of Conveyance



# SWP Flex Storage: Alternate Approach Considerations

- Drought share of storage costs could change in the future with changes to Flex Storage Agmt
  - Could result in cost shift between Supply Rates and System Access Rate/RTS Charge
- Costs for these facilities could be much higher in future
  - Castaic: Outlet tower repairs/replacement?
  - Perris: Dam repairs/replacement?



# Member Agency Impacts

- Initial impacts would be minor
  - SDCWA could save less than \$0.6M per year due to their wheeled and exchanged water
  - Other agencies could pay more on the Supply rate
  - Estimated impacts to other agencies are \$0.1M or less based on 2009/10 budgeted sales level
- Impacts will change over time based on member agency deliveries and Castaic/Perris costs

# Board Options

- Option #1

- Adopt CEQA determination
- Assign the portion of costs associated with DWR flexible storage to the Supply Function
- Effective for the FY 2010/11 rate setting process

- Option #2

- Make no changes to Cost-of-Service methodology
- Direct staff to continue to work with member agencies through Integrated Resources Plan and Long Range Finance Plan process

# Board Options

- Option #3
  - Adopt CEQA determination
  - Direct staff to make other changes to the Cost-of-Service methodology
  - Effective for the FY 2010/11 rate setting process

# Staff Recommendation

- Option #1