

Consideration of Committee Findings and Recommendations

May 21, 2004

The Member Agency Rate Impact Review Committee respectfully submits the attached Findings and Recommendations to the Water Authority Board of Directors Fiscal Policy Committee for your consideration.

We appreciate the opportunity to be a part of this very important regional process.

Member Agency Rate Impact Review Committee

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Findings & Recommendations

Findings

1. *The Supply from the West (Desalination)* alternative in the Master Plan represents the potential to be more reliable than *Supply from the North*. The estimated impact to CWA rates and charges is not significantly different between the two options and remains relatively unchanged over the long-term.
2. *Supply from the East* is significantly more costly and less reliable than the other two Alternatives and should no longer be evaluated as part of the Master Plan at this time.
3. Additional water treatment capacity and new water supply resources located within the County of San Diego provide a more flexible and diverse system.
4. The Skinner Service Area requires additional treatment plant capacity. Treatment plant capacity for San Diego County is needed beyond member agency projects that are both in construction and planning.
5. Given the general uncertainties inherent in long range rate forecasting, the Committee believes the accuracy of rate projections beyond 10-12 years decreases significantly and is of little value in decision-making. The Committee believes that detailed rate projections for 12 years through 2016 captures the major capital expenditures and is sufficient to compare alternatives and determine future trends in rates and charges. The Committee reviewed revenue and expenditure trends through 2025 and determined that there were not rate spikes or anomalies in the long term.
6. The Committee reviewed the allocation of individual Master Plan costs to the individual service categories and found consensus concerning the allocation of costs to rate service categories and specifically had consensus on:
 - a. allocation of desalination conveyance to the transportation charge
 - b. creation of a new treatment rate category
 - c. revenue from the treatment surcharge on desalinated seawater sales be credited back to supply costs as the benefit to be paid for by treated water customers
7. The Committee found that revenue from new growth through the capacity charge is a significant source of revenue for the Water Authority.
8. The Committee explored delaying, deferring or deleting Master Plan projects. The savings in water rates from deferring or delaying projects in the Master Plan is

- relatively minimal and did not justify the resulting lower level of regional reliability.
9. The objective of the Master Plan is to construct facilities that result in a system with a very high degree of reliability. A goal of achieving 100% reliability is met through a combination of investments in facilities, water conservation, local supply development, water resources management, operational management, and member agency cooperation. Achieving 100% reliability through facility investments alone is neither practicable nor affordable.
 10. The Master Plan is a flexible document. It is appropriate to address potential shortages in 2030 and beyond with future updates of the Master Plan, an approach to long range planning that reduces the chance of investment in infrastructure before the time of need.
 11. Investing in cost competitive supplies owned by the Water Authority helps its member agencies achieve greater price certainty by reducing over-investment in a single source of supply and reducing overall exposure to rate increases from that single source.
 12. The addition of 100,000 AF of Carryover Storage provides a significant reliability enhancement with a minimal additional rate impact.

Recommendations

Preferred Rate Case

1. The Committee recommends that the preferred Master Plan alternative is *Supply from the West (Desalination)* plus Water Treatment plus Carryover Storage.
2. The Committee recommends that, by the end of 2004, staff develop milestones and parameters for determining the feasibility of seawater desalination.
3. The Committee recommends that, in the event it is determined by mid 2006 that seawater desalination cannot be implemented within the time of need identified for additional supplies, the Water Authority pursue the Supply from the North alternative and work closely with Metropolitan to complete the construction of Pipeline 6 by 2015.

4. The Committee recommends the additional treatment capacity should be built in San Diego County. The preferred treatment alternative is a Water Authority facility at the Diversion Structure built at 50 mgd, expandable to 100 mgd, funded by the beneficiaries of the facility. This recommendation has no effect on the current plan for Pipeline 6.
5. The Committee recommends that the untreated water rates and charges not be used to support the capital or operating costs associated with Water Authority treatment.
6. The Committee recommends the Water Authority establish a treatment service category.
7. The Committee recommends that the Water Authority conduct a Revenue Study in an expeditious manner, which will examine the non-commodity revenues that will support implementation of the Master Plan. The Study should specifically review the methodology used to calculate the capacity charge or similar charge on new growth and determine whether growth is paying its fair share of transportation, storage, customer service, treatment and supply facility costs. Additionally, the Revenue Study will define the beneficiaries of the recommended treatment plant and any appropriate cost allocations.

Supplemental Recommendations

1. The Committee recommends that the Water Authority staff explore further the benefits of desalination, conservation and other member agency-owned facilities related to offsetting the need for emergency or carryover storage and report back to the Member Agencies on quantifying the benefit.
2. The Committee recommends that as a means of reducing future rate impacts the Board direct staff to explore the possibility of having third parties pay for additional increments of desalination in exchange for other firm supplies owned by the Water Authority.
3. The Committee recommends that, given the inclusion of Pipeline 6 in the *Supply from the West* alternative and the critical role imported water plays in meeting the reliability needs of the region now and in the future, the most prudent course of action for the Water Authority to pursue is:

- continue to work closely with Metropolitan on pre-design activities
 - due to continued development in the county pursue acquisition of right-of-way for Pipeline 6 as soon as possible
 - continue to periodically evaluate project costs, incremental rate impacts, reliability and operational advantages of starting construction of Pipeline 6 earlier than what is contemplated in the Master Plan
4. The Committee recommends that the Water Authority optimize the use of member agency treatment facilities to the benefit of the region through purchase agreements structured according to current practice.
 5. The Committee recommends that if regional raw water demands exceed regional raw water supplies due to restrictions only in the MWD/CWA conveyance system, a CWA-owned and operated water treatment facility will have lower priority for the available raw water supply than will member agency-owned and operated water treatment facilities. This is in recognition of the fact that CWA has control over MWD raw water deliveries and member agencies do not.