



Rate Refinement Discussions

Member Agency Managers Meeting
July 13, 2012

Overview

- Key Issues/Priorities
- Purchase Orders
- Linking of Rate Structure and Water Management Actions
- Schedule/Process to move forward

Key Issues/Priorities

- Purchase Order expiration
 - Options for moving forward
 - Tier 2 application
- Replenishment
- Fixed revenues
 - Ad Valorem Tax to address SWP costs
 - Treatment cost recovery

What Purchase Orders Accomplished

- Worked as structured
- Established a commitment for water purchases by agencies to meet over 10 years
 - Addressed concerns of impacts to sales from unbundling rate structure
- Established a Tier 2 Supply rate
 - Sales at Tier 2 did occur
 - Provided a price signal

Lessons Learned from Existing Purchase Orders

- Purchase Orders did not provide for annual assured revenue stream
- Improve likelihood of realizing revenues through more conservative sales budgeting of 1.7 MAF going forward
- Improve certainty of revenues through additional fixed revenue sources

Observations/Lessons Learned from Existing Purchase Orders

- Implemented a two-tiered supply price
 - Initially, reflected the cost of a basket of resource projects to meet growing demands for supply
 - To increase the differential between Tier 1 and Tier 2, Tier 2 was revised to reflect the cost of a dry year water transfer
- Value of Tier 2 Pricing
 - Signal to invest
 - Does it need to apply every year?
 - At what level is a member agency exposed?

Observations/Lessons Learned from Existing Purchase Orders

- Continued use of purchase orders may not be necessary
 - Alternative to achieve stability and certainty of revenues
 - Tier 1/ Tier 2
- Rate refinement priorities may be accomplished without purchase orders

Life Without Purchase Orders

Observations on Linking Rate Structure and Water Management Actions

- Rate structure elements unchanged
 - Unbundled, status quo
- Tier 2, Replenishment based on hydrologic/operational conditions
 - “Normal” = supply at Tier 1
 - “Dry” = Tier 2 in effect
 - “Wet” = Replenishment available
- Addresses several priorities
 - Retains Tier 2 price signal
 - Determines when Tier 2 and Replenishment are in effect
- Improves revenue stability and certainty through conservative sales forecasting and development of additional fixed revenues
 - Use 1.7/1.75 MAF of sales/exchange to set rates

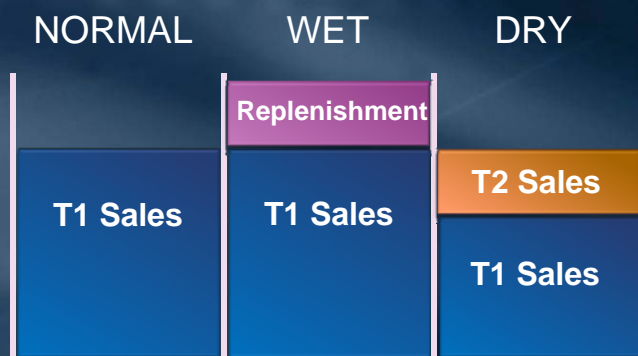
WSDM Stages

Surplus Stages					Actions	Shortage Stages						
5	4	3	2	1		1	2	3	4	5	6	7
					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							
					Take from DWR Flexible Storage							
					Extraordinary Conservation							
					Call Options Contracts							
					Buy Spot Transfers							
					Implement Water Supply Allocation Plan							

Hydrologic/Operational Conditions

- Tier 2 implementation, Replenishment availability based on hydrologic/operational conditions
- “Normal” = not in extremes for either surplus or shortages; supply at Tier 1
- “Dry” = pursuing transfers, exercising call options to meet demands; Tier 2 in effect
- “Wet” = putting to SWP Groundwater Storage; spill possible; Replenishment available
- Addresses several priorities
 - Retains Tier 2 price signal in all years, but only in effect in “Dry” years
 - Determines when Tier 2 and Replenishment are in effect

Concept for Tier 2 & Replenishment based on Hydrologic & Operational Conditions



Aligning Water Management Actions and Tier 1/Tier 2: Current Practice

- Supply Allocation Plan on a fiscal year basis
 - Provides a better understanding of water year
- Rates and Charges, including Tier 1/Tier 2 on a calendar year basis
 - Changes take effect at a uniform time
 - Changes take effect during low usage periods
- What is the challenge to water management issues, and is it worth making changes to a portion of the rate structure?

Aligning Water Management Actions and Tier 1/ Tier 2

- Supply Allocation Plan on a fiscal year basis;
Rates and Charges, including Tier 1/Tier 2, on a calendar year basis
- Option #1: WSAP implementation moves up to January 1 from July 1
- Option #2: Tier 2 calculation performed on a fiscal year basis, not calendar year
- Option #3: Effective Date for rate changes moves up from January 1 to July 1 of the prior year

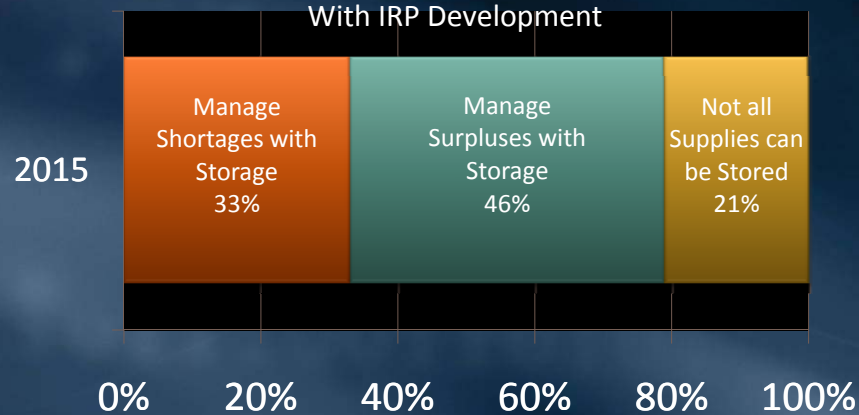
Replenishment Proposal

- Three Options
- Option 1- Tier 1 full service rate
- Option 2- Exempt from Capacity Charge and/or RTS calculation
 - Replenishment will be delivered only during periods when excess System Capacity exists
- Option 3- Performance-based agreement
 - Incentive provided based on length of time water is stored
 - Water is called in a dry year and Tier 1 limit is reduced commensurate with the call

How Often Program May Be Available

2015 Surplus and Storage

With IRP Development



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
 - 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

