

Attachment 3



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City of San Diego

As discussed in the City of San Diego's customer notice, the City must buy approximately 85-90% of the water it supplies to its customers from the CWA. Because the City is required to recover the costs for water purchases, it must "pass through" these increased charges to its own customers.

The CWA based its increases on the costs for its own infrastructure, operations and maintenance. The CWA increases also reflect the cost it pays to purchase water from the region's largest water wholesaler, the Metropolitan Water District of Southern California. The CWA has approved increases to both its fixed infrastructure access charge and its commodity charges, which are based upon the amount of water purchased.

California American Water is unsure as to the exact nature of the increases in San Diego - but since the rates charges by San Diego County Water Authority (CWA) include water purchase as a basis, it is reasonable to assume that the total costs are based on reduced customer usage.

Metropolitan Water District

As described in the Board Letters from the Metropolitan Water District of Southern California (MWD), for the past several years MWD has been experiencing decreased water sales and has not been recovering sufficient revenues. Supply restrictions and conservation measures implemented throughout Southern California combined with other decreases in levels of economic activity have reduced water sales throughout MWD's service area.

To meet the shortfall necessary to recover its costs, MWD has implemented a series of rate increases while at the same time withdrawing from reserve funds to fund expenditures. MWD has been utilizing the reserves in the Water Rate Stabilization Fund, Treatment Surcharge Stabilization Fund, Revenue Remainder Fund, and Water Stewardship fund. Additionally, a 14.0% increase in water rates was implemented on January 1, 2009, followed by a 19.7% increase effective September 1, 2009, followed by a 7.5% increase effective January 1, 2011. A second 7.5% rate increase is scheduled to be effective January 1, 2012, followed by an estimated additional increase of 5.0% effective January 1, 2013.

Santa Clarita Water

Santa Clarita Water is a Division of the Castaic Lake Water Agency in Los Angeles County. Prior to September 1999, Santa Clarita Water was a privately owned water company regulated by the California Public Utilities Commission.

In 2003 Santa Clarita Water Division established a Rate Stabilization Fund equal to 25% of Commodity Sales as follows:

During the 91/92 drought, the retail water purveyors of the Santa Clarita Valley asked their customers to voluntarily cut back on water use. The customers achieved a 25% reduction in usage. Approximately 70% of Santa Clarita Water Division's revenues are derived from the commodity charge. A reduction of 25% could dramatically affect the financial stability of the Division and impact its ability to make payments and fund its capital program. Rather than being forced with the possibility of raising rates during a drought period, the Board is directing staff to establish and maintain a Rate Stabilization Fund to be used in years when actual consumption drops 10% or more below average consumption. It is intended that the fund be funded over a 10 year period. At such time when the fund is fully funded, staff will advise the Board and recommend appropriate action. If, at any time after the fund is fully funded, reserves drop below 80% of the targeted amount staff will advise the Board and recommend appropriate action.

Contra Costa Water District

Golden State Water Company purchases treated water from Contra Costa Water District ("CCWD) for its Bay Point Customer Service Area in Northern California.

As reported in the minutes of its Board of Directors Regular Meeting on November 17, 2010¹

President Campbell explained that the District did not collect taxes on its operation. He explained that the District had started operations approximately 80 years ago. He commented that the District's water system was both reliable and safe. He stated that at the time he had become a member of the Board, the District had been 97.0% dependent on water rates to pay for its operation. **Currently, the District raised 67.0% of its revenue through rates**, due in part to a policy decision to keep rate increases at or below inflation. (Emphasis added)

As noted by President Campbell, CCWD only collects 67% of its revenue requirement through water rates as compared to 97% in the past. This is in contrast to the Private Water Companies regulated by the CPUC who must collect 100% of their revenue requirement through their water rates.

Mr. Bledsoe advised that the revenue analysis had taken into consideration all forms of revenues in the District. The District had been successful in diversifying its revenues and taking a lot of the requirements off of the water rates over the years.

¹ <http://www.ccwater.com/atwork/minutes.asp?action=view&bmmID=400>

Analysis of the San Francisco Public Utilities Commission's Revenue Under-Collection

On February 11, 2011, the San Francisco Public Utilities Commission¹ (“SFPUC”) issued a letter addressing their revenue short-fall for fiscal year 2010-2011. The SFPUC has been collecting less revenue than needed to satisfy its revenue requirement for the last several years. Please see Table 1.² This under-collection is projected to result in a negative balance of \$54.3 million by the end of Fiscal Year 2010-11 that will need to be collected in the future. Previously, the SFPUC addressed under-collections through annual rate increases. This year, the SFPUC is contemplating modifying the collection method to address the large estimated under-collection balance.

Table 1

Under a Rate Setting Approach Using the Most Recently Completed FY Actuals

	Actual Deliveries MGD	Change in Deliveries from PY	Change in Deliveries Since FY04	Prior Full Fiscal Year Deliveries*	Adopted Rate	Change in Rate from PY	Rate Scenario Based on Most Recent, Completed FY Actuals			Balancing Account (Due from) Owed to SFPUC		
							Alternate Rates	Variance from Adopted Financial Plan				
FY04	181.3				\$1.10							
FY05	167.4	-7.7%	-7.7%	169.4	\$1.13	2.7%						(\$7.3) Actual
FY06	164.5	-1.7%	-9.3%	181.3	\$1.02	-9.7%						\$9.0 Actual
FY07	175.8	6.9%	-3.0%	167.4	\$1.22	19.6%						\$12.9 Actual
FY08	173.4	-1.4%	-4.4%	164.5	\$1.30	6.6%	\$1.32	\$0.02	1.2%			\$20.6 Actual
FY09	164.0	-5.4%	-9.5%	175.8	\$1.43	10.0%	\$1.28	(\$0.15)	-10.5%			\$21.9 Actual
FY10	151.3	-7.8%	-16.6%	173.4	\$1.65	15.4%	\$1.73	\$0.08	4.9%			\$34.4 Actual
FY11	143.6	-5.1%	-20.8%	164.0	\$1.90	15.2%	\$2.00	\$0.10	5.3%			\$54.3 Projected

[^] For FY 2010-11, 143.6 MGD represents actual deliveries for the 12-month period ending December 31, 2010. FY 2011-12 assumed to be the same level.

^{*} For example, because Wholesale Water Rates are adopted around March of every year, FY 2009-10 represents the most recently completed fiscal year where actuals are known and available.

In the interest of promoting revenue stability in future years, the SFPUC has compared its current rate structure to two alternative rate structures: one in which the rates change on a monthly basis (Monthly Rate Reset Approach), and one in which customers pay a flat rate based on historical water sales (Known Annual Deliveries Approach), both discussed in greater detail below.

The SFPUC has expressed a preference for the Known Annual Deliveries Approach in its letter. The SFPUC invited comments on this proposal, which Cal Water provided. Currently, the SFPUC is going through a due-diligence process to address comments

¹ The San Francisco Public Utilities Commission is one of the regional wholesale water supply agencies in the San Francisco Bay Area. It also provides retail water service to customers in San Francisco. It has no relationship to the California Public Utilities Commission.

² Table presented on page 17 of the SFPUC letter sent on 2/11/11

from customers, and is expected to make a decision in time for the rate structure to be effective July 1, 2011.

Current Rate Structure:

Calculation is $(WRR - WSC) / WWD$
WRR: Wholesale Revenue Requirement
WSC: Wholesale Service Charge
WWD: Wholesale Water Deliveries

Based on a FY 2011-12 WRR of \$188.8 million, an annual WSC of \$4.4 million, and a projected WDD of 140 MGD, the projected quantity rate will be \$2.70 per Ccf or \$1,176 per acre foot, not including the cost to pay down the balancing account.

Brief summary of the methods being considered by the SFPUC:

Alternative Monthly Rate Reset Approach:

Wholesale rates are based on a schedule that is adjusted monthly based on a 12-month historical average. According to the SFPUC, the rate will most likely fluctuate between \$2.57 and \$2.80 per Ccf or \$1,119 and \$1,219 per acre foot, not including recovery for the projected \$55.1 million in the balancing account.

Alternative Known Annual Deliveries Approach – preferred by the SFPUC:

Customers pay a predetermined annual dollar amount based on historical water sales. Although the total annual charge is fixed, the monthly fixed charges will reflect historical sales trends so that the charge will be higher during the dry season, and lower during the wet season. According to the SFPUC, the “effective rate” will be \$2.50 per Ccf or \$1,089 per acre foot, based on projected sales of 151 MGD, not including the cost to pay down the balancing account. The SFPUC prefers this method because it collects revenue but does not rely on consumption. With consumption being lower than anticipated, this method would remove the consumption variability in its revenue collection, thereby making it more predictable.