

Item 8a Cost of Service Process

Business and Finance Committee
September 14, 2009
Office of the CFO

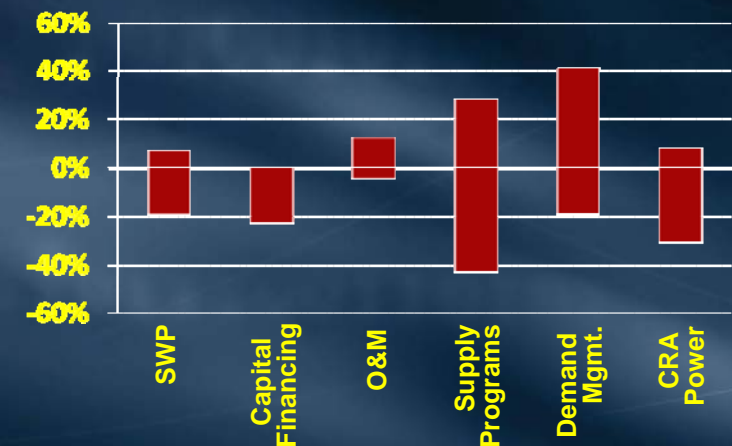
Near Term Actions In Cost of Service Review Process

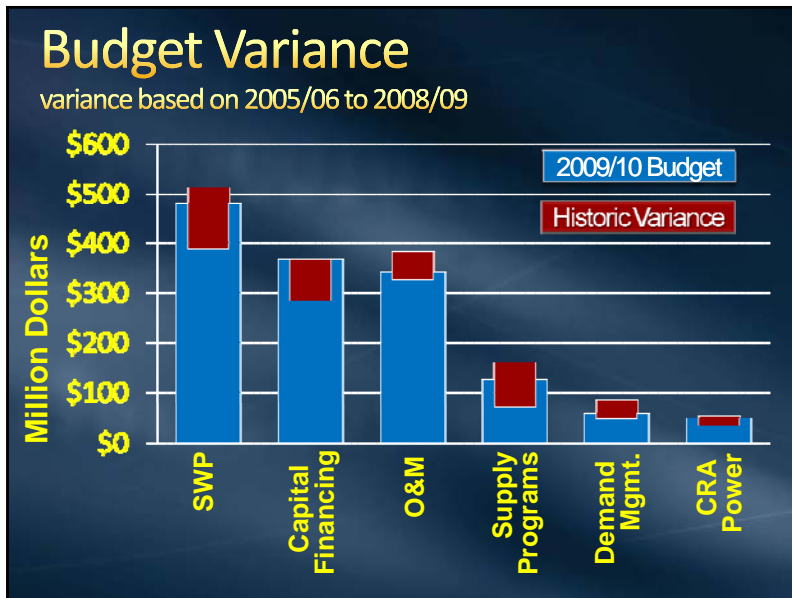
- Conducted fourth agency manager workshop
 - Reviewed underlying policy principles
 - Discussed views on State Water Project costs
 - Reviewed timeline for COS report, IRP Report, and Strategic Policy Review
- COS Workshop on September 22nd
 - Fifth agency manager workshop to follow
- Near-term recommendations in November
 - Information item to B&F Committee in October

Follow-up Item: Cost Variability

Budget Variance

2005/06 to 2008/09





Follow-up Item: Purchase Order Commitments

Purchase Order Facts

- Most member agencies made purchase order commitments that will last through 2012
 - Purchase Order commitment = buy 10 x 60% of Initial Base Demand over ten years
 - Members with a PO can purchase up to 90% of their Base Demand at the Tier 1 rate
 - Commitments last for ten years and provide a minimum level of assurance that purchases will be made

Purchase Order Status

- Currently six agencies have effectively met the PO commitment
- Most agencies are on track to fulfill their PO commitment
- City of Compton tracking below the PO commitment
- San Fernando and San Marino did not submit Purchase Orders

Purchase Order status

	Purchase Order Commitment (AF)	Cumulative Firm Sales through 12/2008 (AF)	Remaining Commitment 2009-2012 (AF)	Purchase Order Percent Remaining
Anaheim	148,267.8	128,186.5	20,081.3	13.5%
Beverly Hills	89,202.0	73,727.4	15,474.6	17.3%
Burbank	108,909.6	81,806.9	27,102.7	24.9%
Calleguas	692,003.4	685,367.7	6,635.7	1.0%
Central Basin	482,400.0	371,251.5	111,148.5	23.0%
Compton	33,720.6	17,323.0	16,397.6	48.6%
Eastern	504,663.6	596,923.1	-	0.0%
Foothill	73,312.2	67,195.0	6,117.2	8.3%
Fullerton	75,322.2	58,944.2	16,378.0	21.7%
Glendale	174,809.4	135,975.5	38,833.9	22.2%
Inland Empire	398,347.8	370,834.7	27,513.1	6.9%
Las Virgenes	137,103.0	144,224.0	-	0.0%
Long Beach	263,142.6	226,053.4	37,089.2	14.1%
Los Angeles	2,033,132.4	1,839,775.6	193,356.8	9.5%
Orange County	1,486,161.0	1,414,545.7	71,615.3	4.8%
Pasadena	141,196.8	141,750.9	-	0.0%
San Diego	3,338,035.2	2,940,119.3	397,915.9	11.9%
San Fernando	-	1,182.6	-	N/A
San Marino	-	7,709.0	-	N/A
Santa Ana	80,858.4	77,880.2	2,978.2	3.7%
Santa Monica	74,062.2	79,386.4	-	0.0%
Three Valleys	469,331.4	432,214.6	37,116.8	7.9%
Torrance	139,779.6	122,822.9	16,956.7	12.1%
Upper San Gabriel	110,076.6	106,079.1	3,997.5	3.6%
West Basin	1,045,824.6	850,298.6	195,526.0	18.7%
Western	391,791.0	466,724.5	-	0.0%
Total	12,491,453.4	11,438,302.3	1,242,235.0	

Policy Issue: State Water Project Costs

FY2009/10 Revenue Requirement (\$M)

● O&M	\$341
● SWP	\$479
● Supply Programs	\$126
● CRA Power	\$50
● Demand Management	\$60
● Debt Service	\$331
● PAYGO	\$95
● Increase in req. reserves	\$54
● Revenue Offsets	-\$158
● Total	\$1,376

*April Board Letter, FY 2009/10

What are the Service Functions?

1. Supply
2. Conveyance & Aqueduct
3. Storage
4. Treatment
5. Distribution
6. Demand Management
7. Hydroelectric
8. Administrative & General

How are SWP costs assigned to service functions?

- By line item
 - Conveyance & Aqueduct:
 - Transportation Capital
 - Transportation Min OMP&R
 - East Branch Enlargement Capital
 - Delta Conveyance
 - On-aqueduct variable power
 - Off-aqueduct power
 - Supply:
 - Delta capital
 - Delta Minimum

State Water Project: What rate elements recover the SWP cost items?

SWP cost items (\$M)

- Function: Supply
- Classification: Fixed Commodity
- Recovered by: Supply Rate

• Delta Minimum	33.5
• Delta Capital	29.6
• Delta Minimum Eco-crescent	0.9
• Delta Minimum FERC Relicensing	0.7
• Future Capital Eco-crescent	0.6
• Delta Minimum Rice Farmer	0.4
• <u>Delta Minimum Mussel Control</u>	<u>0.1</u>
• Total	66.9

SWP Supply costs (\$M)

	Demand	Fixed Commodity	Standby	Variable Commodity	Total
Supply	67	241			241
Conveyance	35	287	8	225	555
Storage	6	67	71		144
Treatment	61	143		38	243
Distribution	28	87			115
Demand Mgmt		78			78
Total	128	905	79	263	1,376

*April Board Letter, FY 2009/10 – Totals may not foot due to rounding

SWP cost items (\$M)

- Function: Conveyance & Aqueduct
- Classifications: Variable Commodity
- Recovered by: System Power Rate
 - On Aqueduct Variable Transportation 99.1
 - Off Aqueduct O&M 52.7
 - Off Aqueduct Capital 43.1
 - OAPF interest earnings (1.8)
 - OAPF Prior Year Refund (8.0)
 - OAPF Cover (8.4)
 - Credit from Over collection (10.0)
 - Total 168.6

SWP Power costs (\$M)

	Demand	Fixed Commodity	Standby	Variable Commodity	Total
Supply		241			241
Conveyance	35	287	8	225	555
Storage	6	67	71		144
Treatment	61	143		38	243
Distribution	28	87			115
Demand Mgmt		78			78
Total	128	905	79	263	1,376

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SWP cost items (\$M)

- Function: Conveyance & Aqueduct
- Classification:
 - OMP&R = Fixed Commodity
- Recovered by: System Access Rate
 - Transportation Minimum 114.6
 - Delta Conveyance Program 14.4
 - Devil Canyon/Castaic Minimum 7.4
 - East Branch Enlargement Minimum 5.9
 - Replacement Accounting System 4.6
 - Total OMP&R 148

SWP Conveyance OMP&R costs (\$M)

	Demand	Fixed Commodity	Standby	Variable Commodity	Total
Supply		241			241
Conveyance	35	287	8	225	555
Storage	6	67	71		144
Treatment	61	143		38	243
Distribution	28	87			115
Demand Mgmt		78			78
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SWP cost items (\$M)

- Function: Conveyance & Aqueduct
- Classification:
 - Capital= 29% Demand (\$28), 64% Commodity (\$61), 7% Standby (\$6M)
- Recovered by: RTS and System Access Rate
 - Transportation Capital 62.8
 - WSRB Surcharge Capital 35.8
 - East Branch Enlargement Capital 30.9
 - Devil Canyon/Castaic Capital 6.8
 - Tehachapi East After bay Capital 4.1
 - EB Enlargement interest (0.6)
 - Water System Revenue Bond interest Earnings (2.0)
 - Tehachapi East After bay Cover (3.8)
 - Replacement Accounting Interest (3.8)
 - Devil Canyon return principal + interest (4.2)
 - EB Enlargement Cover (6.1)
 - WSRB Cover (14.3)
 - Springing Amendment (reduction against Trans. Capital) (15.9)
 - Total Capital 95

SWP Conveyance capital costs (\$M)

	Demand	Fixed Commodity	Standby	Variable Commodity	Total
Supply		241			241
Conveyance	35	287	8	225	555
Storage	6	67	71		144
Treatment	29	60	6	38	243
Distribution	28	87			115
Demand Mgmt		78			78
Total	128	905	79	263	1,376

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Total SWP costs \$479M

	Demand	Fixed Commodity	Standby	Variable Commodity	Total
Supply		241			241
Conveyance	35	287	8	225	555
Storage	6	67	71		144
Treatment	29	60	6	38	243
Distribution	28	87			115
Demand Mgmt		78			78
Total	128	905	79	263	1,376

Note: Each cost gets adjusted by a share of the revenue offsets and a share of MWD's administrative & general costs

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Allocated Costs to Rate Design Elements (\$M)

		SWP
Supply Rates	\$299	\$67
System Access Rate	\$382	\$208
Water Stewardship Rate	\$78	
System Power Rate	\$225	\$169
Capacity Charge	\$34	
RTS Charge	\$114	\$35
Treatment Surcharge	\$243	
Total	\$1,376	\$479

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Next Steps

- Cost-of-service workshop on September 22
- Additional agency manager workshops
- Near-term recommendations in November
 - Necessary in order to incorporate into 2011 COS report
- Long-term rate structure review may follow IRP Review and Strategic Policy Review in 2010
 - Changes to Metropolitan's role could lead to changes to rate structure