

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

DELTA DIABLO

(a California Special District)

**PLANT OPERATIONS CENTER CONFERENCE ROOM
2600 PITTSBURG-ANTIOCH HIGHWAY
ANTIOCH, CA 94509**

**WEDNESDAY, JUNE 5, 2019
2:00 P.M.**

Persons who wish to address the Board during Public Comments or with respect to an item on the Agenda will be limited to three (3) minutes. The Board Chair may reduce the amount of time allotted per speaker at the beginning of each Item or Public Comments period depending on the number of speakers and the business of the day. Your patience is appreciated. A break may be called, or an item may be taken out of order, at the discretion of the Board Chair.

A. PUBLIC COMMENTS

B. REVIEW AND COMMENT ON PRELIMINARY RECYCLED WATER RATE ANALYSIS, FISCAL YEAR 2019/2020

C. ADJOURNMENT

The District will provide reasonable accommodations for persons with disabilities who plan to participate in Board (or committee) meetings by contacting the Secretary to the Board 24-hours prior to the scheduled meeting at (925) 756-1927. Disclosable public records related to an open session item on a regular meeting agenda and distributed by the District to a majority of members of the Board of Directors less than 72 hours prior to that meeting are available for public inspection at 2500 Pittsburg-Antioch Highway, Antioch, CA 94509 during normal working business hours.





MEMORANDUM

Date: June 5, 2019

To: Sean Wright, Chair, Finance Committee

From: Carol S. Margetich, Business Services Director

SUBJECT: REVIEW AND COMMENT ON PRELIMINARY RECYCLED WATER RATE ANALYSIS, FISCAL YEAR 2019/2020

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RECOMMENDATION

Review and comment on preliminary Recycled Water rate analysis for Fiscal Year 2019/2020 (FY19/20).

Background Information

The District's Recycled Water Facility (RWF) was placed into service in June 2001. It was funded by the Calpine Corporation (Calpine), which was required to use recycled water as its primary source of cooling water for its two power plants (Los Medanos Energy Center, Delta Energy Center) as a condition of its permits with the Federal Energy Regulatory Commission (FERC). The Calpine permits also required that recycled water be provided for a number of specific irrigation users in the city of Pittsburg. The agreement with Calpine allows the District to serve additional irrigation users. However, under its service agreement, Calpine has first right of recycled water use to meet its demands, which means that irrigation customers are not guaranteed specific recycled water capacity rights and service is "interruptible" should Calpine need additional supply. The service agreements with Calpine and the cities of Antioch and Pittsburg, as well as the Pittsburg Unified School District (PUSD), Mt. Diablo Resource Recovery Park (MDRRP), and Caltrans require the District's Board of Directors to set the rates, fees, and charges for recycled water. Recycled water rates were last adjusted by the Board in July 2018 for FY18/19.

Analysis

The basis for the Recycled Water Service Charge (RWSC) rate model is cash flow projections for the current fiscal year and four future years, with rates based on the costs of providing service to the Calpine power plants, as well as irrigation uses by other recycled water customers. The RWSCs reflect the total costs allocated in the proposed FY19/20 operating budget and Capital Improvement Program (CIP). The current rates are structured to recover a portion of the operating costs and capital asset replacement projects through a variable-rate component, and the remaining costs through fixed-monthly charges. Consistent with past practice, all recycled water customers pay the same variable rate per acre-foot (AF), but each customer pays a unique

monthly fixed cost based on its allocable share of capital asset projects and/or certain operating costs. As variable costs are collected based on actual recycled water use, there continues to be a conservation incentive and users have some control over their total costs.

The Board adopted a change to the RWSC structure in FY18/19 to address revenue volatility over the past few years due to consumption changes at Calpine and the closure of the Delta View Golf Course in Pittsburg. The adopted RWSC structure was based on the estimated revenue need but reallocated a portion of the costs previously included in the variable-rate component to the fixed-rate component. The proposed variable rate includes capital asset replacement projects, because these costs are largely driven by equipment deterioration as a result of recycled water consumption, and treatment costs such as chemicals and utilities that vary according to the amount of treated recycled water. The portion of treatment costs attributable to labor, office expenses, outside services, and repairs and maintenance that generally do not vary with consumption, as well as distribution system operation and maintenance (O&M) costs, comprise the proposed fixed-rate component for all customers.

The remaining costs for capital asset projects, Firm Capacity Surcharges, and the Revenue Stability Surcharge are fully paid by Calpine within its monthly fixed-rate component. Capital assets are categorically funded in this manner because RWF capital funding requirements do not typically change with the addition of other customers. Additionally, the Firm Capacity Surcharge includes certain costs allocated based on the Calpine power plants having “firm” capacity and irrigation service to the other customers being interruptible. Finally, the District continues to implement the Revenue Stability Surcharge, which was established in FY11/12 as a measure to stabilize revenue after Calpine experienced a decline in consumption from historical levels. The Calpine Historical Revenue Stability Surcharges and Annual Consumption (Table 1) shows the changes that have occurred since FY11/12. With Calpine’s historical consumption volatility due to major plant shutdowns over the years, it is proposed that the surcharge remain at \$35,000 per month for the upcoming fiscal year to ensure revenue stability.

| | FY11/12 | FY12/13 | FY13/14 | FY14/15 | FY15/16 | FY16/17 | FY17/18 |
|-------------------------|----------|----------|----------|----------|----------|----------|----------|
| Rev Stability Surcharge | \$30,000 | \$20,000 | \$20,000 | \$20,000 | \$20,000 | \$30,000 | \$35,000 |
| Consumption in AF | 7,190 | 8,103 | 7,957 | 6,101 | 6,964 | 5,283 | 4,516 |

As shown on the FY18/19 – FY19/20 Revenue Estimates (Attachment 1), the original estimate of fixed and variable for FY18/19 revenue was approximately \$3,253,611 based on projected consumption. Updated FY18/19 and FY19/20 revenue projections of \$3,302,827 and \$3,584,248, respectively, are also shown and are based on new consumption estimates using an average of actual consumption over the past five years (FY13/14 – FY17/18). Using the five-year average for both years more clearly illustrates changes caused by cost factors without the need to consider impacts caused by discrete consumption changes. The variable revenue component of the total revenue projection is expected to increase by approximately \$148,000 due to: 1) a

\$90,000 increase in chemical costs (i.e., 11% to 15% increase in aluminum sulfate and liquid polymer unit costs); 2) a \$16,000 increase in utility costs; and 3) and a \$185,000 increase in capital asset replacement needs (e.g., unanticipated recycled water infrastructure repairs). It should be noted that use of existing fund balances of \$143,000 will be applied in FY19/20. Fixed revenue is anticipated to increase by \$133,000 and is largely attributable to increases in labor costs, office and operating expenses, and small-scale RWF capital asset needs.

An additional surcharge was established in FY12/13 for the city of Antioch to cover its \$1.1 million share of the Antioch Recycled Water Project costs that exceeded the city of Antioch's \$5 million cap for the low-interest State Revolving Fund (SRF) loan secured by the District. The city of Antioch is paying the District for its share of SRF loan principal and interest for the \$5 million cap amount annually when the SRF loan payments are due. Based on the city of Antioch owning and being able to sell extra capacity in its distribution system, the remaining amount of the city of Antioch's project costs is being repaid to the District over a 20-year period at 4.25% interest (prime rate plus 1%) through a monthly rate surcharge of \$6,825.65.

When the Pittsburg Recycled Water Distribution System was constructed, an existing city of Pittsburg pipeline was reused for a portion of the project. This pipeline was near the end of its useful life and required rehabilitation, which was 75% grant funded and 25% locally funded. The local share is the responsibility of the city of Pittsburg, which requested that the District recover those costs over time through a recycled water surcharge. Based on the local share of \$328,500, the fixed monthly surcharge was established in FY13/14 at \$3,365.92 at an interest rate of 4.25% over a ten-year period.

As shown on the Proposed FY19/20 Recycled Water Rates and Charges (Attachment 2), the variable rate per AF for FY18/19 is \$223.17, and the proposed variable rate for FY19/20 is \$245.63 based on planned increases for chemicals, utilities, and the 5-year CIP for capital asset replacements. This represents an increase of \$22.46 per AF (10.1%). Based on increased capital asset replacements and increased costs for repairs and maintenance due to the age of the RWF, fixed charges for Calpine increase by \$10,366.19 per month from the current fixed charges of \$142,249.45 per month. The fixed charges per AF for the cities of Antioch and Pittsburg are also increasing. As shown in Table 2, by spreading all charges allocated to the cities over their anticipated consumption, the total cost per AF is \$561.90 for FY19/20 (excluding the cities' project-related surcharges) compared to \$517.57. This represents an overall increase of \$44.33 per AF (8.6%). While these amounts are greater than last year's rate analysis projection per AF due to lower consumption estimates (based on the actual 5-year average FY13/14 – FY17/18) and cost increases, they are expected to be adequate based on the cost of services. The proposed rates, including respective city surcharges, are well under the estimated cost of water from the Contra Costa Water District for FY19/20, which is estimated to be about \$794 per AF for raw water and about \$2,133 per AF for treated water. The proposed rates for the upcoming fiscal year were reviewed by key Calpine stakeholders at a special Recycled Water Technical Advisory Committee (TAC) meeting on June 3, 2019.

| Customers | Current FY18/19 | Proposed FY19/20 | % Change |
|----------------------------------|--------------------|---------------------|-------------|
| Industrial Users | \$500.10 | \$542.74 | 8.5% |
| Irrigation Users | \$517.57 | \$561.90 | 8.6% |
| City of Antioch with Surcharge | \$710.27 | \$754.60 | 6.2% |
| City of Pittsburg with Surcharge | \$612.59 | \$656.93 | 7.2% |

Note: For comparative reference, the FY18/19 Raw Water cost estimate is \$794/AF, Treated Water cost estimate is \$2,133/AF

Should the Finance Committee concur, it is proposed that the RWSC analysis be presented to the full Board at its meeting of June 12, 2019, with a Public Hearing and consideration of RWSC adjustments to be set for July 10, 2019. If the Board approves adjustments, the RWSCs would be implemented on recycled water customer invoices issued in August 2019.

Financial Impact

The proposed RWSCs would collect an estimated \$1,618,425 from variable rates and \$1,965,823 from fixed-monthly charges (exclusive of the special project-related surcharges for Antioch and Pittsburg). The RWSC revenue covers the total revenue requirement of \$3,496,061, which is approximately \$243,000 higher than the previous year's budget. This equates to about 45% of costs being paid for by the variable-rate component and 55% by the fixed-monthly components. In FY18/19, the split between variable and fixed was estimated to be 44% and 56%, respectively. The ratio of fixed percentage to variable provides greater certainty to the District that it will recover a relatively large portion of its costs through fixed charges, while giving recycled water customers, particularly irrigation customers, some level of control over their costs. To the extent that more recycled water is used than anticipated, the District may generate revenues that exceed a given year's costs, while the converse is true should less recycled water be used than anticipated. The potential over- or under-collections, if realized, would be incorporated into the following year's RWSC analysis.

Attachments

- 1) Estimated FY18/19 – FY19/20 Recycled Water Revenue
- 2) Proposed FY19/20 Recycled Water Rates and Charges

/CSM

| FY18/19 - FY19/20 REVENUE ESTIMATES | | | | |
|--|---|--|------------------------|---------------------|
| | A | B | C | D |
| | FY18/19 (Based on Original Estimate) | FY18/19 (Based on Updated Estimate - as of April 2019)* | FY19/20* | Difference (C-A) |
| Usage - Calpine | 5,900 | 6,164 | 6,164 | 264 |
| Usage - All Other Customers | 470 | 425 | 425 | (44) |
| Total Customer Usage | 6,370 | 6,589 | 6,589 | 219 |
| Fixed Rev w/o Surcharges: | | | | |
| Calpine | \$ 1,706,993 | \$ 1,706,993.39 | \$ 1,831,387.70 | \$124,394.31 |
| Antioch | 63,442 | 63,442 | 67,534 | 4,092 |
| Pittsburg | 46,441 | 46,441 | 48,196 | 1,755 |
| Other Users | 15,253 | 15,492 | 18,706 | 3,453 |
| Total Revenue w/o City Surcharges | \$ 1,832,129 | \$ 1,832,367.77 | \$ 1,965,822.99 | \$133,693.74 |
| Variable Revenue: | | | | |
| Calpine Usage Charges | \$ 1,316,703 | \$ 1,375,599 | \$ 1,514,020 | \$ 197,317 |
| All Other Usage Charges | 104,778 | 94,860 | 104,405 | (373) |
| Total Usage Revenue | \$ 1,421,481 | \$ 1,470,459 | \$ 1,618,425 | \$ 196,944 |
| Totals | | | | |
| Calpine | \$ 3,023,696 | \$ 3,082,593 | \$ 3,345,407 | \$ 321,711 |
| All Other Customers | 229,914 | 220,234 | 238,841 | 8,926 |
| Total Gross Revenue | \$ 3,253,611 | \$ 3,302,827 | \$ 3,584,248 | \$ 330,637 |
| Estimated Revenue Need | \$ 3,253,629 | \$ 3,253,629 | \$ 3,496,061 | \$ 242,432 |
| Est Gross Revenue less Revenue Need | \$ (18) | \$ 49,198 | \$ 88,187 | \$ 88,205 |

*Based on actual 5-year average FY13/14-FY17/18

Proposed FY19/20 Recycled Water Rates and Charges

| | FY18/19 Original Estimate | FY19/20 Proposed | % Chg |
|--|---------------------------------|----------------------|--------------|
| <u>Variable Rate per AF</u> | | | |
| Treatment O&M | \$ 201.66 | \$ 221.59 | 9.9% |
| Capital Asset Replacement | \$ 21.51 | \$ 24.04 | 11.8% |
| Total Variable Rate per AF | \$ 223.17 | \$ 245.63 | 10.1% |
| <u>Fixed Monthly Charges</u> | | | |
| <u>Calpine:</u> | | | |
| O&M Distribution | \$ 3,021.64 | \$ 3,273.91 | 8.3% |
| O&M Treatment | \$ 3,273.91 | \$ 87,517.06 | 2573.2% |
| Capital Asset | \$ 3,273.91 | \$ 25,977.55 | 693.5% |
| Firm Capacity Surcharge | \$ 3,273.91 | \$ 847.12 | -74.1% |
| Revenue Stability Surcharge | \$ 3,273.91 | \$ 35,000.00 | 969.1% |
| Total Calpine Monthly Fixed Charges | \$ 142,249.45 | \$ 152,615.64 | 7.3% |
| <u>City of Antioch:</u> | | | |
| O&M Antioch | \$ 5,286.81 | \$ 5,627.80 | 6.4% |
| Antioch Project Surcharge | \$ 6,825.65 | \$ 6,825.65 | 0.0% |
| Total City of Antioch Monthly Fixed Charges | \$ 12,112.46 | \$ 12,453.45 | 2.8% |
| <u>City of Pittsburg:</u> | | | |
| O&M Pittsburg | \$ 3,870.07 | \$ 4,016.30 | 3.8% |
| Pittsburg Pipeline Rehab Surcharge | \$ 3,365.92 | \$ 3,365.92 | 0.0% |
| Total City of Pittsburg Monthly Fixed Charges | 7,235.99 | 7,382.22 | 2.0% |
| <u>Other Users:</u> | | | |
| MDRRP | \$ 281.00 | \$ 358.30 | 27.5% |
| PUSD | \$ 752.04 | \$ 934.56 | 24.3% |
| Caltrans | \$ 238.07 | \$ 265.98 | 11.7% |
| Total Other Users' Monthly Fixed Charges | 1,271.11 | 1,558.85 | 22.6% |
| <u>Assumed Annual Consumption (Acre Feet)</u> | | | |
| Calpine | 5,900 | 6,164 | 4.5% |
| Antioch | 321 | 114 | -64.6% |
| Pittsburg | 100 | 264 | 164.0% |
| Caltrans | 2.0 | 9.4 | 368.2% |
| PUSD | 39.0 | 37.2 | -4.6% |
| MDRRP | 8.0 | 0.8 | -90.6% |
| Total Usage (Acre Feet) | 6,370 | 6,589 | 3.4% |