

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

DELTA DIABLO

(a California Special District)

TUESDAY, JUNE 5, 2018

1:30 P.M.

- A. PUBLIC COMMENTS

- B. REVIEW AND COMMENT ON PRELIMINARY RECYCLED WATER RATE ANALYSIS, FISCAL YEAR 2018/2019 *(Carol Margetich)*

- C. ADJOURNMENT

Note: The District will provide reasonable accommodations for persons with disabilities planning to participate in Board (or committee) meetings who contact the Office Manager/Secretary to the Board at (925) 756-1927 at least 24 hours prior to the scheduled meeting. Any 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, 2018

To: Pete Longmire, Chair, Finance Committee

From: Carol S. Margetich, Business Services Director *KC*

SUBJECT: REVIEW AND COMMENT ON PRELIMINARY RECYCLED WATER RATE ANALYSIS, FISCAL YEAR 2018/2019

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RECOMMENDATION

Review and comment on preliminary Recycled Water rate analysis for Fiscal Year 2018/2019 (FY18/19).

Background Information

The District's Recycled Water Facility (RWF) became operational in June 2001. It was funded by the Calpine Corporation, 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. This means that irrigation customers are not guaranteed specific recycled water capacity rights, which makes their service "interruptible" should Calpine need additional supply.

The service agreements with Calpine and the cities of Pittsburg and Antioch, 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 2017 for FY17/18.

Analysis

The basis for the 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 for irrigation uses by other recycled water customers. It reflects total costs allocated in the proposed FY18/19 operating budget and the adopted 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 the users have some control over their total costs.

For FY18/19, a change in the rate structure is being proposed to address the revenue volatility caused by consumption changes over the past several few years, mostly with Calpine and the closure of the Delta View Golf Course in Pittsburg. The proposed rate structure was based on the estimated revenue need as is typically done, but reallocates a portion of the costs previously included in the variable-rate component to the fixed-rate component. Estimated FY17/18 - FY18/19 Recycled Water Revenue (Attachment 1) shows fixed and variable FY17/18 revenue based on the original consumption estimates, FY17/18 revenue based on updated consumption estimates (as of May 2018), and FY18/19 revenue based on consumption estimates and the proposed reallocation. The proposed variable rate still includes capital asset replacement projects, because these costs are largely driven by equipment wear and tear as a result of recycled water consumption, and treatment costs such as chemicals and utilities that vary according to the amount of recycled water treated, but it no longer includes the portion of treatment costs attributable to labor, office expenses, outside services, and repairs and maintenance that generally do not vary with consumption. These costs, as well as the O&M distribution costs previously included in the fixed-cost component make up the new 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 their 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 Revenue Stability Surcharge, established in FY11/12 as a measure to stabilize revenue after Calpine experienced a decline in consumption from historical levels, continues to be necessary. The Calpine Historical Revenue Stability Surcharges and Annual Consumption (Table 1) below shows the changes that have occurred since FY11/12. With Calpine significantly under-consuming again this fiscal year relative to historical averages due to a major plant shutdown at DEC, it is anticipated that operating revenue will be impacted again during FY17/18. Along with the aforementioned changes to the fixed-rate component, it is proposed that the surcharge remain at \$35,000 per month for the upcoming fiscal year to ensure revenue stability. The beginning fund balance at the beginning of FY17/18 was estimated to be about \$952,000. However, based on updated consumption estimates and budgeted expenses, the fund balance for the following year (FY18/19) is anticipated to decline to approximately \$420,000. Based on projected revenue needs, we expect the Revenue Stability Surcharge to remain in place for the foreseeable future.

	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 Acre Feet	7,190	8,103	7,957	6,101	6,964	5,284	5,235

An additional surcharge was established in FY12/13 for the City of Antioch to cover the City's \$1.1 million share of the Antioch Recycled Water Project costs that exceeded the City's \$5 million cap for the low-interest State Revolving Fund (SRF) loan secured by the District. The City 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 owning and being able to sell extra capacity in its distribution system, the remaining amount of the City'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 pipeline was reused for a portion of the project. This pipeline was near the end of its useful life and required rehabilitation that was 75% grant funded and 25% locally funded. The local share is the responsibility of the City, 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 FY18/19 Recycled Water Rates and Charges (Attachment 2), the variable rate per AF for the current fiscal year is \$310.24, and the proposed variable rate for FY18/19 is \$223.17. This represents a decrease of \$87.07 per AF, or about -28.1%. This decrease is primarily due to the aforementioned reallocation of certain costs from the variable-rate to the fixed-rate component. For the same reason, the fixed charges for the Calpine energy plants increase overall by \$63,977.45 per month from the current fixed-monthly charges of \$78,272.00. In addition to the rate structure changes, the fixed-rate component includes increased costs for repairs and maintenance of the recycled water facility maintenance due to the age of the facility. The Cities' overall fixed charges per AF are also increasing. As can be seen in Table 2, Recycled Water Rates per AF, spreading all charges allocated to the Cities over their anticipated consumption, the total cost per AF is \$489.70 for FY18/19 (excluding the Cities' project-related surcharges) compared to \$423.92 (adjusted for updated FY17/18 consumption changes) for FY17/18. This represents an overall increase of \$65.78, or 15.5%, per AF. While the amounts are greater than last year's rate analysis projection per acre feet, due to lower consumption estimates are expected to adequate given the changes in consumption. The proposed rates, including the Cities' surcharges, are well under the estimated cost of water from the Contra Costa Water District for FY18/19, which is about \$758 per AF for raw water and about \$1,894 per AF for treated water. The proposed rates for the upcoming fiscal year were reviewed by key Calpine stakeholders at the Recycled Water Technical Advisory Committee (TAC) meeting on May 21, 2018 and by representatives from the cities on June 4, 2018.

Customers	Current FY17/18	Proposed FY18/19	% Change
Industrial Users	\$489.66	\$512.49	4.7%
Irrigation Users	\$423.92	\$489.70	15.5%
Antioch with Surcharge	\$548.71	\$664.16	21.0%
Pittsburg with Surcharge	\$481.91	\$575.73	19.5%

Note: For comparative reference, the FY18/19 Raw Water cost estimate is \$758 per AF and the Treated Water cost estimate is \$1,894 per AF which is 3% over current year estimated costs.

Should the Finance Committee concur, it is proposed that the recycled water rate analysis be presented to the full Board at its meeting of June 13, 2018, with a Public Hearing and consideration of rate adjustments to be set for July 11, 2018. Should the Board approve any adjustments, they would take effect for recycled water invoices issued in August 2018.

Financial Impact

The proposed rates would collect an estimated \$1,421,500 from variable rates and \$1,832,129 from fixed monthly charges (exclusive of the special project-related surcharges for Antioch and Pittsburg). That revenue covers the total revenue requirement of \$3,253,629, which is over \$200,000 lower than the previous year's budget. This equates to about 44% of costs being paid for by the variable-rate component and 56% by the fixed-monthly components. Last year, the split between variable and fixed was estimated to be 71% and 29%, respectively. The increase in the fixed percentage provides greater certainty to the District that it will recover a relatively large portion of its costs through fixed charges, while giving the 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 would more than cover that 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 recycled water rate analysis.

Attachments

- 1) Estimated FY17/18 – FY18/19 Recycled Water Revenue
- 2) Proposed FY18/19 Recycled Water Rates and Charges

/CSM

FY17/18 - FY18/19 REVENUE ESTIMATES				
	A	B	C	D
	FY17/18 (Based on Original Estimate)	FY17/18 (Based on Updated Estimate - as of April 2018)	FY18/19	Difference (C-A)
Usage - Calpine	7,173	5,235	5,900	(1,273)
Usage - All Other Customers	765	656	470	(296)
Total Customer Usage	7,938	5,891	6,370	(1,569)
Fixed Rev w/o Surcharges:				
Calpine	\$ 939,264	\$ 939,264	\$ 1,706,993	\$ 767,729
Antioch	31,596	31,596	63,442	31,846
Pittsburg	31,596	31,596	46,441	14,845
Other Users	11,424	11,424	15,253	3,829
TTL Fixed Revenue w/o City surcharges:	\$ 1,013,880	\$ 1,013,880	\$ 1,832,129	\$ 818,249
Variable Revenue:				
Calpine Usage Charges	\$ 2,225,352	\$ 1,624,106	\$ 1,316,720	\$ (908,631)
All Other Usage Charges	237,334	203,627	104,780	(132,554)
TTL Usage Revenue	\$ 2,462,685	\$ 1,827,734	\$ 1,421,500	\$ (1,041,185)
Totals				
Calpine	\$ 3,164,616	\$ 2,563,370	\$ 3,023,714	\$ (140,902)
All Other Customers	311,950	278,243	229,916	(82,034)
TTL Gross Revenue	\$ 3,476,565	\$ 2,841,614	\$ 3,253,629	\$ (222,936)
Estimated Revenue Need	\$ 3,458,101	\$ 3,458,101	\$ 3,253,629	\$ (204,472)
Est Gross Revenue less Revenue Need	\$ 18,464	\$ (616,487)	\$ -	\$ (18,464)

Proposed FY18/19 Recycled Water Rates and Charges
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	FY17/18 Current	FY18/19 Proposed	% Chg
Variable Rate per AF			
Treatment O&M	\$ 296.08	\$ 201.66	-31.9%
Capital Asset Replacement	14.16	21.51	51.9%
Total Variable Rate per AF	\$ 310.24	\$ 223.17	-28.1%
Fixed Monthly Charges			
Calpine:			
O&M Distribution	\$ 3,081.00	\$ 3,021.64	-1.9%
O&M Treatment	-	81,569.81	0.0%
Debt Service*	15,814.00	-	-100.0%
Capital Asset	20,506.00	20,987.86	2.3%
Firm Capacity Surcharge	3,871.00	1,670.14	-56.9%
Revenue Stability Surcharge	35,000.00	35,000.00	0.0%
Total Calpine Monthly Fixed Charges	\$ 78,272.00	\$ 142,249.45	81.7%
City of Antioch:			
O&M Antioch	\$ 2,633.00	\$ 5,286.81	100.8%
Antioch Project Surcharge	\$ 6,825.65	\$ 6,825.65	0.0%
Total City of Antioch Monthly Fixed Charges	\$ 9,458.65	\$ 12,112.46	28.1%
City of Pittsburg:			
O&M Pittsburg	\$ 2,633.00	\$ 3,870.07	47.0%
Pittsburg Pipeline Rehab Surcharge	\$ 3,365.92	\$ 3,365.92	0.0%
Total City of Pittsburg Monthly Fixed Charges	5,998.92	7,235.99	20.6%
Other Users:			
MDRRP	\$ 224.00	281.00	25.4%
PUSD	\$ 504.00	752.04	49.2%
Caltrans	\$ 224.00	238.07	6.3%
Total Other Users' Monthly Fixed Charges	952.00	1,271.11	33.5%
Assumed Annual Consumption (Acre Feet)			
Calpine	5,235	5,900	12.7%
Antioch	321	321	0.0%
Pittsburg	286.9	100	-65.1%
Caltrans	2	2	0.0%
PUSD	39	39	0.0%
MDRRP	7.7	8	0.0%
Total Usage (Acre Feet)	5,891	6,370	8.1%