



Cost of Service & Rate Design Presentation

Finance & Administration Committee Meeting
January 11, 2021



Agenda

- Project Calendar Overview
- Cost of Service Summary
- Introduction to Rate Design work
- Retail Rate Scenarios
- Recycled Water Rate Plan
- Questions and Answers

Project Calendar

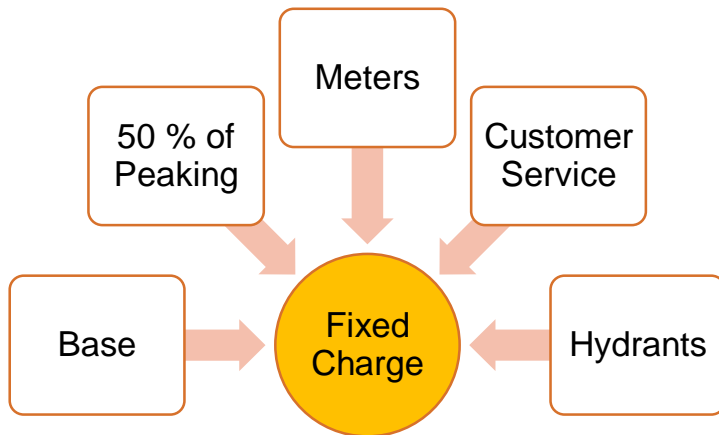


	F&A Committee	Board	Other
Rate Design & Customer Impact 1.0	12/21/2020	X	
Rate Design & Customer Impact 2.0	1/11/2021	2/2/2021	
Proposition 218 Notice Approval	3/1/2020	3/16/2020	
Proposition 218 Mailed			3/31/2020
Board Rates Workshop		4/6/2021	
Ratepayer Advocate Report Published			4/16/2021
Outreach Rates Presentation 1			4/6-5/11
Outreach Rates Presentation 2			4/6-5/11
Outreach Rates Presentation 3			4/6-5/11
Public Hearing		5/18/2021	
Rates Effective			7/1/2021

Cost Allocation to Fixed vs. Variable Charge Components

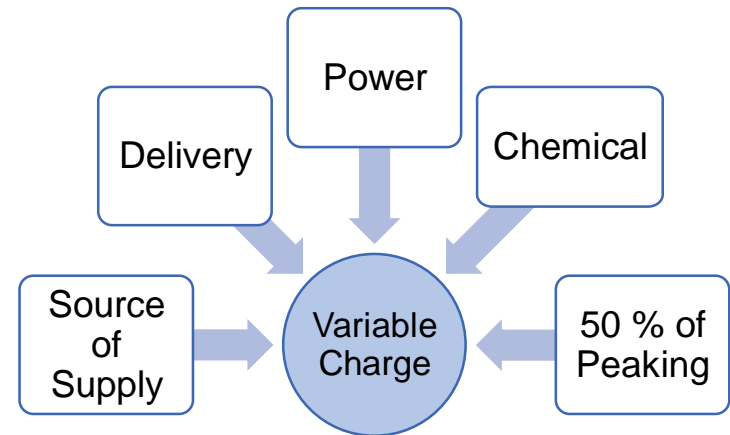


- Test Year: FY 2025-26



Costs associated with Meters, Peaking, Base, and Hydrants are divided by equivalent meter counts and costs associated with Customer Service are divided by number of bills

- Billing and Collecting
- Maintenance and Repairs on Meters
- Transmission and Distribution, Water Resources, and Other Fixed Costs (Roughly 50 %)



All variable costs are divided by the total usage

- Purchased Power
- BVERRB Supply
- Firming Programs
- Chemicals
- Transmission and Distribution, Water Resources, and Other Fixed Costs (Roughly 50 %)

Cost of Service Analysis Highlights



- What will it cost to continue to provide quality water service throughout Santa Clarita Valley over the next five years?
 - What are the major cost drivers?
 - Are costs in general rising?
- How will revenue grow to meet the rise in costs?
 - Sales forecast
 - Service area growth
 - Generating additional revenue
- Maintaining financial resiliency

Operating & Maintenance Cost Drivers



Description	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Total O&M Expenses	\$ 77,422,023	\$ 81,695,597	\$ 84,919,394	\$ 88,956,379	\$ 94,950,263
PFAS	\$ 2,039,596	\$ 2,863,956	\$ 4,104,420	\$ 4,688,760	\$ 8,477,865
O&M excluding PFAS	\$ 75,382,427	\$ 78,831,641	\$ 80,814,973	\$ 84,267,620	\$ 86,472,399
PFAS % of O&M Expenses	2.63%	3.51%	4.83%	5.27%	8.93%

About PFAS:

PFAS substances are a group of manmade chemicals that are prevalent in the environment and were commonly used in industrial and consumer products to repel grease, moisture, oil, water and stains. Water agencies do not put these chemicals into the water, but over time very small amounts enter the water supplies through manufacturing, wastewater discharge and product use. Exposure to these chemicals may cause adverse health effects.

Factors Influencing Revenues



Sales Forecast in ccf

Annual Growth		0.30%	0.22%	0.23%	1.24%	1.24%
	FY 2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
ccf	25,541,933	25,617,472	25,674,264	25,732,051	26,050,670	26,373,688

Meter Growth

Annual Growth		1.4%	1.4%	1.4%	1.4%	1.4%
	FY 2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Meters	73,767	74,780	75,827	76,895	77,981	79,088

Raise revenues through a rate case

Overall Rate Adjustment		5.00%	5.00%	5.00%	5.00%	5.00%
Description	FY 2020-21	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Water Sales - Existing	\$74,737,341	\$74,652,729	\$75,035,317	\$75,428,223	\$76,364,229	\$77,317,732
Year 1 - 5 %		\$3,732,636	\$3,751,766	\$3,771,411	\$3,818,211	\$3,865,887
Year 2 - 5 %			\$3,939,354	\$3,959,982	\$4,009,122	\$4,059,181
Year 3 - 5 %				\$4,157,981	\$4,209,578	\$4,262,140
Year 4 - 5 %					\$4,420,057	\$4,475,247
Year 5 - 5 %						\$4,699,009

Non-operating revenues



- 1% property tax is the largest component of Non-operating revenues
- Highlighted amounts are used towards the revenue requirement to operate the Agency, reducing the need for additional rate increases.

	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
1% Property Tax Revenues	\$ 16,414,355	\$ 16,641,437	\$ 16,436,487	\$ 17,251,984	\$ 17,967,904
Communication/ Rental Income	\$ 509,682	\$ 519,876	\$ 530,273	\$ 540,879	\$ 551,696
Investment Revenues	\$ 1,678,043	\$ 1,703,213	\$ 1,728,761	\$ 1,754,693	\$ 1,781,013
Settlement Agreement (CIP)	\$ 3,940,000	\$ -	\$ -	\$ -	\$ -
Settlement Agreement (O&M)	\$ 1,405,131	\$ 1,433,233	\$ 1,461,898	\$ 1,491,136	\$ 1,520,959
Grants and Reimbursements	\$ 1,608,400	\$ 1,608,400	\$ -	\$ -	\$ -
Reimbursement from Annexing Parties	\$ -	\$ -	\$ -	\$ -	\$ -
One-time Water Sales	\$ -	\$ -	\$ -	\$ -	\$ -
Use of Capacity Fees (Retail)	\$ 3,000,000	\$ 3,000,000	\$ -	\$ -	\$ -
Non-Operating Revenues	\$ 28,555,610	\$ 24,906,159	\$ 20,157,420	\$ 21,038,691	\$ 21,821,572

1% Property Tax



	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
1% Property Tax Revenues	\$ 27,934,798	\$ 28,588,472	\$ 29,257,443	\$ 29,942,067	\$ 30,642,711
FCF Revenues	\$ 6,300,000	\$ 6,457,500	\$ 6,618,938	\$ 6,784,411	\$ 6,954,021
Debt Service allocated to future users	\$ (17,656,361)	\$ (18,231,366)	\$ (19,257,113)	\$ (19,280,193)	\$ (19,422,265)
Public Fire Protection Service	\$ (164,083)	\$ (173,170)	\$ (182,780)	\$ (194,301)	\$ (206,564)
Available 1% Prop Tax Revenues	\$ 16,414,355	\$ 16,641,437	\$ 16,436,487	\$ 17,251,984	\$ 17,967,904

Use of 1% Property Tax Revenues:

Application of 1% Property Tax Revenues towards operating expenses reduces the need to raise retail rates.

FCF (Regional) revenues do not annually cover costs allocated to future users due to the timing difference between when payments are due, and construction is started. This is not new.

Projected Financial results of 5% revenue growth



	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Proposed Revenue Growth	5.00%	5.00%	5.00%	5.00%	5.00%
Rate Revenues	\$ 89,578,778	\$ 94,041,156	\$ 99,397,094	\$ 105,031,840	\$ 111,019,821
Other Operating Revenues	3,999,700	4,049,697	4,100,394	4,151,802	4,203,932
Non-Operating Revenues	28,555,610	24,906,159	20,157,420	21,038,691	21,821,572
Revenues	\$ 122,134,088	\$ 122,997,013	\$ 123,654,908	\$ 130,222,333	\$ 137,045,326
O&M Expenses	\$ (77,422,023)	\$ (81,695,597)	\$ (84,919,394)	\$ (88,956,379)	\$ (94,950,263)
Debt Service (Non- Legacy Debt)	\$ (8,780,376)	\$ (8,189,430)	\$ (10,984,327)	\$ (10,974,782)	\$ (13,232,125)
Legacy Debt	\$ (11,193,412)	\$ (11,314,719)	\$ (12,079,497)	\$ (12,210,643)	\$ (12,340,625)
Capital Pay-Go	\$ 24,738,276	\$ 21,797,267	\$ 15,671,689	\$ 18,080,529	\$ 16,522,312
DSCR	3.82	3.66	2.43	2.65	2.25

Annual pay-go at 16,500,000 in final year of rate plan

Maintain adequate cash reserves and Debt Service Coverage Ratio to maintain a credit rating of AA-

Recover new recurring operational cost of PFAS



Rate Transition

The major task of this rate case is to transition the existing 3 retail customer rate plans into a single rate plan for all customers.

Rate Plan Development: The situation

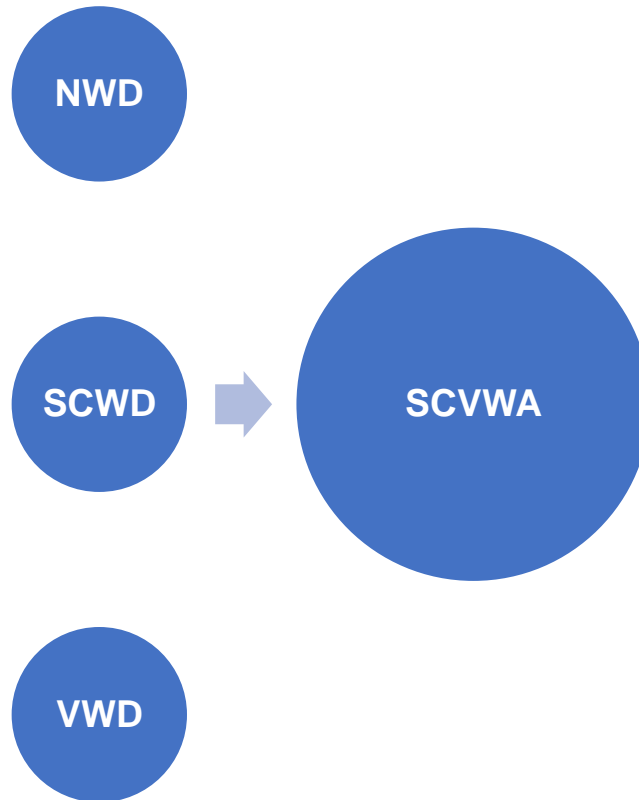


Currently, each of the three retail divisions have their own unique rate tables.

Existing rates were developed pre-merger.

There has been no rate action taken by the SCVWA to date.

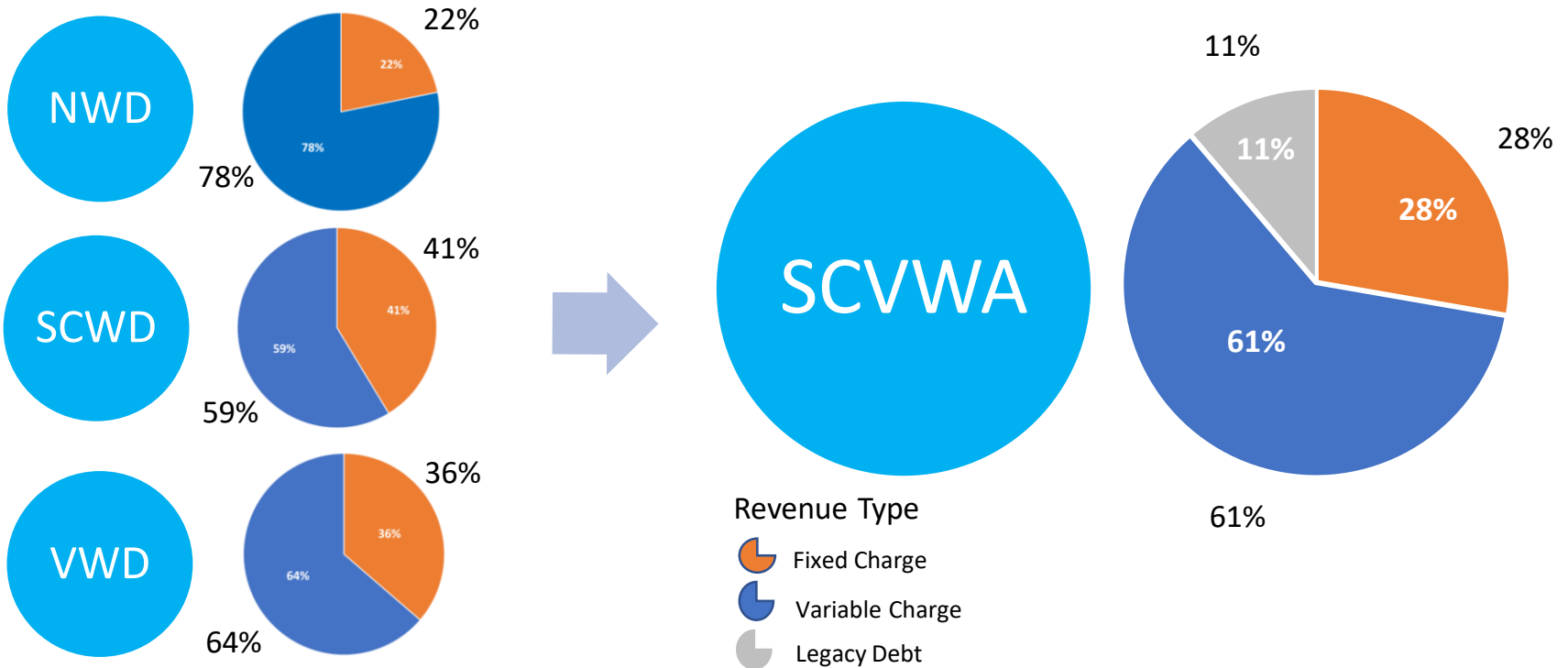
The last rate action at any of the divisions was at VWC where the VWC Board implemented a three-year rate plan that ran through FY2019.



The goals of SCVWA's first rate case has the following objectives:

1. Transition the three retail rates to a single rate over a 5-year period.
2. The single rate table at the end of the transition period will adequately fund the needs of the SCVWA.
3. Use the 5-year transition period to minimize customer impact.
4. Enable an increase in rate revenues to recover the new and recurring costs of PFAS

Rate Plan Development: The situation



Existing rates with the call out of Legacy Debt

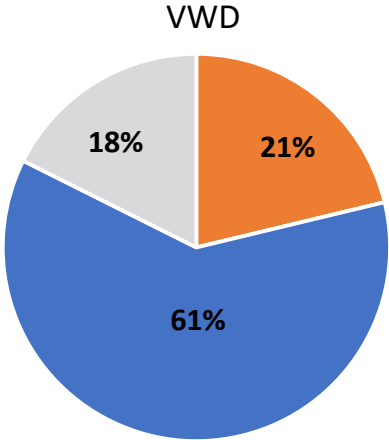
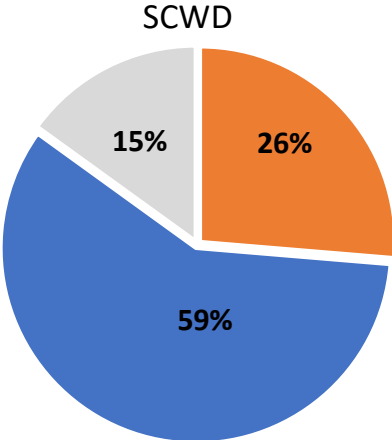
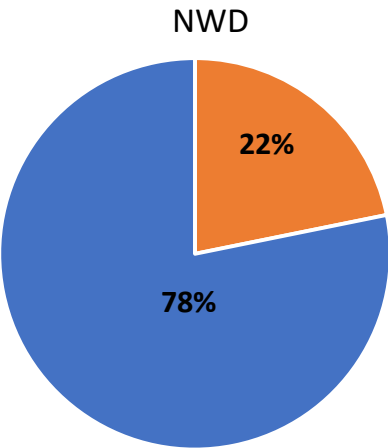





3/4" Current Rates			
	NWD	SCWD	VWD
Variable Charge	\$2.85	\$1.99	\$1.89
Fixed Charge	\$16.14	\$32.28	\$25.22

3/4" Current Rates			
	NWD	SCWD	VWD
Variable Charge	\$2.85	\$1.99	\$1.89
Service Charge	\$16.14	\$22.08	\$14.17
Legacy Debt	\$0.00	\$10.20	\$11.05

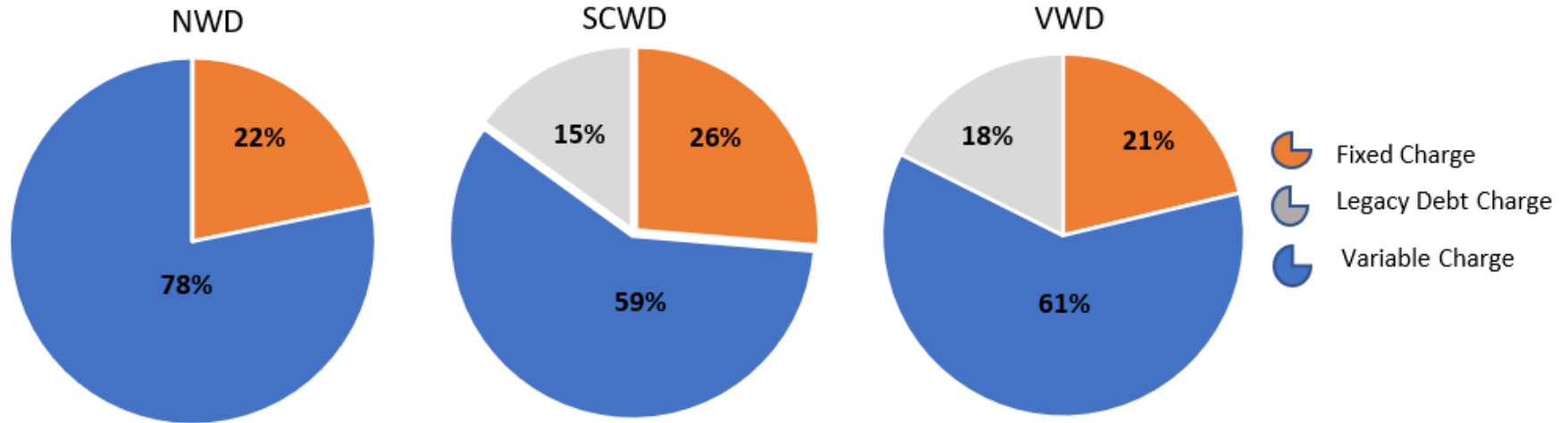
Note: Variable Charge is per unit of water used (ccf)

Note: NWD had no Legacy debt as of 6/30/2020



-  Fixed Charge
-  Legacy Debt Charge
-  Variable Charge

Legacy Debt



Legacy Debt is debt entered into by the retail agencies prior to the merger. Legacy debt service is an obligation of the former retail agencies that are now division's in SCV Water.

VWD Legacy Debt

Valencia 2018A bonds. Issued to pay off two senior secured notes with Modern Woodmen that were secured by all of VWD's assets. Principal balance on 6/30/20 was \$26.7 million.

VWD Acquisition loan. In 2018 an intercompany loan was established to reimburse the regional division for the purchase of Valencia Water Company stock. Principal balance on 6/30/20 was \$66.7 million.

SCWD Legacy Debt

Originally two financings; the first for acquisition of its Administration building and water infrastructure, the second to reimburse regional division for acquisition costs. Both were refinanced into one debt in 2017 (*2017A bond issue*) and most recently refinanced in the *FY2020* refinancing project. Principal balance on 6/30/20 was \$48.5 million.

Scenario B



Existing rates will transition to a single, common rate at the end of the rate plan

3/4" Current Rates			
	NWD	SCWD	VWD
Variable Charge	\$2.85	\$1.99	\$1.89
Fixed Charge	\$16.14	\$22.08	\$14.17
Legacy Debt	\$0.00	\$10.20	\$11.05

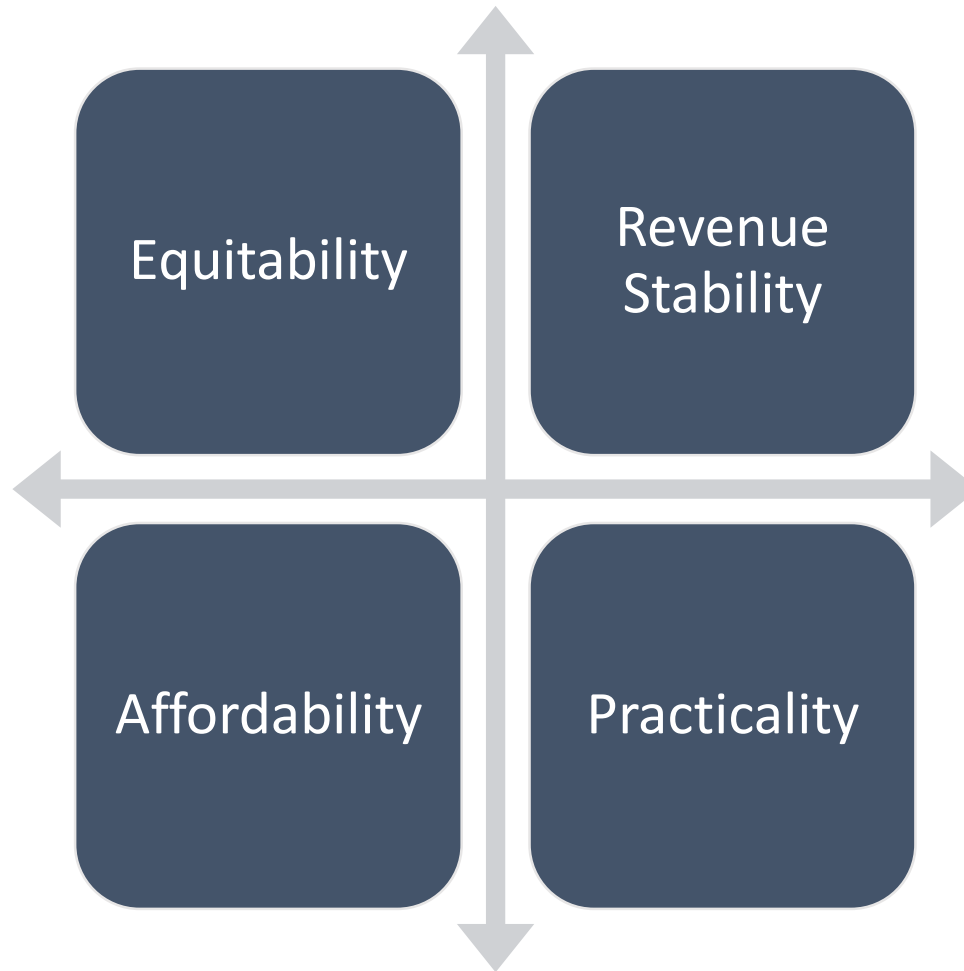
3/4" Proposed Rates FY25/26			
	NWD	SCWD	VWD
Variable Charge	\$2.54	\$2.54	\$2.54
Service Charge	\$24.00	\$24.00	\$24.00
Legacy Debt	\$0.00	\$10.20	\$11.05

Note:
Variable Charge is per unit of water used (ccf)

Retail Rate Design 2.0



Four Elements of Rate Setting



Retail Rate Scenarios



Scenario	Description (3/4" SFR)	Achieves Revenue Requirement	Equitable	Affordable	Revenue Stability	Practicality	Total
A	FC \$20.22, VC \$2.74	★★★★★	★★★★★★	★★★★★★	★★★	★★★★★★	22
B	FC \$24.00, VC \$2.54	★★★★★★	★★★★★★	★★★★★	★★★★★	★★★★★★	23
C	FC \$27.10, VC \$2.38	★★★	★★★★★	★★★★	★★★★★★	★★★★★★	20

- **Achieves Revenue Requirement** - Achieves the least amount of revenue shortfall
- **Equitable** - Scenario A & B have no customers that will receive an increase > 10%
- **Affordable** - % of customers that will see the least amount of bill impact
- **Revenue Stability** - Larger percentage in fixed charge leads to reduced risk of revenue instability
- **Practicality** - Ease of understanding and Agency ability to implement

Retail Rate Scenarios



	FC	VC	80% <=	Revenue Shortfall
Scenario A	\$ 20.22	\$ 2.74	5.9%	\$ (746,640)
Scenario B	\$ 24.00	\$ 2.54	6.2%	\$ (666,145)
Scenario C	\$ 27.10	\$ 2.38	6.2%	\$(1,242,908)

% of Bills

	FC	VC	<-5%	>-5% - <=0%	>0% - <=5%	>5% - <=10%	>10%
Scenario A	\$ 20.22	\$ 2.74	0.0%	3.7%	58.8%	37.5%	0.0%
Scenario B	\$ 24.00	\$ 2.54	0.0%	5.1%	55.2%	39.7%	0.0%
Scenario C	\$ 27.10	\$ 2.38	0.0%	6.4%	42.6%	40.9%	0.1%

Retail Rate Scenarios



Scenario	Description (3/4" SFR)	% FC	% VC	FC Revenues	VC Revenues	20% VC reduction
A	FC \$20.22, VC \$2.74	26.00%	74.00%	\$25,384,635	\$72,190,004	(\$14,438,001)
B	FC \$24.00, VC \$2.54	31.20%	68.80%	\$30,486,445	\$67,088,194	(\$13,417,639)
C	FC \$27.10, VC \$2.38	35.50%	64.50%	\$34,682,609	\$62,892,031	(\$12,578,406)

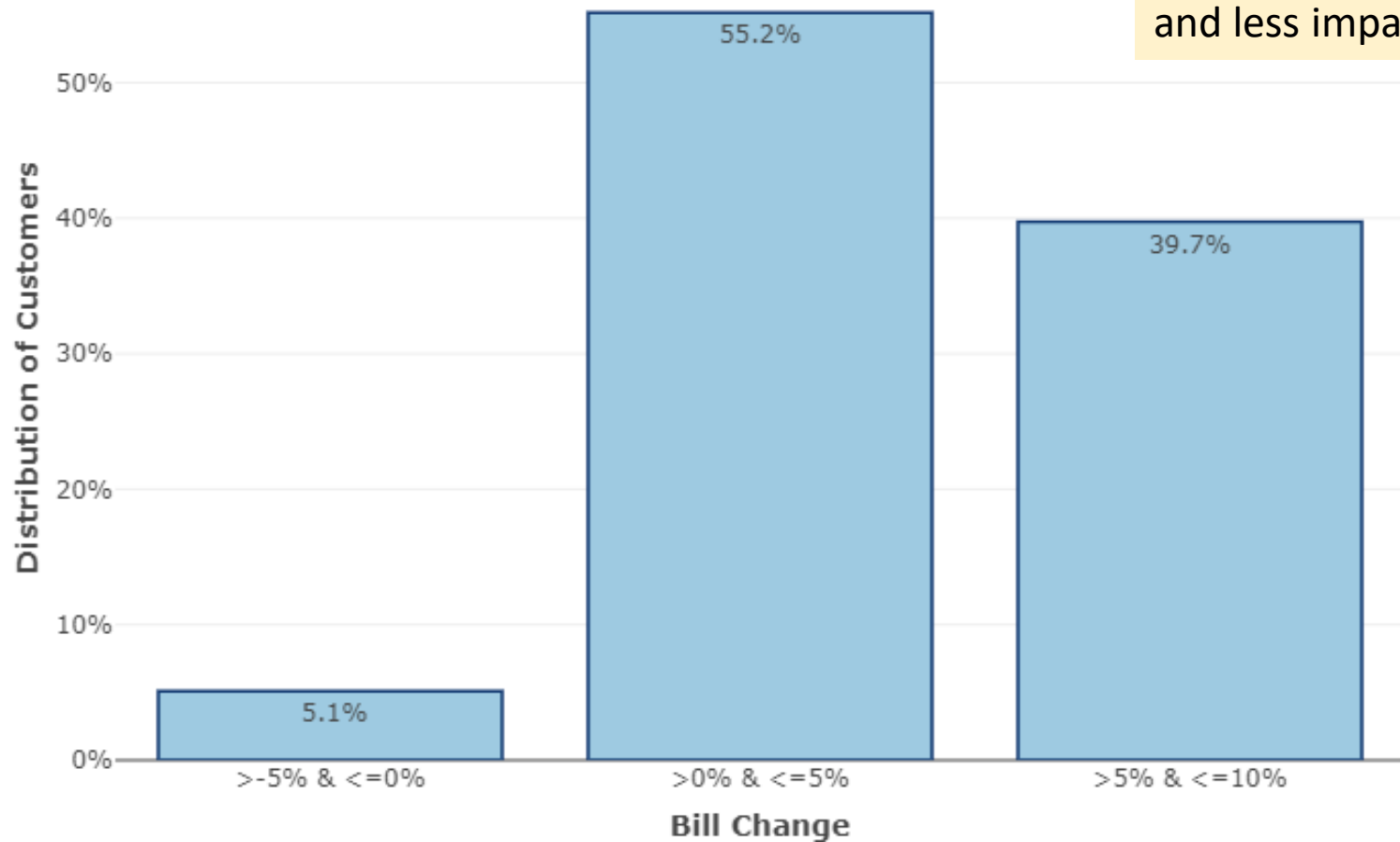
Scenario B

Scenario B

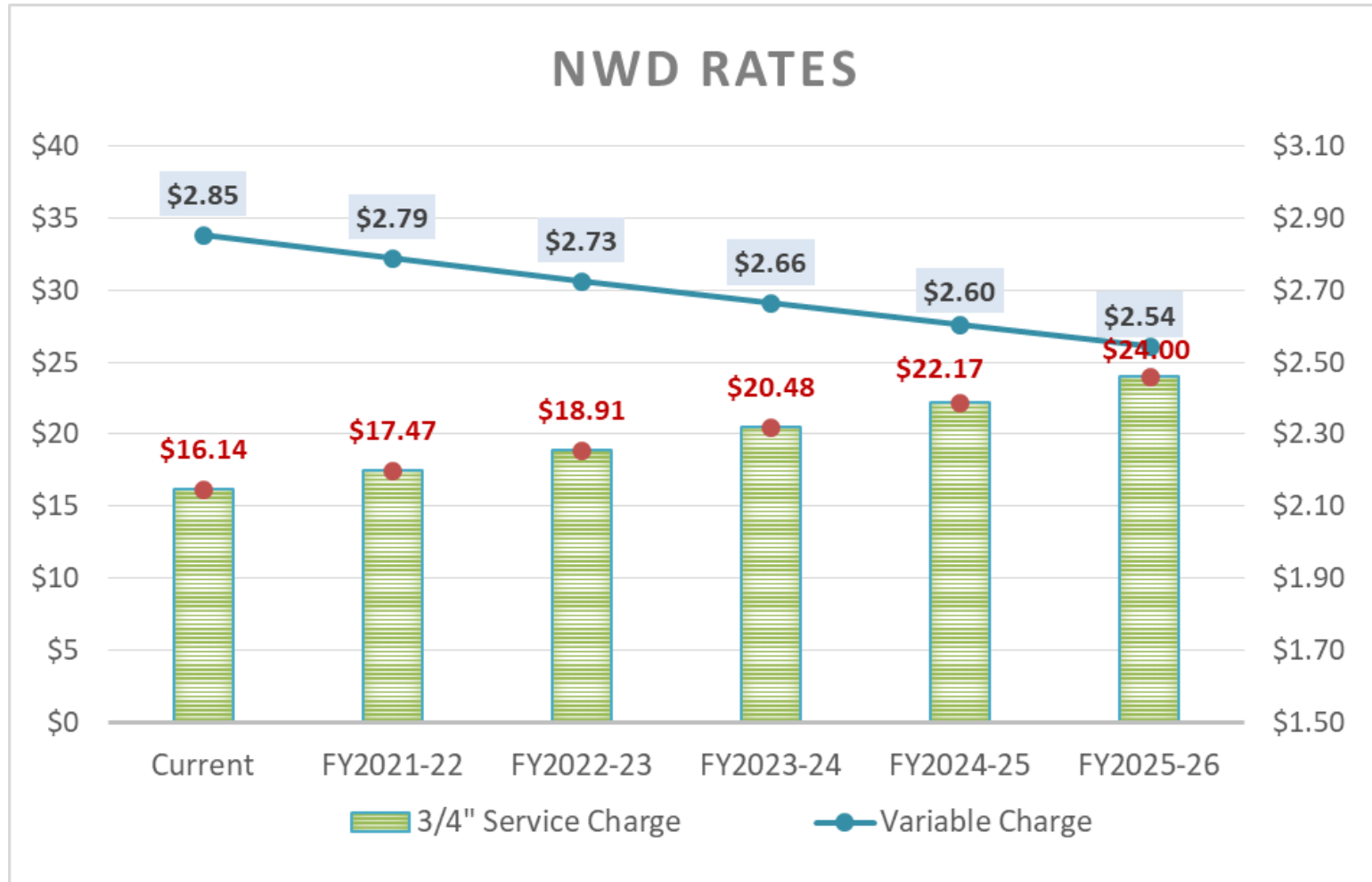
All Divisions, All Bills FY 2021/22



80 % of total bills
will see 6.2 %
and less impact

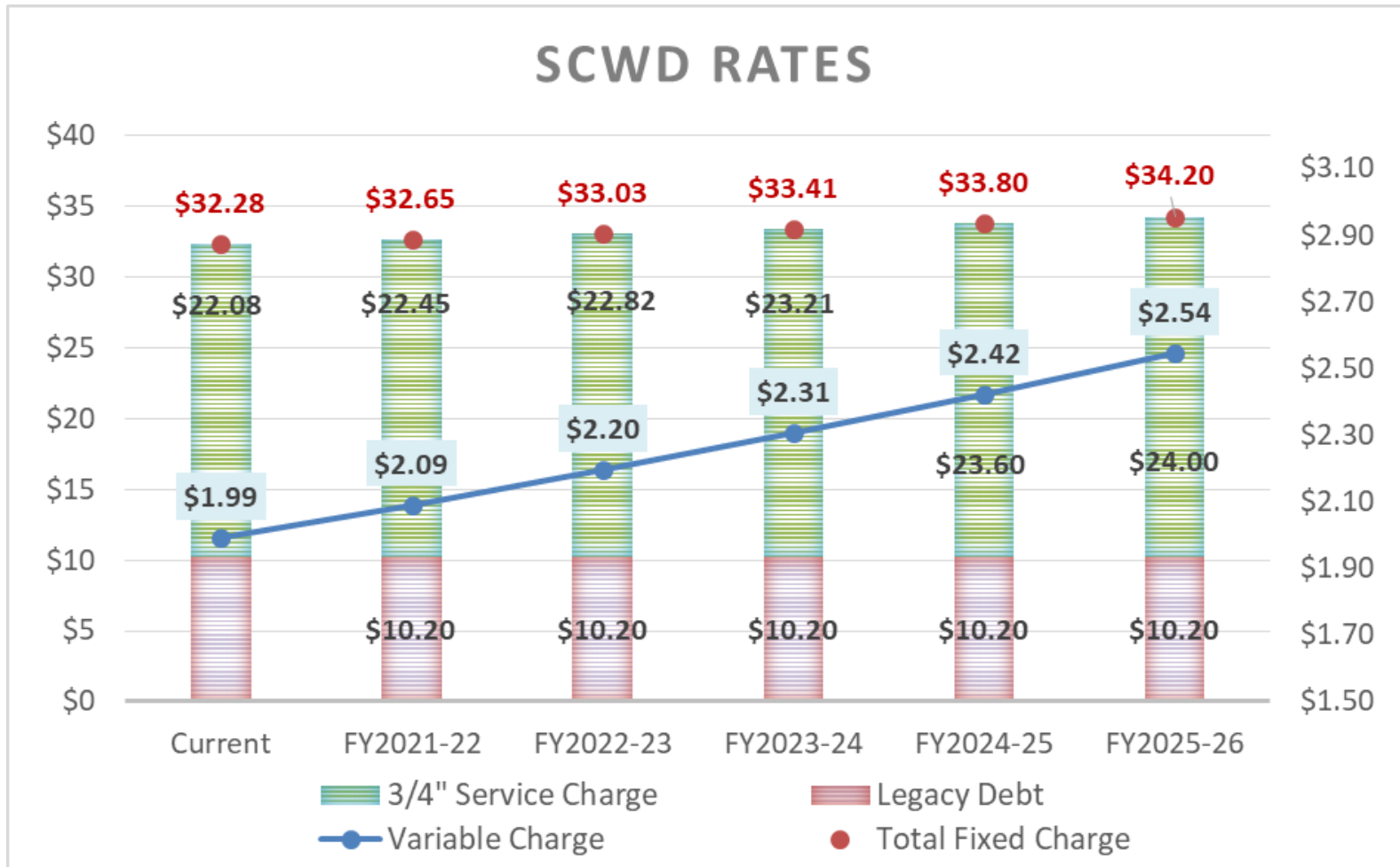


Scenario B Rate Transition – NWD



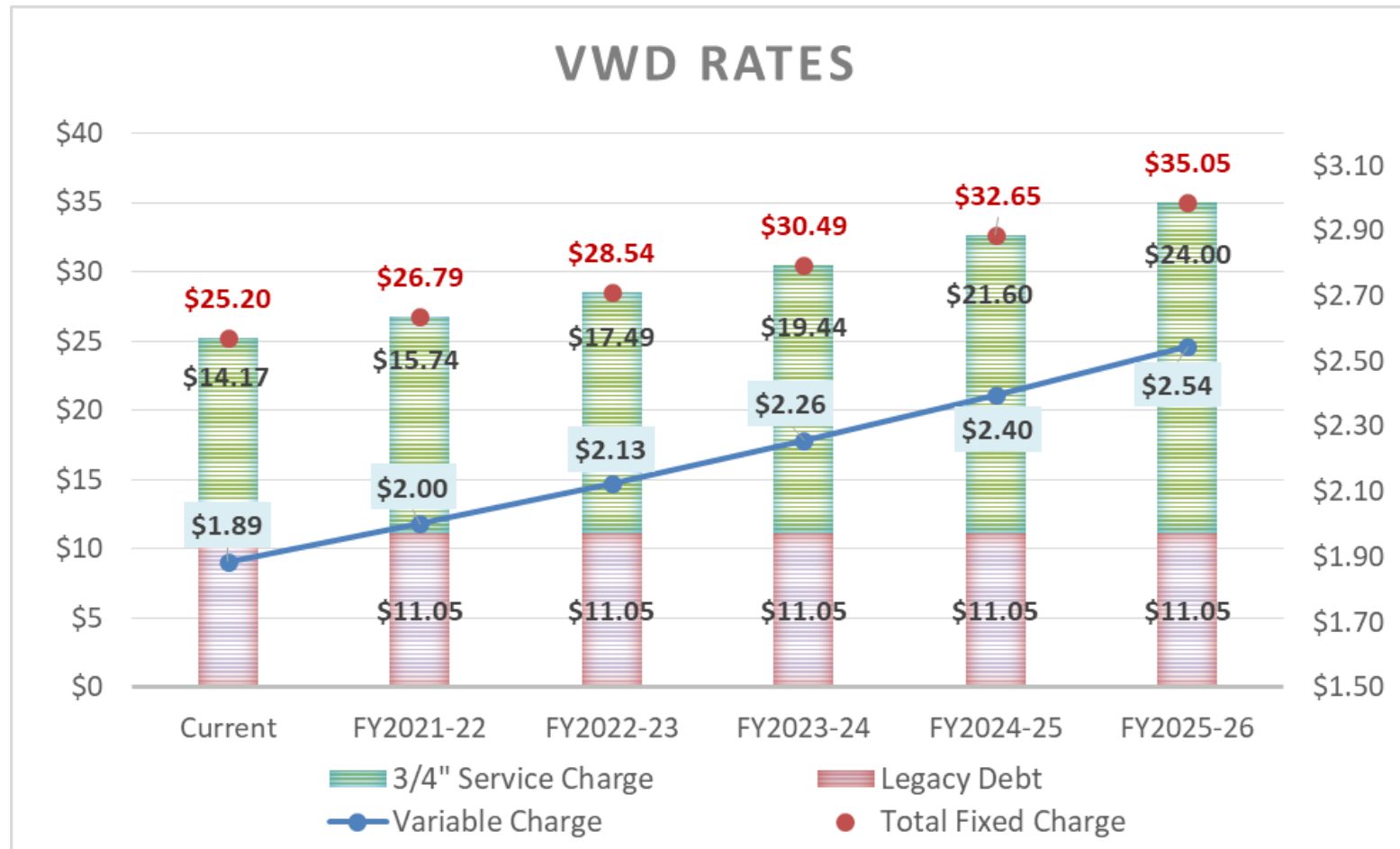
Scenario B

Rate Transition – SCWD



Scenario B

Rate Transition – VWD



Scenario B

Year 1 Bill Impact – 3/4" Meter 18 ccf Usage



Newhall Water Division

NWD Current Monthly Bill	
Fixed Charges	
3/4" Service Charge	\$ 16.14
Legacy Debt	\$ -
Total Fixed Charges	\$ 16.14
Monthly Usage	18 ccf
Variable Charge	\$ 2.85
Total Water Bill	\$ 67.52

NWD FY21/22 Monthly Bill	
Fixed Charges	
3/4" Service Charge	\$ 17.47
Legacy Debt	\$ -
Total Fixed Charges	\$ 17.47 ↑
Monthly Usage	18 ccf
Variable Charge	\$ 2.79 ↓
Total Water Bill	\$ 67.68 ↑

\$0.16 Increase



Scenario B
Year 1 Bill Impact – 3/4" Meter 18 ccf Usage
Santa Clarita Water Division

SCWD Current Monthly Bill	
Fixed Charges	
3/4" Service Charge	\$ 32.28
Legacy Debt	\$ -
Total Fixed Charges	\$ 32.28
Monthly Usage	18 ccf
Variable Charge	\$ 1.99
Total Water Bill	\$ 68.10

SCWD FY21/22 Monthly Bill	
Fixed Charges	
3/4" Service Charge	\$ 22.45
Legacy Debt	\$ 10.20
Total Fixed Charges	\$ 32.65
Monthly Usage	18 ccf
Variable Charge	\$ 2.09
Total Water Bill	\$ 70.27



\$2.17 Increase

Scenario B
Year 1 Bill Impact –¾” Meter 18 ccf Usage



Valencia Water Division

VWD Current Monthly Bill	
Fixed Charges	
¾" Service Charge	\$ 25.22
Legacy Debt	\$ -
Total Fixed Charges	\$ 25.22
Monthly Usage	18 ccf
Variable Charge	\$ 1.89
Total Water Bill	\$ 59.15

VWD FY21/22 Monthly Bill	
Fixed Charges	
¾" Service Charge	\$ 15.74
Legacy Debt	\$ 11.05
Total Fixed Charges	\$ 26.79
Monthly Usage	18 ccf
Variable Charge	\$ 2.00
Total Water Bill	\$ 62.82



\$3.67 Increase



Recycled Water Rate Plan

Recycled Water Cost of Service



	FY2022	FY2023	FY2024	FY2025	FY2026
2" Service Charge	\$139.90	\$145.70	\$151.90	\$158.55	\$165.68
Revenues from Service Charge	\$30,219	\$36,715	\$43,748	\$51,370	\$59,643
Sales Forecast AF	586	631	676	721	767
Sales Forecast CCF	255,278	275,007	294,736	314,465	334,194
Variable Charge Revenue Requirement					
O&M	\$103,000	\$106,090	\$109,273	\$112,551	\$115,927
Purchased Water	\$100,790	\$108,580	\$116,369	\$124,159	\$131,948
Pay-Go- RW Distribution	\$204,655	\$253,942	\$307,241	\$367,063	\$431,207
Total Cost of Service	\$408,445	\$468,612	\$532,883	\$603,773	\$679,082
Variable Charge	FY2022	FY2023	FY2024	FY2025	FY2026
RW COS Rate	\$1.60	\$1.70	\$1.81	\$1.92	\$2.03

- O&M-Annual cost of maintenance & repairs (materials and labor), escalated by 3% per year
- Purchased Water Cost is FY2021 price from Sanitation District (\$167.31/AF), escalated by 3% per year.
- Pay Go RW Distribution -annual cash funding for recycled water distribution capital expenditure



COMMUNICATIONS TIMELINE

● KEY MESSAGES/MESSAGE
DECK - NOW

● PUBLIC HEARING
NOTICE – 3/31

● RATES COMMUNICATION
TRAINING – 4/5

● COMMUNITY MEETING
FACILITATION – 4/26

● RESOURCES DEVELOPED:
• VIDEO
• COLLATERAL
• FAQs
• BILL ESTIMATOR



Usage of all customers

How would the “average use” customer be impacted?

Scenario B

NWD Bill Impact

All Customers at Median Monthly Usage*



Meter Size	# of Customers	Median Monthly Usage	Monthly Billing	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	5 Year Total
				\$ Change	\$ Change	\$ Change	\$ Change	\$ Change	\$ Change
3/4-in	8,266	19	\$69.61	\$0.11	\$0.25	\$0.40	\$0.55	\$0.72	\$2.04
1-in	867	36	\$129.94	-\$0.63	-\$0.46	-\$0.29	-\$0.12	\$0.06	-\$1.44
1 1/2-in	148	113	\$377.24	-\$4.69	-\$4.38	-\$4.08	-\$3.77	-\$3.46	-\$20.38
2-in	449	163	\$550.56	-\$6.78	-\$6.38	-\$5.97	-\$5.55	-\$5.14	-\$29.82
3-in	1	15	\$202.81	\$5.42	\$5.69	\$5.98	\$6.27	\$6.57	\$29.93
4-in	18	372	\$1,331.79	-\$14.16	-\$13.23	-\$12.30	-\$11.38	-\$10.44	-\$61.51
6-in	10	521	\$2,024.32	-\$14.59	-\$13.13	-\$11.66	-\$10.18	-\$8.70	-\$58.25
8-in	11	915	\$3,471.27	-\$29.14	-\$26.72	-\$24.30	-\$21.87	-\$19.42	-\$121.45
10-in	3	520	\$2,722.72	\$9.33	\$11.61	\$13.91	\$16.26	\$18.65	\$69.76

*earlier analysis focused on SFR customers only

Scenario B

SCWD Bill Impact

All Customers at Median Monthly Usage*



Meter Size	#of Customers	Median Monthly Usage	Monthly Billing	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	5 Year Total
				\$ Change	\$ Change	\$ Change	\$ Change	\$ Change	\$ Change
5/8-in	5,458	16	\$54.73	\$2.03	\$2.12	\$2.22	\$2.32	\$2.43	\$11.13
3/4-in	20,033	18	\$68.69	\$2.20	\$2.30	\$2.41	\$2.51	\$2.63	\$12.05
1-in	5,514	30	\$106.28	\$4.40	\$4.62	\$4.85	\$5.09	\$5.34	\$24.30
1 1/2-in	783	81	\$247.90	\$11.13	\$11.71	\$12.32	\$12.96	\$13.64	\$61.75
2-in	1,278	164	\$460.80	\$21.35	\$22.48	\$23.67	\$24.92	\$26.24	\$118.67
3-in	52	148	\$555.30	\$21.65	\$22.69	\$23.78	\$24.92	\$26.12	\$119.15
4-in	107	268	\$937.04	\$42.49	\$44.89	\$47.43	\$50.12	\$52.96	\$237.89
6-in	27	654	\$2,103.05	\$97.02	\$102.47	\$108.23	\$114.33	\$120.77	\$542.83
8-in	9	1212	\$3,689.47	\$171.87	\$181.46	\$191.59	\$202.30	\$213.62	\$960.84

*earlier analysis focused on SFR customers only

Scenario B

VWD Bill Impact

All Customers at Median Monthly Usage*



Meter Size	# of Customers	Median Monthly Usage	Monthly Billing	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	5 Year Total
				\$ Change	\$ Change	\$ Change	\$ Change	\$ Change	\$ Change
5/8-in	507	22	\$59.03	\$3.86	\$4.19	\$4.55	\$4.95	\$5.38	\$22.94
3/4-in	26,008	17	\$56.48	\$3.50	\$3.80	\$4.12	\$4.47	\$4.85	\$20.75
1-in	1,396	30	\$98.58	\$5.67	\$6.09	\$6.54	\$7.02	\$7.55	\$32.88
1 1/2-in	436	114	\$298.39	\$16.89	\$17.99	\$19.17	\$20.42	\$21.75	\$96.23
2-in	2,139	170	\$455.88	\$25.26	\$26.87	\$28.59	\$30.41	\$32.36	\$143.49
3-in	130	213	\$654.43	\$34.33	\$36.49	\$38.80	\$41.25	\$43.86	\$194.73
4-in	53	488	\$1,340.62	\$72.14	\$76.64	\$81.43	\$86.51	\$91.91	\$408.63
6-in	20	1492	\$3,653.19	\$203.56	\$216.18	\$229.57	\$243.80	\$258.91	\$1,152.03
8-in	11	1337	\$3,865.16	\$202.93	\$215.50	\$228.85	\$243.03	\$258.08	\$1,148.38

*earlier analysis focused on SFR customers only