



# Valencia Service Area Water Capacity Fee Study Ratepayer Advocate Review

Santa Clarita Valley Water Agency

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ROBERT D. NIEHAUS, INC.

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# Ratepayer Advocate

## Senate Bill 634 Section 14

“On or before January 1, 2019, the agency shall develop a ratesetting process that includes **an independent ratepayer advocate to advise the board of directors and provide information to the public before the adoption of new wholesale and retail water service rates and charges.** The ratepayer advocate shall be selected by and report directly to the board of directors and shall be independent from agency staff. **The ratepayer advocate shall advocate on behalf of customers within the agency’s boundaries to the board of directors.** The ratepayer advocate shall have access to all pertinent agency documents and information to independently advise the board of directors and inform the public. “

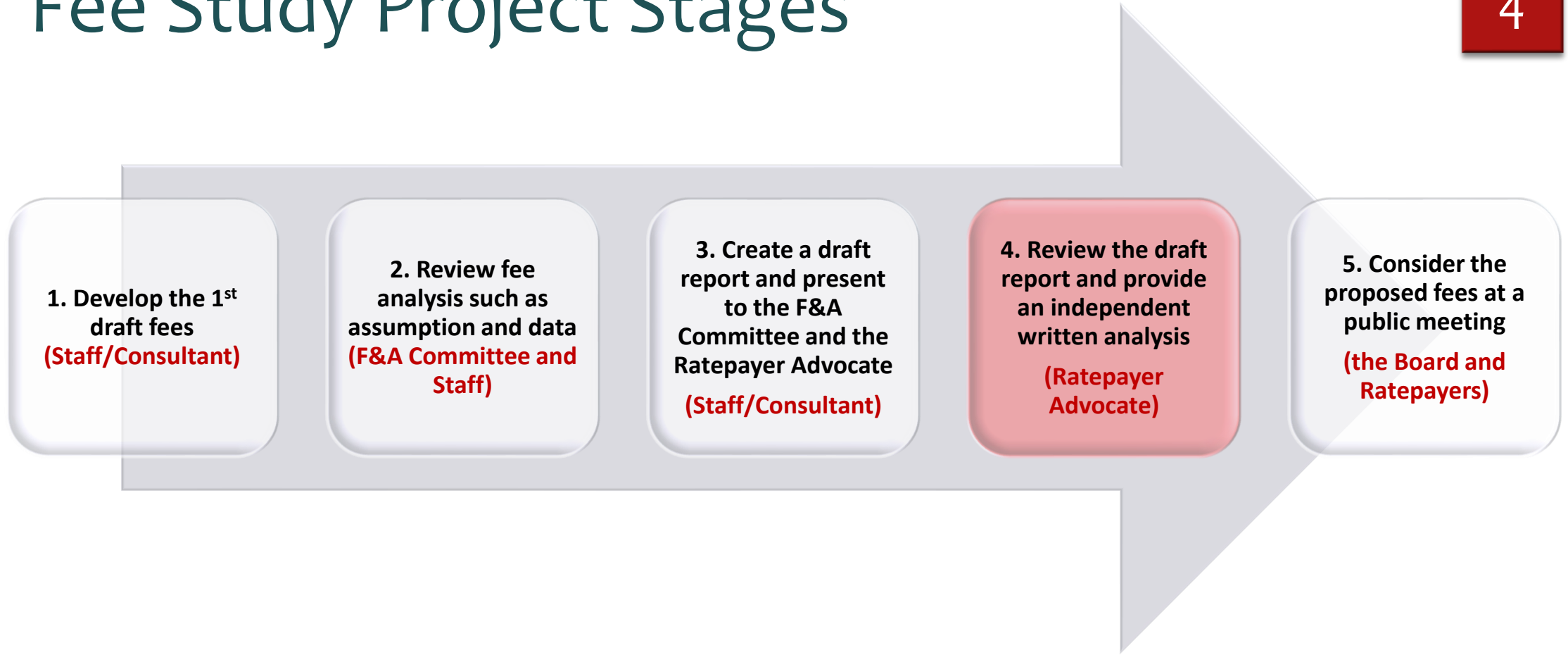
# RDN Overview

- ▶ Economic consulting firm established in 1983 in Santa Barbara
- ▶ Specialize in rate- and fee- setting services for California water and sewer agencies
- ▶ Leverage economic and financial expertise in data-driven approach



*RDN's California Experience*

# Fee Study Project Stages

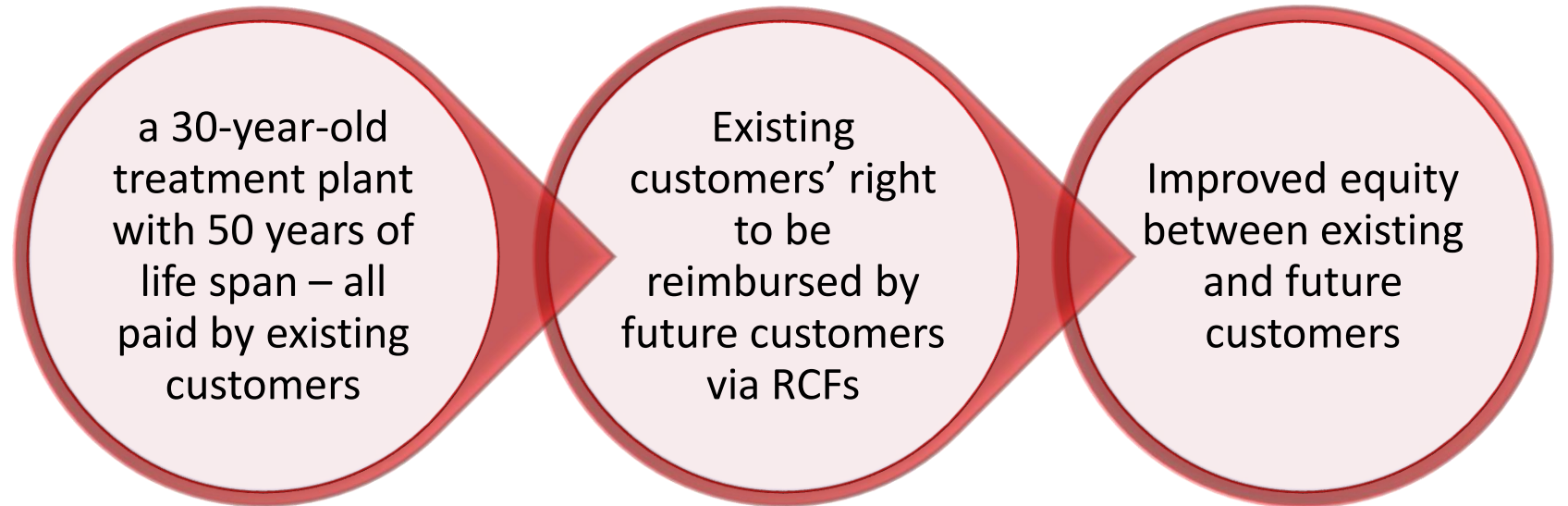
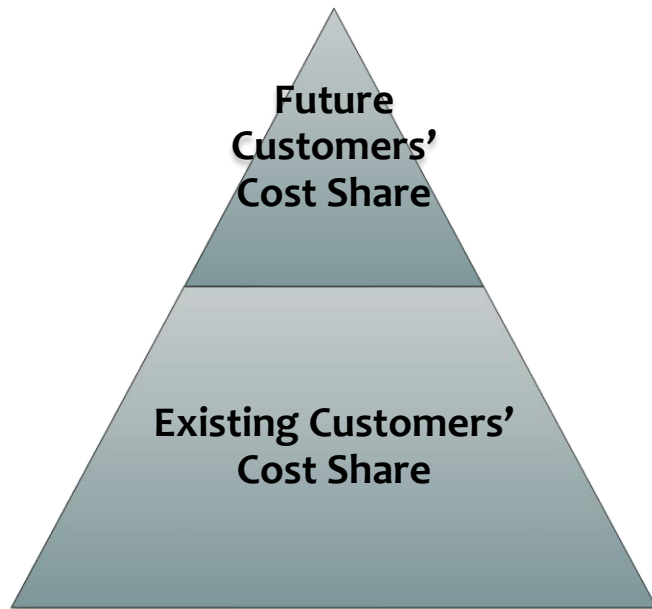


## Process for Developing Rates, Fees and Charges and Ratepayer Advocate Role

The process for developing these rates, fees, and charges prior to adoption has several elements that are generally consistent.

# Balancing Ratepayer Concerns

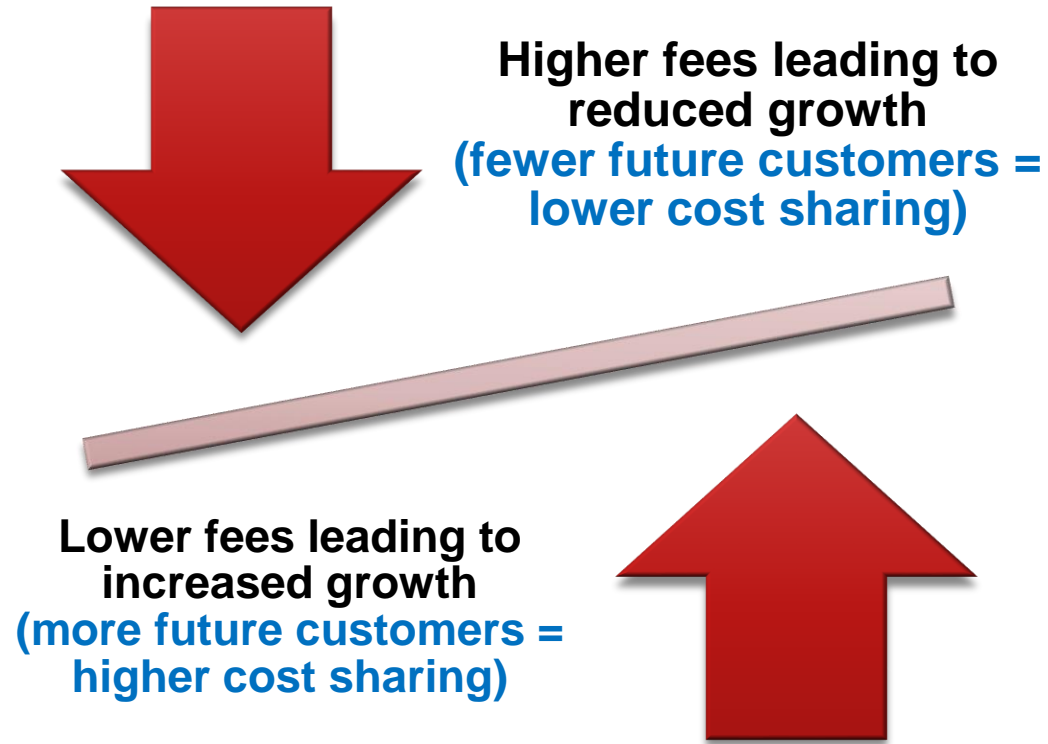
## Equity Concerns



# Balancing Ratepayer Concerns

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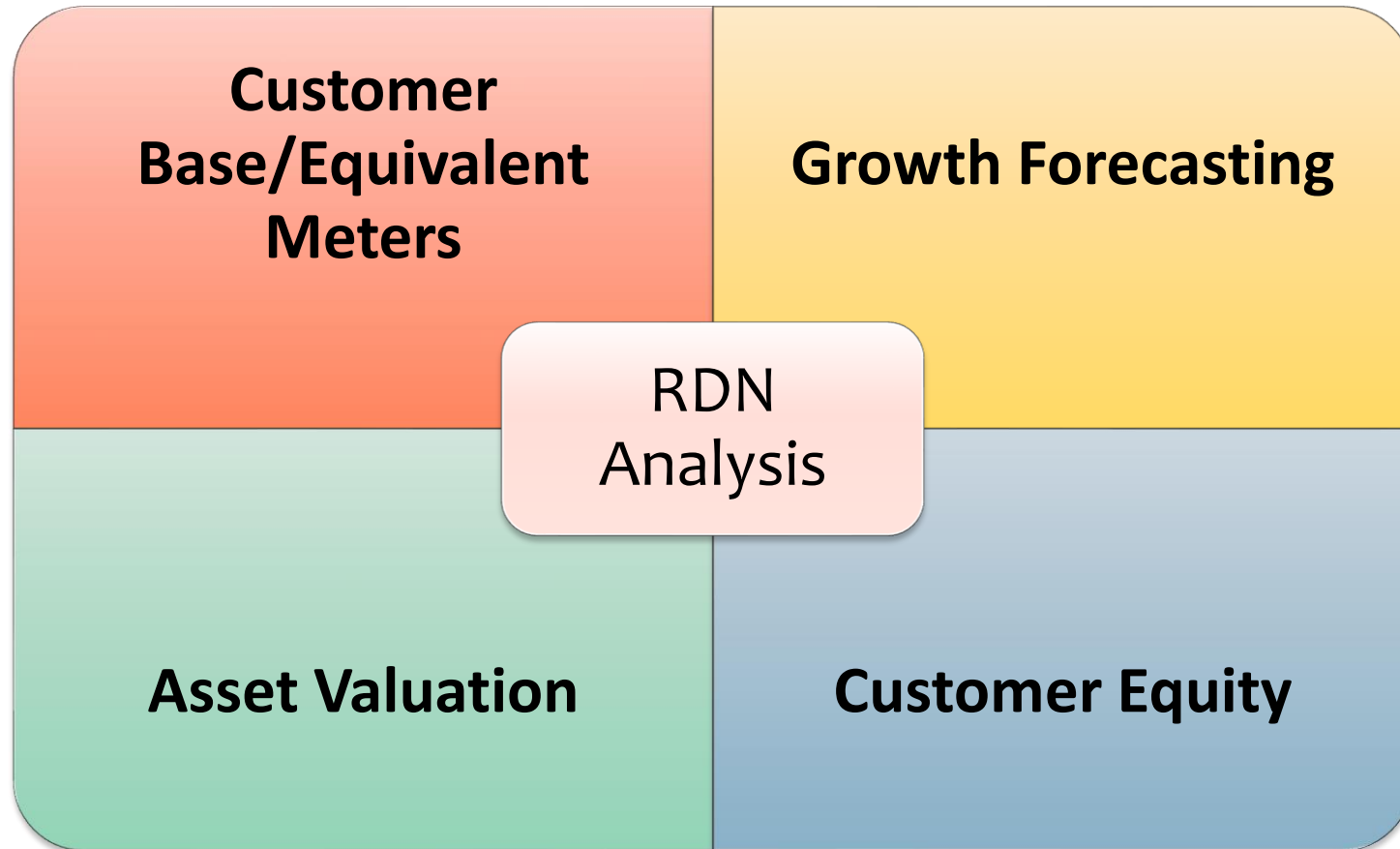
## Economic Concerns



## Legal Concerns

**Fees must adhere to California Law (reduce litigation)**  
The fees developed must comply with the requirements of Government Codes Section 66013, 66016, and 66022.

# Overall Analysis



# Recommendation 1: Construction Cost Index

## Use of Los Angeles construction cost index instead of 20 City

### Ratepayer Advocate

Use of Los Angeles construction cost index **to increase the overall precision** of the estimated replacement cost

### Consultant/Staff

- Using the 20-city index maintains **consistency with SCV Water's systemwide Facility Capacity Fees**
- Using the 20-city index is **less volatile**

**Consensus: Use of the 20-city index were deemed appropriate for this analysis.**



## Recommendation 2: Debt Principal

### Removal of outstanding debt principal from the total asset value

#### Ratepayer Advocate

Outstanding debt principal of the Series 2018A and the acquisition loan should be removed from asset valuations because new customers will begin paying for the debt as soon as they join the system.

#### Consultant/Staff

agreed that subtracting the outstanding debt principal from the total asset value would improve equity of the RCF design

**Consensus: the outstanding debt principal of the Series 2018A and acquisition loan were removed from the total asset value calculation.**

# Recommendation 3: Fee Escalation

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## Escalation of the future fees

### Ratepayer Advocate

Escalating RCFs each year with an appropriate cost index will ensure that the increasing value of assets is being captured.

### Consultant/Staff

Agreed – suggest use of the 20-city average as advised by the publisher of Engineering News Record for projections, as it provides a more comprehensive view with a smoother trend

**Consensus: the proposed fees will be escalated each year using the 20-city average cost index.**

## Recommendation 4: Periodic Review

**Review of the RCFs every few years to ensure that asset valuation stays accurate.**

### **Ratepayer Advocate**

Many of the current assets are nearing their life span and soon to be replaced. If a significant portion of the depreciated assets have been replaced, it will no longer reflect the correct value of the total asset.

### **Staff**

Staff agreed to review fees regularly.

**Consensus: the fees will be evaluated periodically to ensure the current asset value still reflects the true value of the system.**

# Final Recommendations

- ✓ RDN, as the Ratepayer Advocate, found the report and the model developed by BWA to be a comprehensive and effective tool for determining the RCF.
- ✓ RDN, as the Ratepayer Advocate, is confident in the defensibility of the system valuation, depreciation calculation, and meter forecasting methodologies used in the RCF model. The fees resulting from the model are equitable and should be implemented by SCV Water.
- ✓ In order to ensure the long-term fairness of the fees, RDN, as the Ratepayer Advocate, recommends that SCV Water consider Recommendation 3 and Recommendation 4.

Thank You