



100 North Canyons Parkway
 Livermore, CA 94551
 (925) 454-5000

ORIGINATING SECTION: Administration

CONTACT: Osborn Solitei

AGENDA DATE: October 16, 2024

SUBJECT: Calendar Year 2025 Proposed Untreated Water Rates

SUMMARY:

- The proposed action is in support of Strategic Plan Goal G – Fiscal Responsibility: Operate the Agency in a fiscally responsible manner and Strategic Initiative No. 24 – continue to effectively manage financial resources. In carrying out these fiscal responsibilities, the Agency sets rates and fees to recover the cost of service.
- The Agency sets untreated water rates annually that are consistent with the Board policy guidelines for untreated water rates established and adopted via Resolution No. 21-77 on October 20, 2021. A reconciliation process or “true-up” is also performed each year to ensure the Agency has not previously over- or under-collected from the untreated customers.
- The calendar year (CY) 2025 untreated water rate calculation has been completed. Based on the policy guidelines for untreated water rates, the CY 2025 calculated untreated water rate is \$239 per acre foot (\$239/AF).
- The scheduled reconciliation charge for the second year of the Board approved five-year implementation schedule is \$42/AF. Applying this charge to the calculated rate brings the CY 2025 preliminary untreated water rate to \$281/AF.
- Staff presented the CY 2025 preliminary untreated water rate (\$281/AF) to the Finance Committee on September 12, 2024. After discussion, the Committee recommended modifying the reconciliation charge for CY 2025 from \$42/AF to \$24/AF, thereby maintaining the untreated water rate of \$263/AF for CY 2025. To support this recommendation, Director Narum referenced the Reconciliation Framework from Attachment A, stating *“the Board can determine the number of years to phase-in the reconciliation charge based on the relevant policy objectives, such as minimizing customer impacts”*. Table 1 compares the current untreated water rate to the CY 2025 proposed rate incorporating the Committee’s recommendation.

Table 1
 Annual Untreated Water Rate Comparison

	CY 2024 (Adopted)	CY 2025 (Proposed)
Calculated Rate	\$220	\$239
Reconciliation Charge	\$43	\$24
Untreated Rate	\$263	\$263

- Consistent with past practice, staff will present the CY 2025 proposed untreated water rate at the October 16, 2024, regular Board meeting. Staff will also recommend the Board adopt the authorizing Resolution to approve the untreated water rates for CY 2025.

DISCUSSION:

In October 2021, following an extensive untreated water stakeholder outreach process, the Board provided policy guidelines regarding the untreated water rate components. The approved components include:

- *Water Supply Costs:* Water supply costs make up approximately 85-90% of the untreated water rate and have proven to be very volatile due to declining water supply reliability, climate change, and weather whiplash. In dry years, expensive water transfers may be needed to meet current demands. In extremely wet years, the Agency incurs costs associated with storing water, which is essential to meet demands during future dry years. Given the uncertainty, the Agency uses the five-year historical average of water supply costs and water deliveries for rate setting purposes. The five-year historical average captures the highs and lows of hydrology and the associated costs and helps mitigate major rate volatility from year to year. The annual reconciliation process captures any over- or under-collection of revenues.
- *Water Service Costs:* The Agency is committed to providing a reliable supply of high-quality water for municipal, industrial, and agricultural customers, and spends a considerable amount of time managing the water supply portfolio. These water service costs are relatively stable year-to-year and are projected based on hours worked and hourly rate of pay.
- *Overhead:* Overhead costs are the ongoing costs of running the Agency that are not directly tied to water delivery or water service. These include expenses like property management and utilities at North Canyons, Board and administration salaries, IT, and insurance. The customers pay for a portion of the overhead costs through the water rate, ensuring the Agency can maintain operations and continue to deliver water.

Prior to the commencement of the 2024 annual untreated rate setting process, staff provided the untreated customers with an overview of the upcoming CY 2025 rate setting schedule to ensure customers were aware of specific Committee and Board meetings that may be of interest. As part of this correspondence, staff encouraged customers to attend and participate in these meetings to facilitate open communication and transparency throughout the process. Untreated customers attended both the August and September Finance Committee meetings.

Staff completed the untreated water rate calculation for CY 2025. The calculation has resulted in a CY 2025 untreated water rate of \$239/AF and a temporary untreated water rate of \$954/AF. Table 2 provides a breakdown of both calculations.

Table 2
Untreated Water Rate Calculation¹

Untreated Water Rate Calculation	Total Planned Untreated Cost	Planned Untreated Deliveries (AF)	Unit Rate (\$/AF)
Water Service Costs	\$104,684	5,275	\$20
Overhead Costs	\$50,074	5,275	\$9
Water Supply Costs	1,105,612	5,275	\$210
Total Untreated Water Rate	\$1,260,370		\$239
Untreated Water Costs	\$1,260,370	5,275	\$239
Temporary Water Supply Costs ²	\$3,770,091	5,275	\$715
Total Temporary Untreated Water Rate	\$5,030,461		\$954

In addition to the annual rate calculation, staff performs an annual reconciliation to determine if the Agency previously over- or under-collected from the untreated customers. The annual reconciliation is in place due to the absence of an established fund balance for the untreated water program. As part of the CY 2025 untreated rate setting process, staff completed and presented the results of the CY 2023 reconciliation at the August 8, 2024, Finance Committee meeting. Based on the results, a credit of \$304,392 was applied to the outstanding reconciliation balance, reducing it to (\$1,108,165).

In October 2023, the Board approved the five-year implementation schedule via Resolution No. 23-77, dated October 18, 2023, for collecting the outstanding reconciliation balance of the untreated water program. At the September 12, 2024, Finance Committee meeting, the Committee recommended lowering the CY 2025 reconciliation charge from the scheduled \$42/AF to \$24/AF to keep the untreated rate unchanged at \$263/AF. The Committee’s recommendation was in response to concerns over the increase in the preliminary rate and the Committee’s commitment to minimize customer impacts, when possible, by providing temporary relief. The Committee’s recommendation maintains the five-year implementation schedule but modifies the planned reconciliation charge for CY 2025 and applies the difference to the final year of the five-year schedule. Table 3 compares the originally approved schedule to the Committee’s recommended schedule.

Table 3
Five-Year Implementation Schedule Comparison

	Year 1 CY 2024	Year 2 CY 2025	Year 3 CY 2026	Year 4 CY 2027	Year 5 CY 2028
Approved 5-Year Phase-in	\$43	\$42	\$42	\$41	\$41
Recommended 5-Year Phase-in	\$43	\$24	\$42	\$41	\$59
Change	\$-	(\$18)	\$-	\$-	\$18

Table 4 illustrates the impact of applying the recommended CY 2025 reconciliation charge to the CY 2025 calculated untreated water rate and compares the CY 2025 proposed untreated rate to the current rate.

¹ Values may not add due to rounding.

² Temporary costs include the State Water Project fixed costs collected through the property tax override.

Table 4
CY 2025 Proposed Untreated Water Rate

Revised Phase-in	CY 2025 Reconciliation Charge	CY 2025 Calculated Rate	CY 2025 Proposed Untreated Rate	Current Untreated Rate ³	Change (\$)
5-Year	\$24	\$239	\$263	\$263	\$0

The draft report for the CY 2025 Untreated Water Rate Update can be found in Attachment A.

Staff recommends the Board adopt the attached Resolution approving the proposed CY 2025 untreated water rates. If approved, the CY 2025 untreated water rates will take effect January 1, 2025.

FUNDING: N/A

RECOMMENDED ACTION: Adopt the attached Resolution.

ATTACHMENTS:

1. Resolution
2. Attachment A – Draft CY 2025 Untreated Water Rate Update Report
3. Attachment B – Historical Untreated Water Rates

³ Current rate includes a \$43 reconciliation charge.