

June 22, 2021

FROM: Michael Hanemann

TO: SDCWA

SUBJECT: Some questions about section 4 of *San Diego County Water Authority Combined Response to Reorganizations Applications by Fallbrook/Rainbow*, September 18, 2020.

1. What is the basis for the extrapolation factors in the fourth column of Table 4.3? Footnote 61 explains one of those factors, but not others.
2. On page 55, the text in the first full paragraph refers to detachment “adding to existing and planned water supply reductions.” Could you provide some details of the existing and planned water supply reductions.
3. Your Table 4.7 is helpful. In Tables 9 and 10, attached, I compare the analysis of reductions in SDCWA revenues and expenditures presented in my June 14 Draft Rate Impact Report with your analysis in Table 4.7 I think the analyses are similar. Do you have any comments on the differences? Table 11, attached, compares my analysis of the impact on net revenue with your analysis in Table 4.7. A difference is the “Use of Reserves” item in your Table 4.7. Can you explain what this is and the logic of including it.
4. In your Table 4.8, I understand the first row (Revenue Loss) but would appreciate an explanation of the other items – what they are, the logic of including them, and the data sources for the numbers involved.
5. The overall total in your Table 4.9 is \$16,844,450. How does this relate to the net loss figure of \$16,400,547 Figure 4.7?
6. Table 4.10 presents a 10 year forecast of the net revenue impact of detachment by year. Could you share the details of this analysis, year by year, including the forecast level of water sales by SDCWA to member agencies (with and without detachment), and the changes in revenues and expenditures? What is the basis for the various numbers going into the forecasts. What explains the time trajectory of impacts – if the net revenue impact in FY 2021 is \$16.4 M, what drives it to \$35.2 M in CY2022, \$43.8 M in CY 2026, and then down to \$11.2 M in CY 2028, etc?

TABLE 9 SDCWA REVENUE REDUCTION - MY ANALYSIS (TABLE 4) VS SDCWA (9-18-20)

Item	MY ANALYSIS TABLE 4			SDCWA TABLE 4.7
	Unit Rate	Quantity Change (AF)	Revenue Reduction (\$)	Revenue Reduction (\$)
Volumetric charges				
Water Supply - M&I rate	\$940	14,795	\$13,907,300	
Water Supply - Ag	\$777	7,484	\$5,815,068	
Subtotal			\$19,722,368	\$21,723,764
Transportation - M&I	\$150	14,795	\$2,219,250	
Transportation - Ag	\$150	7,484	\$1,122,600	
Subtotal			\$3,341,850	\$1,533,501
Treatment - M&I	\$295	14,795	\$4,364,525	
Treatment - Ag	\$295	7,484	\$2,207,780	
Subtotal			\$6,572,305	\$7,281,347
Subtotal - volumetric charges			\$29,636,523	\$30,538,612
Customer Service Charge*	\$136,361/mo		\$1,632,516	\$1,632,528
Storage Charge*	\$212,651/mo		\$2,551,812	\$2,551,824
Supply Reliability Charge*	\$136,361/mo		\$1,636,332	\$1,636,332
Infrastructure Access*	\$112,415/mo		\$1,348,980	\$1,348,992
Subtotal - charges			\$7,169,640	\$7,169,676
Property Taxes**			\$343,042	\$343,042
Availability Standby Charge**			\$721,311	\$721,311
System Capacity Charge**)	\$1,250,342	\$1,250,342
Treatment Capacity Charge**)		
Subtotal - property charges			\$2,314,695	\$2,314,695
TOTAL			\$39,120,858	\$40,022,983
* https://www.sdcwa.org/member-agencies/rate-allocation/ Consulted 6-7-2021				
** Using values from SDCWA Memo 9-18-2020, Table 4.7				

TABLE 10 EXPENDITURE REDUCTION COMPARISON - MY ANALYSIS VS SDCWA (9-18-2020)

	MY ANALYSIS TABLE 8			SDCWA TABLE 4.7
	Quantity	Unit	Revenue	Revenue
	Change (AF)	Rate	Reduction (\$)	Reduction (\$)
Water acquisition cost (\$/AF)	22,279	\$777	\$17,310,783	\$19,178,328
Transportation cost (\$/AF)	22,279	\$164	\$3,653,756	
Treatment cost (\$/AF)	22,279	\$295	\$6,572,305	\$8,071,188
TOTAL	22,279		\$27,536,844	\$27,249,516

TABLE 11 SDCWA NET IMPACT - MY ANALYSIS VS SDCWA (9-18-20)		
	MY ANALYSIS	SDCWA TABLE 4.7
REVENUE REDUCTION	\$39,120,858	\$40,022,983
EXPENDITURE REDUCTION	\$27,536,844	\$27,249,516
USE OF RESERVES		\$3,627,081
NET IMPACT	\$11,584,014	\$16,400,548