

## **2. WATER ADJUSTMENT FACTOR EXPENDITURES**

### **SUMMARY**

The attached Resolution approves expenditures for inclusion in Water Supply Cost Adjustment (WSCA), Water Quality Improvement Adjustment (WQIA), Owens Valley Regulatory Adjustment (OVRA), and Water Infrastructure Adjustment (WIA) rate components commencing April 1, 2016. These expenditures are used to calculate factors that recover costs of providing water service to customers. The WSCA, OVRA, and WQIA factors are adjusted every six months based on changes in these costs. The WIA factor is adjusted annually.

The WSCA will replace the Water Procurement Adjustment. This new adjustment factor is designed to recover the costs of all of the Department's water supplies (i.e., groundwater, LA Aqueduct, MWD and recycled water). The WQIA will continue to fund improvements in water quality throughout the City of Los Angeles and now also recover many costs of providing security to the Water System. The OVRA recovers expense for the Owens Lake Dust Mitigation Project, the Lower Owens River Project, and the Owens Lake Master Project. The WIA provides "just in time" revenues dedicated solely to the replacement of aging infrastructure.

### **FINANCIAL INFORMATION**

Board-approved qualified expenditures for the 12-month period commencing April 1, 2016, are used to calculate the respective factors as outlined in the proposed Ordinance. The WSCA, OVRA, and WQIA factors are calculated two times each year and become effective January 1 and July 1, respectively. The WIA factor is calculated once each year and becomes effective July 1.

For the 12-month period commencing April 1, 2016, the total of WSCA, WQIA, OVRA, and the WIA expenditures will be \$757.46 million. Expenditures for the four factors for the 12-month period commencing April 2016 are summarized below:

	Proposed April 2016
Expenditures for Each of the Water Supply Sources for the 12-month Period	
Los Angeles Aqueduct	\$60,921,617
Purchased Water	\$176,571,928
Groundwater	\$50,393,244
Recycled Water	\$9,193,670
Water Conservation	\$21,691,575
Expenditures for Each of the Water Quality Cost Types for the 12-month Period	
Water Quality Capital	\$81,202,500
Water Quality Operation and Maintenance (O&M)	\$86,950,000
Water Quality Debt Service	\$81,671,397
Expenditures for Each of the Owens Valley Regulatory Cost Types for the 12-month Period	
Owens Valley Capital	\$55,875,000
Owens Valley Operation and Maintenance (O&M)	\$43,625,000
Owens Valley Debt Service	\$0
Expenditures for Each of the Water Infrastructure Cost Types for the 12-month Period	
Water Infrastructure Capital Expenditures	\$89,361,983
Water Infrastructure Debt Service	\$0
Total	\$757,457,914

The WSCA, WQIA, OVRA, and WIA rate components applied to actual billing of customers will be as follows:

Factor (in \$/HCF)	Proposed April 2016
Water Supply Cost Adjustment Factor	
Tier 1	\$1.555
Tier 2	\$2.775
Tier 3	\$2.775
Tier 4	\$2.775
Water Quality Improvement Adjustment Factor	\$1.359
Owens Valley Regulatory Adjustment Factor	\$0.515
Water Infrastructure Adjustment Factor	\$0.433

Calculations for the four factors and supporting detail are included in Attachments 1, 2, 4, and 6.

For your information, the automatic water adjustment factors not requiring Board action will be as follows:

Factor (in \$/HCF)	Proposed April 2016
Base Rate Revenue Target Adjustment Factor	
Schedule A	\$0.117
Schedule B	\$0.117
Schedule Other	\$0.117
Low-Income Subsidy Adjustment Factor	\$0.151
Water Expense Stabilization Adjustment Factor	---

Calculations for these factors and supporting detail are included in Attachments 3, 5, and 7.

**WATER SUPPLY COST ADJUSTMENT FACTOR  
FOR APRIL THROUGH JUNE 2016**

Ord. Ref.	<u>Estimated Expenditures for Each of the Water Supply Sources for the 12-month Period commencing April 1, 2016</u>	
Sec.3.F.2.(a)	Los Angeles Aqueduct	\$60,921,617
Sec.3.F.2.(b)	Purchased Water	\$176,571,928
Sec.3.F.2.(c)	Groundwater	\$50,393,244
Sec.3.F.2.(d)	Recycled Water	\$9,193,670
Sec.3.F.2.(e)	Water Conservation	\$21,691,575
	Over/(Under) Balancing (as of March 31, 2016)	\$93,391,478
Sec.3.F.3.	<u>Estimated Production Units (in HCF) of Water Supply Sources for the 12-month Period commencing April 1, 2016</u>	
	Los Angeles Aqueduct	94,908,493
	Purchased Water	79,648,655
	Groundwater	35,152,920
	Recycled Water	5,227,200
	Water Conservation (Total Sales excluding Schedules D and F)	206,371,915
	Over/Under Balance (Total Sales excluding Schedules D and F)	206,371,915
	<u>Unit Price for Each of the Water Supply Sources (\$/HCF)</u>	
Sec.3.F.3.(a)	Los Angeles Aqueduct	\$ 0.642
Sec.3.F.3.(b)	Purchased Water	\$ 2.217
Sec.3.F.3.(c)	Groundwater	\$ 1.434
Sec.3.F.3.(d)	Recycled Water	\$ 1.759
Sec.3.F.3.(f)	Water Conservation (Total Sales excluding Schedules D and F)	\$ 0.105
Sec.3.F.3.(g)	Over/Under Balance (Total Sales excluding Schedules D and F)	\$ 0.453
Sec.3.F.4.	<u>Sources of Supply starting from Least expensive to Most expensive (S1 to S4)</u>	
	S1 = Los Angeles Aqueduct	44.2% \$ 0.642
	S2 = Groundwater	16.4% \$ 1.434
	S3 = Recycled Water	2.4% \$ 1.759
	S4 = Purchased Water	37.0% \$ 2.217
Sec.3.F.5.	<u>Customer Usage (Sales) excluding by Tier Schedules D and F</u>	
	Tier 1	68.5% 141,445,446
	Tier 2	18.7% 38,682,294
	Tier 3	8.3% 17,176,219
	Tier 4	4.4% 9,067,956
Sec.3.F.5.	<u>Water Supply Cost Adjustment Factor for each Tier before Water Conservation and Over/Under Balance</u>	
	Tier 1 = (44.2%/68.5%*0.642+16.4%/68.5%*1.434+2.4%/68.5%*1.759+(68.5%-44.2%-16.4%-2.4%)/68.5%*2.217)	\$ 0.998
	Tier 2 = (18.7%/18.7%*2.217)	\$ 2.217
	Tier 3 = (8.3%/8.3%*2.217)	\$ 2.217
	Tier 4 = (4.4%/4.4%*2.217)	\$ 2.217
Sec.3.F.5.	<u>Water Supply Cost Adjustment Factor for Each Tier</u>	
	Tier 1	<b>\$1.555</b>
	Tier 2	<b>\$2.775</b>
	Tier 3	<b>\$2.775</b>
	Tier 4	<b>\$2.775</b>

**WATER QUALITY IMPROVEMENT ADJUSTMENT FACTOR  
FOR APRIL THROUGH JUNE 2016**

Ord. Ref.	<u>Estimated Expenditures for Each of the Water Quality Cost Types for the 12-month Period commencing</u>	
	<u>April 1, 2016</u>	
	Water Quality Capital Expenditures	\$81,202,500
	Water Quality Operation and Maintenance (O&M) Expenses	\$86,950,000
	Water Quality Debt Service	<u>\$81,671,397</u>
Sec.3.G.2.(a)	Estimated Water Quality Expenditures Subtotal	\$249,823,897
	<u>Adjustment Account Ending Balance on</u>	
Sec.3.G.2.(b)	<u>March 31, 2016</u>	\$30,668,239
	<u>Estimated Retail Water Sales in HCF for the 12-month Period, Less Schedules D and F, commencing</u>	
Sec.3.G.2.(c)	<u>April 1, 2016</u>	206,371,915
	<b>Water Quality Improvement Adjustment Factor (WQIAF)</b>	<b>\$1.359</b>

**BASE RATE REVENUE TARGET ADJUSTMENT FACTOR  
FOR APRIL THROUGH DECEMBER 2016**

Ord. Ref. Sec.3.H.2.	<u>BRRTA for Schedule A</u>	
	BRRTA Account Balance for Schedule A	\$18,803,861
	Estimated Retail Water Sales in HCF for Schedule A for the 24-month Period commencing April 1, 2016	<u>160,904,773</u>
	<b>Base Rate Revenue Target Adjustment Factor <sub>A</sub> (BRRTAF <sub>A</sub>)</b>	<b>\$0.117</b>
Sec.3.H.2.	<u>BRRTA for Schedule B</u>	
	BRRTA Account Balance for Schedule B	\$9,051,340
	Estimated Retail Water Sales in HCF for Schedule B for the 24-month Period commencing April 1, 2016	<u>77,452,383</u>
	<b>Base Rate Revenue Target Adjustment Factor <sub>B</sub> (BRRTAF <sub>B</sub>)</b>	<b>\$0.117</b>
Sec.3.H.2.	<u>BRRTA for Other Schedules</u>	
	BRRTA Account Balance for Other Schedules	\$20,573,123
	Estimated Retail Water Sales in HCF for Other Schedules for the 24-month Period commencing April 1, 2016	<u>176,044,361</u>
	<b>Base Rate Revenue Target Adjustment Factor <sub>Others</sub> (BRRTAF <sub>Others</sub>)</b>	<b>\$0.117</b>

**OWENS VALLEY REGULATORY ADJUSTMENT FACTOR  
FOR APRIL THROUGH JUNE 2016**

Ord. Ref.	<u>Estimated Expenditures for Each of the Owens Valley Regulatory Cost Types for the 12-month Period commencing April 1, 2016</u>	
	Owens Valley Capital Expenditures	\$55,875,000
	Owens Valley Operation and Maintenance (O&M) Expenses	\$43,625,000
	Owens Valley Debt Service	\$0
Sec.3.K.2.(a)	Estimated Owens Valley Expenditures Subtotal	\$99,500,000
	<u>Adjustment Account Ending Balance on</u>	
Sec.3.K.2.(b)	<u>March 31, 2016</u>	\$6,851,398
	<u>Estimated Retail Water Sales in HCF for the 12-month Period, Less Schedules D and F, commencing</u>	
Sec.3.K.2.(c)	<u>April 1, 2016</u>	206,371,915
	<b>Owens Valley Regulatory Adjustment Factor (OVRAF)</b>	<b>\$0.515</b>

**LOW-INCOME SUBSIDY ADJUSTMENT FACTOR  
FOR APRIL THROUGH JUNE 2016**

Ord. Ref.		
Sec.3.L.2.(a)	<u>Estimated Cost of Lifeline and Low-income Credits</u> for the 12-month Period commencing April 01, 2016	\$25,900,000
Sec.3.L.2.(b)	<u>Estimated Administrative Cost for the 12-month Period commencing</u> <u>April 1, 2016</u>	\$579,400
Sec.3.L.2.(c)	<u>Adjustment Account Ending Balance on</u> <u>March 31, 2016</u>	\$3,241,913
Sec.3.L.2.(d)	<u>Estimated Retail Water Sales in HCF for the 12-month Period, Less Schedules D and F</u> <u>and Lifeline and Low-income customer sales, commencing</u> <u>April 1, 2016</u>	196,529,442
	<b>Low-income Subsidy Adjustment Factor (LISAF)</b>	<b>\$0.151</b>



**WATER INFRASTRUCTURE ADJUSTMENT FACTOR  
FOR APRIL THROUGH JUNE 2016**

Ord. Ref.

	<u>Estimated Expenditures for Each of the Water Infrastructure Cost Types for the 12-month Period commencing April 1, 2016</u>	
	Water Infrastructure Capital Expenditures	\$89,361,983
	Water Infrastructure Debt Service	<u>\$0</u>
Sec.3.R.2.(a)	Total Estimated Water Infrastructure Expenditures	\$89,361,983
Sec.3.R.2.(b)	<u>Adjustment Account Ending Balance on March 31, 2016</u>	\$0
Sec.3.R.2.(c)	<u>Estimated Retail Water Sales in HCF for the 12-month Period, Less Schedules D and F, commencing April 1, 2016</u>	206,371,915
	<b>Water Infrastructure Adjustment Factor (WIAF)</b>	<b>\$0.433</b>

**WATER EXPENSE STABILIZATION ADJUSTMENT FACTOR  
FOR APRIL THROUGH DECEMBER 2016**

Ord. Ref.

Sec.3.S.2.(a)	<u>Adjustment Account Ending Balance on</u> <u>March 31, 2016</u>	\$0
Sec.3.S.2.(b)	<u>Estimated Expense for Legal and Court Settlement for the 12-month Period commencing</u> <u>April 1, 2016</u>	\$0
Sec.3.S.2.(c)	<u>Estimated Retail Water Sales in HCF for the 12-month Period, Less Schedules D and F, commencing</u> <u>April 1, 2016</u>	206,371,915
	<b>Water Expense Stabilization Adjustment Factor (WESAF)</b>	<b>\$0</b>