



Finance, Audit, Insurance, and Real Property Committee

CFO Activities Report

Item 8b

January 9, 2024

CFO Activities

Future Agenda items:

- 1) Further Discussion on Pure Water Southern California Cost of Service options will be brought back to February FAIRP.
- 2) Cost savings measures will be discussed during the February budget process and elaborated on during the Q2 report at the March FAIRP.
- 3) In February Staff plans to report on Director Smith's request for revenues and expenses variances by rate element going back 10 years.



Comments/
Questions

&



Answers

Comment from Los Angeles: The analysis showed a total conservation approach. Request analysis using an increased amount (such as \$100 million) and the acre-feet per year supply reduction.

Answer:

- The LRFP-NA analysis included approximately \$30.5M of annual funding for residential, commercial and outdoor conservation programs as assumed in the FY 2022/23 and FY 2023/24 Adopted Budget and 10-year forecast.
- The intent of the LRFP Needs Assessment is to inform the Climate Adaptation Master Plan for Water (CAMP4W) process and assist the Board in selecting a resource development portfolio, while weighing resiliency, reliability, financial sustainability, and affordability objectives. Additional analysis on specific projects and portfolios – including additional conservation funding – will be performed in the CAMP4W process and the next phase of the LRFP.

Comment from SDCWA: Use water sales instead of water transactions (correct the whole report). (This results in 25% increase in rates.)

Answer:

- The modeling in the LRFP-NA estimates average annual overall rate increases from implementing different resource development portfolios. The LRFP-NA acknowledges that rate impacts will vary based on how those projects are functionalized based on Cost of Service principles and on how those costs are recovered for each project. The next iteration of the LRFP document – which will come at a later date – will integrate specific capital projects and outline the funding and financing strategies based on board input, including its policy goals and objectives. The Cost of Service analysis for those projects will show a more refined estimate of the impact on the unbundled rate elements.

Comment from SDCWA: Cost curves for large storage projects shows \$2,500/AF not \$300/AF for storage unit costs. Update inflation assumptions

Answer:

- Because specific IRP resource portfolios have not yet been approved by the board, staff is unable to use project-specific information to calculate unit costs. Instead, staff relied on data from recently completed or studied projects to develop a range of potential unit costs for each resource need, including both O&M and capital financing costs. The unit cost sources for storage are based on Metropolitan's cost for construction of Diamond Valley Lake and preliminary results of an in-region storage study, escalated to current dollars. The storage unit cost is based on built capacity, not a calculation of anticipated yield. As such, \$300/AF can be interpreted as the annual financing and O&M cost per acre foot of built capacity of new storage. The modeled unit costs are priced in 2023 dollars and were escalated at a rate of 3 percent for future years. To the extent specific storage projects are identified in the CAMP4W portfolio, they will be reflected in Phase 2 of the LRFP.

Question from SDCWA: What are member agencies' willingness to pay and geographic location of supply gaps?

Answer:

- Staff recently demonstrated an online dashboard created for the CAMP4W process that highlights Member Agency supplies and demands on Metropolitan over a period of time. This tool will help to inform the Board's questions about the geographic location of supply gaps. Affordability and member agencies' willingness to pay will continue to be addressed in the CAMP4W.

Comment from SDCWA: IRP assumption adjustments like conservation rebound, nonfunctional turf legislation impacts to conservation, water efficiency standards impacts to conservation, MWD's contributions to the Colorado River before and after 2026
Answer:

- The IRP Phase 1 Needs Assessment analysis and findings were based on a comprehensive and inclusive process with collaboration from member agency, local agency and expert consultants. The results of each of the four scenarios analyzed in the IRP Needs Assessment provide a plausible range of future reliability impacts and resource development needs that could result due to rapid climate change and economic/demographic growth. The CAMP4W process will inform further iterations of the IRP analysis to include the items identified in the question.

Comment from SDCWA: Need to address and update reliability goal: 100% reliability, 100% of the time

Answer:

- At its February 2023 retreat, the Metropolitan Board of Directors commenced a master planning process to set a long-term vision for Metropolitan that would address critical policy issues driven by climate change. This planning process – known as the CAMP4W – seeks to evaluate Metropolitan’s resource development objectives through a climate adaptation lens. The policy issues addressed through the CAMP4W process concern the future role of Metropolitan, its water resources portfolio, projected supply and demand gaps under alternative scenarios, new investments for supply reliability and resilience, a business model that promotes financial sustainability and a workforce required to realize this vision. Metropolitan’s reliability goal should be addressed through that process.

Comment from SDCWA: Need to include distribution costs for all projects (i.e. Pure Water treatment is \$3,000/AF but does not include the 60-mile pipeline/pump station)

Answer:

- The \$3,000/AF unit cost assumed for the LRFP-NA included all required distribution improvements. Per the November 28 meeting of the Subcommittee on Pure Water Southern California and Regional Conveyance, the \$3,000/AF assumption falls within the range of the estimated PWSC project cost. Specific projects will be evaluated as part of the CAMP4W process.

Comment from MWDOC: Incorporate business model discussion in the report LRFP-NA (phase I).

Answer:

- The business model discussion is happening on a parallel track: on the cost recovery side for the PWSC project in the FAIRP committee and more broadly as an item that is being discussed as part of our overall strategy. These discussions are ongoing, but outside the intended scope of the LRFP-NA (phase 1).

Comment from MWDOC: Need a more detailed analysis of replacement/refurbishment requirements above and beyond the \$300 million per year.

Answer:

- Per the 10-Year Financial Forecast, \$300 million of annual CIP funding is included in the base cost assumptions for all LRFP-NA scenarios, escalating at 3% annually over the forecast period. The CIP funding largely reflects the deferral of facility expansion projects and focuses on necessary refurbishment and replacement of aging infrastructure and compliance with regulatory requirements. R&R needs beyond that baseline are currently being reviewed and will be brought to the board by Engineering as part of the upcoming Biennial Budget discussion in February 2024.

Comment from MWDOC: Need to include all envisioned projects above and beyond current CIP and supply/stored (i.e. Sites, Delta Conveyance, SWP subsidence, SWP Dependent Area drought projects, East-West pipeline, in the text and sensitivity analysis.

Answer:

- The LRFP-NA is designed to (1) provide high-level financial analysis of rate impacts under various resource development scenarios, (2) discuss the primary capital financing and funding methods Metropolitan has at its disposal, (3) introduce potential financial tools that could become components of a tailored financial strategy, and (4) catalogue Metropolitan's key policies related to the capital markets. Addressing these elements, the LRFP-NA seeks to encourage policy discussion among the Metropolitan Board of Directors, resulting in the co-development of the final LRFP document to be produced at the conclusion of phase two, which will analyze the financial impacts of specific portfolios of resource projects selected in the CAMP4W process. A key purpose of the LRFP-NA is to inform the CAMP4W process and assist the board in its strategic decision making for critical issues and evaluation of projects such as those listed in the comment.

