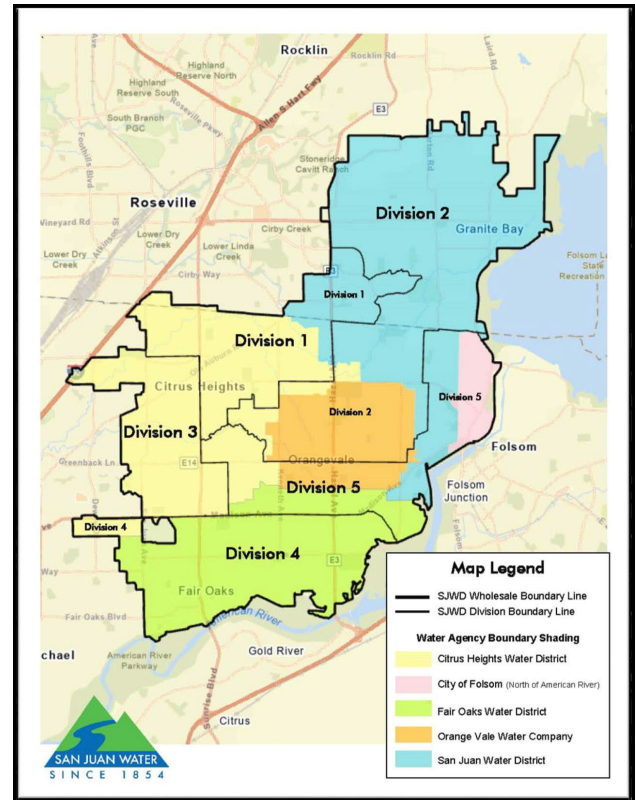




Wholesale Financial Plan and Rate Fact Sheet

What is the difference between a Wholesale and Retail Customer?

The San Juan Water District (SJWD) encompasses a 46 square mile area which includes most of the City of Citrus Heights, the unincorporated areas commonly known as Fair Oaks, Orangevale, and Granite Bay, as well as the portion of the City of Folsom north of the American River. Within that area also exist the Citrus Heights Water District (CHWD), Fair Oaks Water District (FOWD), and the Orange Vale Water Company (OVWC). When SJWD was formed by an election in these areas in Sacramento and Placer Counties in 1954, it took over the water supplies and facilities that had belonged to the North Fork Ditch Company. SJWD became the wholesale provider of treated surface water to the water agencies within the boundaries of the newly formed District (listed above and shown on the map) and became the retail provider of water to residences and businesses in Granite Bay and some areas of northeastern Sacramento County.



Do the wholesale customers have to buy surface water from SJWD?

Currently surface water from SJWD is the primary source of water for the San Juan Retail Service Area, City of Folsom (north of the American River) and OVWC. CHWD and FOWD both have invested in groundwater wells for supplemental supply, but they both rely on SJWD for more than 70% of their water supplies.

How does SJWD allocate costs between its wholesale and retail divisions?

SJWD works diligently to ensure that its rates are fair and equitable, and as low as reasonably possible.

While SJWD is one single entity for the purposes of financial reporting, it keeps revenues and costs separate between wholesale and retail operations, for the purpose of setting

those respective water purchase rates. Some costs, such as the cost of electricity at the water treatment plant (a wholesale facility that serves all of SJWD's customer agencies), clearly belong to just one division and are therefore paid directly by that division. Other costs are shared between wholesale and retail operations. While there are many ways to reasonably allocate these shared costs, SJWD utilizes the simplest, most efficient allocation methodology whenever possible. Some shared costs are allocated based on the number of employees in each division, others are allocated based on a sample of work orders from a representative time period. Others are split 50-50, as applying a more complicated allocation methodology would not yield a more accurate result and would merely be more complex, costly, and time-consuming.

Some of the wholesale customer agencies have expressed concern that they are paying costs for retail operations that they should not be paying. To alleviate these concerns, SJWD hired a consultant recommended by these agencies, to examine and provide recommendations for changes, if any were needed, to SJWD's cost allocation methodology,. As a result of the study, minor modifications were made to a handful of position cost allocations. The full study can be read here: <https://www.sjwd.org/wholesale-financial-plans>.

How does SJWD set its rates?

SJWD is required to set rates no higher than what is needed to cover the reasonable costs of service. SJWD prepares both a Retail Financial Plan and a Wholesale Financial Plan every 3 to 5 years, resulting in a multi-year rate schedule. The Retail Financial Plan and Rate Study was last completed in 2021 and resulted in a three-year rate schedule for calendar

years 2022, 2023, and 2024. That study can be found here:

<https://www.sjwd.org/files/d4ae1cb68/San+Juan+WD+2021+Retail+Water+Rate+Study+Report+1.31.22+final+corrected.pdf>.

The Wholesale Financial Plan and Rate Study was last completed in 2017 and rates have not been increased since 2021. SJWD is in the process of updating its Wholesale Financial Plan and Rate Schedule and will be bringing it to the SJWD Board of Directors for consideration on December 13, 2023. All wholesale customer agencies have been provided with the draft report and SJWD is in the process of receiving and considering their comments. The draft Wholesale Financial Plan and Rate Study can be found here: <https://www.sjwd.org/files/5afa95829/San+Juan+WD+2023+Wholesale+Rate+Study+Report+7.18.23.pdf>.

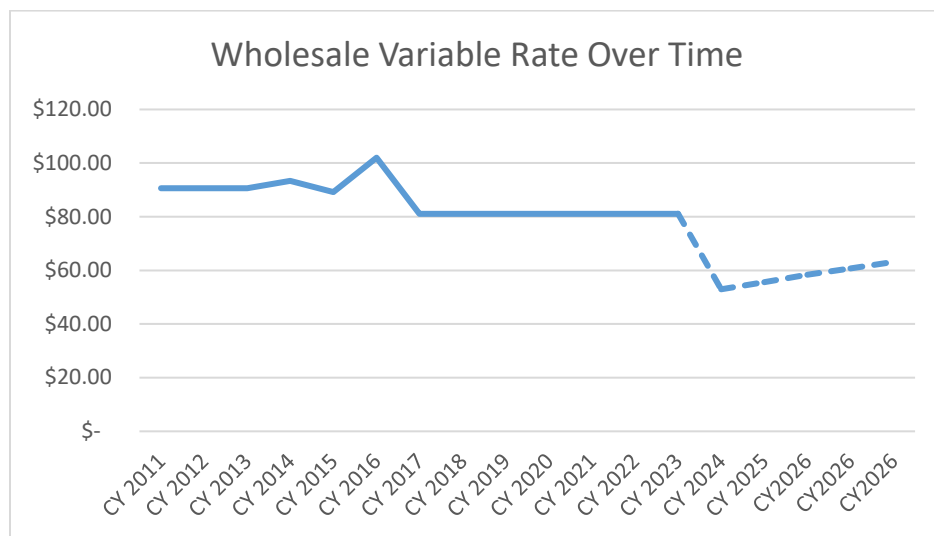
What are the components of the rates?

Both the wholesale and retail water rates that have been adopted by SJWD are comprised of two components: 1) a variable rate based on the volume of water delivered/used and 2) a daily or quarterly fixed charge. The variable rate is designed to align with the actual costs of receiving, treating, and delivering a unit of water. The fixed charge is designed to recover the costs of operating and maintaining the system that DO NOT change with the

amount of water treated and delivered. The fixed rate also incorporates the cost of the capital infrastructure replacement program. The benefits of this methodology are as follows:

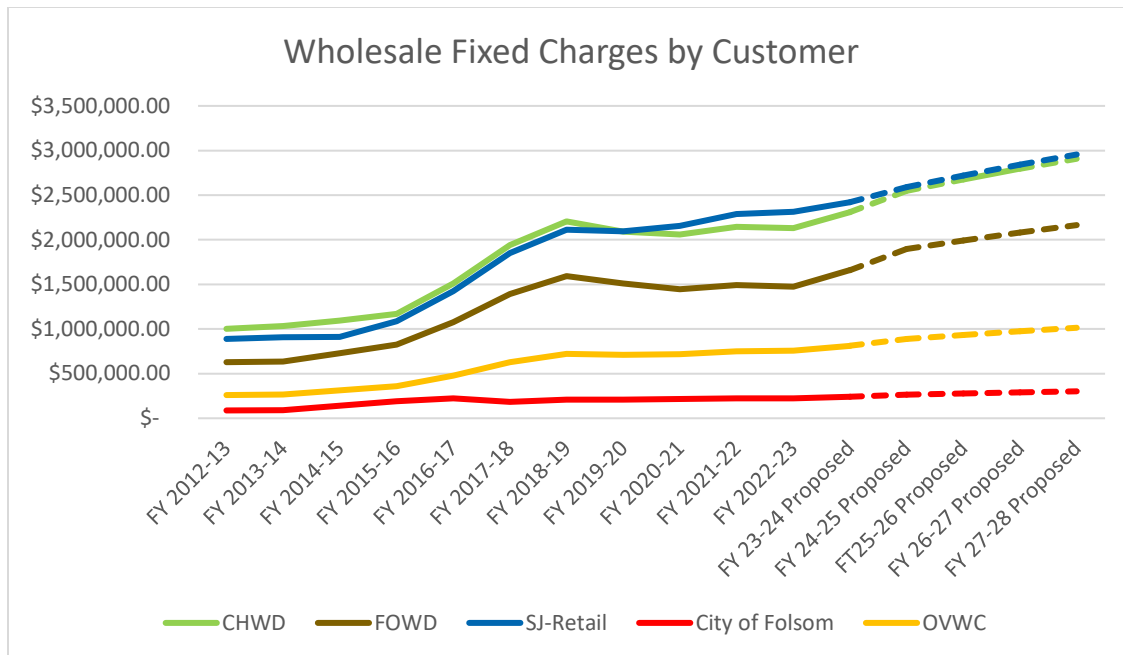
- No need for irritating and unpredictable drought surcharges.
- Every customer, wholesale and retail alike, pay for their fair share of maintaining the system and they pay for the exact amount of water that they use.
- Revenue stability for SJWD, ensuring that fixed costs are covered.
- Including the capital program in the fixed rate allows SJWD to pay for most of its capital program out of reserves, avoiding the need for costly debt issuances.

Rates were not always set in this manner. Prior to 2017, SJWD, like many other water agencies in California, had a disproportionate share of its rates in the variable component. This was done to incentivize water conservation. However, it resulted in inadequate funding to operate and maintain the system during years in which there were water shortages and/or State-imposed mandatory conservation. Since 2017, SJWD has been gradually increasing the fixed charge component, while holding the variable rate steady. The graph below shows the variable rate over time. All wholesale customers pay the same variable rate.



As shown in the graph above, the variable rate held steady from Calendar Year (CY) 2017 through CY 2023, as SJWD adjusted the fixed charge to bring the rate structure into alignment with SJWD's costs. The dashed line represents the variable rate proposed in the 2023 Wholesale Financial Plan and Rate Study. The steep decline in the proposed wholesale variable rate in CY 2024 implements the final adjustment needed to achieve alignment. The gradual increase thereafter is due to anticipated inflation of the variable costs of water.

The graph below shows the fixed charge, by wholesale customer, over time.



The increase in the fixed charge first started in FY 2015-16. The decline in FY 2019-20 was due to savings from debt refinancing that was passed along to the wholesale customers. The dashed lines represent the proposed fixed charges in the 2023 Wholesale Finance Plan and Rate Study.

The final adjustment to the fixed charge is proposed for implementation in January 2024. This will completely align fixed and variable charges with our fixed and variable expenses. The remainder of the proposed increases in the wholesale fixed charges are due to anticipated inflation of fixed costs.

How are the fixed charges allocated between the customers?

On the retail side, fixed charges are allocated based on the customer’s meter size. The size of the meter dictates the accessible system capacity available to an individual customer. Customers with access to a smaller capacity of the system should pay a proportionally smaller amount of the system operation, maintenance and capital replacement costs. Conversely, those with a larger meter, and hence, access to a larger proportion of the system’s capacity, should pay a larger share.

The same is true on the wholesale side. However, the wholesale system does not have a uniform distribution of meters, such as that of the retail system, so adopting a fixed charge based on meter size would not be fair or equitable. However, there are several ways in which the fixed charges can be fairly and equitably allocated to the wholesale customers. In the 2017 Wholesale Financial Plan and Rate Study, fixed costs were generally allocated based on the previous five years’ worth of water deliveries to each customer. In 2021, at the request of CHWD and FOWD, SJWD switched to a rolling five-year average allocation method. Under this methodology, the fixed charge was recalculated each year, based on the most recent five years of water use of each agency.

In the new draft plan and rate study, SJWD is proposing to allocate the fixed rates using the maximum demand for system capacity during the past 10 years (single highest year water sales to each customer). This approach, which is a standard in the water industry (and which is used in SJWD's retail operation), is preferable to previous approaches because the size (and therefore costs) of the SJWD's water infrastructure, and operations as a whole, are predominantly driven by the SJWD's peak water demands.

Why is SJWD proposing to change the method of allocating the fixed charge?

SJWD is proposing to use the peak demands, rather than the average demands, to set fixed charges for the reasons stated above, and because it is a fair and equitable approach. As just noted, SJWD's current approach to setting fixed charges is to adjust them annually by using a rolling average of the most recent five years of water use. This method has proven to be both inequitable (because recent actual water usage does not affect SJWD's fixed costs) and it created financial uncertainty and rate volatility for the member agencies, due to the annual recalculation.

What's next?

The SJWD Board of Directors will consider the proposed wholesale rate schedule on December 13, 2023. SJWD will be initiating the next Retail Financial Plan and Rate study in 2024.