Addendum to Draft Sphere of Influence/Municipal Service Review

South San Joaquin Irrigation District
(dated September 9, 2014)

Prepared by: San Joaquin Local Agency Formation Commission

November 2014
# Table of Contents

EXECUTIVE SUMMARY ................................................................................................. 1

Chapter 1: Introduction ................................................................................................ 4
  1.1 Financial Analysis ................................................................................................. 5

Chapter 2: California Alternative Rate for Energy (CARE) ........................................... 4
  2.1 Financial Analysis ................................................................................................. 5

Chapter 1: Introduction ................................................................................................ 4
  1.1 Financial Analysis ................................................................................................. 5

Chapter 1: Introduction ................................................................................................ 4
  1.1 Financial Analysis ................................................................................................. 5

Tables

Table 1: 10 Year SSJID-PG&E Cash Flow ..................................................................... 4
Table 2: 30 Year SSJID-PG&E Cash Flow ..................................................................... 5

Chapter 1: Introduction ................................................................................................ 4
  1.1 Financial Analysis ................................................................................................. 5

Chapter 1: Introduction ................................................................................................ 4
  1.1 Financial Analysis ................................................................................................. 5

Figures
EXECUTIVE SUMMARY

This Addendum to Draft Sphere of Influence /Municipal Service Review represents the Agency’s review of the Preliminary Revise Draft Sphere of Influence Plan/Municipal Service Review South San Joaquin Irrigation District last update on September 9, 2014. In accordance with the 2000 Cortese-Knox-Hertzberg (CKH) Act, the Executive Officer is required to review each application and shall prepare a report including his or her recommendation. In order to prepare and to update spheres of influence, the commission shall conduct a service review of the municipal services and shall prepare a written statement of its determinations with respect six specific areas. This addendum serves to satisfy these requirements.

This document provides a comprehensive analysis of SSJID’s ability to provide electric service and more importantly if there is a cost savings to the customer over existing and projected PG&E rates. This report analyses the previous financial models of PA Consulting, MRW, PG&E, MBMC. The gap among the various models is wide as evidenced by the $1.5 billion difference between the PG&E’s forecast and the forecast supported by MRW. Based the materials submitted by all interests parties and the meetings and discussion regarding the parties’ assumptions, data sources, and forecast methodology, LAFCo prepared its own forecast. The results of the LAFCo analysis show that is a negative cash flow for the initial 10 years (negative $82.2 million) and for the overall 30 year planning period (negative $440 million) assuming a 15% discount over PG&E’s rates. With a 15% discount, under the LAFCo model, SSJID would have to contribute an average annual equity of $15.6 million with a maximum annual equity of $32.9 million for a total contribution (excluding the first year) of $468 million. If SSJID were to breakeven for the electric operations, thereby not requiring a continuous equity contribution, the saving over PG&E rates would have to be 4.4%. The 4.4% discount over PG&E’s rates is substantially less than the 15% savings purported in SSJID’s application.

Chapter 1 also addresses other issues associated with the addition of retail electric service including: California Alternative Rates for Energy (CARE), Border Area Alternatives, Public Benefits Spending, Property Tax and Franchise Fees, and the impact of Electric Service on the consolidated budget. SSJID recently committed to structure its CARE rates in the same manner as PG&E, with the addition of any discount from PG&E’s rates. This amendment resolves this CARE program issue. The Border Area Alternatives continue to have impacts associated with the takeover by MID or the continuation of service by PG&E. There is simply no positive outcome for this border area. SSJID’s retail electric plan would result in less public benefit programs spending than what is estimated to be provided by PG&E. In 2015 PG&E will spend an estimated 4.5 percent ($4.63 million) of the revenue it generates from customers within SSJID’s service area on public benefit programs. This is $1.23 million more than what SSJID is expected to spend. SSJID recently passed a resolution expanding their commitment to pay the franchise fees to the three cities and County and property tax (unitary tax) to all of the districts in the County in order to enable the San Joaquin Governmental Agencies to be “revenue neutral”. SSJID refuses to hold a Proposition 26 and 218 election to pay these fees through the electric rates. The revenue must come from non-fee sources such as Tri-Dam funds or other funds available to the District.
from non-fee sources. Without an election there remains a risk that reimburse of these in lieu fees/and or in lieu property taxes could be challenged and there remains a risk that an estimated $962,276 in property taxes and $766,400 in franchise fees could be in jeopardy under the proposed electric plan. SSJID is not planning to pay in-lieu fees for vehicle license fees (VLF) paid by PG&E. nor State or Federal Taxes. The provision of electric service will place additional stress on the consolidated budget of the District and could affect the District’s continued ability to subsidize existing irrigation customer rates.

Chapters 2 provide revisions to the 91 finding contained in the Mintier Harnish report. The revisions reflect the discussion in Chapter 1 including LAFCo’s financial model.

Chapter 3 revises the six Municipal Service Review Determinations.

Chapter 4 amends the four factors of the Sphere of Influence Plan.
CHAPTER 1: INTRODUCTION

This document represents the Agency review of the Preliminary Revise Draft Sphere of Influence Plan/Municipal Service Review South San Joaquin Irrigation District last updated on September 9, 2014. That document was prepared by Miniter Harnish under contract with South San Joaquin Irrigation District. That document was the subject of a Workshop before the San Joaquin Local Agency Formation Commission on September 22, 2014. At that meeting, the Commission directed that this matter be set for hearing beginning December 10, 2014.

In accordance with the 2000 Cortese-Knox-Hertzberg (CKH) Act, the Executive Officer is required to review each application and shall prepare a report including his or her recommendation. In order to prepare and to update spheres of influence, the Commission shall conduct a service review of the municipal services and shall prepare a written statement of its determinations with respect to six specific areas. This addendum serves to satisfy these requirements.

Since a substantial amount of work has gone into preparing the Preliminary Revised Draft Sphere of Influence/Municipal Service Review, this addendum will “tier off” the draft document and only amend those sections which require changes to reflect this agency’s viewpoint, correct errors, update information, add additional information and/or incorporate, where appropriate, comments received from interested parties. Each section begins with a discussion concerning the background related to the issue such as previous work and comments received. A focus will be given to identifying when there may be a different opinion on a specific topic. The areas of controversy are primarily directed to the provision of electric service as a new and different service for SSJID.

1.1 Financial Analysis

A pivotal portion of the MSR is the financial analysis of SSJID’s ability to provide electric service and more importantly if there is a cost savings to the customer over existing and projected PG&E rates. This issue has been addressed by PA Consulting under direct contract to LAFCo on two occasions, PG&E on numerous occasions, MRW, and MBMC. All have resulted in different conclusions.

In 2009 LAFCo retained PA Consulting Group, Inc. (PA) to appraise the market value of PG&E’s distribution assets that SSJID proposed to acquire; review and comment on each of the appraisal reports from SSJID and PG&E; and review and assess the viability of SSJID’s retail electric business plan. PA’s Market Expert Report was released on May 21, 2010. PA concluded that the plan prepared by SSJID was “financially infeasible without raising assumed rates [for electric service] or infusing more equity than what is assumed.”[PA Report, pg.7-1.]. Subsequent to the release of the PA Report, the District prepared a Supplement to its Application providing further analysis.
On February 23, 2011, a revised version of the PA Report was released that took into consideration the Districts’ Supplemental Application, as well as comments from SSJID and PG&E. Based on the findings in the February 23, 2011, PA Report, the SSJID Board of Directors adopted Resolution No 11-03E, which reaffirmed the District’s commitment to provide retail electric service at rates 15 percent below PG&E rates and authorized the District to make financial commitments consistent with the revised PA Report findings that SSJID would need to invest an additional “...$15 million on average per year over the term of the business plan in order to achieve a flat 15% rate discount to PG&E’s rates” [PA second report p.7].

SSJID noted in its Supplement that it accepted the PA Report’s conclusions of value and wholesale power costs to demonstrate to San Joaquin LAFCo that, “it [SSJID] has sufficient revenues to operate the Project, including the ability to provide retail electric service at a 15 percent discount.” However, the District also stated that it was not confirming its agreement with PA’s conclusions for any other proceeding, and that it would reserve the right to contest PA’s conclusions in the future.

The next step was the Workshop held on January 20, 2012. A substantial number of comments were received. In early 2013, SSJID and LAFCo agreed to go back to PA to address the comments received and to update changes to power costs and perhaps rates. A scope of services was developed and a responsive proposal was received from PA. SSJID then decided not to pursue a review by PA but instead prepare its own Financial Analysis and MSR. Both PG&E and LAFCo responded regarding this approach. (See letters dated July 12, 2013; June 4, 2013; and September 24, 2013)

In 2012 SSJID retained MRW to prepare a financial model and analysis for SSJID’s retail electric plan. The analysis updated the Market Expert Report prepared by PA Consulting Group and addressed many of the issues raised in comment letters on the November 21, 2011, Draft SOI Plan/MSR. In Fall 2013 SSJID provided Mintier Harnish the financial model and results of MRW’s analysis in a report titled The South San Joaquin Irrigation District Retail Electric Financial Analysis (September 19, 2013). This document is referred to in the first Preliminary Draft SOI Plan/MSR as the “MRW Analysis” (Appendix D: MRW Analysis). The MRW Analysis indicated a positive cash flow of $450 million over 30 years, while a previous PA Consulting Market Expert Report from February 2011 indicated a negative cash flow of approximately $440 million, a difference of nearly $900 million.

In a letter to Mintier Harnish on December 20, 2013, SSJID stated its preference for the SOI Plan/MSR to rely on the MRW analysis prepared in September 2013. In SSJID’s opinion, MRW’s work was a more current and thorough analysis of SSJID’s plan. SSJID authorized Mintier Harnish to select, retain, and direct the services of Michael Bell Management Consulting (MBMC) to conduct a review to confirm the accuracy of the MRW analysis and its reasonableness for use in the SOI Plan/MSR.

At the request of Mintier Harnish and MBMC, MRW conducted additional analysis. MBMC then prepared a Peer Review Report (Appendix E: MBMC Peer Review Report of the draft report dated March 2014) that analyzed and opined on the key assumptions and conclusions made in the MRW analysis of the financial feasibility of SSJID’s retail electric plan, as well as additional analysis.
At the June 12, 2014, San Joaquin LAFCo meeting, the Commission considered a recommendation from the Executive Officer to engage the services of PA Consulting to update the independent evaluation of South San Joaquin Irrigation District’s proposal to acquire certain PG&E’s electric distribution and to provide retail electric service to SSJID customers. At the conclusion of the meeting, the Commission did not accept the Executive Officer’s recommendation but instead requested PG&E and SSJID to meet with Mintier Harnish and MBMC to discuss differences in assumptions and methodologies in an attempt for both parties to better understand each other’s data sources, rationale for assumptions, and possibly narrow the differences between parties.

Mintier Harnish, with the assistance of Michael Bell, facilitated meetings with PG&E, MRW & Associates, SSJID staff, and the San Joaquin LAFCo Executive Officer and legal counsel on July 2, 2014, and July 21, 2014 at the offices of Neumiller & Beardslee in Stockton. Mintier Harnish and Michael Bell also conducted several conference calls with the aforementioned parties between and after the scheduled meetings. Throughout June, July, and August 2014, Mintier Harnish and Michael Bell coordinated information and data sharing among MRW & Associates and PG&E and clarified the positions and assumptions of both parties.

Although the meetings and discussions were productive in terms of better understanding the parties’ assumptions, data sources, and forecast methodology, this also presented the opportunity for debate and disagreement. The difference between the two forecasts is nearly $1.5 billion. MRW & Associates’ unlevered cash forecast is approximately $58 million lower than their original $450 million forecast and $832 million greater than the 2011 PA Consulting Forecast. PG&E’s unlevered cash forecast of negative $1.186 billion is approximately $746 million less than the negative $440 million contained in the 2011 PA Consulting forecast.

Finally, as part of this process, MRW & Associates and PG&E agreed to use the MRW model as the tool to compare assumptions. Both parties also agreed to provide quality control, which they did, so that there would not be disagreement on the results of the assumptions, even though both parties may not agree on the appropriate assumptions.

Although there remains a large gap in results of modeling preferred by MRW & Associates and PG&E, this process was able to generate agreement for Operation and Maintenance (O&M) and Administration and General (A&G) forecasts, and further refinements to Power Cost, Public Benefits, and In Lieu Tax calculations. There continues to be considerable differences of opinion between MRW & Associates and PG&E concerning Rate Revenue, Capital Additions, Exit Fees and Acquisition Cost.

At the conclusion of the September 22, 2014 workshop, the Commission directed staff to prepare an Agency MSR and to set the matter for hearing on December 10, 2014. In developing the Agency’s MSR, staff reviewed and considered the previous assumptions used by PA, PG&E, MRW and MBMC. In addition, staff considered all comments received and reviewed the various PowerPoint presentations submitted to the Commission on September 22, 2014. LAFCo staff requested MRW to prepare several model runs testing various assumptions. The meetings requested by the Commission at its June 12, 2014 meeting, for PG&E, Mintier Harnish, SSJID, and MBMC to meet were helpful in arriving at this
Starting Point

Table 1 provides a comparison of the final results of MRW & Associates’, PG&E’s and MBMC’s preferred assumptions for the first 10 years of the analysis. The MRW & Associates assumptions result in a positive cash flow to SSJID of $54.8 million while the PG&E assumptions result in a negative cash flow of $302.1 million and MBCM assumptions resulted in a positive cash flow of $34.4 million.

The largest differences among the models are in Revenue, Cost of Power, Capital, Exit Fees, and Debt Service. Rate Revenue accounts for $66.8 million of the $75 million difference in Revenues. Most of the Expense difference occurs in the Cost of Power and Exit Fees. PG&E’s Capital forecast is more than twice that of MRW & Associates. The Debt Service difference is $208.3 million, and is a result of the acquisition cost SSJID would pay to take over PG&E facilities and will be determined through a subsequent process.

**TABLE 1: 10 YEAR SSJID-PG&E CASH FLOW**

<table>
<thead>
<tr>
<th>CASH FLOW DIFFERENCES (2015-2024)</th>
<th>MBMC ADJUSTMENTS 2015-2024</th>
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</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td><strong>MBMC</strong></td>
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<td>GHG</td>
<td>$33,822 30,475 PG&amp;E Input</td>
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<tr>
<td>Interest</td>
<td>10,976 5,920 5,056</td>
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<tr>
<td><strong>EXPENSE</strong></td>
<td><strong>NOTES</strong></td>
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<td>Power Cost</td>
<td>$575,724 MRW Input</td>
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<td>O&amp;M/A&amp;G</td>
<td>$106,687 106,687 Agreed by PG&amp;E/MRW</td>
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<tr>
<td>Public Benefits</td>
<td>$40,039 29,792 MRW Input</td>
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<td>In Lieu Taxes</td>
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<td>Exit Fees</td>
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<tr>
<td><strong>EBITDA</strong></td>
<td><strong>$280,886 $181,655 $99,231</strong></td>
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</table>

Note: Calculated based on cash balances
Table 2 provides a comparison of the final results of MRW & Associates’, PG&E’s and MBMC’s preferred assumptions for the entire forecast period (2015 to 2044). The gap between the parties is almost $1.5 billion over the 30-year forecast period.

The largest differences between MRW & Associates and PG&E over the 30-year analysis are in Revenue, Cost of Power, Capital, Exit Fees, and Debt Service. Rate Revenue accounts for $634 million of the $833 million difference in Revenues. Most of the Expense difference occurs in the Cost of Power and Exit Fees. These are due to forecasted price differences in Cost of Power, and the difference between a “small” and “large” municipalization. PG&E’s Capital forecast is more than twice that of MRW & Associates, based upon the analysis performed by both organizations. The Debt Service difference is $644.5 million, and is a result of the acquisition cost SSJID would pay to take over PG&E facilities and will be determined through a subsequent process.
<table>
<thead>
<tr>
<th></th>
<th>169,062</th>
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<td>EBITDA</td>
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<td>$189,935</td>
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<td>($200,735)</td>
<td>$316,725</td>
<td>PA $7.5 million Capital Scenario</td>
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<td>$549,629</td>
<td>$1,194,140</td>
<td>($644,511)</td>
<td>$549,629</td>
<td>PA Consulting Estimate updated for RCNLD and Retirements ($310 million)</td>
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<td>UNLEVERED CASH</td>
<td>$391,610</td>
<td>($1,186,186)</td>
<td>$1,577,796</td>
<td>$351,611</td>
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**LAFCo Major Model Assumptions**

This section compares the major revenue and expense assumptions used by MRW & Associates, PG&E and MBMC to generate the forecasts and the rationale of LAFCo to use either an MRW & Associates; PG&E; MBMC; or PA Consulting assumptions or to update or modify the source data. In all cases LAFCo used assumptions from MRW & Associates, PG&E, or PA Consulting. LAFCo updated the electric load data and the PG&E rates to reflect the most current amounts. The LAFCo’s model incorporates the January 2015 PG&E rate increase.

**Revenues**

Revenues consist of three major components, Rate Revenue, Green House Gas Revenue, and Interest. Assumptions and conclusions for each of these are provided in this Section.

**Rate Revenue**

The most complicated assumption outside of the purchase price is the forecast of Rate Revenue. The differences in the Rate Revenue forecast for the first 10 years is not as great as the amount over 30 years as the three assumptions diverge over time. During the initial 10 years, MRW & Associates’ projected revenue for SSJID is $66.8 million greater than that projected by PG&E. MBMC uses the same input as MRW. This amounts to a difference of approximately 7 percent. Over the entire 30-year period
it balloons to approximately 17 percent, or $634 million. MBMC’s 30 year forecast is $251 million less than MRW and $382 million more than PG&E.

MBMC contends that in the short term the MRW & Associates revenue estimate is better justified, since it is more thoroughly documented and explained. In MBMC’s opinion the PG&E forecast could not be adequately substantiated since much of the underlying data was not available. PG&E contends that their short term rate forecast was developed and submitted to the CPUC as part of the General Rate Case. It is the regulatory agency requirements that prevent disclosure of confidential information. This should not be a reason to reject PG&E’s officially filed information. LAFCO disagrees with the basis for MBMC rejection of this forecast and uses the PG&E’s rate filings to account for a 7.7% increase as of January 2015 as well as any of the adjustments (plus or minus) made during 2014 and any corresponding load changes. LAFCo uses the PG&E rate filings for the escalator until 2024 as adjusted by the amendments to rates during 2024 and the 7.7% increase in 2015. LAFCo uses PA’s rate escalator of 1.75% for the time period for 2024-2044. This is the same rate escalator that MBMC uses but a corrected value for 2014 rather than 2013-2043 time period used by MBMC.

**Green House Gas Allowances**

MRW & Associates projected that SSJID’s GHG allowance revenues would be $33.8 million from 2015-2024, and $133.5 million over the full 30-year period. PG&E estimated SSJID’s revenues would be $30.5 million and $95.7 million for the same time periods. MBMC accepted PG&E’s assumptions.

MRW & Associates based their estimate on their 2013 Base Case forecast through 2020, and kept allocation levels constant beyond 2020. PG&E used the MRW price, but decreased the quantity of GHG allowances in future years. MBMC chose to use the more conservative PG&E assumption for purposes of this analysis because the likelihood of GHG allowance reductions is more likely than not.

MRW & Associates has taken issue with PG&E’s GHG allowance volume and the use of MRW price assumptions as they claim that they are not consistent with other components of the PG&E cost and revenue forecast. Although this might be the case, given the amount of the difference, MBMC chose to use the more conservative and likely PG&E assumptions and calculations for GHG allowances.

This results in revenues that are approximately $3.3 million less than what MRW & Associates projected for years 1-10, and $37.9 million less over the 30-year forecast.

LAFCo accepts MBMC assumptions.

**Interest**

Within the MRW model, interest is generated based upon available cash balances times an investment rate of between 2 and 5 percent, depending upon the year. The difference between MRW &
Associates’, PG&E’s, and MBMC’s projection of interest is solely the result of available cash balances since both calculations assume the same interest rate.

**Expenses**

Expense categories contained in the analysis include the Cost of Power, Operations and Maintenance (O&M) and Administrative and General (A&G) costs, Public Benefits and Low-Income programs costs, Payments in Lieu of Taxes, Exit Fees and Nonbypassable payments to PG&E, Capital Expenditures, and Debt Service payments. There are major differences of opinion between MRW & Associates, PG&E and MBMC regarding Cost of Power, Exit Fees, and Nonbypassable Payments to PG&E, Capital Expenditures, and Debt Service.

**Cost of Power**

MRW & Associates projected that SSJID’s Cost of Power would be $575.7 million in years 1-10, and $2.761 billion over the 30-year analysis. PG&E’s forecast for the same time periods were $569.2 million, and $2.672 billion, respectively. The difference between the two forecasts is due to different forward price assumptions, including capacity, energy, market, and renewable prices, among other inputs. MBMC’s forecast is significantly less than MRW and PG&E over the 30 year analysis (11.6% and 18 % respectively). MBMC uses MRW assumptions for the first 10 years.

Consistency between the Cost of Power and Rate Revenue should be expected, because the cost of power is the largest of all cost components. For the first 10 years MBMC suggests that the MRW forecast was conservative and consistent with likely power cost projections and trends, and is consistent with MRW’s year 1-10 Rate Revenue forecast. For years 11 through 30, MBMC, however, subjectively increases power costs at a 2% rate which does not corresponds to any specific rate forecast which result in a substantially lower number. LAFCo uses the corresponding power costs developed by PA which is widely known for their work in this area.

Also, with respect to the long term forecast, most of the models assume that there will be a “resource constraint” sometime in the planning period. A resource constraint is when there is inadequate capacity to handle the load and more generation facilities are needed. It is assumed that when this occurs, the cost of power is increase considerably to pay for this increase in infrastructure. PA, in 2011, assumed that this would happen in 2014 and that a large increase would be driven by the assumption that the wholesale power market would need new capacity at that time, and market prices are expected to increase at that time to reflect the cost of new capacity. The following chart displays the projected power rate impact of PA’s power price projections:
Figure 1: Projected Rate Impact of Power Price Projections

The “resource constraint” did not occur in 2014 and it is not expected to occur in the short term (2014-2024). It is expected, however, to occur in the planning period (2024-2044). This will result in an increase in the cost of power. PA had this “built in” into the short term pricing of power cost but not the long term. MBMC did not build this into either time period. As a result MBMC uses an independently derived number of a 2.0% escalator which does not correspond to a correlated rate revenue assumption. If MBMC is to assume PA rate revenue for the 2024-2044 period to reflect PA’s 30 year projection (technically 1.75 not 1.8) then the corresponding cost of power should be 3.3%. LAFCo corrects this assumption.

MRW argues that PA over-estimated the impact of higher resource costs on SSJID’s costs by not accounting for the financing and tax benefits of public agencies and under-estimated the impact of higher resources costs on PG&E by not accounting for PG&E’s resource adequacy needs or the needs of the roll out of PG&E’s non-QF contracts. MRW contends that these flaws significantly distort PA’s results. MRW’s argument relies upon a theoretical position that is not supported over time from the empirical data. LAFCo favors PA’s assessment.

Operation & Maintenance/Administrative & General

An area of agreement between SSJID, PG&E and MBMC is Operations and Maintenance (O&M) and Administrative and General (A&G) costs. All parties agreed to $106.7 million in years 1-10, and $386.6 million over the 30-year analysis. LAFCo uses this assumption.

Public Benefit Cost

MRW & Associates forecast Public Benefit Cost to be $40 million in years 1-10, and $169.1 million over the 30-year analysis. PG&E forecast $29.8 million and $97.1 million, differences of $10.2 million and $72 million, respectively.
SSJID has committed to allocate funding for public benefit and low-income programs equal to 4 percent of gross retail electric revenues. Since the level of Public Benefit Cost is assumed to be 4 percent of Rate Revenue, MBMC has calculated this cost based upon the revenue forecast. For the first 10 years, it is the same as the MRW & Associates assumption. Over the entire 30-year period the Public Benefit Cost is $158 million. This is $10 million less than the MRW & Associates forecast, but $61 million higher than the PG&E forecast. LAFCo uses a 4% calculation base on revenues consistent with SSJID’s application.

**Payments In Lieu of Taxes**

MRW & Associates forecast Payments in Lieu of Taxes to be approximately $24.3 million in years 1-10, and $97.7 million over the 30-year analysis. PG&E forecast $23.4 million and $95.8 million, differences of $0.9 million and $1.9 million, respectively. The difference between forecasts is relatively minor. LAFCo calculated in lieu taxes based on revenues.

MBMC incorrectly deleted this cost from the model. There is a cost associated with In Lieu taxes and franchise fees. All other models have incorporated these costs. Whether SSJID simply pays these fees from non-electric rates or not will be determined in the future. SSJID argues that they can be taken from the rates without an election. LAFCo counsel has opined that these fees are subject to Proposition 26 and 218 restrictions. Ultimately these fees could be funded directly through rates and will be a cost that needs to be considered in the financial analysis.

**Exit Fees and and Nonbypassable Payments to PG&E**

Exit Fees and Nonbypassable Payments to PG&E are another major source of disagreement between MBMC/MRW & Associates and PG&E, because SSJID argues that the CPUC will view its municipalization of PG&E's system to be “small”. PG&E contends that the CPUC will consider it to be a “large” municipalization, subjecting SSJID to additional costs and charges. The difference between the two forecasts for Exit Fees is $57.8 million.

MRW & Associates forecast costs to be $18.1 million in years 1-10, and $20.8 million over the 30-year analysis. PG&E forecast $59.8 million and $78.6 million for the same time periods, respectively.

CPUC will not make a ruling until SSJID is authorized to provide electric service. It should be assumed that SSJID’s plan would be considered a large municipalization because it cannot be determined at this time how the CPUC will decide this issue, and a large municipalization would represent a more conservative or "worse-case" scenario. LAFCo uses an assumption for a “large” municipalization in this analysis.

**Capital Costs**
There are considerable differences between MRW & Associates and PG&E regarding future capital costs. MRW & Associates forecast $48.4 million in years 1-10, and $189.9 million over the 30-year analysis. MRW & Associates’ contends that their estimate is based upon a comparison of other publicly-owned utilities similar in size to SSJID. PG&E developed their own forecast of capital spending for the first 10 years based upon additions that they project for the SSJID service area, and then inflated future years at the MRW escalation rate. PG&E also reviewed actual costs for capital addition in the SSJID service territory. PG&E forecasts capital costs to be $97.8 million in years 1-10, and $390.7 million over the 30-year analysis. The difference in years 1-10 is $49.4 million, and is $200.8 million over the life of the analysis. The PG&E forecast is more than double the SSJID forecast.

MBMC decided to use the higher of the two PA Consulting forecast amounts, which begins with capital additions of $7.5 million and escalates over time. MBMC concludes that the independently-developed PA Consulting forecast, which considered input from SSJID and PG&E, is best for purposes of this analysis. This value also represents a number the PA would expect from an electric provider of this size. LAFCo agrees.

**Debt Service Costs**

Debt Service is a function of the purchase price. MRW & Associates and PG&E agreed to use the same interest rates for comparative purposes (5.4 percent for taxable debt, and 4.9 percent for tax exempt debt). MRW & Associates forecast debt service to be $177.6 million in years 1-10, and $549.6 million overall. The MRW & Associates forecast is based upon an update to the PA Consulting 2012 acquisition cost estimate to add capital additions made by PG&E since 2010, subtract retirements, and recalculate depreciation. The revised cost is now $310 million compared to the original cost of $218 million.

The overall change to the original PA Consulting acquisition cost estimate is provided in Table 5.

<table>
<thead>
<tr>
<th>TABLE 3</th>
<th>ACQUISITION COST ASSUMPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Component</td>
<td>PA 2010 Estimated Cost ($ millions)</td>
</tr>
<tr>
<td>Asset Price</td>
<td>$188</td>
</tr>
<tr>
<td>Other Costs¹</td>
<td>$30</td>
</tr>
<tr>
<td>Total Cost</td>
<td>$218</td>
</tr>
</tbody>
</table>

¹ Other costs include severance costs paid to PG&E, stranded cost: impairment, and other damages. Source: PA Consulting, May 21, 2010
² Other costs include severance costs paid to PG&E, stranded cost: impairment and other damages.

PG&E updated Black & Veatch estimates and added additional cost to its estimate resulting in an overall debt service of $385.9 million in years 1-10 and $1,194.1 million over the 30-year analysis. PG&E’s forecast is $208.3 million higher than SSJID in years 1-0, and $644.5 million higher in total.

MBMC used the revised PA Consulting value of $310 million. Both PG&E and SSJID take issue with this amount as being too high, or too low depending upon the party. LAFCo agrees with MBMC but recognizes that this is an important assumption that will likely be resolve in the courts. It is also important to note that PG&E believes the severance costs is underestimated and will total $183 million ($101 million to separate PG&E facilities and $83 million of cost to SSJID) as compared to the $93 million used in the updated PA assumption. The economic viability is largely dependent on these numbers. The Commission could condition any approval on a maximum value for asset price and severance costs to ensure that the anticipated forecast is accurate or at least not underestimated.

**LAFCo Retail Electric Forecast Model Conclusions**

Results of the Retail Electric Financial Analysis using the assumptions determined by LAFCo for the first 10 years and from 2015 to 2044 are included in Tables 4 and 5, respectively. In both cases the source of each assumption is identified.

All assumptions contained in Table 4 are based on assumptions from MRW & Associates, MBMC, PG&E, or PA Consulting. For Revenue assumptions LAFCO use PG&E inputs for the first 10 years as adjusted for to reflect actual 2014 PG&E’s rate and actual 2013 load data and increases PG&E’s rate forecast to account for a 7.7% increase as of January 2015 as well as any of the adjustments (plus or minus) made during 2014 and any corresponding load changes. PA’s 30 year rate forecast is used for a rate escalator (1.76%/yr.) LAFCo used PG&E assumptions for rate revenue for the first 10 years and PG&E assumptions for GHG revenue. Interest is calculated based upon available cash balances.

For Expense assumptions, LAFCO used PA assumptions for Power Cost. Public Benefits were calculated based on SSJID’s application. LAFCo used a large municipalization assumption for Exit Fees. LAFCo added In-Lieu Taxes. O&M/A&G costs were agreed to by all parties. LAFCo used PA Consulting’s estimate of Capital Cost. Debt Service is based on PA Consulting’s $218 million acquisition cost, adjusted to $310 million based upon more recent investment information from Black and Veatch.

The result of the projected first 10 years using these assumptions is a negative unlevered cash flow to SSJID of $82.2 million.

<table>
<thead>
<tr>
<th>Table 4: Forecast Model Conclusions (2015-2024) ($000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LAFCo Scenario Results</strong></td>
</tr>
<tr>
<td><strong>Notes</strong></td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>Rate Revenue</td>
</tr>
<tr>
<td>$934,586</td>
</tr>
<tr>
<td>PG&amp;E input (including PG&amp;E’s 2013)</td>
</tr>
</tbody>
</table>
loads), adjusted for PG&E-filed increases through January 2015

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenhouse Gas</td>
<td>30,475</td>
<td>PG&amp;E input</td>
</tr>
<tr>
<td>Interest</td>
<td>5,869</td>
<td>Calculated based on cash balances</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$970,931</strong></td>
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</tbody>
</table>

**Expense**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Cost</td>
<td>$560,940</td>
<td>PG&amp;E input</td>
</tr>
<tr>
<td>O&amp;M/A&amp;G</td>
<td>106,687</td>
<td>Agreed by PG&amp;E/MRW</td>
</tr>
<tr>
<td>Public Benefits</td>
<td>37,383</td>
<td>Calculated based on revenues</td>
</tr>
<tr>
<td>In Lieu Taxes</td>
<td>23,365</td>
<td>Calculated based on revenues</td>
</tr>
<tr>
<td>Exit Fees</td>
<td>59,780</td>
<td>PG&amp;E input (large municipalization)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>$788,155</strong></td>
<td></td>
</tr>
</tbody>
</table>

**EBITDA**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>$182,776</td>
</tr>
</tbody>
</table>

**Capital**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Capital</strong></td>
<td><strong>$87,396</strong></td>
<td>PA $7.5 million scenario</td>
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</tbody>
</table>

**Debt Service**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service</td>
<td><strong>$177,589</strong></td>
<td>PA updated using RCNLD methodology</td>
</tr>
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</table>

**Unlevered Cash**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unlevered Cash</strong></td>
<td><strong>($82,209)</strong></td>
</tr>
</tbody>
</table>

Assumptions contained in Table 5 summarize the entire 30-year forecast period using MRW & Associates, PG&E, MBMC, or PA Consulting assumptions.

For Revenue assumptions, LAFCo used PG&E’s input through 2024 and PA Consulting’s assumption of an average annual 1.75 percent increase for 2024 through 2044. LAFCo used MBMC (PG&E) assumption for GHG revenue. Interest is calculated based upon available cash balances.

For Expense assumptions LAFCo used the calculation based on revenue for Public Benefits. LAFCO used PG&E’s assumption for Exit Fees (large municipalization). LAFCo used the PA assumption for Cost of Power in years 2025-2044. LAFCo added In Lieu Taxes. O&M/A&G cost were agreed to by all parties. LAFCo used PA Consulting’s estimate for Capital Cost. Debt Service is based on PA Consulting’s $218 million acquisition cost, adjusted to $310 million based upon more recent investment information from Black and Veatch.
The results of the Financial Model Analysis, given the assumptions of LAFCo, produce unlevered negative cash forecast of approximately $440 million over the full 30-year analysis.

| Table 5: Forecast Model Results (2015-2044) ($000) |
|-----------------------------------------|---------------------------------|-------------------------------|
| **LAFCo Scenario Results**          | **Notes**                       |
| **Revenue**                           |                                 |
| Rate Revenue                          | $3,560,818                      | PG&E input through 2024; PA 30-year rate escalator for 2024-2044 (avg.: 1.75%/yr) |
| Greenhouse Gas                        | 95,653                          | PG&E input                   |
| Interest                              | 40,514                          | Calculated based on cash balances |
| **Subtotal**                          | **$3,696,985**                  |                               |
| **Expense**                           |                                 |
| Power Cost                            | $2,574,758                      | PG&E input through 2024; PA 30-year cost escalator for 2024-2044 (avg: 3.2%/yr) |
| O&M/A&G                               | 386,637                         | Agreed by PG&E/MRW           |
| Public Benefits                       | 142,433                         | Calculated based on revenues |
| In Lieu Taxes                         | 89,020                          | Calculated based on revenues |
| Exit Fees                             | 78,562                          | PG&E input (large municipalization) |
| **Subtotal**                          | **$3,271,409**                  |                               |
| **EBITDA**                            | **$425,576**                    |                               |
| **Capital**                           | **$316,725**                    | PA $7.5 million scenario     |
| **Debt Service**                      | **$549,629**                    | PA updated using RCNLD methodology |
Summary of LAFCo Financial Analysis Conclusions

The results of the LAFCo analysis show a negative cash flow for the initial 10 years (negative $82.2 million) and for the overall 30 year planning period (negative $440 million) assuming a 15% discount over PG&E’s rates. With a 15% discount, under the LAFCo model, SSJID would have to contribute an average annual equity of $15.6 million with a maximum annual equity of $32.9 million for a total contribution (excluding the first year) of $468 million. If SSJID were to breakeven for the electric operations, thereby not requiring a continuous equity contribution, the savings over PG&E rates would have to be 4.4%. Even with this breakeven scenario, SSJID would still need to contribute equity in years 2042 ($6.2 million), 2043 ($12.4 million) and 2044 ($14.0 million). In order to not contribute any equity, the rate would need to be a savings of only 3.3%. The 4.4% savings over PG&E’s rates is, however, the breakeven scenario. In order to maintain the 15% discount with the LAFCo assumptions and a zero net cash flow the total acquisition cost would need to fall to $118 million. This would require an asset purchase price of $27 million. LAFCo uses the 4.4% discount without annual equity contributions for the analysis in this addendum.

1.2 California Alternative Rate for Energy (CARE)

PG&E is subject to Section 739.1 of the California Public Utilities Code, which requires that electric rates be discounted by at least 20 percent for households with incomes up to 200 percent of Federal poverty guideline levels via the California Alternative Rates for Energy (CARE) program. PG&E’s current electric rates for CARE customers in San Joaquin County range from 37 percent to 60 percent below standard residential rates. This is far above the mandated 20 percent. As a result of these high rates for CARE customers, both PG&E and the CPUC have agreed in recent years to reduce the subsidy provided to CARE customers.

As a public utility SSJID is not required to provide CARE program rates; however, SSJID would be subject to the requirements of Article 8, Chapter 2.3, Part 1, Division 1, of the California Public Utilities Code addressing Publicly Owned Utilities (commencing with Section 385). Furthermore, in its original application to provide retail electric service, SSJID indicated it plans to use the same rate design structure that is currently being used by PG&E for customers within SSJID’s service area but did not commit to match the CARE program. The only reference to a low income program is a part of the 4% set aside for public benefits. Mintier Harnish concluded that SSJID has not provided any details on how it plans to provide a low-income rate discount program. Mintier Harnish also found that it is not entirely clear whether SSJID intends to match PG&E CARE rate discounts through its public benefits programs, or separately as a program within its basic rate structure. Mintier Harnish erred in arriving at this
conclusion based on the information available at that time. The issues was not unclear, SSJID did not commit to CARE subsidy needed to maintain the current discount. The only subsidy was a reference in Public Benefit Program which would provide about $3.5 million to be divided among several programs where at least $8 million would be needed for the CARE program alone. The Mintier Harnish report should have disclosed that there would not be any rate saving for CARE customers and that their rates could increase by about 15-20% above their present rates assuming a 15% discount from the PG&E rate structure, a conclusion that no longer supportable.

However, on October 2, 2014, following the September 22, 2014 workshop, SSJID indicated that they do intend to fund low income discounts in addition to the 4% of gross revenue allocated to public purpose programs. “The Districts’ commitment is to structure its CARE rates in the same manner as PG&E, with the addition of a 15% reduction from PG&E’s rates. By using PG&E’s rate structure as the basis for SSJID’s CARE rates, SSJID would ensure that all eligible CARE customers receive a 15% discount form their PG&E’s CARE rates.” This amendment resolves this CARE program issue. The funding for the CARE program has been incorporated in each of the financial models including LAFCo’s evaluation. The reduction in SSJID’s CARE rates over PG&E’s CARE rates, however, would be subject to the financial projection in which LAFCo’s model shows only a 4.4% discount.

1.3 Border Area Alternative

Approximately 1,500 customers located in areas outside of SSJID’s territory are served by facilities that would be affected by the change in service provider (See Figure 4-12-Border Area). These customers are in areas that would continue to be served by PG&E or MID, or in areas where MID would potentially replace PG&E, within the PG&E/MID competitive service area. SSJID intends to implement one of several options as part of the plan to provide electric service to ensure these border-area customers are served without disruption and to avoid duplicate distribution facilities around the SSJID boundaries. These options include:

- **Contract Solely with PG&E**

  SSJID could establish a wholesale metered agreement with PG&E. Under such an agreement, SSJID would install its own circuits extending into PG&E’s service area at the SSJID/PG&E territory boundary, and PG&E would retain responsibility for serving and billing customers on these circuits within its remaining service area.

- **Contract with MID and PG&E**

  SSJID could establish wholesale distribution and metering agreements with MID and PG&E to serve border area customers.

- **Contract Solely with MID and Construct Underbuilds**
If SSJID cannot implement a service agreement with PG&E, but is able to establish an agreement with MID, MID would provide service to border area customers for areas it is authorized to serve.

- **Construct Underbuilds for all Border Areas**

If SSJID cannot implement service agreements with PG&E or MID, the District would need to construct additional facilities outside its boundaries in order for areas adjacent to the District to continue to receive service. PG&E and MID would continue to serve these areas.

The first two options do not appear viable because PG&E cannot be compelled to enter into contracts and PG&E has stated that it has no interest and any agreement between competitors to divide customers would implicate antitrust concerns. With respect to contract with MID, Mintier Harnish stated that “MID found that it would be feasible to provide service to these areas, subject to specific terms and conditions.” This information in refuted in letter dated April 18, 2014 from MID that this conclusion is “based on outdated sources”. Therefore the viability of this option must be questioned.

There is simply no positive outcome for this border area. If MID would provide service, several impacts would occurred. If PG&E provides service there are also substantial issues as outlined below:

<table>
<thead>
<tr>
<th>MID Option</th>
<th>PG&amp;E Option</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase rates for customers below 668kWh/month-about half of all customers</td>
<td>32 miles of new taller poles</td>
</tr>
<tr>
<td>No PG&amp;E CARE program- only MID CARE program (less subsidy more restrictive qualifications)</td>
<td>Safety concerns with sharing of poles and facilities</td>
</tr>
<tr>
<td>No political representation –outside district</td>
<td>Additional $10 million in construction cost</td>
</tr>
<tr>
<td>Loss of property tax (unitary tax) to 160 agencies and taxpayers in school districts with bond indebtedness</td>
<td>Visual impact of improvements</td>
</tr>
<tr>
<td>Reduce public benefit programs</td>
<td></td>
</tr>
<tr>
<td>Loss of Franchise fees/income/ state taxes/ VLF</td>
<td></td>
</tr>
</tbody>
</table>

LAFCo could impose a condition of approval that ensures border area customers continue to receive PG&E service which would avoid the effects outlined for the MID option but not the effects outlined under the PG&E option.

### 1.4 Public Benefits Spending

The discussion in the Mintier report appropriately assesses this topic. Mintier Harish concludes “that SSJID’s retail electric plan would result in less public benefit programs spending than what is estimated
to be provided by PG&E”. SSJID has committed to spending 4 percent of its gross retail electric revenue on public benefits programs. This was estimated to be $3.40 million in 2015 (Mintier Harnish/MBMC Analysis). In 2015 PG&E will spend an estimated 4.5 percent ($4.63 million) of the revenue it generates from customers within SSJID’s service area on public benefit programs. This is $1.23 million more than what SSJID is expected to spend. Mintier Harnish suggest that SSJID should match or exceed the funding provided by PG&E in order to limit impacts to customers. SSJID, in their comments of October 2, 2014 disagrees that it needs to spend the same amount of money as PG&E maintains it is currently spending in order to limit impacts to customers. SSJID believes that it can deliver more benefit to its local customers due to less administrative costs. The record shows that there is less money and fewer programs under the SSJID proposal.

1.5 Property Tax and Franchise Fees

Mintier Harnish asserts that SSJID has committed (Resolution 12-13-E) to maintain the same amount of franchise fee revenue to the cities of Escalon, Manteca, and Ripon, and the same amount of property tax revenue to be paid to San Joaquin County for distribution to affected agencies. This was inaccurate. This resolution commits to the same amount of revenue to Manteca, Escalon, and Ripon as currently receives from franchise fees. It does not commit to any property tax loss. It is silent on any increases in the future. The resolution commits to franchise fees and property tax to the County that it currently receives. This leaves out the other 156 agencies that receive unitary tax from PG&E. This also leaves out an approximate $235,000 loss to individual property owners in the County and within nearby school districts outside the County. However, on September 9, 2014, SSJID passed Resolution No. 14-12-E expanding their commitment to pay the franchise fee to the three cities and County and property tax (unitary tax) to all of the districts in the County. With the passage of this resolution, the issue of the distribution of fees has been resolved. The source of revenue to pay these fees remains an issue.

Now that the commitment to reimburse the affected agencies is resolved in order to enable the San Joaquin Governmental Agencies to be “revenue neutral”, the question now focuses on the source of revenue to pay these fees. LAFCo’s legal counsel has opined that if the revenue comes from electric rates, then Proposition 26 and 218 apply which would require an election of the voters since the payments of the fees would be considered a tax. Public utilities are not specifically required to pay these fees. SSJID has emphatically stated that they will not hold an election. LAFCo’s legal counsel has also opined that order to avoid an election, the revenues must come from non-fee sources such as Tri-Dam funds or other funds available to the District from non-fee sources. If LAFCo conditions the change of organization on SSJID’s payment of in lieu fees/and or in lieu property taxes, then this would more than likely not be deemed a gift of public funds since the fees are being required as a condition of SSJID’s application to activate its retail electric services power and would serve the District’s purpose. In any event, without an election there remains a risk that reimbursement of these in lieu fees/and or in lieu property taxes could be challenged. LAFCo has no present authority and no future authority to require an election in order to assure the payments to the entities. In conclusion, there remains a risk that an estimated $962,276 in property taxes and $766,400 in franchise fees could be in jeopardy under the proposed electric plan.
SSJID is not planning to pay in-lieu fees for vehicle license fees (VLF) paid by PG&E. Assuming PG&E sells the vehicles it uses to serve areas within SSJID, transfers them from San Joaquin County, or otherwise disposes of them, SSJID’s plan could result in a loss of $41,500 to the State, San Joaquin County, and the cities in the county. SSJID’s plan would result in a loss of Federal and State income taxes. SSJID is not required to pay income taxes and have no plans to do so. Mintier Harnish has concluded that LAFCo could condition approval of SSJID’s plan to require that SSJID pay in lieu, State and Federal income taxes that would otherwise be paid by PG&E.

1.6 Consolidated Budget

The analysis of the consolidated budget relies upon the data expressed in Table 5-4 (SSJID Historic Surplus Water and Wholesale Power Sales Revenues) and Table 5-5 (SSJID Projected Surplus Water and Wholesale Power Sales Revenues). These two tables represent very divergent viewpoints. The historic data show a significant downward trend in revenues yet the projected revenues show a turnaround in 2015 and a continuous and steady upward projection in revenues. According to Mintier Harnish the information in Table 5-5 reflects SSJID’s projections. Mintier Harnish stated that while carrying forward the historic average from Table 5-4 is an option; that wouldn't account for likely increased revenues in 2017 when SSJID is no longer under contract to sell Tri-Dam Power Authority power to PG&E and instead sells it under a new contract or the open market. SSJID expects to increase its revenue when this contract expires. SSJID also expects likely surplus water sales increases that will occur in normal and wet years. Given the drought and tightening groundwater regulations in the Valley, the price of water can be expected to increase in the future. Unlike other water purveyors, SSJID’s water rights are senior and even during some less severe dry years the District often has surplus water it can sell. It could be assumed that, on average, SSJID will sell water at higher than historic prices and generate more revenue. LAFCo has no other source of information to confirm or refute the data contained in these tables.

Revised Tables Table 5-6 and 5-7 presents SSJID’s consolidated budget with retail electric service, assuming SSJID would provide rates 4.4% percent below PG&E rates for all customer classes, including low-income customer rates (i.e., CARE rates). LAFCO’s financial model results in $40.2 million in net income, 774 days cash on hand, and a debt service coverage ratio of 267%. The addition of retail electric service would add this new service to the District’s consolidated budget with its other business lines (e.g., irrigation, water treatment, drainage). SSJID maintains positive cash flow and there is no need for SSJID to provide ongoing equity contributions to subsidize the retail electric service under the 4.4% scenario with the exception of a subsidy in the years 2042, 2043 and 2044 ($6.3 million; $12.4 million; and, $14.0 million respectively). In order to provide no subsidy in any year the rates would need to 3.3% percent below PG&E rates.

|-----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|
According to SSJID, since 2008 the District has provided about $5.95 million on average in annual subsidies to augment the full costs of irrigation and the solar farm. Since 2006 SSJID has generated an average of about $12.3 million per year in revenue from the sale of wholesale electricity and surplus water. This is well above the amount used to subsidize irrigation operations and rates and solar farm operations and has allowed SSJID to increase cash reserves to over $53 million (2014). In 2014, however, revenues only accounted for $4.9 million.
According to Mintier Harnish, SSJID expects to continue using these revenues to subsidize irrigation operations and rates and solar farm operations. SSJID anticipates the average commitment for this subsidy will continue to be about $5.9 million per year through 2019. After 2019, when SSJID 2012A bonds will be fully paid, the amount needed to subsidize these operations and services is expected to fall to about $3.3 million per year. If SSJID began providing retail electric service it is anticipated that additional revenues would need to be committed by SSJID to meet a portion of the public purpose and low-income programs and in-lieu taxes and fees commitments. In total, SSJID would be committing to contribute a near-term (i.e., 2015 to 2019) average of $9 million per year and longer-term (i.e., 2020 to 2040) average of $7.4 million per year to cover these costs. Approximately $3 million per year of revenue from the wholesale power and water sales is necessary to fund programs for retail electric operations in the short term with the subsidy increasing to $4 million in the long term.

The Mintier Harnish report does not consider any long term capital improvement projects in its consolidated budget forecast because SSJID does not have a Capital improvement program or equivalent document but uses a “capital asset maintenance and improvement planning process” which is a short term allocation of financial resources. Mintier states that the SSJID retail electric plan could affect the District’s continued ability to subsidize existing irrigation customer rates if the District wholesale electricity and surplus water revenue projections do not generate funding similar to past trends or projected. In the event that revenues are not sufficient to cover SSJID existing irrigation subsidies and additional in-lieu taxes and fees commitments, the District could reallocate funding that currently subsidizes irrigation customer rates. Should future conditions not allow the District to continue using its revenues to subsidize irrigation water rates, the District could adjust rates according to standard industry rates, resulting in an increase in the District’s operating revenue. This would result in an increase in the cost of irrigation water for existing customers.

PG&E commented that lack of a Capital Improvement Plan renders the draft MSR inadequate to serve its intended purpose. Because SSJID does not maintain an adopted CIP or equivalent document it is difficult to evaluate and determine the long-term effects of retail electricity service on District ability to identify, plan, prioritize, and fund necessary facility improvements for existing plus new services. PG&E claims the lack of an improvement plan leaves LAFCo guessing about how SSJID’s retail electric plan will impact other services.

It is LAFCo’s position that there is no requirement that an agency (i.e., SSJID) have a formal capital improvement plan in place. Obviously, an agency such SSJID would benefit from a long term strategic planning program for all of its services and a CIP would better inform the public as to the future needs of the district. The Division 9 project serves as an example. The Division 9 Project is a 10-mile-long pressurized system that delivers water to the area west of Ripon and south of Woodward Avenue to the Stanislaus River (about 10% of the District). This project addresses salinity issues and provides many other positive benefits such as water conservation and a more efficient and safer way to apply fertilizer. This was a pilot program that received a $1 million grant from the Federal Government. As such, if successful, other areas of the District would be expected to be improved with this technology. Because of the lack of a CIP, SSJID has not disclosed if any other areas will be improved although a study is underway. Also no specific plans have been formalized for the provision of service to the remainder of
the sphere of influence. The Mintier Harnish report cites the reduction in subsides (about $3.3 million per year) when the 2012A bonds will be fully paid in after 2019. In practice, one would expect that new bonds would be issued to address the capital needs of the district and the report should not focus on the improved financial standing of the District by not considering capital needs. The LAFCo financial model (4.4% savings) does not consider the use of wholesale power and water revenue for ongoing subsides with the exception of $3 million per year in the short term and $4 million in the long term for In-Lieu fees and taxes and a portion of the public benefit program. The LAFCo financial model, like the other models, does include Capital Cost for the electric services ($7.5 million and escalates over time) and a component for operational & maintenance. Although not part of a CIP, these components addresses the capital needs of the electric side of the operations. LAFCo agrees with Mintier Harnish that the SSJID retail electric plan could affect the District’s continued ability to subsidize existing irrigation customer rates if the District wholesale electricity and surplus water revenue projections do not generate funding similar to past trends or projected and that the provision of electric service will put additional stress on that subsidy.

1.7 Miscellaneous Corrections

The following are additional corrections to the Mintier Harnish report:

- Table 4-5 is replaced as follows to correct the data:

<table>
<thead>
<tr>
<th>Year</th>
<th>PG&amp;E</th>
<th>MRW</th>
<th>MBMC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>527,234</td>
<td>536,357</td>
<td>536,357</td>
</tr>
<tr>
<td>2020</td>
<td>557,310</td>
<td>563,057</td>
<td>563,057</td>
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<tr>
<td>2025</td>
<td>582,351</td>
<td>585,301</td>
<td>585,301</td>
</tr>
<tr>
<td>2030</td>
<td>609,274</td>
<td>604,184</td>
<td>604,184</td>
</tr>
<tr>
<td>2035</td>
<td>637,442</td>
<td>623,904</td>
<td>623,904</td>
</tr>
<tr>
<td>2040</td>
<td>666,912</td>
<td>644,497</td>
<td>644,497</td>
</tr>
</tbody>
</table>

1 Estimates include all customer classes.

Sources:
PG&E forecast: PG&E’s 2013 recorded load in SSJID’s service area and PG&E’s forecast of PG&E system-wide load growth provided to the California Energy Commission (“Form 1.1b”);
MRW& Associates forecast: PG&E’s 2013 recorded load in SSJID’s service area, PG&E’s 2010 recorded load in SSJID’s service area (as reported to PA Consulting), California Energy Commission’s forecast of load growth in the PG&E Planning Area by customer class (California Energy Commission. “2012 PG&E Demand Forecast by Sector” Form 1.1 Mid, available at http://www.energy.ca.gov/2012_energy_policy/documents/demand-forecast/mid_case/02_PGE_Mid.xls), and California Public Utilities Commission assessment of adjustments needed to the California Energy Commission forecasts to account for the impact of incremental energy efficiency and customer solar installations on sales growth (http://www.cpuc.ca.gov/NR/rdonlyres/AB7DAE0E-DF02-49EC-8C84-
• Table 5-4 is replaced as follows include the addition of year 2014:

Table 5-4 SSJID Historic Surplus Water and Wholesale Power Sales Revenues

<table>
<thead>
<tr>
<th>Year</th>
<th>Tri-Dam Project</th>
<th>Tri-Dam Power Authority</th>
<th>Woodward</th>
<th>Surplus Water Subtotal</th>
<th>Surplus Water</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$13,800,000</td>
<td>$2,800,000</td>
<td>$301,686</td>
<td>$16,901,686</td>
<td>$2,229,486</td>
<td>$19,131,172</td>
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<tr>
<td>2007</td>
<td>$10,600,000</td>
<td>$1,500,000</td>
<td>$315,339</td>
<td>$12,415,339</td>
<td>$4,195,758</td>
<td>$16,611,097</td>
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<tr>
<td>2008</td>
<td>$9,400,000</td>
<td>$1,800,000</td>
<td>$321,543</td>
<td>$11,521,543</td>
<td>$2,421,171</td>
<td>$13,942,714</td>
</tr>
<tr>
<td>2009</td>
<td>$6,500,000</td>
<td>$1,800,000</td>
<td>$305,398</td>
<td>$8,605,398</td>
<td>$8,264,154</td>
<td>$16,869,552</td>
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<tr>
<td>2010</td>
<td>$1,700,000</td>
<td>$200,000</td>
<td>$281,644</td>
<td>$2,181,644</td>
<td>$2,763,240</td>
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</tr>
<tr>
<td>2011</td>
<td>$12,955,114</td>
<td>$1,000,000</td>
<td>$299,743</td>
<td>$14,254,857</td>
<td>$525,423</td>
<td>$14,780,280</td>
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<tr>
<td>2012</td>
<td>$6,334,000</td>
<td>$1,000,000</td>
<td>$264,340</td>
<td>$7,598,340</td>
<td>$25,015</td>
<td>$7,623,355</td>
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<tr>
<td>2013</td>
<td>$6,582,000</td>
<td>$750,000</td>
<td>$296,347</td>
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<td>$4,046,973</td>
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<tr>
<td>2014</td>
<td>$4,662,000</td>
<td>$0</td>
<td>$239,318</td>
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<tr>
<td>AVG</td>
<td>$8,059,235</td>
<td>$1,205,556</td>
<td>$291,706</td>
<td>$9,556,497</td>
<td>$2,723,098</td>
<td>$12,279,595</td>
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</tbody>
</table>

1 2010 Tri-Dam Project revenue was down due to an out-of-service generator at Donells Dam.
2 2014 revenues show a significant decrease due to an extreme dry year, and may not be indicative of long-term historic revenue.


• Amendment to pp. 30-31 discussion on Area B and Area C:

On June 15, 2015, LAFCo adopted the SOI and MSR for the Water Conservation Districts including Stockton East and Central San Joaquin Water Conservation Districts. San Joaquin LAFCo left Area B within SSJID’s sphere of influence.
• The discussion on p. 82 should be clarified that LAFCo voted on June 16, 2006 to deny SSJID’s application to provide electric service on the grounds the “SSJID did not demonstrate its administrative, technical, and financial capabilities to provide retail electric service to the satisfaction of the Commission...”

• The discussion on p. 83 should disclose that between the time of denial in 2006 and the resubmittal of an application in 2009, SSJID, SSJID filed litigation on two separate issues. One, that LAFCo did not have the power to decide whether SSJID should be permitted to enter the retail electric business, and second, that SSJID should be allowed to question LAFCo Commissioners in depositions about possible bias or improper motivations behind their decision. After losing in the trial court, SSJID appealed, and lost on both issues. The opinion stated that “[C]ourts decline to inquire into the thought processes or motives, but evaluate the decision on its face because legislative discretion is not subject to judicial control and supervision. The Court, with respect to the issue of LAFCo’s powers stated “A district decision to engage in new or different functions by exercising some or all of its latent powers has the potential to impact the balance of services in a county. [The LAFCo Act] requires special districts, prior to exercising latent powers, to present LAFCO with a detailed plan and to receive written approval form LAFCO.” The court indicated that its decision is consistent with the purpose of LAFCo’s as ‘the watchdog’ the Legislature established to guard against the wasteful duplication of services....”

• The discussion on p.83 should disclose the conclusion of the PA Market Expert Report that was released on May 21, 2010 which was that PA concluded that the plan prepared by SSJID was “financially infeasible without raising assumed rates [for electric service] or infusing more equity than what is assumed.”[PA Report, pg.7-1.].

• The discussion on p. 83 should disclose that the second PA report (February, 23, 2011) concluded that SSJID would need to invest an additional “...$15 million on average per year over the term of the business plan in order to achieve a flat 15% rate discount to PG&E’s rates” [ PA second report p.7].

• The discussion on p.84 should include: The next step was the Workshop held on January 20, 2012. A large number of comments were received. In early 2013, SSJID and LAFCo agreed to go back to PA to address the comments received and to update changes to power costs and perhaps rates. A scope of services was developed and a responsive proposal was received from PA. SSJID then decided not to pursue a review by PA but instead prepare its own Financial Analysis and MSR. Both PG&E and LAFCo responded regarding this approach. (See letters dated July 12, 2013; June 4, 2013; and September 24, 2013).

• The discussion on p.81 should acknowledge that a second supplement to SSJID’s application was submitted on September 13, 2010. The second supplement stated “SSJID has no objection to consideration of the PA reports for the limited purpose of assisting LAFCo in its determination as to whether SSJID will have sufficient revenues within the meaning of Government Code section 56824.14 and should be approved.” There was also a Partially Recirculated Draft Supplemental Environmental Impact Report dated July 2012. This
document was recirculated, in part, because of the change in law regarding the ability of irrigation districts use community choice aggregation provisions.
CHAPTER 2: MSR FINDINGS

2.1 Revisions to the Municipal Service Review Findings

**MSR Finding 1** The estimated 2010 population within the SOI was 100,468. For the purposes of this report, we assume that the cities of Escalon, Manteca, and Ripon will continue to grow at their historical growth rate of 2.4 percent per year, with little growth occurring in the unincorporated areas of the district, resulting in a 2040 population of about 204,657.

**MSR Finding 2** Irrigation water demand in the district currently (2013) averages approximately 230,000 AF of water, serves approximately 47,500 acres of agricultural land, and accounts for about 80 to 90 percent of the total water supplied by the District.

**MSR Finding 3** SSJID, Manteca, Escalon, Lathrop, and Tracy are part of a cooperative effort known as the South County Water Supply Program (SCWSP), which includes the Nick C. DeGroot Water Treatment Plant and distribution system. As a result of the SCWSP, the cities rely on SSJID to provide them with treated domestic water. Aside from its agreements with the cities, SSJID is not obligated to provide domestic water. SSJID operates the treatment plant and sells wholesale treated water to the cities. When the current SCWSP agreement ends in 2029, the cities will have the option to form a separate Joint Powers Agreement to operate the water treatment plant and enter into agreements with SSJID to purchase raw water for treatment. It is reasonable to assume that SSJID will continue to sell treated water, or in the long-term, raw water for treatment, to the cities participating in the SCWSP.

**MSR Finding 4** SSJID’s Urban Water Management Plan (UWMP) (September 13, 2011) covers treated water delivered by the district as part of the SCWSP. As a wholesale water supplier, SSJID’s UWMP is only required to address a limited number of demand management measures and does not include urban water use goals (targets). SSJID sells about 31,522 acre-feet of treated water to the cities of Manteca, Escalon, Lathrop, and Tracy as part of Phase I of the SCWSP. Projected Phase II of the SCWSP will increase treated water deliveries to the cities to just over 43,000 acre-feet per year. Cities are required to prepare their own urban water management plans that describe how they will supply water to their residents.

**MSR Finding 5** SSJID has a history of conducting water transfers during wet years, or when SSJID has surplus raw water available. SSJID transfers or sells surplus raw water to other water purveyors, which provides an additional source of revenue. While this source of revenue is not consistent or reliable on an annual basis, on average it can be expected that SSJID will generate revenue from the sale of water transfers. It can also be expected that as water demand increases for agricultural irrigation from district annexations and for treated water from urban growth, SSJID may not have as much surplus water available to sell.
**MSR Finding 6** SSJID holds adjudicated, pre-1914, surface water rights, which have seniority dating back to the early 1850s. It is reasonable to assume that SSJID’s water supply is very secure because its water rights are all senior in priority to those held by the United States for its New Melones Reservoir project. SSJID can withdraw a maximum of 300,000 acre-feet of water per year from the Stanislaus River by agreement with the USBR. In years when New Melones inflow is less than 600,000 acre-feet, the District shares with OID all New Melones inflow, plus an additional amount from storage. On average, surface water diversions from Goodwin Dam have risen since 1994 from nearly 230,000 acre-feet to about 240,000 acre-feet in 2013. While SSJID’s annual surface water diversions fluctuate significantly from year to year, SSJID’s average surface water diversions are a reliable source to meet water demand. As recommended by the SSJID Water Balance Study (Davids Engineering, 2009), SSJID should take steps to improve its monitoring and operations practices to ensure water supplies are delivered to customers as efficiently as possible.

**MSR Finding 7** SSJID, rural water users, and the cities of Lathrop, Manteca, Ripon, and Escalon pump groundwater from the underlying sub-basin. SSJID and growers with their own wells pump groundwater each year, but significantly more groundwater is pumped by growers with their own wells during dry years. As a result of groundwater pumping by property owners, cities, and water providers within and outside the district, groundwater levels have decreased an average of 1.5 feet per year, and over 100 feet in some areas, over the past 40 years in eastern San Joaquin County, resulting in about 2 million acre-feet of lost groundwater basin storage capacity and depressions in the groundwater table. Water well testing in the district in 2010 showed a -0.2 foot net change in groundwater levels. While monitoring showed an overall decrease, groundwater levels increased in the western parts of the district.

**MSR Finding 8** SSJID’s irrigation water service facilities and practices result in groundwater recharge of about 97,000 acre-feet per year. Based on average recharge rates compared to average groundwater pumping within SSJID, the AWMP Agricultural Water Management Plan found that SSJID activities result in a net recharge to the groundwater basin of about 57,300 acre-feet per year. Despite SSJID’s contribution to recharging the groundwater basin, pumping from property owners and cities within and outside the district continues to deplete groundwater sources. SSJID undertakes water conservation and recharge programs and activities to facilitate groundwater recharge and reduce overdraft. SSJID charges a recharge fee to water users within the district who pump groundwater.

**MSR Finding 9** While it is anticipated that SSJID will have sufficient water to meet future demands, SSJID may not have sufficient surface water supplies in all years to meet anticipated irrigation and domestic water demands which is expected to total about 270,000 acre-feet/year in 2038. SSJID’s water rights allow for maximum diversions from the Stanislaus River of 300,000 acre-feet/year. While the AWMP reported that SSJID could expect to receive its full supply in 79 out of 100 years and receive at least 249,000 acre-feet in 95 out of 100 years, SSJID’s diversions from Goodwin Dam between 1994 and 2003 have only averaged between 230,000 and 240,000 acre-feet/year. When SSJID does not receive sufficient surface water supplies in dry years, it will rely on groundwater pumping and/or reduced deliveries to customers who have been receiving water from the district for the shortest period of time.
It is reasonable to expect, however, that the District’s current water rights, anticipated diversions, and planned conservation measures are adequate to meet existing and projected demand within the SOI.

**MSR Finding 10**  
In wet years SSJID will have sufficient surface water supplies to meet current and projected irrigation and domestic water demand; however, in dry years SSJID may need to rely on groundwater sources to meet part of its demand. In extremely dry years or periods of prolonged drought, some SSJID irrigation water or domestic water customers may receive reduced deliveries. SSJID maintains sufficient contingency plans and measures for irrigation water and domestic water in the event of an extreme circumstance (e.g., drought) that limits or restricts the District’s ability to meet demand.

**MSR Finding 11**  
According to SSJID’s AWMP, the shift in runoff to the winter period has the potential to impact surface water supply in the future if sufficient storage is not available to retain winter runoff until it is needed to meet irrigation demands. SSJID’s annual available supply under the 1988 Agreement is based on total annual inflows to New Melones Reservoir, so the timing of runoff is not expected to significantly affect SSJID’s annual allotment unless the inflows significantly diminish.

**MSR Finding 12**  
SSJID’s water supplies could be impacted in the future by the effects of climate change. SSJID’s Agricultural Water Management Plan and an Urban Water Management Plan, and the District’s other water conservation efforts illustrate the District’s commitment to carefully managing its water. Many of the strategies identified by the California Department of Water Resources to mitigate climate change impacts on water supplies are already being implemented by SSJID in some form to meet local and regional water management objectives. It is expected that these programs will continue to serve the District well if climate change impacts occur. SSJID should monitor climactic changes and their impacts on future water supplies and plan and invest in water conservation projects and programs to secure long-term water supplies, and reduce water demand and reliance on groundwater sources.

**MSR Finding 13**  
According to SSJID, regulatory trends are threatening the rights of many water districts—SSJID’s ability to meet future water demand could be affected by changes to SSJID’s water rights; however, it is too speculative to predict if or when these circumstances would occur. SSJID participates with other water purveyors in the San Joaquin Tributaries Authority (SJTA) which defends members’ water rights by sharing costs to participate in and defend their water rights at proceedings before the State Water Resources Control Board.

**MSR Finding 14**  
SSJID monitors surface water quality as required by the Statewide General National Pollutant Discharge Elimination System (NPDES). The District performs surface water monitoring in compliance with the Central Valley Regional Water Quality Control Board’s Irrigated Lands Program through membership in the San Joaquin County and Delta Water Quality Coalition. There are no known surface water pollution issues in the District. Increased turbidity and algae growth as a result of climate change, if substantial, could pose challenges to filtering SSJID canal water for micro-irrigation.
**MSR Finding 15** Groundwater contaminants in the underlying sub-basin include high concentrations of chlorides, salinity intrusion, and some nitrate and arsenic contamination. SSJID maintains a pump monitoring system that measures the quantities and salinity concentrations of pumped groundwater. The District pumps saline groundwater and mixes it with surface water to reduce the effects of saline on irrigated agriculture. The District also participates in groundwater recharge efforts to reduce saltwater intrusion. Groundwater pumped for irrigation in SSJID is generally of good quality.

**MSR Finding 16** SSJID’s Five-Year Capital Expenditures Plan recognizes that increase in demand for treated water will require sufficient available funds to make needed improvements over the next five years. The Plan, “...warns us [SSJID] to manage the plant’s capital replacement fund with the intention of having those funds in place when they are needed.” Because Water Treatment Plant improvements are funded by the cities participating in the SCWSP, it is reasonable to assume that SSJID will continue maintaining the Water Treatment Plant in a manner that provides adequate, and in some cases enhanced, treated water service.

**MSR Finding 17** SSJID is undertaking a study to identify improvements to the Division 9 project to meet anticipated demand and to evaluate the feasibility of expanding pressurized irrigation systems to other parts of the district. Based on findings from the study, SSJID will update its Five-Year Capital Expenditures Plan to prioritize improvements and identify new projects. It is not known whether the results of it is expected that this study will require additional funding, beyond what has already been anticipated by the District; however, it is reasonable to expect that SSJID’s infrastructure planning process will prioritize and fund maintenance and capital projects in order to continue providing adequate, and in some cases enhanced, pressurized irrigation water service.

**MSR Finding 18** SSJID has conducted several analyses to determine potential impacts to its water supplies and necessary improvements to its water system. SSJID’s Five-Year Capital Expenditures Plan identifies ongoing system improvements to maintain and enhance its irrigation water and water treatment facilities. In addition, SSJID has several major capital improvement projects planned or underway to improve system efficiencies, conserve water, and deliver water to new customers, including: the Phase II of the South County Water Supply Project; expansion of the pressurized agricultural water delivery system; treated water delivery to Ripon; irrigation water delivery to the 80-acre annexation area; and the SBx7-7 Water Measurement Program. While SSJID’s Five-Year Capital Expenditures Plan may change to reflect findings from its pressurized irrigation system study, it is reasonable to assume that the District’s improvements will ensure it continues providing adequate irrigation water and treated water service to its customers. SSJID has not identified any system improvements for the expansion of its irrigation water system beyond its existing boundaries.

**MSR Finding 19** While SSJID has prepared plans to ensure its water supplies and associated infrastructure are sufficient to meet future demands, SSJID has not conducted detailed financial studies
to determine how it will carry out implementation of the Agricultural Water Management Plan (2012), Water Balance Report (2009), and Urban Water Management Plan (2011). For water conservation programs, it appears that SSJID is not planning to provide future funding. SSJID should conduct a financial analysis of the Agricultural Water Management Plan (Davids Engineering, Inc. 2012), Water Balance Report (Davids Engineering, Inc. 2009) and Urban Water Management Plan (2011), and prepare a comprehensive, near- to mid-term Capital Improvement Plan to carry out identified improvements.

**MSR Finding 20** SSJID has a history of initiating and implementing water management actions that meet its overall water management objectives and result in water conservation and efficiency. SSJID has adopted an Agricultural Water Management Plan and an Urban Water Management Plan, which identify water conservation measures SSJID will continue implementing over time. SSJID staff regularly attends water management conferences and evaluates technological advances in the context of SSJID’s water management objectives and regional setting. It is expected that SSJID will continue to implement water management measures and explore new opportunities to improve water management that provides additional conservation and efficiency improvements.

**MSR Finding 21** SSJID’s water conveyance facilities are used by SSJID’s agricultural customers, the cities within the district, and a variety of agencies, organizations, and other property owners. While cities use SSJID’s facilities, ultimately they are responsible for providing their residents with adequate stormwater service. SSJID has agreements with several cities, agencies, and organizations for the long-term use of District facilities for conveyance of their stormwater; however, others do not. SSJID should work with the City of Ripon to execute a long-term drainage agreement to ensure the city has sufficient stormwater conveyance capacity. **Approval of this SOI Plan/MSR will resolve an out-of-area service issue created when SSJID began providing stormwater drainage service to the City of Manteca for areas beyond SSJID’s service area. San Joaquin LAFCo should address this issue when acting on the SOI Plan/MSR to address this issue.**

**MSR Finding 22** The District’s facilities, in combination with on-site detention facilities, are adequately sized and maintained to meet current agricultural drainage demands during a 100-year storm event. Cities and other urban uses are responsible for providing adequate stormwater capture, storage, and conveyance. The District’s facilities have varying capacities and the District works with users of the facilities to ensure their discharges do not interfere with the District’s primary use of its canals and pipelines for water distribution. In some cases SSJID limits urban discharges to ensure its facilities can convey agricultural stormwater. Cities are responsible for holding water until additional capacity becomes available.

**MSR Finding 23** SSJID’s irrigation and drainage facilities are sufficient to meet anticipated agricultural drainage demands. As annexations occur, expansion of water distribution facilities will provide access and a capacity to meet new drainage demands. SSJID’s facilities may also be expanded to meet new urban runoff demands from cities and other users as growth occurs; however, the user would be responsible for paying to upgrade facilities.
**MSR Finding 24**  SSJID’s canals and drainage facilities could experience greater flows of agricultural drainage and urban runoff. In cases of extreme precipitation events (i.e., greater intensity and duration), it is possible that SSJID’s conveyance facilities could run out of capacity and cause localized flooding resulting in property and crop damage, and pose health and safety hazards. However, it cannot be determined at this time if or when such an event would occur or whether SSJID’s facilities would not be able to convey the runoff. SSJID should evaluate the ability of its stormwater facilities to capture and convey stormwater in the event of an extreme weather event (e.g., a 200-year or 500-year flood) and make facility improvements, as necessary, to accommodate higher stormwater flows.

**MSR Finding 25**  SSJID’s drainage facilities comply with all Federal, State, regional, county, and other water quality laws and regulations. The District offers economic incentives to farmers to develop retention ponds, install drip-irrigation, and/or use laser level grading on their agricultural properties to limit agricultural runoff into drainage facilities. Cities are responsible for ensuring urban runoff conveyed in District facilities meet water quality standards.

**MSR Finding 26**  SSJID’s plan to provide retail electric service could raise rates for PG&E’s remaining customers; however, the CPUC concluded that the increase in rates would be small and not impair PG&E’s ability to provide adequate service at reasonable rates to its remaining customers (CPUC Resolutions E-3974 and E-4301).

**MSR Finding 27**  PG&E and MID service areas represent an unconventional service area within San Joaquin LAFCo’s jurisdiction. This situation has already resulted in overlapping boundaries and service providers. Because State legislation authorized MID to provide retail electricity in San Joaquin County, San Joaquin LAFCo has no authority to consolidate MID’s service area into a more efficient, logical boundary. Furthermore, if MID was barred from providing retail electric service in San Joaquin County, its distribution lines would need to be separated from San Joaquin County and MID would need to be compensated for its electricity distribution facilities. While MID is authorized to serve within San Joaquin County, it has established a Routine Expansion Area that defines limited areas along the southern edge of SSJID’s service area and SOI where it would consider expanding services to new customers. It is not expected that MID will compete with PG&E or SSJID to provide retail electric service in much of southern San Joaquin County where it is authorized to serve beyond the areas it has identified in its routine expansion area. If a new customer requested to be served beyond the routine expansion area, it would likely be too costly to extend transmission lines and facilities.

**MSR Finding 28**  SSJID is petitioning LAFCo for a change of organization to provide retail electric service pursuant to Government Code Section 56654. SSJID is proposing to provide retail electric service within its boundary by acquiring PG&E electric distribution facilities, separating the facilities from remaining PG&E facilities outside the District, and replacing PG&E as the primary electric service provider within the District. MID’s authorized service area (e.g., the competition zone) represents an unconventional service area within San Joaquin LAFCo’s jurisdiction (e.g., overlapping service providers). Because State legislation authorizes MID to serve areas within San Joaquin County, San Joaquin LAFCo cannot consolidate MID’s service area into a more efficient, conventional boundary. As a result SSJID’s
plan would increase the number of retail electric service providers within SSJID’s service area and SOI to include: 1) SSJID serves exclusively, 2) SSJID and MID compete; 2) PG&E and MID compete; and 4) PG&E serves exclusively. Authorizing SSJID to provide retail electric service would increase the number of overlapping service areas from one (PG&E/MID) to two (PG&E/MID and SSJID/MID).

**MSR Finding 29** As a retail electric provider, SSJID would eliminate PG&E as a service provider within the District. MID is authorized by State law to provide electricity within the District, and is expected to continue to serve its existing customers and compete to provide retail electric service. It is not expected that MID would change its existing policies in response to a LAFCo decision authorizing the SSJID to provide retail electric service. MID’s policies provide for serving customers throughout its electric service area, which includes portions of SSJID’s SOI. SSJID would compete with MID for customers within its service area. However, as indicated above, MID has adopted a policy to limit the active expansion of its electricity services to areas along the southern edge of San Joaquin County (i.e., the routine expansion area). Based on MID’s routine expansion area and adopted policies, it is not expected that competition between SSJID or MID would impact SSJID’s ability to provide service. If SSJID is able to provide rates lower than MID, it is unlikely that MID would be able to successfully compete with SSJID.

**MSR Finding 30** SSJID’s retail electric plan would require SSJID to acquire facilities outside its service area to maintain service continuity. SSJID has proposed, as its preferred option, to enter into an agreement with MID to serve customers within the border area and construct additional facilities to serve remaining PG&E customers. However, while MID has not studied and found it feasible to serve these areas, and has agreed to work with SSJID on this issue in the future, MID has not made any formal commitment to enter into a wholesale metering agreement with SSJID or to serve border area customers. Therefore, it is uncertain whether MID would agree to serve border areas, and is speculative to assume they would do so. If SSJID is unable to implement a service agreement with either PG&E or MID, border areas customers would experience limited service disruptions as the systems are separated and SSJID installs new facilities so that PG&E and/or MID can continue serving their customers. Based on SSJID’s plan to provide retail electric service and the border area alternative prepared by Siemens, SSJID’s plan would ensure that border areas continue to receive service. There are no positive outcomes for the Border Area.

**MSR Finding 31** PG&E will continue to be responsible for providing service to border area customers if SSJID enters into a service agreement with MID, until PG&E requests to discontinue its service and the CPUC relieves it of its obligation. If PG&E does not request to be relieved of its obligation, it is not clear what notice or other process would advise border-area customers of PG&E’s continuing obligation to provide service. San Joaquin LAFCo legal counsel opined that San Joaquin LAFCo could condition approval of SSJID’s plan to require SSJID to implement the Border Area Alternative.

In order to ensure that border area customers continue to receive service, San Joaquin LAFCo could require SSJID to serve border areas by agreement PG&E pursuant to Public Utilities Code Section 9608 or through construction of underbuild facilities (i.e., the border area alternative). Under either of these options, PG&E would remain the service provider to border area customers and continue providing
The construction of approximately 32 miles of new taller poles and an additional $10 million in construction costs would occur.

**MSR Finding 32**   Should LAFCo approve SSJID providing retail electricity service, the District would use a wholesale power supply portfolio consistent with California requirements. SSJID would be required to comply with resource adequacy standards and renewable energy supply standards. SSJID would procure electricity to serve its customers through contract agreements with generators in the deregulated marketplace. **Given SSJID’s history and experience in the wholesale power markets, it is reasonable to expect that SSJID would secure sufficient power to meet customer demands.**

**MSR Finding 33**   Since PG&E and SSJID would both be subject to the same renewable energy requirements, there would be no overall change in reliance on renewable resources as a result of a change in retail electric service provider. SSJID would likely comply with the renewable energy requirements using wholesale power supply contracts with generators and could also purchase Renewable Energy Credits (RECs) to meet a portion of its obligation. It would have the option of using its own hydroelectric generation, depending on its availability and economic circumstances; however, SSJID currently has no plans of using these resources. In light of its new 10-year agreement with the City of Santa Clara, effective January 1, 2014, the District could consider using its hydro resources to meet its load requirements when the agreement expires.

**MSR Finding 34**   It is expected that power demand within SSJID’s service area would increase to 432.1 MW of electricity by 2040. According to Siemens’ Energy, Inc. SSJID’s planned system would have the capacity to distribute 507 MW. SSJID is planning to meet energy demands through the purchase of electricity. SSJID could, at some point in the future, supply some of its demand using power generated at its hydro-electric facilities. However, at this time the District has no plans to do so. Because SSJID plans to provide electric service at customer rates that will be lower than PG&E’s rates, customers served by SSJID may consume more electricity because of SSJID’s lower rates. Absent final rate forecasts for SSJID customers, this analysis does not quantify whether the change in retail electric service provider would cause customers to consume more electricity because of lower rates. Without knowing the specifics of the amount and the timing of the rate reductions and how the rate design for specific customers will differ from PG&E’s current and prospective rate designs, it is speculative to estimate the magnitude of any change.

**MSR Finding 35**   Due to the complexity of the relationships between utility programs and demand, the lack of detail available about energy efficiency and demand response programs, and the limited effect the utility may have on demand, it would be speculative to conclude that SSJID’s proposed retail electric service plan would result in higher peak loads or changes in the relationship of peak to base period usage. SSJID’s plan includes programs to manage peak and base period demands so that SSJID’s customers could avoid inefficient, wasteful, or unnecessary consumption of energy. **Therefore, the proposed retail electric service plan would not have an adverse effect on peak and base period demands because of inefficient, wasteful, or unnecessary consumption of energy.** It is expected that
SSJID has the planned system capacity and ability to purchase electricity on the open market to meet existing and future peak energy demand within its boundaries.

**MSR Finding 36**

SSJID and PG&E would be somewhat similarly affected by reduced hydroelectric power generation resulting from less snowpack and higher temperatures. PG&E's nuclear generation would be unaffected. For SSJID this would reduce revenue from the wholesale of electricity and impact irrigation water customers who currently pay lower rates. For PG&E, this would reduce its ability to meet customer loads through its own generation, requiring it to purchase more power on the open market. For both utilities customer electricity rates could rise to meet the additional cost of power. SSJID should evaluate the vulnerability of its hydropower systems to climate change and explore adaptation options.

**MSR Finding 37**

PG&E's and SSJID's transmission efficiencies would be reduced by higher temperatures, which could result in both higher line losses and, in turn, higher capacity costs. Additional facilities may be required to overcome reduced efficiencies. Retail electric customers could experience higher electricity rates to fund additional infrastructure and facilities.

**MSR Finding 38**

SSJID and PG&E would be similarly affected by increases in energy demand resulting from higher temperatures. For SSJID this would be particularly acute as it is located in an area that is expected to experience significant temperature increases. For both utilities customer electricity rates could rise to meet the additional cost of power. PG&E provides demand response programs which are intended lower demand during periods of high energy use. SSJID proposes to provide demand response as part of its plan's public benefits programs. It is expected that SSJID's public benefits programs will also promote energy efficiency, further reducing demand. The details of the programs proposed to be offered by SSJID can’t be determined until a public meeting is held. SSJID proposes less programs and commits less dollars.

**MSR Finding 39**

Reliability rates over the past six years under PG&E service have fluctuated within the reporting area that includes SSJID’s service area. In particular, the average power outage duration that any customer experienced increased between 2007 and 2011; however, most categories of reliability improved dramatically in 2012. Based on recent performance, it is reasonable to assume that PG&E provides a sufficient level of system reliability.

**MSR Finding 40**

SSJID’s plan will require significant facility improvements in order to sever PG&E facilities from the PG&E system. SSJID has conducted numerous facility inventories, engineering studies, and severance and improvement plans, and has determined that it has the ability to undertake such improvements. There is a difference of opinion between SSJID and PG&E as to costs of such separation. Ultimately, as part of a separate application San Joaquin LAFCo will determine whether SSJID has the capacity to carry out the improvements identified in its retail electric plan.
**MSR Finding 41** Accurately forecasting the reliability of SSJID’s proposed retail electric system for the purpose of comparing it to PG&E is not possible because SSJID has yet to provide service and address issues that would establish its reliability rating. However, based on SSJID’s proposed system improvements and planned operations, it can be reasonably assumed that SSJID should be able to maintain a similar level of system reliability similar to that currently provided by PG&E.

**MSR Finding 42** While SSJID has indicated that its plan to provide retail electricity will resolve several existing duplicate or obsolete facilities and other issues with PG&E’s electricity transmission facilities, it would also result in new duplicate facilities and underbuilds. These additional facilities would be necessary to ensure continuity of service among SSJID, MID, and PG&E customers both within and outside the District service area.

**MSR Finding 43** SSJID’s plan will likely result in the need to construct additional facilities, including more duplicate facilities, if SSJID implements the border area alternative. Siemens, on behalf of SSJID, has prepared a plan identifying options for how SSJID could construct these additional facilities if needed. Based on findings from the Siemens plan, it is not expected that implementation of one or more of these options would undermine the feasibility of SSJID’s plan. but it would be more costly. An agreement with PG&E would avoid this construction by interfacing new facilities with existing metering points.

**MSR Finding 44** It is difficult to compare PG&E’s demand response programs with those proposed by SSJID. Certain data on the effectiveness of PG&E’s programs is public, but public data is not available at a sufficiently detailed level to determine the baseline success of the programs for customers in the SSJID service area. Likewise, accurately forecasting the effectiveness of SSJID’s proposals is not possible due to their preliminary nature. Without more specifics about the nature of and participation rates in PG&E’s interruptible and demand response programs in the SSJID service area, no conclusion can be drawn as to whether demand response programs of the proposed retail electric service plan would result in better response to peak demand situations.

**MSR Finding 45** SSJID’s retail electric service plan would result in changes in energy efficiency and conservation programs, and the programs SSJID ultimately provides cannot be verified until SSJID conducts the required needs assessments. Likewise, data on the effectiveness of PG&E’s programs is public but not available at a level of detail sufficient to analyze benefits to customers within SSJID’s service area. Public benefit programs provided by SSJID would result in less public benefit programs spending that what is estimate to be provided by PG&E, may be more or less effective than those currently managed by PG&E; however, SSJID’s plan would result in a focused needs assessment and outreach to customers within its boundaries regarding the public benefits program needs of low-income customers. Therefore, it can be reasonably expected that SSJID’s public benefits programs will provide a range of options to meet local customers’ needs.
**MSR Finding 46**  
SSJID has committed to structure its CARE rates in the same manner as PG&E, the addition of a rate reduction form PG&E’s rates. By using PG&E’s rate structure as the basis for SSJID’s CARE rates, SSJID would ensure that all eligible CARE customers receive a discount from their PG&E’s CARE rates. While SSJID’s retail electric service plan is feasible, it is unclear based on SSJID’s application how the District plans to provide a low-income rate discount. It is also unclear how much of SSJID’s proposed funding for public purpose programs would need to be allocated toward low-income customers, including low-income rate discounts. In order to ensure CARE customers’ rates are maintained and SSJID should provide a low-income rate discount program as part of its basic rate structure that matches the rates paid by PG&E CARE program customers.

**MSR Finding 47**  
SSJID is financially sound and is projecting to have adequate revenues to provide the services that it is currently authorized to provide (i.e., irrigation, water, drainage). An independent evaluation of SSJID by Mintier Harnish and MBMC projects it will maintain cash-on-hand and a debt service coverage ratio well above the minimum standards. Continued growth in SSJID’s reserves may occur become excessive at some point in the future unless the District reevaluates its rates or continues to invest in facility improvements and programs that enhance customers’ services.

**MSR Finding 48**  
The District maintains a superior credit rating and has sufficient revenues to pay existing debt service, which is expected to be fulfilled in 2019. SSJID has a current debt service coverage ratio well above the minimum standard of 125 percent. The District’s Series 2008A Certificates of Participation allows SSJID to incur future debt obligations with an equal (“parity”) claim on District revenues if the new debt establishes the same debt service coverage calculation with a minimum requirement of 125 percent coverage of all parity debt service.

**MSR Finding 49**  
SSJID receives funding, collects fees, and generates revenues that are adequate to allow the District to provide irrigation, water, and drainage services and associated maintenance of District facilities. The District’s revenues are sufficient to meet current demand for irrigation, water, and drainage services; perform necessary maintenance; improve facilities; and maintain District reserves. Continued growth in SSJID’s reserves indicates that the District may need to reevaluate its rates or invest in facility improvements and programs that enhance customers’ services.

**MSR Finding 50**  
SSJID has historically received a significant amount of revenue from the sale of surplus water and wholesale power; however, these revenues have fluctuated due to factors such as available water supply, wholesale energy demands, and hydro-electric facility issues. SSJID projects that it will continue to receive revenue from these sources in the future. SSJID’s projected average revenues from these sources over the next 10 years ($17.8 million) are higher than what it has received on average in the past ($13.5 million); however, it is reasonable to expect the District will receive more money in the future as power prices increase, as reflected in the Tri-Dam Project’s agreement with the City of Santa Clara, which expires at the end of 2023, and the Tri-Dam Power Authority’s agreement with PG&E expires and it begins selling power to the City of Santa Clara through 2023.
**MSR Finding 51**  SSJID has several opportunities to increase its revenues as current debts are retired and existing contracts expire. SSJID could improve the likelihood and stability of future revenues by entering into long-term surplus water sales contracts, and by selling treated water to the City of Ripon.

**MSR Finding 52**  It is unlikely that future circumstances will significantly reduce SSJID’s revenues or increase customer rates. SSJID’s operating revenues (i.e., those generated from customer rates) and its projection of future revenues are a reasonable assumption of future needs and resources. It would be speculative to assume that environmental or regulatory impacts will significantly reduce on average SSJID’s surplus water and wholesale power sales revenues beyond what SSJID has projected for the future.

**MSR Finding 53**  The financial model and analysis of LAFCo was used in this Addendum. SSJID’s plan was prepared by Mintier Harnish and MBMC using the MRW & Associates model. Based on modeling, analysis, and conclusions of the Mintier Harnish/MBMC Analysis, conclusions of the PA Reports are out of date and no longer provide an accurate assessment of the financial feasibility of SSJID’s retail electric plan. Based on review of the PA Analysis and consultation with MRW & Associates, MBMC and PG&E, LAFCo developed its own assumptions that are reasonable, realistic, and tend toward conservative as they apply to SSJID cost and revenue. Mintier Harnish and MBMC used reliable and accurate data sources provided by MRW & Associates and PG&E to back-up their assumptions. Mintier Harnish and MBMC are LAFCo is confident that the analysis is sufficient for the purpose of San Joaquin LAFCo’s Commission’s evaluation. Ultimately, the financial feasibility of providing retail electric service at a discount to PG&E rates must be determined by San Joaquin LAFCo Commission based on the information presented in the District’s application and this SOI Plan/MSR. San Joaquin LAFCo should consider the modeling, analysis, and conclusions contained in this Addendum Mintier Harnish/MBMC Analysis and this SOI Plan/MSR as adequate and reliable for the purposes of evaluating SSJID’s plan.

**MSR Finding 54**  SSJID’s plan to provide retail electricity could provide a 4.415 percent rate discount to PG&E rates. The provision of a rate discount would not require SSJID to make ongoing equity contributions, beyond an initial investment to acquire PG&E’s distribution facilities with the exception of In-Lieu Franchise Fees and Taxes and a portion of the Public Benefit programs. SSJID’s retail electric plan does not rely on surplus water or wholesale power revenues to subsidize these revenue commitments. No ongoing equity contribution would be necessary if a Proposition 26 and 218 election was held. While SSJID’s days cash-on-hand are maintained above the standard minimum of 120 days, except during first year of operation (2015) when the District would only have 107 days of cash-on-hand, SSJID’s debt service coverage ratio to meet its current and additional debts remains well above the minimum standard of 125 percent.

**MSR Finding 55**  San Joaquin LAFCo legal counsel opined that San Joaquin LAFCo could condition approval of SSJID’s plan to require SSJID to implement the Border Area Alternative if: 1) SSJID cannot enter into an agreement with MID or PG&E to serve border area customers within a specified time frame; and/or 2) SSJID enters into an agreement with MID, but PG&E will not request the CPUC to be relieved of its obligation to serve the border areas within a specified time frame. If SSJID implements the
border area plan and constructs additional facilities so that PG&E can continue serving border areas, SSJID’s improvement costs would increase by about $10.7 million. However, the border area alternative plan would reduce the overall acquisition cost SSJID would pay to purchase PG&E’s facilities. This is because SSJID would no longer need to purchase facilities in the border area it assumed it would need to acquire from PG&E in order to implement a wholesale metering agreement with MID. At this time the cost of these facilities has not been determined.

In order to ensure border area customers continue to receive service, San Joaquin LAFCo should impose a condition of approval that ensures border area customers continue to receive PG&E service. San Joaquin LAFCo could require that SSJID serve border areas by agreement with PG&E pursuant to Public Utilities Code Section 9608 or through construction of underbuild facilities (i.e., the border area alternative). Under either of these options, PG&E would remain the service provider to border area customers and continue providing service at its existing or planned rates.

**MSR Finding 56**  
SSJID’s retail electric plan will provide opportunities for the District to generate additional revenues. SSJID would generate revenue from interest resulting from its retail electric investments, as well as from the sale of greenhouse gas allowances under the California Cap-and-Trade program. While its interest earnings would not be restricted, the Cap-and-Trade program stipulates that this revenue source must be used to benefit retail electric rate payers and furthers the objectives of AB 32 (e.g., energy efficiency).

**MSR Finding 57**  
SSJID would incur about $310,270.7 million in debt to acquire the necessary electric distribution facilities, separate from PG&E facilities, and construct system improvements, based on the valuation of the PG&E distribution system in the Market Expert Report prepared by PA Consulting Group and more recent system investments reported by Black & Veatch on behalf of PG&E and as updated. San Joaquin LAFCo’s legal counsel opined that San Joaquin LAFCo could condition approval of SSJID’s plan to require that SSJID obtain sufficient financing in order to ensure sufficient revenues are available to provide service. However, the statutes covering bonds are broad (Government Code Section 5850), and California Water Code Section 25201 specifically authorizes SSJID’s Board of Directors to determine the type of bonds it issues and sells. Therefore, San Joaquin LAFCo may condition that SSJID have sufficient revenue sources pursuant to Government Code Section 56886, but may not prescribe the type of bonds, such as revenue bonds or certificates of participation.

Based on the LAFCo MIntier Harnish/MBMC Analysis, SSJID’s projected revenues are sufficient to maintain debt service coverage ratio above the minimum industry standard that public agencies should maintain (125 percent). When issuing this debt, SSJID is likely to make covenants, one of which could require the District to take all actions necessary to raise revenue if at any time existing revenues are insufficient to make debt service payments. The implication of such a covenant could compromise SSJID’s ability to maintain rates 4.415 percent below PG&E rates if future circumstances impact its ability to meet debt service payments; however, it is speculative to assume what, if any, impacts would occur.

While it appears that SSJID’s plan is financially feasible, this conclusion is based on a certain set of assumptions. If one or more of these assumptions is inaccurate, it could affect the financial feasibility of SSJID’s plan to provide retail electric service and protect customers from increase rates. According to San Joaquin LAFCo’s legal counsel, San Joaquin LAFCo may condition SSJID’s plan to provide retail
electric service on the conditions set forth under Government Code Section 56886 to ensure sufficient revenue sources to acquire PG&E’s facilities and provide retail electric service. It would be difficult, if not impossible, for San Joaquin LAFCo to condition SSJID’s plan on future power costs, PG&E rates, or escalator assumptions used in the LAFCoMRW Analysis. These are fluid assumptions that change over time. However, LAFCo could condition its approval on a not-to-exceed dollar amount that SSJID would pay to purchase PG&E’s system. The LAFCoMintier Harnish/MBMC Analysis assumed SSJID would pay about $310 million to acquire PG&E’s facilities, separate from them, construct necessary improvement, and pay other costs (stranded costs, damages), while still maintaining minimum days-cash-on-hand and a minimum debt service coverage ratio.

San Joaquin LAFCo could condition the approval of SSJID’s plan on any acquisition cost up to $310 million (in 2014 dollars) or other amount to be determined that ensures the financial feasibility of SSJID’s plan.

**MSR Finding 58** While it is not expected that SSJID’s plan will result in negative impacts to the provision of existing services or maintenance of existing facilities, there is potential for SSJID to allocate funding it has used to enhance its irrigation system and services to pay in-lieu taxes and fees and to provide public benefits programs. Without this funding, SSJID customers may not be provided with more efficient or improved service.

**MSR Finding 59** SSJID’s plan may impact irrigation, treated water, or drainage customer rates. Projected growth in the District’s reserves may provide opportunities for SSJID to lower rates and/or fees for these services. While it is not expected that the SSJID plan will result in negative impacts to existing customer rates, there is potential for SSJID to reallocate Tri-Dam funding to pay in-lieu taxes and fees, however this could be determined to be a gift of public funds, or to fund public benefits and low income programs. If future conditions do not allow the District to maintain existing rates, SSJID could raise currently subsidized irrigation rates similar to standard industry rates, or increase the cost of treated water upon renegotiation of contracts with the cities. However, based on the financial analysis prepared by LAFCo MRW & Associates, Mintier Harnish, and MBMC, SSJID’s plan is not expected to cause the District to raise irrigation, treated water, or drainage rates.

**MSR Finding 60** The SSJID plan is not expected to cause an increase in retail electric customer rates within the SSJID service area. As proposed, SSJID’s plan would reduce customer rates compared to PG&E rates. Projected growth in District reserves could allow SSJID to lower rates and/or fees for service although SSJID has not proposed this. If future conditions do not allow the District to maintain rates 4.41% percent below PG&E rates, SSJID could raise rates to offer a lower discount or to match PG&E rates without adversely affecting customer rates that would have otherwise been paid to PG&E. However, based on financial analysis prepared by LAFCoMintier Harnish and MBMC, SSJID’s plan is not expected to achieve a 4.4% reduction over PG&E’s rates but not a 15% lower rate purported by SSJID, adversely affect electric rates.
**MSR Finding 61**

The LAFCoMintier Harnish/MBMC Analysis accounted for PG&E CARE rates with a 4.4% discount and spending within SSJID’s service area and estimated SSJID’s potential revenue accordingly. SSJID could feasibly provide retail electric service if SSJID matched PG&E rates and provided a similar level of CARE rate discounts as provided by PG&E. As calculated, the Mintier Harnish/MBMC Analysis assumed SSJID’s plan to provide a 15 percent rate discount would provide an additional rate discount for CARE customers. The LAFCo Mintier Harnish/MBMC Analysis calculated SSJID’s CARE rate discount separate from SSJID’s proposed 4 percent spending on public benefits programs (i.e., SSJID’s public purpose spending was not used to match PG&E CARE rates). Recent legislation (AB 327) allows for PG&E to increase current CARE customer rates, require proof of eligibility for CARE programs, and remove excessive energy users from the CARE program. While the actual implications of this law are unknown, it is expected reasonable to assume that PG&E CARE customers’ rates will increase and CARE program participation will decrease. Either of these implications would likely benefit SSJID’s plan in terms of increased revenue, because more PG&E customers would be paying non-CARE rates.

**MSR Finding 62**

SSJID has committed to structure its CARE rates in the same manner as PG&E, with the additional discount for PG&E’s rates. By using PG&E’s rate structure as the basis for SSJID’s CARE rates, SSJID would ensure that all eligible CARE customers receive a discount from their PG&E’s CARE rates. SSJID has not provided any details on how it plans to provide a low-income rate discount program. It is unclear how SSJID would construct such a program, or ultimately set its rates and ensure current PG&E CARE customers pay rates similar to those they currently pay under PG&E’s CARE program. SSJID would be required by State law to conduct an assessment of low-income program needs before providing service, which could identify how SSJID would structure a low-income program. Also, as part of its public benefits programs, it is unclear whether the 4 percent SSJID has committed to providing would be allocated toward low-income rate discounts, or if SSJID would treat low-income rate discounts similar to the way the Mintier Harnish/MBMC Analysis applied them to SSJID’s plan. If it is the former, then SSJID may have limited funds available to provide energy efficiency, renewable resources, demand management, and weatherization programs. Finally, the Mintier Harnish/MBMC Analysis used PG&E’s average CARE rates for customers within the district. PG&E CARE customers have a range of rates based on different rate tiers. Using averages could increase CARE rates for some customers who currently pay a rate lower than the CARE average, but lower it for those who pay more.

**MSR Finding 63**

If SSJID entered into an agreement with MID, border area customers would not get to decide whether they want their service provider to be MID, and they would not have the ability to prevent a rate increase due to the change in service providers. While the border-area customers are outside SSJID’s jurisdiction, they are within LAFCo’s jurisdiction, and LAFCo has the responsibility to consider the effect on the border-area customers when evaluating SSJID’s plan. This is required by State law and San Joaquin LAFCo’s Policies and Procedures. SSJID’s plan would likely increase rates for some customers and decrease others. Likewise, an estimated 500 PG&E CARE customers’ rates could also increase; although customers would have access to MID’s low-income rate program which provides a lesser discount.

In order to ensure that border area customer rates are not adversely affected by SSJID’s plan, San Joaquin LAFCo could impose a condition of approval that ensures border area customers continue to receive PG&E service. San Joaquin LAFCo could require that SSJID serve border areas by agreement PG&E pursuant to Public Utilities Code Section 9608 or through construction of underbuild facilities (i.e.,
the border area alternative). Under either of these options, PG&E would remain the service provider to border area customers and continue providing service at its existing or planned rates. The LAFCoMintier Harnish/ABAAC model assumed costs associated with the implementing the border area alternative, and it is not expected that such a condition would adversely impact the feasibility of SSJID’s plan.

**MSR Finding 64** In order to ensure that the County, Cities, and other districts affected by SSJID’s plan continue receiving property taxes and franchise fees, San Joaquin LAFCo could impose a condition of approval on SSJID’s retail electric plan application that requires, as a cost of providing retail electric service, SSJID make payments in-lieu of franchise fees and property taxes subject to terms of agreements to be executed with the Cities of Escalon, Manteca, and Ripon and San Joaquin County to ensure the County, Cities and all districts affected by SSJID’s plan do not lose property tax and franchise fee revenues as a result of SSJID’s retail electric plan. By imposing such a condition, San Joaquin LAFCo would ensure that these agencies continue receiving taxes and fees and that SSJID would be authorized to do so. However, the method of payment SSJID uses to make these payments would be at the discretion of the District by either holding a Proposition 26 and 218 election or using non-fee sources and could affect existing irrigation customer rates or services if SSJID chose to use non-fee sources Tri-Dam funds. Furthermore, the mechanism used to ensure payments are made is unknown at this time and would need to be included in any agreement.

**MSR Finding 65** SSJID’s retail electric plan would result in less public benefit programs spending than what is estimated to be provided by PG&E. SSJID has committed to spending 4 percent of its gross retail electric revenue on public benefits programs. This was estimated to be $3.40 million in 2015 (Mintier Harnish/MBMC Analysis). In 2015 PG&E will spend an estimated 4.5 percent (4.63 million) of the revenue it generates from customers within SSJID’s service area on public benefit programs. This is $1.23 million more than what SSJID is expected to spend. If SSJID generated less revenue from its retail electric service, public benefits spending would decline. Likewise, if gross retail electric revenues were higher, public benefits spending would increase. Calculating the difference in spending between PG&E and SSJID over the 30-year projection period, SSJID’s plan could result in about $40 million less public benefits program spending.

While San Joaquin LAFCo cannot condition SSJID public benefits and low-income programs spending, it is within District discretion to allocate additional revenues from Cap-and-Trade allowances and wholesale power and surplus water sales toward public benefits and low-income programs. SSJID should match or exceed the funding provided by PG&E in order to limit impacts to customers. It is expected that SSJID would have sufficient revenue from Cap-and-Trade allowances and wholesale power and surplus water sales to match or exceed the funding currently provided by PG&E. SSJID should allocate funding from its non-service based revenue sources to ensure it maintains public benefits and low-income programs funding comparable to PG&E, so long as existing services and customer rates are not negatively impacted.

In addition, the SSJID retail electric plan would likely result in less public benefit programs spending than what is currently provided by PG&E in the border area. In order to ensure that border area customers continue to receive public benefits currently provide by PG&E, San Joaquin LAFCo could impose a condition of approval that ensures border area customers continue to receive PG&E service. San Joaquin LAFCo could require SSJID to serve border areas by agreement PG&E pursuant to Public Utilities Code...
Section 9608 or through construction of underbuild facilities (i.e., the border area alternative). Under either of these options, PG&E would remain the service provider to border area customers and continue providing public benefit programs.

**MSR Finding 66**  
PG&E currently pays an estimated $1,727,676 in franchise fees and property taxes for property, facilities, and services within the district. SSJID has committed (Resolution 14-122-13-E) to maintain the same amount of franchise fee revenue to the cities of Escalon, Manteca, and Ripon, and the same amount of franchise fee and property tax revenue to San Joaquin County for distribution to affected agencies. SSJID proposes to spend 2.5 percent of its gross retail electric revenue on in-lieu payments to address potential property tax and franchise fees. According to the Mintier Harnish/MBMC Analysis, SSJID would pay about $2.1 million in in-lieu taxes and fees in its first year of operations. This is about $372,000 more than PG&E is estimated to pay. The Mintier Harnish/MBMC Analysis also assumed SSJID payments would increase at 2 percent annually. It is expected that SSJID’s plan will not result in a loss of property taxes or franchise fees to agencies within San Joaquin County. SSJID’s plan would not impact property taxes used to pay voter approved debt service for school districts whose boundaries extend outside San Joaquin County if all of the affected districts are reimbursed. This loss will be passed on to property owners whose property tax payments will increase.

**MSR Finding 67**  
SSJID is not planning to pay in-lieu fees for vehicle license fees (VLF) paid by PG&E. Assuming PG&E sells the vehicles it uses to serve areas within SSJID, transfers them from San Joaquin County, or disposes of them, SSJID’s plan could result in a loss $41,500 that is paid to the State, San Joaquin County, and the cities in the county. LAFCo could condition SSJID to pay in-lieu fees sufficient to offset VLF paid by PG&E, assuming PG&E no longer registers the vehicles that served SSJID’s service area. San Joaquin LAFCo Counsel opined that SSJID could pay in-lieu fees to affected agencies under Government Code Section 56886 (i) and Subsection (v). Conditioning SSJID to offset any loss in VLF would add additional costs to SSJID’s retail electric operations. Such a condition would be complex to calculate and recalculate and assess over time since the State changes the methodology it uses to calculate such fees. And, San Joaquin LAFCo would need to obtain records from PG&E indicating which vehicles from SSJID’s service area it is no longer registering. Ultimately, if SSJID were to pay in lieu VLF based on the amount identified by Capital Matrix Consulting ($41,500), there would be no impact on the financial feasibility of SSJID’s plan.

**MSR Finding 68**  
SSJID’s plan would result in a loss of Federal and State income taxes. SSJID is not required to pay income taxes and has no plans to do so. San Joaquin LAFCo could condition approval of SSJID’s plan to require that SSJID to pay in-lieu State and Federal income taxes that would otherwise be paid by PG&E. Conditioning SSJID to pay State and/or Federal income taxes would add additional costs to SSJID’s retail electric operations. San Joaquin LAFCo would need to develop a methodology that would calculate PG&E’s actual tax payments each year for retail electric facilities within SSJID’s service area. Once SSJID has acquired PG&E’s facilities it would be extremely difficult, if not impossible, for San Joaquin LAFCo to monitor SSJID’s compliance.
**MSR Finding 69**  
SSJID’s plan for border areas is not expected to cause significant tax or fee revenue reductions. If SSJID constructs underbuilds to enable PG&E to continue serving border areas, no impact would occur. If SSJID contracts with MID to serve the border areas, the cities and County and districts in the County could lose up to $65,651 per year in property tax and franchise fees. In order to ensure that the County, Cities, and other districts effected by SSJID’s plan continue receiving property taxes and franchise fees, San Joaquin LAFCo could impose a condition of approval on SSJID’s retail electric plan application that requires SSJID serve border areas by agreement with PG&E pursuant to Public Utilities Code Section 9608 or through construction of underbuild facilities (i.e., the border area alternative). Under either of these options, PG&E would remain the service provider to border area customers and continue paying franchise fees and taxes for these areas.

Alternatively, San Joaquin LAFCo could condition approval of SSJID’s plan to require that SSJID to pay in-lieu property tax, franchise fees, and State and Federal income taxes to ensure areas transferred to MID maintain revenue neutrality. Conditioning SSJID to pay these in-lieu taxes and fees would add nominal costs to SSJID’s retail electric operations. The effect of such a condition on the feasibility of SSJID’s plan would be insignificant. It should be noted that, for areas within the district, it is estimated that SSJID would pay about $372,000 more in franchise fees and fees compared to what PG&E pays. This additional funding could offset any loss in property tax for the County and the cities of Manteca, Ripon, and Escalon and franchise fees for border areas. There would be additional State and Federal income tax losses and, potentially, vehicle license fee reductions; these additional costs would have an insignificant effect on the financial feasibility of SSJID’s plan to provide retail electric service.

**MSR Finding 70**  
SSJID shares facilities and services with several agencies that allow for more efficient operations and services to its customers. These shared facilities have allowed the District to efficiently maintain services and provide additional services to its customers including construction of renewable energy sources. SSJID should continue working with other agencies to share facilities, and explore opportunities to share additional facilities where it would improve system efficiencies and services, lower customer rates, and improve the environment.

**MSR Finding 71**  
SSJID should continue reviewing the potential to extend SCWSP facilities to Ripon, and work with SCWSP members to establish a long-term facility sharing agreement. Similarly, SSJID should continue to provide access to its canals and drainage facilities for stormwater from the cities of Escalon, Manteca, and Ripon as growth occurs, including areas of Manteca and Ripon that are outside the District SOI. As a retail electric service provider, SSJID should pursue opportunities to share facilities with MID and PG&E to improve efficiencies, reduce duplicate facilities, and provide system redundancy.

**MSR Finding 72**  
SSJID, in coordination with the SCWSP members, could work with the City of Ripon to provide treated water to Ripon from the Nick C. Groote Water Treatment Plant. SSJID could more efficiently serve customers in Area-C compared to CSJWCD. San Joaquin LAFCo decided (July 15, 2012) to leave Area-C in SSJID sphere to order to provide ultimate service to this area should work with the two districts to resolve the overlapping boundaries in Area-C by removing it from CSJWCD’s service area. SSJID could continue selling surplus raw water to agencies outside its boundaries to supplement
their water supplies and meet demand. SSJID has a history of working with agencies outside its boundaries to more efficiently and effectively operate, provide services, and protect the environment. SSJID should continue to work with its existing partners and others to address service needs and improve operational efficiencies.

**MSR Finding 73** SSJID is a member of four Joint Powers Authorities and an operating agreement (i.e., Tri-Dam Project agreement between SSJID and OID). These meet specific operational, management, and service needs of SSJID and its customers. As a member of these agencies, SSJID works with other public agencies to manage specific facilities (e.g., Tri-Dam Power Authority, Tri-Dam Project), operate more safety and efficiently (e.g., SDRMA, ACWA JPIA), and protect resources (SJTA). SSJID is obligated to perform under the respective membership agreements of each agency. For JPAs, SSJID is responsible, with its partner agencies that form the JPA, for any for any actions taken by the JPA or its members. It is expected that SSJID’s continued participation in these organizations will help the District maintain service levels and meet future customer needs.

**MSR Finding 74** SSJID is accountable to its customers, operates in a transparent manner, and provides sufficient opportunities for public input in its activities. SSJID services and facilities are ultimately overseen by District customers who elect the SSJID Board of Directors. The Board operates under established governance protocols.

**MSR Finding 75** SSJID has a good track record of managing and operating its irrigation, water treatment, agricultural drainage, and electric generation facilities. The District maintains rules and policies that provide direction for the management of District employees, property, and equipment. Based on past performance, it can be reasonably assumed that SSJID will continue to effectively manage and operate its irrigation, water treatment, and electric generation facilities.

**MSR Finding 76** SSJID has historically operated, maintained, and improved its irrigation water and drainage systems to meet customer demand using its capital expenditures planning process. However, this process does not result in an adopted strategic plan that is the equivalent of a Capital Improvement Plan (CIP). In order to more effectively plan future facility and service needs, especially with the addition of retail electric service, SSJID should prepare a long-range strategic plan (i.e., a CIP) that includes long-term capital improvements for facility maintenance, projects, and purchases. SSJID should prepare the plan through a formal public process and define how SSJID will ultimately serve areas within its SOI. The plan should also be prepared in coordination with an independent peer review engineer or auditor.

**MSR Finding 77** SSJID’s plan would improve accountability, transparency, and public involvement in the provision of retail electric service and setting rates. SSJID has an existing Board of Directors that would be accountable to voters within the district who receive retail electric service from SSJID.
**MSR Finding 78** SSJID’s plan is operationally feasible in that SSJID has management personnel with experience in operating an electrical distribution system of the size that SSJID has proposed, substantial applicable experience in the operation of its water distribution and treatment facilities, and a generally realistic staffing and resource plan. Based on an evaluation of SSJID’s plan, PA Consulting Group concluded that SSJID has the necessary resources and staffing levels to operate in a cost-efficient and professional manner.

**MSR Finding 79** As a public utility SSJID is not subject to the same service and emergency response requirements as an investor-owned utility (e.g., PG&E), nor will SSJID be subject to the same penalties for failures. However, based on SSJID’s proposed plan, it is reasonable to conclude that SSJID would meet the service level standards necessary to provide adequate retail electric service and address emergency situations, should they arise although they would not have availability to the same resources that PG&E has in emergency situations. SSJID’s customers would also have access to a claims process established by the California Government Code.

**MSR Finding 80** SSJID has stated that it will continue to use its current capital asset maintenance and improvement planning process with the addition of the retail electricity service. However, because SSJID does not maintain an adopted CIP or equivalent document, and the retail electric plan has not been incorporated into the District’s capital expenditures plan, it is difficult to evaluate and determine the long-term effects of retail electricity service on District ability to identify, plan, prioritize, and fund necessary facility improvements for existing plus new services. LAFCo’s financial model includes Capital Costs and a component for operation & maintenance. It would be extremely difficult, if even possible, for SSJID to prepare a comprehensive CIP that considers its retail electric plan prior to San Joaquin LAFCo’s approval of SSJID’s plan because PG&E will not provide details concerning its system and because parts of SSJID’s plan could be the subject of LAFCo conditions (e.g., border area alternative), which would change SSJID’s plan. At this time there is insufficient information available to determine whether San Joaquin LAFCo has the authority to impose a condition on SSJID’s plan requiring SSJID to prepare a CIP.

**MSR Finding 81** SSJID’s existing headquarters is near capacity and the addition of the retail electric service will require the District to rent additional space, expand its existing facilities, or construct a new headquarters. At this time, a new headquarters is not part of SSJID’s plan. SSJID will rent space to accommodate the additional employees and equipment required to provide retail electric service.

**MSR Finding 82** SSJID’s SOI is within could be modified to place Area-B and Area-C within SEWD or CSJCWD; however, neither of these districts could provide a more efficient or cost-effective alternative to SSJID annexing and serving the area. SEWD is not located adjacent to the area and has no plans to extend services to the area. SSJID could potentially provide more cost effective service because the District’s finances allow it to subsidize irrigation water costs, a savings that could be extended to customers in both areas although no capital improvement have been planned to provide improvements to these areas.
**MSR Finding 83**

CSJWCD’s boundary could be modified to eliminate an overlap with SSJID’s SOI (see Area-C). Since CSJWCD does not provide any direct irrigation service to the affected area, this option would enable SSJID to annex and extend existing adjacent infrastructure to serve the area. In both cases SSJID could potentially provide more cost-effective service because the District’s finances allow it to subsidize irrigation water costs, a savings that could be extended to customers in both areas. Removal of Area-C from CSJWCD would eliminate revenue from properties in the area that CSJWCD has stated is critical to meeting its debt financing obligations. **Agreement between both Districts is necessary.**

**MSR Finding 84**

Consolidating SSJID with CSJCWD and either connecting the two systems or operating them separately under one district may not be a more efficient or effective alternative government structure. CSJWCD’s water delivery system is inadequate to meet its existing service demands and its water supplies are insufficient to meet irrigation water demands. SSJID’s infrastructure and water supplies are sufficient to meet its existing customer demands; however, its water supplies are expected to only be adequate to meet long-term demand within its service area and SOI. Consolidating the two districts could solve CSJWCD’s infrastructure needs but not address its water supply deficiencies. Consolidation would also likely result in SSJID and/or CSJWCD customers paying higher fees to make necessary improvements and secure adequate water to meet CSJWCD’s water demands.

**MSR Finding 85**

There are no alternative government options to provide irrigation drainage service within SSJID’s service area. SSJID provides sufficient irrigation drainage service and it is unlikely that creating a new district to provide drainage would improve service.

**MSR Finding 86**

The SSJID retail electric service plan is a feasible alternative to the existing retail electricity service structure although not at the level of discount contained in SSJID’s application. The SOI Plan/MSR provides determinations on the feasibility of the SSJID Plan and its likely or potential impacts and benefits. Ultimately, San Joaquin LAFCo will determine the merits of SSJID’s plan when it decides on SSJID’s application to provide retail electric service.

**MSR Finding 87**

Eliminating MID as an electricity provider within San Joaquin County is not a feasible alternative government structure. MID’s electric service within San Joaquin County does represent an illogical government structure that results in overlapping service providers and unrepresented customers. However, in order to remedy this situation, State law would need to be amended and MID would need to be compensated for their electric distribution facilities, which could negatively affect MID’s customers (e.g., they would pay higher rates under PG&E).

**MSR Finding 88**

As an irrigation district, State law allows SSJID to become a Community Choice Aggregator. At this time SSJID has indicated that it has no interest in pursuing a Community Choice Aggregation (CCA). Under SSJID proposed retail electric plan the CCA program would no longer be
CCA would not be able to do so.

CCA is a feasible alternative to the SSJID Plan to provide retail electric service. CCA would be an environmentally superior alternative to the SSJID Plan, because it would not require any new construction or separation of facilities. It would also maintain existing PG&E programs and services, provide customers with a choice in energy providers, and eliminate the need for SSJID to incur debt. As an alternative to SSJID’s Plan, San Joaquin LAFCo could find CCA to be the environmentally superior alternative to SSJID’s plan. San Joaquin LAFCo could adopt the SOI Plan/MSR, the proposed SOI expansion, and the proposed 80-acre island, but reject SSJID’s proposal to expand its existing services to provide retail electric service. Because a CCA program is not part of SSJID’s application, San Joaquin LAFCo could not require SSJID to become a CCA.

While CCA has been found to be a viable and environmentally superior alternative to SSJID’s plan, its implementation is not without challenges. First, SSJID has stated that it has not interest in pursuing CCA. Selection of CCA as a preferred alternative to SSJID’s plan by San Joaquin LAFCo would not compel SSJID to become a CCA. Second, in order to implement CCA SSJID would need to provide evidence that it has sufficient financing to carry out the program. There is disagreement between SSJID and PG&E as to the financial feasibility of SSJID as a CCA. Third, SSJID would need to enter into a service agreement with PG&E. PG&E has had a history of opposing CCAs in other parts of the state (e.g., San Joaquin Valley Power Authority). And, in 2007 public statements by PG&E indicated its intent to view CCAs as competitors and actively campaign against them. Fourth, San Joaquin County or the cities of Escalon, Manteca, and Ripon would have to pass separate resolutions in support of a CCA program. Any one of the jurisdictions could choose to not support a CCA program and customers in parts of SSJID’s territory where a resolution was not passed would not have access to the program. Finally, CCA could exacerbate an already complex system of services providers. MID would continue to compete with PG&E within part of SSJID’s territory, and with SSJID as a CCA, some customers would be able to choose to receive full or partial service from PG&E, MID, or SSJID, while others would not.

MSR Finding 89 The Renewable Energy Choice Alternative is not an optional government structure to SSJID’s plan; SSJID’s proposed plan would, for the most part, remain intact. It is an alternative to the programs SSJID would offer as part of its public benefits programs, would change the way SSJID bills its customers, would allow customers to choose to pay higher rates to purchase renewable energy and, to the extent customers participated in the program, increase the amount of renewable energy supplied to SSJID customers and support the development of more facilities that generate renewable energy. If San Joaquin LAFCo approved SSJID’s plan, the District would be required to prepare an assessment of public benefit program needs of residents, specifically lower-income residents. SSJID could consider, as part of that assessment, whether Renewable Energy Choice is an appropriate program to meet customers’ needs. It is questionable doubtful that lower-income residents would participate in such a program because it may would raise their rates. Ultimately the publicly-elected SSJID Board of Directors would decide which programs are provided by SSJID.

MSR Finding 90 Direct payments and bill credits are not a viable alternative management structure for the provision of retail electric service. SSJID cannot legally use its funds for direct payments or bill credits.
MSR Finding 91: There is only one disadvantaged unincorporated community (i.e., French Camp CDP) adjacent to SSJID’s SOI. SSJID does not provide sewer, municipal and industrial water, or structure fire protection services, and this MSR does not assess the provision of these services by SSJID or any other agencies. French Camp is within the City of Stockton’s SOI. The City of Stockton provides all three services and would be responsible for providing such services upon annexation of the area. San Joaquin LAFCo will, through Stockton’s next MSR, evaluate any service deficiencies in this area.

CHAPTER 3  MSR DETERMINATIONS

3.1  Revisions to the Municipal Service Review Determinations

The following section lists the determinations based on the data, analysis and supporting findings included in Chapters 3 through 7 of the Preliminary Revised Draft Sphere of Influence/ Municipal Service Review dated September 9, 2014, this MSR and the Addendum to this document prepared by LAFCo dated November 2014.

Determination 1:  Growth and Population Projections for the Affected Area

It is anticipated population within SSJID’s territory will increase from 100,468 to 204,657 through 2040. Chapters 4, 5, 6, 7, and 8 discuss the need for, and patterns of, service provision based on these population projections and their associated growth patterns. These chapters evaluate whether projections for future growth are addressed in SSJID’s planning for future facility and services.

See Chapter 3 of this MSR for detailed data, analysis, and findings for this determination.

Determination 2:  Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies.

Water Supply, Treatment, and Distribution

Irrigation water demand in the district currently (2013) averages approximately 230,000 AF of water, serves approximately 47,500 acres of agricultural land, and accounts for about 80 to 90 percent of the total water supplied by the District. SSJID also operates the Nick C. DeGroot Water Treatment Plant and sells wholesale treated water to Manteca, Escalon, Lathrop, and Tracy through the South County Water Supply Program (SCWSP). Aside from its agreements with the cities, SSJID is not obligated to provide domestic water service. As a result of the SCWSP, the cities rely on SSJID to provide them with treated...
domestic water. It is anticipated that SSJID will continue to sell treated water, or in, the long-term, raw water for treatment, to the cities participating in the SCWSP. Finally, SSJID transfers or sells surplus raw water to other water purveyors, which provides an additional source of revenue. While this source of revenue is not consistent or reliable on an annual basis, on average it can be expected that SSJID will generate revenue from the sale of water transfers. It can also be expected that as water demand increases for agricultural irrigation from district annexations and for treated water from urban growth, SSJID may not have as much surplus water available to sell.

Water Supply

SSJID holds adjudicated, pre-1914, surface water rights, which have seniority dating back to the early 1850s. It is reasonable to assume that SSJID’s water supply is very secure because its water rights are all senior in priority to those held by the United States for its New Melones Reservoir project. While SSJID’s annual surface water diversions fluctuate significantly from year to year, SSJID’s average surface water diversions are a reliable source to meet water demand. As recommended by the SSJID Water Balance Study (Davids Engineering, 2009), SSJID should take steps to improve its monitoring and operations practices to ensure water supplies are delivered to customers as efficiently as possible.

As a result of groundwater pumping within and outside the district, groundwater levels have decreased an average of 1.5 feet per year, and over 100 feet in some areas, over the past 40 years in eastern San Joaquin County, resulting in about 2 million acre-feet of lost groundwater basin storage capacity and depressions in the groundwater table. Water well testing in the district in 2010 showed a -0.2 foot net change in groundwater levels. While monitoring showed an overall decrease, ground water levels increased in the western parts of the district. Based on average recharge rates compared to average groundwater pumping within the district, SSJID’s Agricultural Water Management Plan found that SSJID activities result in a net recharge to the groundwater basin of about 57,300 acre-feet per year. Despite SSJID’s contribution to recharging the groundwater basin, pumping from property owners and cities within and outside the district continues to deplete groundwater sources.

While it is anticipated that SSJID will have sufficient water to meet future demands, SSJID may not have sufficient surface water supplies in all years to meet anticipated irrigation and domestic water demands. In wet years SSJID will have sufficient surface water supplies to meet current and projected irrigation and domestic water demand; however, in dry years SSJID may need to rely on groundwater sources to meet part of its demand. In extremely dry years or periods of prolonged drought, some SSJID irrigation water or domestic water customers may receive reduced deliveries. SSJID maintains sufficient contingency plans and measures for irrigation water and domestic water in the event of an extreme circumstance (e.g., drought) that limits or restricts the District’s ability to meet demand.

SSJID’s water supplies could be impacted in the future by the effects of climate change, and according to SSJID, regulatory trends are threatening the rights of many water districts. SSJID should monitor climactic changes and their impacts on future water supplies and plan and invest in water conservation projects and programs to secure long-term water supplies, and reduce water demand and reliance on groundwater sources. SSJID’s ability to meet future water demand could be affected by changes to SSJID’s water rights; however, it is too speculative to predict if or when these circumstances would occur.
SSJID has a history of initiating and implementing water management actions that meet its overall water management objectives and result in water conservation and efficiency. SSJID has adopted an Agricultural Water Management Plan and an Urban Water Management Plan, which identify water conservation measures SSJID will continue implementing over time. SSJID staff regularly attends water management conferences and evaluates technological advances in the context of SSJID’s water management objectives and regional setting. It is expected that SSJID will continue to implement water management measures and explore new opportunities to improve water management that provides additional conservation and efficiency improvements.

**Water Facilities**

SSJID’s existing irrigation water system and domestic water treatment and delivery system are adequate to meet existing customer demands. SSJID has conducted several analyses to identify improvements to its water system. SSJID’s Five-Year Capital Expenditures Plan identifies ongoing system improvements to maintain and enhance its irrigation water and water treatment facilities. In addition, SSJID has several major capital improvement projects planned or underway to improve system efficiencies, conserve water, and deliver water to new customers, including: the Phase II of the South County Water Supply Project; expansion of the pressurized agricultural water delivery system; treated water delivery to Ripon; irrigation water delivery to the 80-acre annexation area; and the SBx7-7 Water Measurement Program. While SSJID’s Five-Year Capital Expenditures Plan may change to reflect findings from its pressurized irrigation system study, it is expected reasonable to assume that the District’s improvements will ensure it continues providing adequate irrigation water and treated water service to its customers. SSJID has not identified any system improvements for the expansion of its irrigation water system beyond its existing boundaries.

SSJID should conduct a financial analysis of the Agricultural Water Management Plan (Davids Engineering, Inc. 2012), Water Balance Report (Davids Engineering, Inc. 2009) and Urban Water Management Plan (2011), and prepare a comprehensive, near- to mid-term Capital Improvement Plan to carry out identified improvements for areas within its boundary and SOI.

See Chapter 4, Section 4.1 of this MSR for detailed data, analysis, and findings for this determination.

**Stormwater Capture and Conveyance**

SSJID’s water conveyance facilities are used by SSJID’s agricultural customers, the cities within the district, and a variety of agencies, organizations, and other property owners. Approval of this SOI Plan/MSR will resolve an out-of-area service issue created when SSJID began providing stormwater drainage service to the City of Manteca for areas beyond SSJID’s service area.

The District’s facilities, in combination with on-site detention facilities, are adequately sized and maintained to meet current agricultural drainage demands during a 100-year storm event. SSJID’s irrigation and drainage facilities are sufficient to meet anticipated agricultural drainage demands. SSJID’s drainage facilities comply with all Federal, State, regional, county, and other water quality laws and regulations. The District offers economic incentives to farmers to develop retention ponds, install drip-irrigation, and/or use laser level grading on their agricultural properties to limit agricultural runoff into
drainage facilities. Cities are responsible for ensuring urban runoff conveyed in District facilities meet water quality standards.

The District’s facilities have varying capacities and the District works with users of the facilities to ensure their discharges do not interfere with the District’s primary use of its canals and pipelines for water distribution. In some cases SSJID limits urban discharges to ensure its facilities can convey agricultural stormwater. Cities are responsible for holding water until additional capacity becomes available. As annexations occur, expansion of water distribution facilities will provide access and capacity to meet new drainage demands. SSJID’s facilities may be expanded to meet new urban runoff demands from cities and other users as growth occurs; however, the user would be responsible for paying to upgrade facilities.

In cases of extreme precipitation events (i.e., greater intensity and duration), it is possible that SSJID’s conveyance facilities could run out of capacity and cause localized flooding resulting in property and crop damage, and pose health and safety hazards. However, it cannot be determined at this time if or when such an event would occur or whether SSJID’s facilities would not be able to convey the runoff. SSJID should evaluate the ability of its stormwater facilities to capture and convey stormwater in the event of an extreme weather event (e.g., a 200-year or 500-year flood) and make facility improvements, as necessary, to accommodate higher stormwater flows.

See Chapter 4, Section 4.2 of this MSR for detailed data, analysis, and findings for this determination.

**Electricity Generation, Supply, and Transmission**

SSJID, MID, and PG&E currently (2013) provide for electricity generation, supply, or distribution within SSJID’s SOI. SSJID generates electricity only to meet its own internal demand and for wholesale, while PG&E and MID provide retail electricity services within SSJID’s service area and SOI.

**Service Areas**

PG&E and MID service areas represent an unconventional service area within San Joaquin LAFCo’s jurisdiction. This situation has already resulted in overlapping boundaries and service providers. Because State legislation authorized MID to provide retail electricity in San Joaquin County, San Joaquin LAFCo has no authority to consolidate MID’s service area into a more efficient, logical boundary. Furthermore, if MID was barred from providing retail electric service in San Joaquin County, its distribution lines would need to be separated from San Joaquin County and MID would need to be compensated for its electricity distribution facilities. While MID is authorized to serve within San Joaquin County, it has established a Routine Expansion Area that defines limited areas along the southern edge of SSJID’s service area and SOI where it would consider expanding services to new customers. It is not expected that MID will compete with PG&E or SSJID to provide retail electric service beyond the areas it has identified in its routine expansion area. If a new customer requested to be served beyond the routine expansion area, it would likely be too costly to extend transmission lines and facilities.

SSJID is petitioning LAFCo for a change of organization to provide retail electric service pursuant to Government Code 56654. SSJID’s plan would increase the number of retail electric service providers within SSJID’s service area and SOI to include areas where: 1) SSJID serves exclusively, 2) SSJID and MID
compete; 2) PG&E and MID compete; and 4) PG&E serves exclusively. Authorizing SSJID to provide retail electric service would increase the number of overlapping service areas from one (PG&E/MID) to two (PG&E/MID and SSJID/MID).

MID has adopted a policy to limit the active expansion of its electricity services to areas along the southern edge of San Joaquin County (i.e., the routine expansion area). Based on MID’s routine expansion area and adopted policies, it is not expected that competition between SSJID and MID would impact SSJID’s ability to provide service. If SSJID is able to provide rates lower than MID, it is unlikely that MID would be able to successfully compete with SSJID.

**Border Area Service**

SSJID’s retail electric plan would require SSJID to acquire facilities outside its service area to maintain service continuity. SSJID has proposed, as its preferred option, to enter into an agreement with MID to serve customers within the border area and construct additional facilities to serve remaining PG&E customers. However, while MID has studied and found it feasible to serve these areas, and has agreed to work with SSJID on this issue in the future, MID has not made any formal commitment to enter into a wholesale metering agreement with SSJID or to serve border area customers. Therefore, it is uncertain whether MID would agree to serve border areas, and it is speculative to assume they would do so. In order to ensure that border area customers continue to receive service, San Joaquin LAFCo could require SSJID to serve border areas by agreement with PG&E pursuant to Public Utilities Code Section 9608 or through construction of underbuild facilities (i.e., the border area alternative). Under either of these options, PG&E would remain the service provider to border area customers and continue providing service. The underbuild option would involve construction of approximately 32 miles of additional power poles and could result in safety issues as a result of several electric providers sharing the facilities. This option would result in $10 million of additional cost to SSJID. The option which permits MID to provide service would result in reduced revenue to public agencies, reduce public benefit program, reduce low income subsidies, and either higher or lower electric rates (depending on usage) for existing PG&E customers in the border area. The existing customers would not have a choice in the change of service providers. Neither of the two options result is a positive outcome.

**Planned Power Generation and Supply**

Should LAFCo approve SSJID providing retail electricity service, the District would use a wholesale power supply portfolio consistent with California requirements. SSJID would be required to comply with resource adequacy standards and renewable energy supply standards. SSJID would procure electricity to serve its customers through contract agreements with generators in the deregulated marketplace. Given SSJID’s history and experience in the wholesale power markets, it is reasonable to It is expected that SSJID would secure sufficient power to meet customer demands.

PG&E and SSJID would both be subject to the same renewable energy requirements. There would be no overall change in reliance on renewable resources as a result of a change in retail electric service provider.
Power Demand and Supply

It is expected that power demand within SSJID’s service area would increase to 432.1 MW of electricity by 2040. According to Siemen’s Energy, Inc., SSJID’s planned system would have the capacity to distribute 507 MW. SSJID is planning to meet energy demands through the purchase of electricity. Due to the complexity of the relationships between utility programs and demand, the lack of detail available about energy efficiency and demand response programs, and the limited effect the utility may have on demand, it would be speculative to conclude that SSJID’s proposed retail electric service plan would result in higher peak loads or changes in the relationship of peak to base period usage. SSJID’s plan includes programs to manage peak and base period demands so that SSJID’s customers could avoid inefficient, wasteful, or unnecessary consumption of energy. Therefore, the proposed retail electric service plan is not expected to have an adverse effect on peak and base period demands because of inefficient, wasteful, or unnecessary consumption of energy. It is expected that SSJID will have the planned system capacity and ability to purchase electricity on the open market to meet existing and future peak energy demand within its boundaries.

Furthermore, SSJID and PG&E would be similarly affected by any impacts associated with climate change although PG&E is less reliant on outside purchases since PG&E’s portfolio includes nuclear and large hydroelectric projects under their ownership. For potential reductions in hydroelectric power generation resulting from less snowpack and higher temperatures, SSJID could experience reduced revenue from the wholesale of electricity and impact irrigation water customers who currently pay lower rates. High temperatures could also reduce transmission efficiencies, which could result in both higher line losses and, in turn, higher capacity costs. Additional facilities may be required to overcome reduced efficiencies. Retail electric customers could experience higher electricity rates to fund additional infrastructure and facilities. Finally, higher temperatures could increase power demand and the corresponding cost of power. SSJID proposes to provide demand response as part of its plan’s public benefits programs. It is expected that SSJID’s public benefits programs will also promote energy efficiency, further reducing demand. SSJID should monitor and evaluate its vulnerability to and the potential impacts of climate change.

Electric Facilities

SSJID’s plan will require significant facility improvements in order to sever PG&E facilities from the PG&E system. SSJID has conducted numerous facility inventories, engineering studies, and severance and improvement plans, and has determined that it has the ability to undertake such improvements. However, accurately forecasting the reliability of SSJID’s proposed retail electric system for the purpose of comparing it to PG&E is not possible because SSJID has yet to provide service and address issues that would establish its reliability rating. However, based on SSJID’s proposed system improvements and planned operations, it can be reasonably assumed that SSJID would be able to maintain a level of system reliability similar to that currently provided by PG&E.

While SSJID has indicated that its plan to provide retail electricity will resolve several existing duplicate or obsolete facilities and other issues with PG&E’s electricity transmission facilities, it would also result in new duplicate facilities and underbuilds. These additional facilities would be necessary to ensure continuity of service among SSJID, MID, and PG&E customers both within and outside the District service...
area. SSJID’s plan will also likely result in the need to construct additional facilities, including more duplicate facilities, if SSJID implements the border area alternative. Siemens, on behalf of SSJID, has prepared a plan identifying options for how SSJID could construct these additional facilities if needed. Based on findings from the Siemens plan, it is not expected that implementation of one or more of these options would undermine the feasibility of SSJID’s plan. An agreement with PG&E would avoid this construction by interfacing new facilities with existing metering points.

**Energy Efficiency and Conservation**

The District would be required to provide Public Purpose Programs pursuant to the Public Utilities Code Sections 381, 382, 385, and 9503, which require both investor- and publicly-owned utilities to collect and spend a specific amount of revenues on alternative and renewable generation resources, energy management programs, or low-income support programs. Pursuant to these requirements, and because SSJID has never provided public benefits programs as a retail electric provider, the District would also be required to perform a needs assessment for public benefits, demand management, and low-income programs.

As a local retail electricity provider, SSJID plans to manage local energy demand (e.g., conservation efforts and automated metering) to minimize excessive charges associated with transmission services and procuring power supplies. SSJID also plans to implement conservation measures as a way to conserve its resources and avoid unnecessary infrastructure expenses. SSJID would be required to ensure access to feasible energy efficiency and conservation measures through its proposed public purpose programs and to comply with State-level public purpose requirements that apply to all publicly-owned utilities. SSJID would also be required to develop a plan to comply with the AB 2021 goals to prepare a plan that identifies public benefit program needs and programs to improve energy efficiency and conservation.

Energy efficiency and the programs and spending that support it are especially important to customers within SSJID’s service area. SSJID has estimated that non-subsidized residential electric customers within its boundaries use about 8,300 kWh of electricity per month, which is 32 percent higher than PG&E’s systemwide average demand (6,275 kWh). This is especially true for lower-income households.

SSJID plans to allocate 4% of gross revenue to public purpose programs as compared to 4.5% allocated by PG&E. SSJID proposes 15 programs as compared to approximately 70 programs offered by PG&E. There will be less spending and fewer programs under SSJID proposal.

SSJID has confirmed that the District’s is committed to structure its CARE program in the same manner as PG&E with the addition of any rate discount from PG&E. With this commitment there would be no difference from PG&E existing and future amendment to their CARE programs.

It is difficult to compare PG&E’s demand response programs with those proposed by SSJID. Certain data on the effectiveness of PG&E’s programs is public, but public data is not available at a sufficiently detailed level to determine the baseline success of the programs for customers in the SSJID service area. Likewise, accurately forecasting the effectiveness of SSJID’s proposals is not possible due to their
preliminary nature. Without more specifics about the nature of and participation rates in PG&E’s interruptible and demand response programs in the SSJID service area, no conclusion can be drawn as to whether demand response programs of the proposed retail electric service plan would result in better response to peak demand situations. SSJID’s retail electric service plan would result in changes in energy efficiency and conservation programs, and the programs SSJID ultimately provides cannot be verified until SSJID conducts the required needs assessments. Likewise, data on the effectiveness of PG&E’s programs is public but not available at a level of detail sufficient to analyze benefits to customers within SSJID’s service area. Public benefit programs provided by SSJID would result in less public benefit programs spending that what is estimate to be provided by PG&E. may be more or less effective than those currently managed by PG&E. This is conjecture; however, SSJID’s plan would result in a focused needs assessment and outreach to customers within its boundaries regarding the public benefits program needs of low-income customers. Therefore, it can be reasonably expected that SSJID’s public benefits programs will provide a range of options to meet local customers’ needs.

SSJID has committed to structure its CARE rates in the same manner as PG&E, the addition of a rate reduction form PG&E’s rates. By using PG&E’s rate structure as the basis for SSJID’s CARE rates, SSJID would ensure that all eligible CARE customers receive a discount from their PG&E’s CARE rates. While this MSR finds that SSJID’s retail electric service plan is feasible, it is unclear based on SSJID’s application how the District plans to provide a low-income rate discount. It is also unclear how much of SSJID’s proposed funding for public purpose programs would need to be allocated to low-income customers, including low-income rate discounts. In order to ensure CARE customers’ rates are maintained, SSJID should provide a low-income rate discount program as part of its basic rate structure that matches the rates paid by PG&E CARE program customers in addition to a 15 percent rate discount.

See Chapter 4, Section 4.3 of this MSR for detailed data, analysis, and findings for this determination.

**Determination 3: Financial Ability of Agencies to Provide Service**

SSJID is financially sound and is projecting to have adequate revenues to provide the services that it is currently authorized to provide (i.e., irrigation, water, drainage). An independent evaluation of SSJID by Mintier Harnish and MBMC finds that SSJID will maintain cash-on-hand and a debt service coverage ratio well above the minimum standards. Continued growth in SSJID’s reserves may occur become excessive at some point in the future unless the District reevaluates its rates or continues to invest in facility improvements and programs that enhance customers’ services.

SSJID maintains a superior credit rating and has sufficient revenues to pay existing debt service, which is expected to be fulfilled in 2019. SSJID has a current debt service coverage ratio well above the minimum standard of 125 percent. The District’s Series 2008A Certificates of Participation allows SSJID to incur future debt obligations with an equal ("parity") claim on District revenues if the new debt establishes the same debt service coverage calculation with a minimum requirement of 125 percent coverage of all parity debt service.

SSJID receives funding, collects fees, and generates revenues that are adequate to allow the District to provide irrigation, water, and drainage services and associated maintenance of District facilities. The District’s revenues are sufficient to meet current demand for irrigation, water, and drainage services;
perform necessary maintenance; improve facilities; and maintain District reserves. Continued growth in SSJID’s reserves indicates that the District may need to reevaluate its rates or invest in facility improvements and programs that enhance customers’ services.

SSJID has historically received a significant amount of revenue from the sale of surplus water and wholesale power, which has allowed the District to subsidize the cost of providing irrigation services and operating its solar generation facilities. By using these other sources revenues, SSJID has been able to maintain irrigation rates below the cost of service (i.e., subsidize rates) and pursue facility enhancement projects (e.g., pressurized system improvements). However, these revenues have fluctuated due to factors such as available water supply, wholesale energy demands, and hydro-electric facility issues. SSJID projects that it will continue to receive revenue from these sources in the future and it is reasonable to expect the District will receive more money in the future as power and water prices increase. SSJID also has several opportunities to increase its revenues as current debts are retired and existing contracts expire. SSJID could improve the likelihood and stability of future revenues by entering into long-term surplus water sales contracts, and by selling treated water to the City of Ripon.

Financial Feasibility of SSJID’s Retail Electric Service Plan

The financial model and analysis of LAFCo was relied upon in this Addendum SSJID’s plan was prepared by Mintier Harnish and MBMC using the MRW & Associates model. LAFCo’s model demonstrates the SSJID’s plan to provide retail electricity could provide a 4.4% 15 percent rate discount to PG&E rates. The provision of a rate discount would not require SSJID to make ongoing equity contributions (with the exception in years 2042, 2043, and 2044), beyond an initial investment to acquire PG&E’s distribution facilities. SSJID’s retail electric plan does not rely on surplus water or wholesale power revenues to subsidize service. with the exception of In-Lieu Franchise Fees and Taxes and a portion of the Public Benefit programs. SSJID’s plan would likely need to use a source of non-operating revenue to pay in-lieu taxes and fees or in order to avoid a hold a Proposition 26 and 218 election to avoid or being challenged as a gift of public funds. However, SSJID’s plan for electric service is not reliant on these outside funding sources in order to be financially feasible.

SSJID’s days cash-on-hand are maintained above the standard minimum of 120 days, except during first year of operation (2015) when the District would only have 107 days of cash-on-hand. SSJID’s debt service coverage ratio to meet its current and additional debts remains well above the minimum standard of 125 percent. This paragraph needs to be updated!!

SSJID would incur debt to acquire the necessary electric distribution facilities, separate from PG&E facilities, and construct system improvements. San Joaquin LAFCo’s legal counsel opined that San Joaquin LAFCo could condition approval of SSJID’s plan to require that SSJID obtain sufficient financing in order to ensure sufficient revenues are available to provide service. However, the statutes covering bonds are broad (Government Code Section 5850), and California Water Code Section 25201 specifically authorizes SSJID’s Board of Directors to determine the type of bonds it issues and sells. Therefore, San Joaquin LAFCo could condition that SSJID have sufficient revenue sources pursuant to Government Code Section 56886, but not prescribe the type of bonds, such as revenue bonds or certificates of participation.
While it appears that SSJID’s plan is financially feasible, this conclusion is based on a certain set of assumptions. If one or more of these assumptions is inaccurate, it could affect the financial feasibility of SSJID’s plan to provide retail electric service and protect customers from increased rates. According to San Joaquin LAFCo’s legal counsel, San Joaquin LAFCo may condition SSJID’s plan to provide retail electric service on the conditions set forth under Government Code Section 56886 to ensure sufficient revenue sources to acquire PG&E’s facilities and provide retail electric service. The Mintier Harnish/MBMC-LAFCo Analysis assumed SSJID would pay about $310 million to acquire PG&E’s facilities, separate from them, construct necessary improvement, and pay other costs (stranded costs, damages), while still maintaining minimum days-cash-on-hand and a minimum debt service coverage ratio. San Joaquin LAFCo could should condition the approval of SSJID’s plan on any acquisition and severance cost up to $310 million (in 2014 dollars) to ensure the financial feasibility of SSJID’s plan.

SSJID’s retail electric plan would provide opportunities for the District to generate additional revenues. SSJID would generate revenue from interest resulting from its retail electric investments, as well as from the sale of greenhouse gas allowances under the California Cap-and-Trade program. While its interest earnings would not be restricted, the Cap-and-Trade program stipulates that this revenue must be used to benefit retail electric rate payers and furthers the objectives of AB 32 (e.g., energy efficiency).

Mintier Harnish and MBMC developed assumptions that are reasonable, realistic, and tend toward conservative as they apply to SSJID cost and revenue. LAFCoMintier Harnish and MBMC used reliable and accurate data sources provided by PA, MRW & Associates, MBMC, and PG&E to back-up their assumptions. Mintier Harnish and MBMCLAFCo is -are confident that the analysis is sufficient for the purpose of San Joaquin LAFCo’s Commission’s evaluation. Ultimately, the financial feasibility of providing retail electric service at a discount to PG&E rates must be determined by San Joaquin LAFCo Commission based on the information presented in the District’s application and this SOI Plan/MSR. San Joaquin LAFCo Commission should consider the modeling, analysis, and conclusions contained in the LAFCoMintier Harnish/MBMC Analysis and this SOI Plan/MSR as adequate and reliable for the purposes of evaluating SSJID’s plan.

**Potential Effects of SSJID’s Retail Electric Plan on Customer Rates**

Based on the financial analysis prepared by LAFCoMintier Harnish and MBMC, SSJID’s plan is not expected to cause the District to raise irrigation, treated water, or drainage rates. SSJID’s plan to provide retail electric service could raise rates for PG&E’s remaining customers; however, the CPUC concluded that the increase in rates would be small and not impair PG&E’s ability to provide adequate service at reasonable rates to its remaining customers (CPUC Resolutions E-3974 and E-4301). The SSJID plan would not cause an increase in retail electric customer rates within the SSJID service area. As proposed, SSJID’s plan would reduce customer rates by 4.4%15 percent compared to PG&E rates. If future conditions do not allow the District to maintain rates 4.4%15 percent below PG&E rates, SSJID could raise rates to offer a lower discount or to match PG&E rates without adversely affecting customer rates that would have otherwise been paid to PG&E. However, based on financial analysis prepared by LAFCoMintier Harnish and MBMC—SSJID’s plan is not expected to adversely affect electric rates but would not achieve a 15% discount as purported in SSJID’s application.
The LAFCo Mintier Harnish/MBMC Analysis accounted for PG&E CARE rates and spending within SSJID’s service area and estimated SSJID’s potential revenue accordingly. As calculated, the LAFCo Mintier Harnish/MBMC Analysis assumed SSJID’s plan to provide a 4.4% discount would provide as an additional rate discount for CARE customers. SSJID has committed to structure its CARE rates in the same manner as PG&E, with the additional discount for PG&E’s rates. By using PG&E’s rate structure as the basis for SSJID’s CARE rates, SSJID would ensure that all eligible CARE customers receive a discount from their PG&E’s CARE rates. SSJID has not provided any details on how it plans to provide a low-income rate discount program. It is unclear how SSJID would construct such a program, or ultimately set its rates and ensure current PG&E CARE customers pay rates 15 percent below those they currently pay under PG&E’s CARE program. Using averages could increase CARE rates for some customers who currently pay a rate lower than the CARE average, but lower it for those who pay more. Also, as part of its public benefits programs, it is unclear that whether the 4 percent SSJID has committed to providing would be also be allocated toward low-income rate discounts as part of the public benefits. If SSJID would treat low-income rate discounts similar to the way the Mintier Harnish/MBMC Analysis applied them to SSJID’s plan.

If SSJID entered into an agreement with MID, border area customers would not get to decide whether they want their service provider to be MID, and they would not have the ability to prevent a rate increase due to the change in service providers. In order to ensure that border area customer rates are not affected by SSJID’s plan, San Joaquin LAFCo could impose a condition of approval that ensures border area customers continue to receive PG&E service. San Joaquin LAFCo could require that SSJID serve border areas by agreement PG&E pursuant to Public Utilities Code Section 9608 or through construction of underbuild facilities (i.e., the border area alternative).

**Potential Effects of SSJID’s Retail Electric Plan on SSJID’s Existing Services**

It is not expected that SSJID’s plan will result in negative impacts to the provision of existing services or maintenance of existing facilities; however, there is potential for SSJID to allocate funding it has used to enhance its irrigation system and services to pay in-lieu taxes and fees and to provide public benefits programs if a Proposition 218 election is not held. Without this funding, SSJID customers may not be provided with more efficient or improved service. Based on the financial analysis prepared by LAFCo Mintier Harnish and MBMC, it is unlikely that SSJID would not have enough funding to operate and maintain its existing and new services at an acceptable level.

**Potential Effect of SSJID’s Plan on Public Benefits Spending**

SSJID’s retail electric plan would result in less public benefit programs spending than what is estimated to be provided by PG&E. SSJID has committed to spending 4 percent of its gross retail electric revenue on public benefits programs. In 2015 PG&E will spend an estimated 4.5 percent ($4.63 million) of the revenue it generates from customers within SSJID’s service area on public benefit programs. If SSJID generated less revenue from its retail electric service, public benefits spending would decline. Likewise, if gross retail electric revenues were higher, public benefits spending would increase. San Joaquin LAFCo cannot condition SSJID public benefits and low-income programs spending. SSJID could match or exceed the funding provided by PG&E in order to limit impacts to customers. SSJID should allocate
funding from its non-service based revenue sources to ensure it maintains public benefits and low-income programs funding comparable to PG&E, so long as existing services and customer rates are not negatively impacted.

In addition, the SSJID retail electric plan will could result in less public benefit programs spending that what is currently provided by PG&E in the border area if SSJID contracts with MID to serve the border areas. In order to ensure that border area customers continue to receive public benefits currently provided by PG&E, San Joaquin LAFCo could impose a condition of approval that ensures border area customers continue to receive PG&E service. San Joaquin LAFCo could require SSJID to serve border areas by agreement PG&E pursuant to Public Utilities Code Section 9608 or through construction of underbuild facilities (i.e., the border area alternative). Under either of these options, PG&E would remain the service provider to border area customers and continue providing public benefits programs.

**Potential Fiscal Impact of SSJID’s Plan on Other Agencies**

SSJID’s plan would impact the tax and fee revenues of the Federal and State governments (income taxes and vehicle license fees) and potentially impact San Joaquin County, the Cities of Escalon, Manteca, and Ripon, and other districts within and adjacent to the county. SSJID does not plan to pay in-lieu income taxes or vehicle license fees. SSJID has committed to SSJID has committed (Resolution 14-12- E12-13-E) to maintain the same amount of franchise fee revenue to the cities of Escalon, Manteca, and Ripon, and the same amount of franchise fee and property tax revenue to San Joaquin County for distribution to affected agencies. However, SSJID’s plan would not impact property taxes used to pay voter approved debt service for school districts within the County and whose boundaries extend outside San Joaquin County if all of the affected districts are reimbursed. This loss will be passed on to property owners whose property tax payments will increase.

In order to ensure that the County, Cities, and other districts effected by SSJID’s plan continue receiving property taxes and franchise fees, San Joaquin LAFCo could should impose a condition of approval on SSJID’s retail electric plan application that requires , as a cost of providing retail electric service, SSJID make payments in-lieu of franchise fees and property taxes subject to terms of agreements to be executed with the Cities of Escalon, Manteca, and Ripon and San Joaquin County to ensure the County, Cities and districts effected by SSJID’s plan do not lose property tax and franchise fee revenues as a result of SSJID’s retail electric plan. By imposing such a condition, San Joaquin LAFCo would ensure that these agencies continue receiving taxes and fees and that SSJID would be authorized to do so. However, the method of payment SSJID uses to make these payments would be at the discretion of the District or outlined by the Commission and could affect existing irrigation customer rates or services if SSJID chose to use Tri-Dam funds. Furthermore, the mechanism used to ensure payments are made is unknown at this time and would need to be included in any agreement.

LAFCo could condition SSJID to pay in-lieu fees sufficient to offset VLF paid by PG&E, assuming PG&E no longer registers the vehicles that served SSJID’s service area. Conditioning SSJID to offset any loss in VLF would add additional costs to SSJID’s retail electric operations. Such a condition would be complex to calculate and recalculate and assess over time since the State changes the methodology it uses to
calculate such fees. Ultimately, it is expected that there would be no impact on the financial feasibility of SSJID’s plan.

San Joaquin LAFCo could condition approval of SSJID’s plan to require that SSJID to pay in-lieu State and Federal income taxes that would otherwise be paid by PG&E. Conditioning SSJID to pay State and/or Federal income taxes would add additional costs to SSJID’s retail electric operations. San Joaquin LAFCo would need to develop a methodology that would calculate PG&E’s actual tax payments each year for retail electric facilities within SSJID’s service area. Once SSJID has acquired PG&E’s facilities it would be extremely difficult, if not impossible, for San Joaquin LAFCo to monitor SSJID’s compliance.

SSJID’s plan for border areas is not expected to cause significant tax or fee revenue reductions. However, in order to ensure that the County, Cities, and other districts effected by SSJID’s plan continue receiving property taxes and franchise fees, San Joaquin LAFCo could impose a condition of approval on SSJID’s retail electric plan application that requires SSJID serve border areas by agreement with PG&E pursuant to Public Utilities Code Section 9608 or through construction of underbuild facilities (i.e., the border area alternative). Under either of these options, PG&E would remain the service provider to border area customers and continue paying franchise fees and taxes for these areas.

See Chapter 5 of this MSR for detailed data, analysis, and findings for this determination.

**Determination 4: Status of, and Opportunities for, Shared Facilities**

SSJID shares facilities and services with several agencies that allow for more efficient operations and services to its customers. These shared facilities have allowed the District to efficiently maintain services and provide additional services to its customers including construction of renewable energy sources. SSJID should continue working with other agencies to share facilities, and explore opportunities to share additional facilities where it would improve system efficiencies and services, lower customer rates, and improve the environment.

SSJID should continue reviewing the potential to extend SCWSP facilities to Ripon, and work with SCWSP members to establish a long-term facility sharing agreement. Similarly, SSJID should continue to provide access to its canals and drainage facilities for stormwater from the cities of Escalon, Manteca, and Ripon as growth occurs, including areas of Manteca and Ripon that are outside the District SOI.

As a retail electric service provider, SSJID should pursue opportunities to share facilities with MID and PG&E to improve efficiencies, reduce duplicate facilities, and provide system redundancy.

SSJID, in coordination with the SCWSP members, should also continue to work with the City of Ripon to provide treated water to Ripon from the Nick C. Groote Water Treatment Plant. SSJID could more efficiently serve customers in Area-C (see Figure 2.3) compared to Central San Joaquin Water Conservation District (CSJWCD). San Joaquin LAFCo has worked with the two districts to resolve the overlapping boundaries in Area-C by removing it from CSJWCD’s service area.

SSJID could continue selling surplus raw water to agencies outside its boundaries to supplement their water supplies and meet demand. SSJID has a history of working with agencies outside its boundaries to more efficiently and effectively operate, provide services, and protect the environment. SSJID should
continue to work with its existing partners and others to address service needs and improve operational efficiencies.

See Chapter 6 of this MSR for detailed data, analysis, and findings for this determination.

**Determination 5: Accountability for Community Service Needs, including Governmental Structure and Operational Efficiencies.**

**Government Structure**

SSJID is a member of four Joint Powers Authorities and an operating agreement (i.e., Tri-Dam Project agreement between SSJID and OID). These meet specific operational, management, and service needs of SSJID and its customers. As a member of these agencies, SSJID works with other public agencies to manage specific facilities (e.g., Tri-Dam Power Authority, Tri-Dam Project), operate more safely and efficiently (e.g., SDRMA, ACWA JPIA), and protect resources (SJTA). SSJID is obligated to perform under the respective membership agreements of each agency. For JPs, SSJID is responsible, with its partner agencies that form the JPA, for any for any actions taken by the JPA or its members. It is expected that SSJID's continued participation in these organizations will help the District maintain service levels and meet future customer needs.

See Chapter 7, Section 7.1 of this MSR for detailed data, analysis, and findings for this determination.

**Government Management and Accountability**

SSJID services and facilities are ultimately overseen by District customers who elect the SSJID Board of Directors. The Board operates under established governance protocols. SSJID is accountable to its customers, operates in a transparent manner, and provides sufficient opportunities for public input in its activities.

As a retail electric service provider it is expected that SSJID would allow for improve accountability, transparency, and public involvement in the provision of retail electric service and setting rates. Unlike an investor-owned utility that is accountable to its investors and several governmental agencies, SSJID is governed by a Board of Directors accountable to voters within the district who would receive retail electric service from SSJID.

SSJID has a good track record of managing and operating its irrigation, water treatment, agricultural drainage, and electric generation facilities. The District maintains rules and policies that provide direction for the management of District employees, property, and equipment. SSJID has historically operated, maintained, and improved its irrigation water and drainage systems to meet customer demand using its capital expenditures planning process. Based on past performance, it can be reasonably assumed that SSJID will continue to effectively manage and operate its irrigation, water treatment, and electric generation facilities.

SSJID’s retail electric plan is operationally feasible in that SSJID has management personnel with experience in operating an electrical distribution system of the size that SSJID has proposed, substantial applicable experience in the operation of its water distribution and treatment facilities, and a generally realistic staffing and resource plan. Based on an evaluation of SSJID’s plan, PA Consulting Group
concluded that SSJID has the necessary resources and staffing levels to operate in a cost-efficient and professional manner. Where is this stated in the PA reports?

As a public utility SSJID would not be subject to the same service and emergency response requirements as an investor-owned utility (e.g., PG&E), nor would SSJID be subject to the same penalties for failures. However, based on SSJID’s proposed plan, it is reasonable to conclude that SSJID would meet the service level standards necessary to provide adequate retail electric service and address emergency situations, should they arise—although they would not have availability to the same resources that PG&E has in emergency situations. SSJID’s customers would also have access to a claims process established by the California Government Code.

SSJID’s operation, maintenance, and financing process could be conducted in a more transparent and orderly manner. In order to more effectively plan near- and long-term facility improvements, especially with the addition of retail electric service, SSJID should prepare a long-range strategic plan (i.e., a Capital Improvements Plan) that identifies long-term capital improvements for facility maintenance and system projects and purchases or financing necessary to implement the plan. SSJID should prepare the plan through a formal public process and define how SSJID will ultimately serve areas within its SOI. The plan should also be prepared in coordination with an independent peer review engineer or auditor.

See Chapter 7, Section 7.2 of this MSR for detailed data, analysis, and findings for this determination.

Optional Government Structures

For irrigation water and drainage services, there are no functional reorganizations of existing agencies; formation of new or dissolution of existing districts; district merges or establishment of subsidiary districts; or other reorganizations that would improve operational efficiencies or services within or adjacent to SSJID’s boundaries and SOI.

Irrigation water and drainage service could be improved by approving SSJID’s annexation application for the 80-acre island, amending SSJID’s SOI to include the City of Manteca, maintaining SSJID as the planned service provider in Area-B (Figure 2-3), and detaching Area-C from CJWCD’s existing boundary and maintaining SSJID as the planned service provider (Figure 2-3). SSJID could also provide more efficient and cost effective service to Area-B and Area-C compared to another agency, because infrastructure could easily be extended from SSJID’s existing system, SSJID has sufficient water resources to serve the areas, and SSJID’s finances could allow it to subsidize irrigation water costs, a savings that could be extended to customers.

For retail electric service, there are no formation of new or dissolution of existing districts; district merges or establishment of subsidiary districts; or other reorganizations that would improve operational efficiencies or services within or adjacent to SSJID’s boundaries and SOI.

Reorganization of SSJID to include retail electric service, as well as approval of SSJID’s application to annex the 80-acre island, could provide more efficient and perhaps slightly more cost effective retail electric service without impacting SSJID’s existing services or customers. While it is expected that services currently provided by PG&E and MID are adequate to meet existing and future demands, PA Consulting determined that SSJID could also provide service effectively and efficiently. SSJID’s could also
provide service at lower rates (4.4%) compared to PG&E. Finally, SSJID could provide electric service in a more透明和可问责的方式 compared to PG&E, because SSJID decision-makers and management staff would be accountable to voting customers. This alternative would also not significantly impact the service or finances of other agencies if proper safeguard are imposed.

As an alternative to becoming a retail electric provider, SSJID could become a Community Choice Aggregator. As a CCA SSJID could provide an alternative government structure in which it would procure power for customers, but not provide the actual service. This alternative would not require any construction or severance or result in any environmental impacts. It would also not require SSJID to incur any debt, public benefits programs would be maintained, and taxes and fees would be unaffected. This alternative would not, however, result in electricity service being provided directly by SSJID in a more transparent and accountable manner because PG&E, as an investor-owned utility, would remain the service provider. And, this alternative could further confuse an already complex system of electric service providers within SSJID’s territory because there would be three potential service providers (PG&E, SSJID, and MID) but provide other benefits.

See Chapter 7, Section 7.3 of this MSR for detailed data, analysis, and findings for this determination.

**Determination 6: Disadvantaged Unincorporated Communities**

There is only one disadvantaged unincorporated community (i.e., French Camp CDP) adjacent to SSJID’s SOI. SSJID does not provide sewer, municipal and industrial water, or structure fire protection services to this area, and this MSR does not assess the provision of these services by SSJID or any other agencies. French Camp is within the City of Stockton’s SOI. The City of Stockton provides all three services and would be responsible for providing such services upon annexation of the area. San Joaquin LAFCo will, through Stockton’s next MSR, evaluate any service deficiencies in this area.

See Chapter 8 of this MSR for detailed data, analysis, and findings for this determination.
CHAPTER 4: SPHERE OF INFLUENCE FACTORS

4.1 Revisions to the Sphere of Influence Factors

The following revisions are made to the four factors as stated Chapter 2 of the Preliminary Revised Draft Sphere of Influence Plan/Municipal Service Review (Mintier Harnish report) as required in Section 56425(e) of the Cortese Knox Hertzberg Act:

- No changes to section 2.1 Present and Planned Land Use
- No changes to section 2.3 Present Capacity and Adequacy of Public Facilities and Services
- The following changes are made to section 2.4 Social and Economic Communities of Interest and to section 2.6 Future District Annexations:

Accountability

As described in Chapter 7 of the MSR, PG&E shareholders through the PG&E Board of Directors make business decisions for the utility. San Joaquin LAFCo does not have any responsibility for ensuring the provision of adequate and efficient services provided by PG&E or authority over PG&E boundary and service changes. PG&E customers are not involved in the decision-making process related to PG&E services or rate setting. The CPUC regulates and sets PG&E rates on a systemwide basis. Customers who want to have a voice in the provision of service or rate setting process must enter into a complex litigation-based “ratemaking” process at the CPUC in San Francisco. The CPUC has had a long history of protecting ratepayers’ interest and there are formal and structured processes that must be relied upon.

The SSJID Board of Directors believe that retail electric customers would have a different system by benefit from having access to locally-elected Board members who are responsible for making service decisions and setting rates. Electric service policies and practices would be decided by SSJID’s Directors who would answer to the voting residents within the District. As a public agency, SSJID is subject to the Brown Act and Public Records Act. Customers who would want to have a voice in decisions that set rates and policy could easily attend regular SSJID Board meetings and speak. If the SSJID Board did not meet expectations, customers may directly contact and/or provide comments to the Board in a public forum. Ultimately, Board members would answer to the public through the election process. It should be noted that each City Council within the district has adopted a resolution supporting, conditionally supporting, and/or endorsing SSJID’s plan to provide retail electricity. These resolution were adopted with the representation that a 15% discount would be achieved as opposed to the 4.4% discount compared to PG&E’s rates.

Multiple Service Providers

As described in Chapter 4, Section 4c of the MSR, two organizations (PG&E and MID) already provide electric service within SSJID’s service area. San Joaquin LAFCo can authorize SSJID to provide retail electric service within its boundaries and SOI; however, this action would not resolve the existing
overlapping service areas. SSJID’s plan would create a circumstance where two districts provide retail electric service to the same area, and another utility provides natural gas service. As a result, customers would have three utilities offering energy services.

While State laws governing LAFCos discourage the creation of situations where two districts provide service to the same area, retail electric service within SSJID’s service area is unique. Special State legislation authorized MID to compete with PG&E to provide retail electric service within San Joaquin County, effectively allowing a special district outside of San Joaquin LAFCo’s authority to provide service within San Joaquin LAFCo’s jurisdictional boundary. San Joaquin LAFCo cannot consolidate MID’s service area into a more efficient, conventional boundary.

**Economic Effects**

Based on the financial analysis prepared by LAFCo Mintier Harnish and MBMC, SSJID is expected to provide rates 4.4% lower than PG&E (Chapter 5). SSJID contends that its reduced rates would have a positive economic benefit throughout the district and that changing the provider of retail electricity from PG&E to SSJID could stimulate economic activity by offering reduced rates although with a lower savings this may not be the case. The stimulation of the economy in SSJID territory may come at a corresponding disincentive for other parts of the County. It can be asserted reasonably assumed that lower rates would provide some economic benefit to communities within SSJID’s service area and SOI as residents have more disposable income or customers may simply use more power.

Furthermore, as a public agency, SSJID is subject to public bid requirements, under which SSJID’s Board could make a policy decision to prioritize bids for local contractors, which would keep more resources local.

It should be noted that SSJID’s plan could increase the rates of PG&E customers outside the District’s service area. On December 18, 2009, the CPUC completed a review of SSJID’s plan and approved Resolution E-4301 finding that, SSJID’s proposal to provide retail electricity to PG&E customers could raise rates for PG&E’s remaining customers; "the magnitude of the estimated increase, however, is small relative to PG&E’s current system average rates, and thus does not substantially impair PG&E’s ability to provide adequate service at reasonable rates within the remainder of its service territory." (CPUC Resolution E-4301).

The CPUC “estimated that SSJID’s proposal could result in a 30-year net present value revenue loss to PG&E of $241 million and resultant higher rates of $0.00032 per kilowatt-hour (kWh), which is approximately 0.21 % the system average rate.”

**Potential SSJID Service and Facility Enhancements**

If SSJID’s retail electric plan requires more funding than what SSJID has identified, there may be no funding available to make improvements and fund programs necessary to address recommended improvements and programs identified in SSJID’s water plans. However, the LAFCO Mintier Harnish/MBMC Analysis indicates that SSJID’s retail electric plan is financially feasible and robust. According to the financial analysis prepared by Mintier Harnish and MBMC, it is likely that SSJID’s plan will provide the District with greater revenues resulting in higher reserves (Chapter 5). SSJID could use
surplus reserves if available to invest in more efficient facilities for irrigation water, drainage, or retail electric service, or additional programs that enhance service delivery. Customers in turn could benefit from more reliable service and/or lower rates. SSJID has a history of investing in facility enhancements (e.g., Division 9 Project), and it is reasonable to assume the District would continue to pursue similar projects if surplus revenue is available. While these are all benefits that SSJID could provide, the District has not committed to or identified in its budget using surplus revenues to enhance its system.

**Customer Indebtedness**

As described in Chapter 5 of the MSR, SSJID will incur substantial debt to purchase and make improvements to the retail electric distribution system. SSJID would need to incur $310,270.7 million in debt based on the valuation of the PG&E distribution system in the Market Expert Report prepared by PA Consulting Group and adjusted to reflect PG&E’s capital investments updated through 2014. SSJID will repay this debt through future fees for service (i.e., electric revenues), or through the use of non-operating revenues (surplus water and wholesale power sales). The types of debt that SSJID is proposing to use (i.e., Certificates of Participation) will not require voter approval. In this way SSJID’s debt is indirectly the responsibility of its customers, but customers will have no involvement in deciding whether they think the District should incur debt to finance the retail electric system.

Government agencies often issue debt to pay for ongoing expenses as well as major capital projects. Debt issuance is not a new process for SSJID. The District incurred $25 million in debt in 2008, and is set to repay this in 2019. The Mintier Harnish/MBMC Analysis prepared for SSJID’s plan includes an analysis of the debt financing SSJID will use to implement its plan, as well as the rates customers will pay and revenues SSJID will use, to pay this debt. Because SSJID proposes to provide rates lower than PG&E rates, and the Mintier Harnish/MBMC Analysis has found this to be feasible, it is unlikely that current or future SSJID customers would experience adverse effects from SSJID’s debt financing. Furthermore, the LAFCoMintier Harnish/MBMC Analysis found that SSJID would maintain a debt coverage ratio (i.e., cash available to service debt) above the minimum industry standard.

**Fiscal Impacts to Local Agencies**

As described in this Addendum Chapter 5 of the MSR, SSJID has committed to paying franchise fees and property taxes to local government agencies within San Joaquin County that are estimated to exceed those currently (2012) paid by PG&E. PG&E currently pays an estimated $1,727,720 in franchise fees and property taxes for property, facilities, and services within the district. SSJID has committed (Resolution 14-12-E12-E13-E) to maintain the same amount of franchise fee revenue to the cities of Escalon, Manteca, and Ripon, and the same amount of property tax revenue to be paid to San Joaquin County for distribution to affected agencies.

SSJID proposes to spend 2.5 percent of its gross retail electric revenue for in-lieu payments to address potential property tax and franchise fees. According to the Mintier Harnish/MBMC Analysis, SSJID would pay about $2.1 in in-lieu taxes and fees in its first year of operations. This is over $300,000 more than PG&E is estimated to pay. SSJID assumes these payments will increase over time with inflation; the Mintier Harnish/MBMC Analysis assumed a 2 percent annual escalator. However, it should be noted that SSJID is not obligated to make these payments and could decide not to in the future, except if
required to do so by a San Joaquin LAFCo condition and through written agreement with the affected agencies, which the District has proposed to do in Resolution 14-12-E12-13-E. Furthermore, SSJID’s plan would result in minor losses in property taxes used to pay voter-approved debt service for school district’s outside San Joaquin County. This loss will be passed on to property owners whose property tax payments will increase. SSJID’s plan will may result in a loss of vehicle license fees, which are shared by the County and cities.

Finally, SSJID is not planning to pay in-lieu fees for vehicle license fees (VLF) paid by PG&E. Assuming PG&E sells the vehicles it uses to serve areas within SSJID, transfers them from San Joaquin County, or otherwise disposes of them, SSJID’s plan could result in a loss of $41,500 to the State, San Joaquin County, and the cities in the county. LAFCo could condition SSJID to pay in-lieu fees sufficient to offset VLF paid by PG&E, assuming PG&E no longer registers the vehicles that operated in SSJID’s service area. Ultimately, if SSJID were to pay in-lieu VLF based on the amount identified by Capital Matrix Consulting ($45,000), the effect on the financial feasibility of SSJID’s plan would likely be insignificant.

Public Benefits Programs

As described in Chapter 4, Section 4c, SSJID’s retail electric service plan would result in changes in energy efficiency and conservation programs offered to customers within the district. SSJID would not provide the same number of programs that PG&E currently provides, but there is a wide spectrum of programs SSJID could provide. SSJID would be required to conduct a needs assessment to define the number and types of programs offered by the district. Public benefit programs provided by SSJID may be more or less effective than those currently managed by PG&E; however, SSJID’s plan would result in a focused needs assessment that meets local customers’ needs.

SSJID’s plan would not provide the level of spending on public benefit programs compared to that currently provided by PG&E. SSJID has committed to spending 4 percent of that PG&E will spend 4.5 percent ($4.63 million) of the revenue it generates from customers within SSJID’s service area on public benefit programs. However, SSJID would have sufficient funding from other sources (e.g., Cap-and-Trade allowances and/or wholesale power and surplus water supplies) and the legal authority to increase its public benefits and low-income programs spending to match PG&E expenditures if it chose to do so.

Fewer public benefits programs and less spending on such programs could impact the ability of customers to reduce their energy demand and keep their rates low.

Border Area Customer Impacts

Border area customers who would be served by MID currently get to choose whether they want to be served by PG&E or MID. If SSJID entered into an agreement with MID, border area customers would not get to decide whether they want their service provider to be MID, and they would not have the ability to prevent a rate increase due to the change in service providers. MID customers within San Joaquin County are not able to vote in MID elections. Likewise, Modesto Stanislaus Modesto LAFCo is not responsible for ensuring the provision of adequate and efficient services to areas outside Stanislaus Modesto Modesto County. Finally, San Joaquin LAFCo does not have the authority to evaluate and make decisions regarding MID’s services and boundaries within San Joaquin County.
SSJID’s plan would also affect border area customer rates as existing PG&E customers would be shifted to MID, and pay rates set by MID. As described in Chapter 5 of the MSR, it is expected that about half of residential customers would experience rate increases and half would experience lower rates. Non-residential customers would likely pay lower rates. Border area customers would also no longer have access to PG&E public purpose programs or CARE program rates. As described in Chapter 5, while MID does offer a low-income rate discount (at a lower discount and more stringent requirements) and energy efficiency, lighting, and special needs programs which border areas customers would have access to, MID does not offer the same number or type of programs offered by PG&E.

2.5 Existing and Projected Population

No changes

2.6 Future District Annexations

Figure 2-3 defines the probable 30-year boundary of SSJID’s service area and its sphere horizons at the end of a 5- to 10-year period and 30-year time period. “Sphere Horizons” depict areas where the District expects its services will be needed, consistent with the MSR. The 10-year Sphere Horizon includes areas that the District expects to annex and provide services to at some point during the next 10 years. The 30-year Sphere Horizon includes areas where the District expects to ultimately provide services.

As shown on Figure 2-3 and Table 2-1, there are five areas that SSJID expects to annex over the next 30 years (i.e., Areas A, B, C, D, and E). The District has identified Areas “A” and “E” for inclusion in the 10-year Sphere Horizon (shown in yellow on Figure 2-3). The remaining areas are identified for inclusion in the District’s 30-year Sphere Horizon (shown in green on Figure 2-3). It should be noted that SSJID has the authority to decide which services it provides to which areas of its district.

<table>
<thead>
<tr>
<th>TABLE 2-1 FUTURE DISTRICT ANNEXATIONS</th>
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<td>SOI Area</td>
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<td>Area A</td>
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<td>Area D</td>
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<td>Area E²</td>
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1 Would require San Joaquin LAFCo approval of SSJID’s retail electric service application.

2 Includes areas within the Manteca city limits currently outside SSJID’s SOI, but planned for inclusion in the SOI.

Source: SSJID, 2011; Mintier Harnish, 2011.
The information contained in this section of the MSR reflects SSJID’s currently (2014) anticipated services. Generally, the District’s current (2014) decision to not expand a service into an area of its SOI is based on expected customer demand and the cost to extend facilities or service. For example, SSJID does not plan to extend electricity service to Areas “B” or “C”. This is due to the rural nature of the area (i.e., low customer demand) and location of transmission circuits, which make it impractical and costly to extend facilities.

The following paragraphs provide for each area: a description of the size and location; Sphere Horizon; expected service and uses; and facility and service needs. The District anticipates that it will provide irrigation water, drainage, and retail electric service to all areas within its existing service area. Chapter 4 of the MSR provides details on SSJID’s ability to provide services to these areas.

**Area A - 80-acre Island**

Area-A is an 80-acre island, recently split into two 40-acre parcels, located in the northwestern part of the district. Area-A is within the 10-year Sphere Horizon. SSJID is requesting that LAFCo approve its application to annex this area into the District service area boundary. Upon annexation the District would provide irrigation water and drainage services to this area. If LAFCo approves the SSJID’s retail electric service application, the District would also provide retail electricity services to this area. The District expects that this area will remain in agricultural production.

The District does not expect that any major facilities would be required to serve Area-A. The District’s existing irrigation, drainage, and electricity facilities and water supplies are readily available and sufficient to serve Area-A without compromising existing service levels elsewhere in the District.

**Area B - 7,800-acre Area to the Northwest**

Area-B is a 7,800-acre area on the northwest edge of the District. Area-B is within the 30-year Sphere Horizon. The District anticipates that it would ultimately provide irrigation and drainage service to this area. The District expects that this area would remain in agricultural production. The area receives water through individual wells and through natural streambeds that carry unused pass-through water from both SSJID and CSJWCD that ultimately drains to the San Joaquin River. In order to serve Area-B, the District would need to extend or construct irrigation and drainage lines and canals and impose conditions to allocate water supplies (e.g., extension of District facilities are the owner’s expense, the owner must follow District rules for water delivery and pay District fees, the District makes no assurances of water supply, and new customers are subject to reductions in the event of shortages in supply).

In 2008 the Stockton East Water District (SEWD) adopted a resolution (SEWD Resolution 07-08-08) and submitted an application to LAFCo for an SOI amendment and annexation to include Area-B within its service area and SOI. In its application to LAFCo, SEWD proposed to provide irrigation water service to the area through groundwater recharge and through existing natural watercourses. SEWD did not propose to extend conveyance facilities to serve the area with surface water. In its application SEWD stated its reasons for the reorganization, including: ensuring that lands receiving benefits from the
SEWD operations are within its boundaries, and ensuring all property within San Joaquin County is represented by a water conservation district. LAFCo would not process the application until an MSR was prepared that evaluated SEWD’s ability to provide service. San Joaquin LAFCo prepared an MSR for SEWD on January 12, 2012. Since that time San Joaquin LAFCo has not processed an application to add Area-B to SEWD’s service area. On June 15, 2012, LAFCo adopted the SOI and MSR for the Water Conservation Districts including Stockton East and Central San Joaquin Water Conservation Districts. LAFCo left the area in SSJID’s sphere.

CSJWCD has also expressed an interest in providing water service to Area-B. CSJWCD abuts Area-B along its southern boundary. The South Little Johns Creek natural streambed and the Avena Drain could be used by CSJWCD to deliver water to Area-B. CSJWCD does not have plans to provide water service to Area-B. Again, LAFCo decided to leave the area within SSJID’s sphere (June 15, 2012).

The optional government structures discussion, Chapter 7 of the MSR, evaluates and compares the ability of SSJID, SEWD, and CSJWCD to provide services to Area-B.

**Area C - 850-acre Area to the Northeast**

Area C is an 850-acre area on the northeastern edge of the District and is within the 30-year Sphere Horizon. The District anticipates that it would ultimately provide irrigation and drainage service to this area. The District expects that this area would remain in agricultural production. In order to serve Area-C, the District would need to extend or construct irrigation and drainage lines and canals, and impose conditions to allocate water supplies.

Area-C is also within the CSJWCD service area, resulting in an overlapping service area with SSJID’s existing SOI. CSJWCD does not currently (2014) provide any surface water services to the area and it does not have any plans to extend services to the area. The area receives water through individual wells. CSJWCD’s water distribution system supplies irrigation water to customers within its service area through natural streambeds and limited connecting canals. There are no natural streambeds that could readily be used to deliver water to Area-C. Due to the geography and hydrology of Area-C in relation to CSJWCD’s distribution system (i.e., natural streambeds), CSJWCD would need to construct and maintain distribution facilities to provide water service to Area-C. CSJWCD has no plans to provide surface water service to this area. In order for CSJWCD to provide necessary conveyance facilities to serve the area, significant improvements would be necessary, which would likely be paid for by property owners.

LAFCo does not have the authority to change these boundaries without a formal change of boundary request from both SSJID and CSJWCD or a petition for change of boundary from property owners in the affected area. The optional government structures discussion, Chapter 7 of the MSR, evaluates and compares the ability of SSJID and CSJWCD to provide service to Area-C. On June 15, 2012, LAFCo decided to also leave this area in SSJID sphere order to provide ultimate service to this area.

**Area D - 5,240-acre Area to the South**

Area-D is a 5,240-acre area along the southern edge of the District between the District boundary and the Stanislaus River/San Joaquin County boundary. This area includes the southern edge of the City of
Ripon and the City of Escalon wastewater treatment plant. Area “D” is within the 30-year Sphere Horizon. The District anticipates that it would ultimately provide retail electricity service to this area. The District expects that this area would remain in agricultural production or develop consistent with the City of Ripon General Plan. In order to serve Area-D, the District intends to acquire electric distribution facilities in this area from PG&E as part of its Plan to Provide Retail Electric Service.

**Area E 2,200-acre Area to the West**

Area-E is a 2,200-acre area located on the western edge of the District within the City of Manteca. The District currently provides limited drainage service to this area. The District anticipates that it would ultimately provide drainage and retail electricity service to this area. In conjunction with this SOI Plan/MSR, SSJID is requesting that LAFCo expand the District’s SOI to include Area-E. The District has no immediate plans to annex this area, but anticipates working with the City of Manteca to pursue annexation in the near term (i.e., during the next 10 years). The District expects that this area would develop consistent with the City of Manteca General Plan. In order to serve Area-E, the District would need to extend drainage lines and canals through agreements with the City of Manteca and extend and/or acquire from PG&E electric distribution facilities.

**Service to Annexed Areas**

SSJID is committed to continue working with LAFCo, the County, and property owners to annex all existing areas within its SOI outside the existing District boundaries in the long term (i.e., 30-year SOI Horizon). With the construction of necessary facilities, the District would be able to provide electricity, irrigation water, and drainage services. Infrastructure and services that would be provided with annexation would, in most cases, enhance those services currently available.

As annexations occur, the District would work with property owners to identify specific infrastructure improvements necessary to provide water, drainage, and, if approved by LAFCo, retail electric service, and to confirm their commitment to the terms of the annexation including payment of annexation costs and the costs of the new facilities. District annexation policy requires that the subject property owner pay for necessary irrigation facilities to serve annexed property.

The District’s current (2014) water supplies are adequate to serve the area identified for annexation without affecting its current irrigation and domestic water customers. In extremely dry years, if water supplies are inadequate to meet demand, newer territory added to the District is the first affected (i.e., reduced water supplies). If approved by LAFCo, SSJID would establish electric service policies requiring the District to extend electricity service to anyone who requests service within the District boundary, subject to standard terms and conditions. Because areas within the District’s SOI are largely rural and not planned for urban development, it is not expected that annexations would cause a significant demand for new electricity distribution facilities.

SSJID does not currently (2014) plan to provide all its services (i.e., irrigation water, agricultural drainage, and, if approved by San Joaquin LAFCo, retail electric) to all areas of its SOI. In some cases it may be infeasible or not in customers’ interest to extend an SSJID’s service to an area of its SOI. In other
cases it may make sense for SSJID to become the service provider at some point in the future. Based on information in the MSR, SSJID’s planned services and facilities are expected to meet customer needs.