



Update on Rate Refinement Discussions

Finance & Insurance Committee

Item 7-a

July 9, 2012

Overview

- Key Issues
- Rate Refinement Priorities
- Linking of Rate Structure and Water Management Actions
- Additional Fixed Revenue
 - Fixing of Ad Valorem tax rate
 - Treatment cost recovery
- Schedule/Process to move forward

Key Issues

- Rate Refinement Priorities
- Purchase Order expiration
 - Tier 2
- Replenishment
- Fixed revenues
 - Ad Valorem Tax to address SWP costs
 - Treatment cost recovery

Rate Refinement Priorities

- Revenue Stability and Certainty
- Water Management Objectives
- Replenishment Rates
- Tier 2
- Additional Fixed Revenues
 - Fixing of Ad Valorem Tax rate
 - Fixed Treatment Charges

Observations/Lessons Learned from Existing Purchase Orders

- Continued use of purchase orders may not be necessary
 - Alternative to achieve stability and certainty of revenues
 - Tier 1/ Tier 2
- Current rate structure may be more effective way to address rate refinement priorities

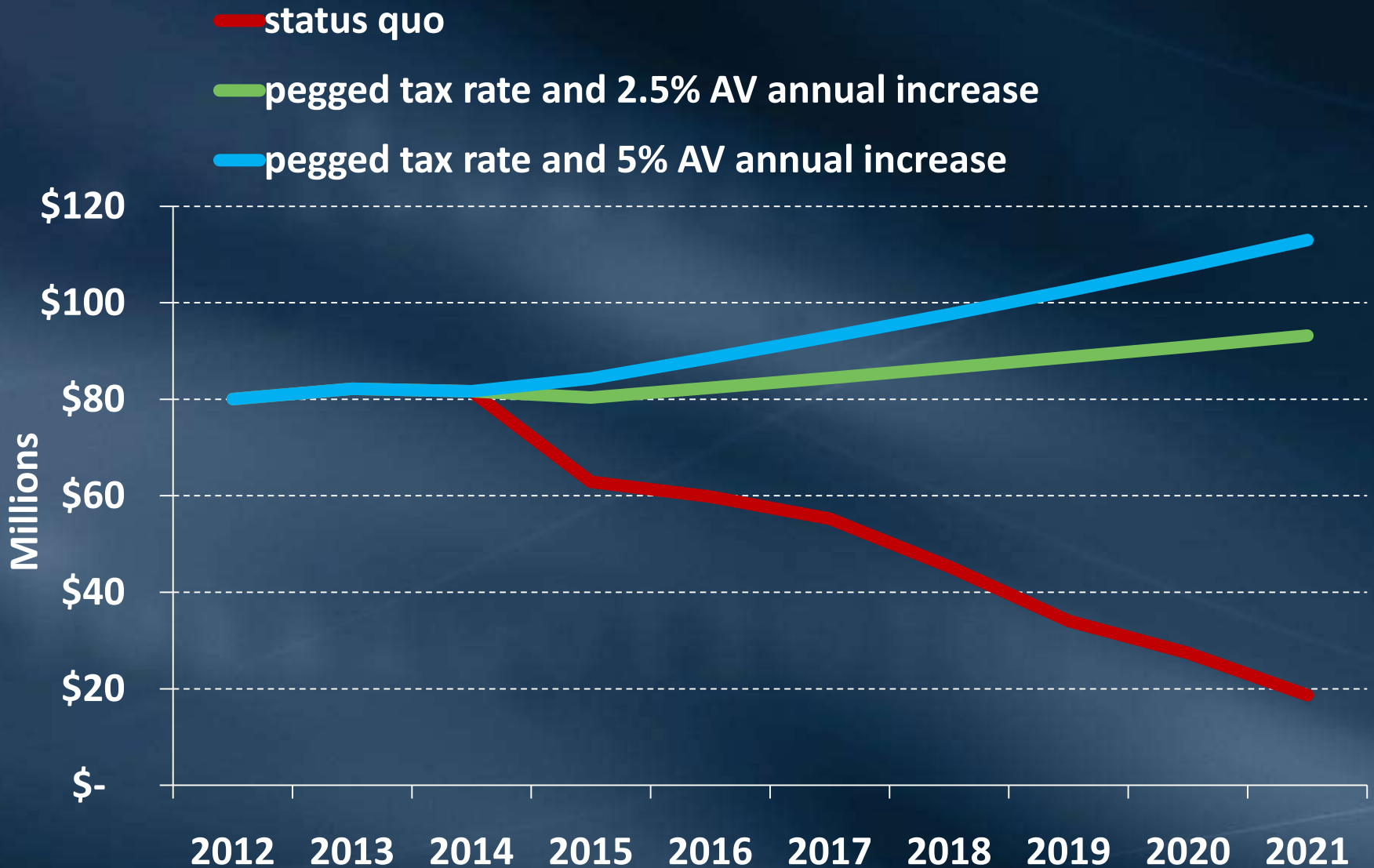
Observations on Linking Rate Structure and Water Management Actions

- Rate structure elements unchanged
 - Unbundled, status quo
- Tier 2, Replenishment based on hydrologic/operational conditions
 - “Normal” = supply at Tier 1
 - “Dry” = Tier 2 in effect
 - “Wet” = Replenishment available
- Addresses several priorities
 - Retains Tier 2 price signal
 - Determines when Tier 2 and Replenishment are in effect
- Improves revenue stability and certainty through conservative sales forecasting and development of additional fixed revenues
 - Use 1.7/1.75 MAF of sales/exchange to set rates

1.7 MAF: A Conservative Figure For Budget Planning



Ad Valorem Tax Rate Scenarios*



* Subject to annual determination

Treated Water Cost Recovery

- Treated water costs for FY 2012/13 from Cost of Service report
 - Fixed Demand: \$48.3M assigned to peaking
 - Fixed Standby: \$28.4M assigned to standby
 - Fixed and Variable Commodity: \$165.6M volumetric
- Develop Treatment Cost Recovery consistent with the Conveyance and Distribution system cost recovery
 - Standby costs recovered through a Treatment RTS
 - 10-year rolling average of firm treated water sales
 - Peaking costs recovered through a Treated Water Capacity Charge
 - Three year look back of summer peak day demands, phased in
 - All other costs are recovered on a volumetric basis

Schedule/Process to Move Forward

- Member Agency Managers meetings
 - June 15, July 13, August 24, September 14
 - Managers establish priorities
- Rate Refinement Workgroup to meet between Managers meetings
 - Friday, June 29
 - Wednesday, July 25 OR Friday, July 27
 - Wednesday, August 29 OR Thursday, August 30
 - Wednesday, September 26
- Board Information letter in October 2012
- Board Action letter in November 2012
 - Administrative Code changes

Timeline : Rate Refinement

