



Update on Treatment Charge Workgroup

Finance & Insurance Committee
Item 6b

November 7, 2016

Dr. Chesnutt, A&N Technical Services

Treatment Charge Workgroup (TCW): Meeting #3, October 20, 2016

Information Items (in response to requests by Workgroup):

- **MWD Treatment Budget Overview**
- **Treatment Cost of Service (CoS) Analysis Overview**
 - **Functionalization of Costs—Arrives at a Treatment Revenue Requirement**
 - **Allocation of Costs—Commodity/Demand Method**
 - **Distribution of Costs to Rate Elements**
- **Ten-Year Forecast—Treatment Surcharge Forecast**

The TCW focus is on the Distribution of Costs within the Treatment Revenue Requirement.

Copies of the presentations were distributed at the meeting.

Treatment Charge Workgroup (TCW): Meeting #3, October 20, 2016

Rate Design

- In a nominal group process, the Workgroup was broken into 3 groups to review and revise a proposal for a TCW Problem Statement, emailed after Sept. 29th meeting.
- Elicitation Results--ranking “Attributes of Success”
 - Top Attribute: Provides a clear nexus between member agency cost responsibility and benefits received
 - Some Attributes—such as “Legally Defensible”—should be thought of as completely necessary and beyond ranking
 - Some lower ranking attributes were a means towards the ends of a higher ranking attribute

Treatment Charge Workgroup (TCW): Meeting #3, October 20, 2016

Elicitation Exercise:

- Score current and proposed (April 2016) treatment rate structures
 - against the attributes of success
 - on a 1 to 10 scale (where 1 is low and 10 is high)
 - Exercise was emailed 10.20.16

Consensus TWC Problem Statement

Consensus TCW Problem Statement (Ver. 1, 10.20.16)

The Treatment Charge Workgroup will review Metropolitan's treatment rate design to better align treatment rates and charges with treatment services received (Member Agency Equity).

The Workgroup intends to address the following questions:

- How well does the existing volumetric treated water surcharge accomplish this objective?
- Should a fixed treatment charge be implemented to recover some proportion of treatment fixed costs?
- Can and exactly how should peaking be addressed (for example, seasonal, standby/RTS capacity, and episodic)?
- How well does the treatment rate design comply with accepted Cost of Service principles?
- How can and should the capacity needed for Metropolitan's operational flexibility and stranded assets be addressed?
- How can the accuracy and clarity be improved?
- How can treatment cost recovery/rate design be integrated with long term planning (LRP and IRP)?
- Are there alternatives for better alignment of member agency commitments and Metropolitan commitments?

Next Steps

- Workgroup is a Member Agency-driven Process
- Consensus Problem Statement – Allow revisions
- Review Elicitation Exercise
- Next Meeting November 17th

Looking for any input from the Finance and Insurance Committee

Workgroup Meeting Schedule, 2016

- Workgroup meeting dates:
 - September 1
 - September 29
 - October 20
 - **November 17**
 - **December 15**
 - **January and February?**
- Member Agency Managers meeting dates:
 - September 16
 - October 14
 - **November 18**
 - **December 16**
- F&I Committee meetings in September, October, November, December, January, February



Synopsis of April 2016 Proposal

- Objectives:
 - Comply with industry standard cost of service principles
 - Better align costs and cost recovery through revenues
 - Achieve a level of fixed revenue recovery
- Proposal: recover COS-based fixed demand and fixed standby costs, approximately 38% of Treatment costs, through fixed charges
 - Fixed standby costs apportioned based on TYRA
 - Fixed demand costs apportioned based on a three-year trailing maximum coincident peak day flow
- Remainder of Treatment costs, approximately 62%, recovered through a volumetric charge

Board voted to define objectives of a new treated water charge and analyze alternatives for further discussion/possible recommendation

Executive Committee

- Policy Issues to be Addressed by Member Agency Workgroup
 - Define objectives of a fixed treated water charge
 - Determine costs to be included in fixed charge
 - Determine allocation methodology
 - Address issues related to implementation of a new charge
 - Consider implementation in January 2018 or as part of the next biennial budget
- Dr. Chesnutt (A & N Technical Services) brought on to provide technical facilitation

Workgroup Process

- Member Agency driven
 - Define “success”
 - Provide opportunity to hear and be heard
 - Express concerns, issues and ideas
- Defining the sandbox
 - Use current Cost of Service analysis
 - Other considerations that may be limiting
- Member Agency objectives
 - What is the problem we are trying to solve?
- Others