



Agenda Item No. _____
 Meeting Date: August 2, 2017
 Resolution: () Yes (X) No

AGENDA DOCKET FORM

SUBJECT: RATE STRUCTURE ANALYSIS UPDATE

SUMMARY: The District is conducting a comprehensive rate study on both treated and untreated water service to evaluate the appropriate rate structure to equitably recover the costs of serving water. The Board has set the policy objectives of the study to include: ensuring financial sufficiency and stability; providing affordable water for essential uses; allocating costs equitably; encouraging efficient water use; and enhancing customer understanding of the rate structure. The priorities among these objectives will be defined by the results adopted by the Board. This is the third report to the Board on the development of the study and the purpose of this report is to update the current status of the consultant's work and provide follow-up on how the Board's previous comments are being incorporated. The next report will include a presentation by the consultant, Raftelis Financial Consultants (Raftelis), on the preliminary results of the technical analysis. The methodology being used is based on generally accepted rate-setting methodologies from the American Water Works Association. The work currently proceeding is the technical analysis portion of the study, which includes the following three major categories:

Analysis of Revenue Requirements: This process determines the funding required for the District to provide water service to customers. Raftelis has completed this step and concurs that the revenue increases projected in the 2018 CIP (which projects 6.00% for 2018-2020 and 3.75% for 2021-2027) are appropriate to fund the projected operating, capital, and debt service expenses and allow the District to maintain sufficient reserves and debt service coverage ratio requirements. This conclusion is for rate structure analysis only and does not obligate or pre-determine the outcome of the Board's rate review process starting October 2017.

Cost of Service Analysis: This step includes a thorough analysis and distribution of the cost components to customer classes based on cost responsibility. This approach focuses on different usage patterns, including allocating costs for average and peak uses. Costs are further allocated among customer classes within untreated water and treated water service. Raftelis is in the process of completing a review of the cost allocation methodology.

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FISCAL IMPACT: The primary intent of the rate structure analysis is not to increase revenues but to ensure the appropriate allocation of costs among all customer classes.

RECOMMENDED ACTION: Receive update on the rate structure analysis.

<hr/> Desiree Castello Director of Finance	<hr/> Ronald D. Jacobsma Assistant General Manager	<hr/> Jerry Brown General Manager
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JB/DC:dmg

Attachments: 1) Cost of Service Analysis and Rate Setting Methodology, 2) Board of Directors Input on Rate Study Matrix

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SUMMARY (Continued from Page 1):

New options will be brought to the Board for consideration, which vary the priorities of the policy objectives. Based on the direction from the Board at the September meeting, staff will outreach to impacted customers for feedback.

Rate Development: The total cost to serve each customer class is used as the basis to develop rates. Attachment 1 provides additional information about the components of the cost of service analysis and rate-setting methodology. Raftelis is evaluating a two- or three-tiered rate structure for single-family residential treated water customers, and comparing the potential changes against the current uniform rate structure (although an argument could be made that a two tier structure currently exists with the excess use charge). Staff believes that minor variations from the current approach is the best path forward to minimize customer impacts and provide clarity, while at the same time accomplishing all of the objectives. In the distribution of costs between fixed and variable rates, customer bill impacts will be considered, particularly in avoiding impact on customers with already low water use. For untreated water rates, the study will evaluate simplifying the current rate structure, and modifying the fixed and quantity charges for all untreated water customers to provide a uniform, consistent rate structure across multiple customer classes. Modifying the District's Lifeline Rate Program will not be recommended until the State Water Resources Control Board announces the details of its planned low-income rate assistance program in 2018 in order to ensure the District's program is in compliance with new state requirements.

Board of Director Input

The Board previously received updates on the rate structure analysis at its February 1, 2017 and April 19, 2017 meetings. The input provided by the Board is being incorporated into the rate study. The input received from the Board and related status of the analysis is summarized in Attachment 2. Further direction received from the Board will continue to be addressed during the study.

Next Steps/Schedule

The Board will receive a presentation by Raftelis on the potential changes to the water rate structure and related customer impacts on September 6, 2017. Targeted outreach will be initiated to affected customer groups and the feedback received from customers will be reported to the Board. An overview of the revised rate model and the final administrative report are anticipated to be presented for Board adoption in October 2017 and used as the basis of the rate setting process for 2018 rates, fees, and charges.

April to July 2017	Conduct Financial Plan and Cost of Service Analysis
September 2017	Present Draft Rate Structure to Board of Directors
October 2017	Board Consideration of Adopting Final Report
October to December 2017	2018 Rate Setting Process; Proposition 218 Notice*, Public Outreach to all Customer Classes
January 2018	Public Hearing for 2018 Rates

* Please note that the current plan for this year's notice is to address both the rate structure modifications and the rate review considerations and, as a result, the Proposition 218 notice will be lengthier than in prior years. The District will reinstate the format of the notice that reflects only the annual rate review in the following year's rate setting process.