

Key Messages

- The drivers for this study are Proposition 218 requirements and the results of the drought
- Rate structure evaluation reflects Board's policy objectives
- Cost of service analysis will result in proposed changes to the existing rate structure
- Board input and direction will continue to be incorporated throughout the process

Board's Policy Objectives

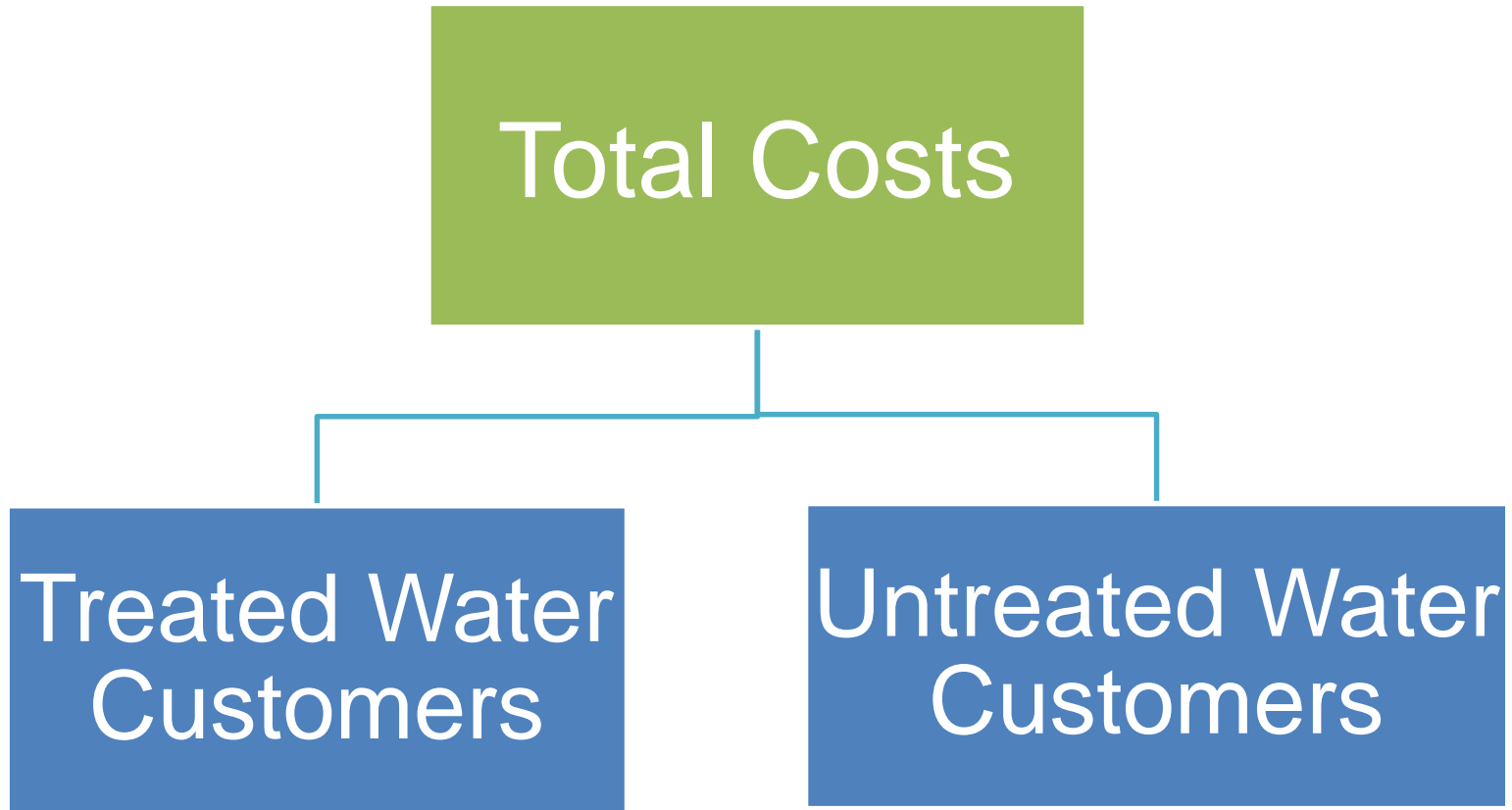
- Ensure financial sufficiency and stability
- Provide affordable water for essential use
- Allocate costs equitably
- Encourage efficient water use
- Enhance customer understanding of the rate structure

Revenue Requirements for Rate Structure Analysis

- Best to use 2018 as base year which means a preliminary review of revenue requirements preceding Board's rate review later this year
- All revenue sources evaluated:
 - existing rate revenues
 - reserves
 - outside funding sources
- 6% revenue increase needed to support 2018 operations, consistent with Capital Improvement Program
- Board's rate review process starting in October 2017 will incorporate refinements to 6% projection

Cost of Service Analysis

- Based on industry standards and methodology approved by AWWA
- Cost distribution based on cost responsibility
- Likely results in shifts between customer categories but does not increase revenue



Treated Water

Treated Water Cost Allocations

Cost Components

Supply

Base

Peaking

Fire

Pumping

Conservation

Meter

Customer Service/Billing

Customer Classes

Single Family Residential

Multi-Family Residential

Commercial

Industrial

Public Authority

Irrigation

Temporary Service

Rate Structure Evaluation

Customer Class	Recommended Rate Structure	Why?
Single Family Residential	Inclining Tiered Rate (2 or 3 Tiers)	Achieves conservation, affordability for essential use, equity, clarity for customers
Multi-Family Residential, Commercial, Industrial, Public Authority, Irrigation, Temporary Service	Uniform	Conservation programs are best suited to achieve saving

Treated Water Rates*

Current Split

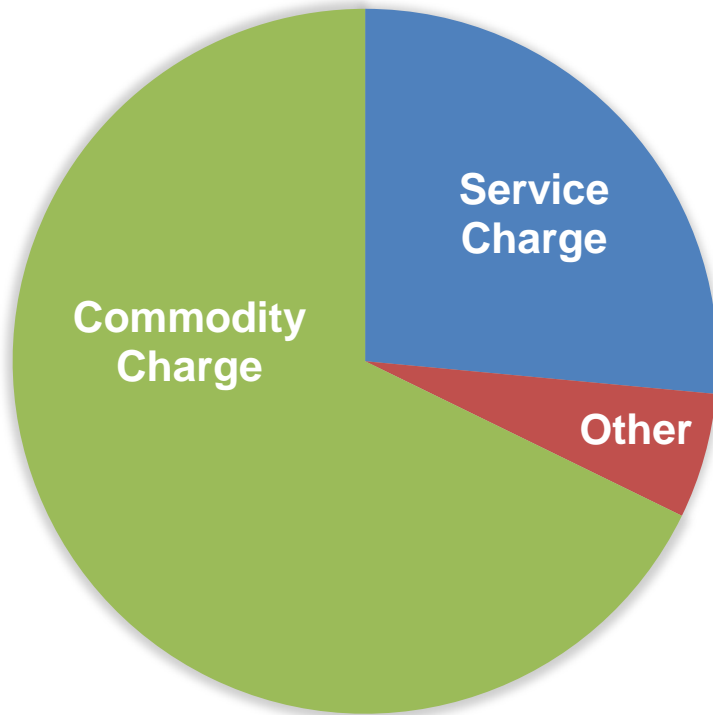
- Fixed Charges 30% of Revenue
 - Service and demand charge
 - Fire protection surcharge (public and private)
 - Backflow prevention device charge

- Volumetric Charges 70% of Revenue
 - Quantity charge
 - Energy surcharge

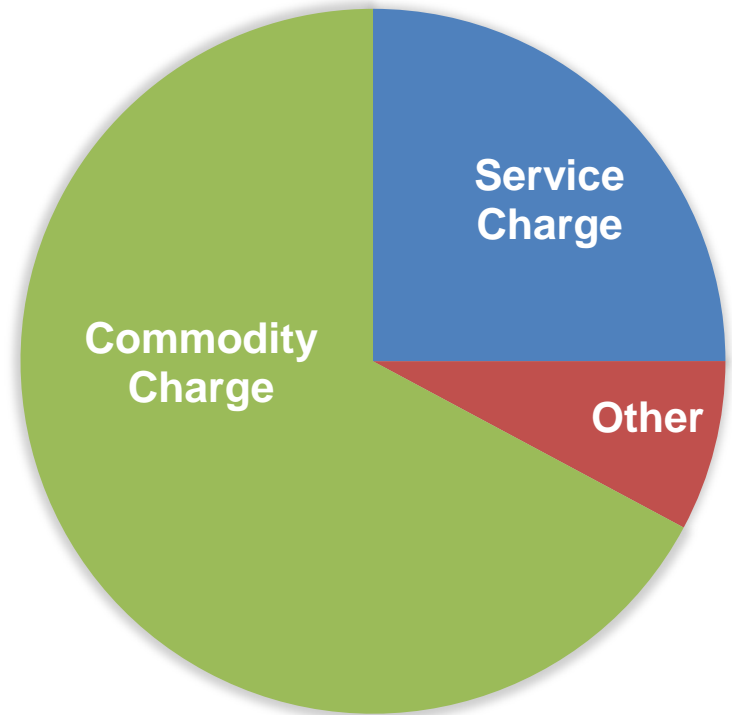
**Updated cost of service analysis may result in shifts in rates and customer class impacts.*

Treated Water Rates

CURRENT REVENUE

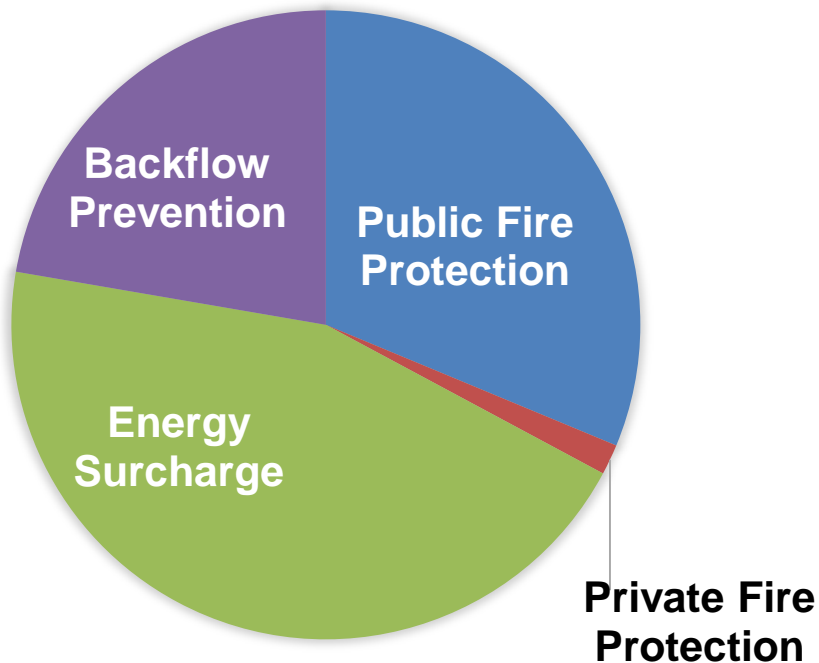


PROPOSED REVENUE

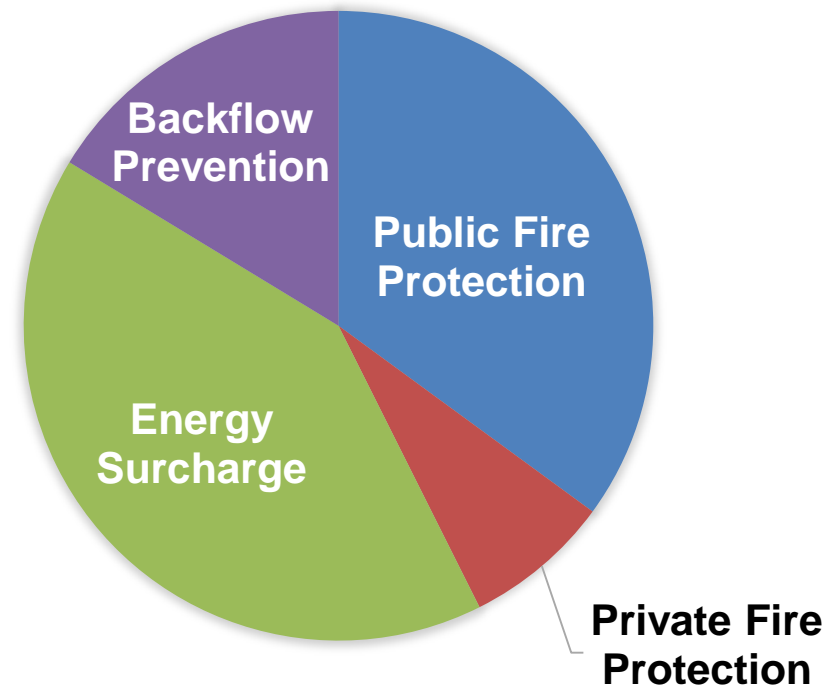


Other Rates

CURRENT REVENUE



PROPOSED REVENUE



RATE STRUCTURE ANALYSIS STATUS

Treated Water Rates	Type	Costs Recovered	Affected Parties
Service and demand charge	Fixed charge	Customer service, meter reading, billing, meter maintenance, added capacity to meet peak demands	All customers
Fire protection surcharge	Fixed charge	Added capacity to meet fire-fighting needs	All customers
Backflow prevention surcharge	Fixed charge	Annual testing, repairs and replacement of backflow prevention devices	Customers with backflow prevention devices
Energy surcharge	Volumetric charge	Energy costs to pumping water (cost based on zone)	All customers
Quantity charge	Volumetric charge	Water purchases, treatment, system maintenance, conservation, peaking	All customers

Untreated Water

Untreated Water Cost Allocations

Cost Components

Supply

Base

Peaking

Conservation

Meter

Customer Service/Billing

Customer Classes

Wholesale Municipal

Industrial

Landscape Irrigation –
Metered

Landscape Irrigation –
Unmetered

Agricultural Irrigation

Untreated Water Rates*

Current Split

- | | |
|----------------------|----------------|
| • Fixed Charges | 4% of Revenue |
| – Service charge | |
| – Demand charge | |
| • Volumetric Charges | 96% of Revenue |
| – Quantity charge | |

**Updated cost of service analysis may result in shifts in rates and customer class impacts.*

RATE STRUCTURE ANALYSIS STATUS

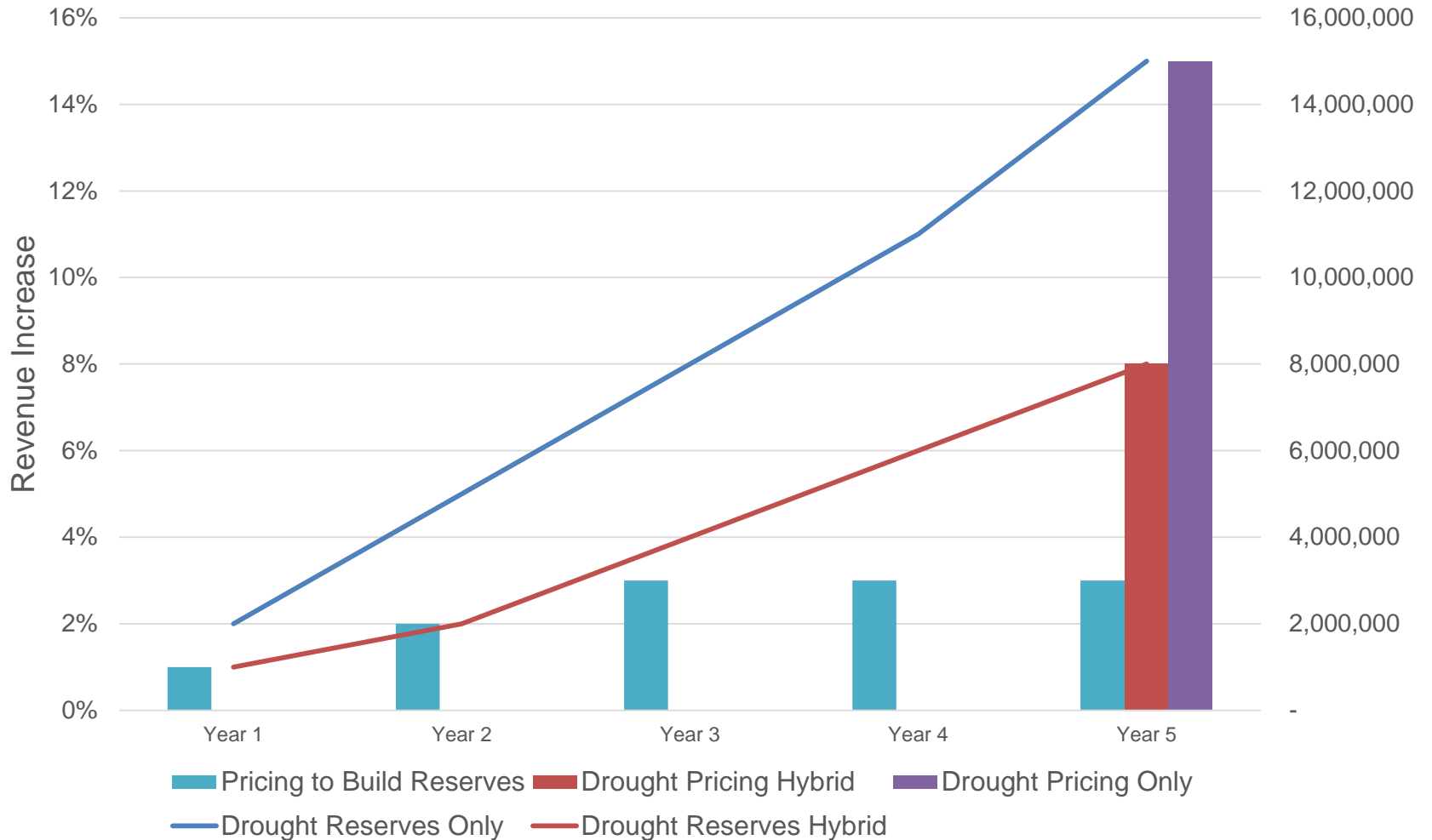
Untreated Water Rates	Type	Costs Recovered	Affected Parties
Monthly service charge	Fixed charge	Customer service, meter reading, billing, meter maintenance	All customers: Municipals, Industrials, Irrigation, Agriculture
Demand charge*	Fixed charge	Added capacity to meet peak demands	Municipal and irrigation customers with higher peaking patterns
Quantity charge	Volumetric charge	Water purchases, distribution system maintenance, conservation, peaking, pumping	All customers

**This study will evaluate simplifying rates, collapsing Max Day, Max Hour, & Max Month to have only a Max Month demand charge*

Customer Outreach / Public Feedback

- Second customer focus group in September to gain public perception of potential changes to rate structure
- Rate workshops to be scheduled in September with treated water customers, and municipal and industrial customers
- Will have responses from customers prior to Board consideration of adopting final rate structure in October
- 2018 Proposition 218 notice will incorporate structure changes and rate review, another opportunity for public feedback

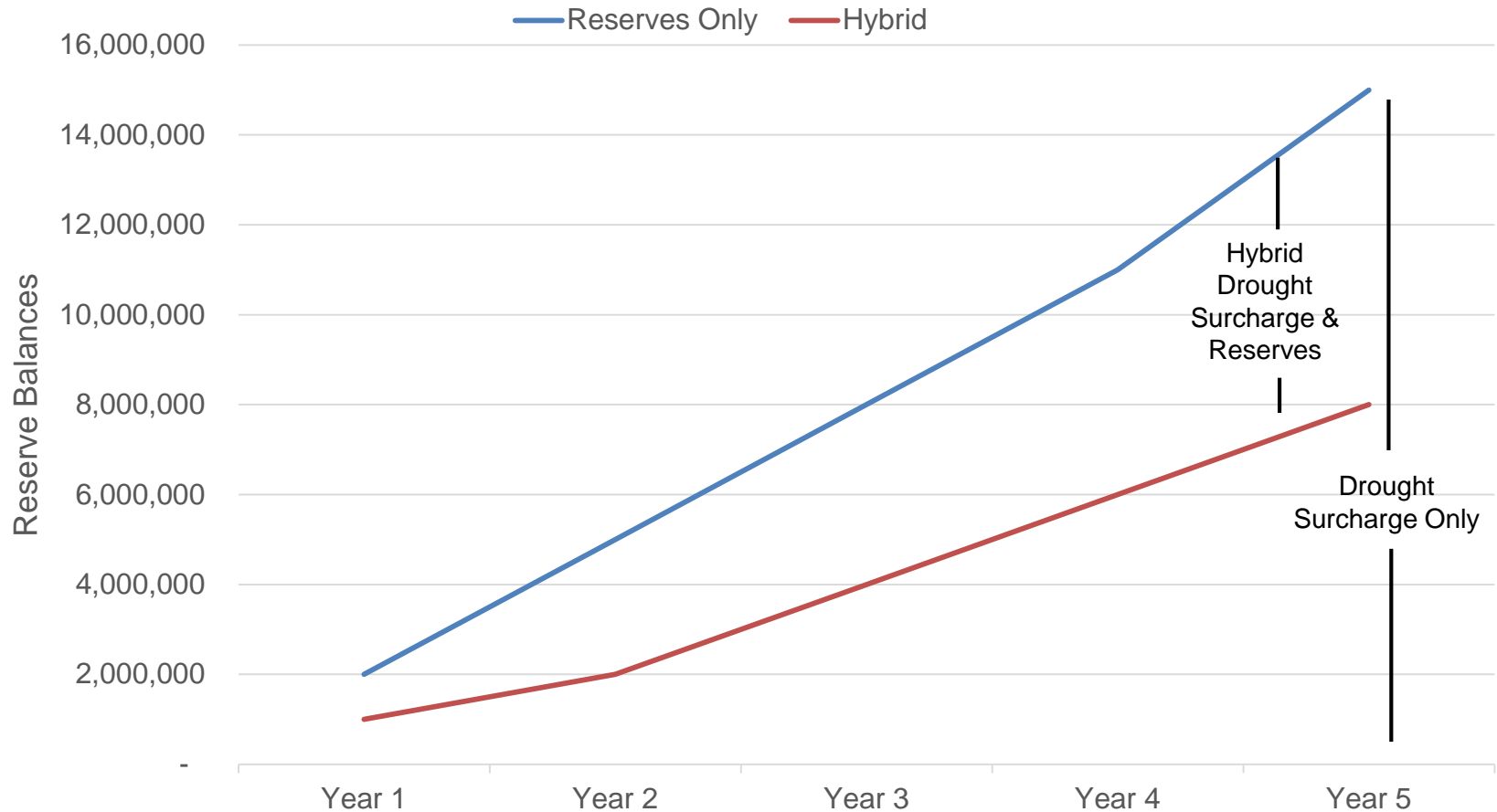
Drought Pricing vs Drought Reserves vs Hybrid



Schedule

<u>Board Meeting</u> : Rate Study Policy Direction	February ✓
Focus Group, Customer Surveys	March – April ✓
<u>Board Meeting</u> : Rate Study Status Update	April ✓
Financial Plan Development	April – May ✓
Cost of Service / Rate Structure Analysis	June – August
<u>Board Meeting</u> : Rate Study Status Update	August
<u>Board Meeting</u> : Rates Structure Initial Results	September
<u>Board Meetings</u> : Rates Structure Results	October
2018 Rate Setting Process, Prop 218, Public Outreach	Nov. – Dec.
<u>Board Meeting</u> : Public Hearing for 2018 Rates	Jan. 3, 2018
Rates Effective	Feb. 1, 2018

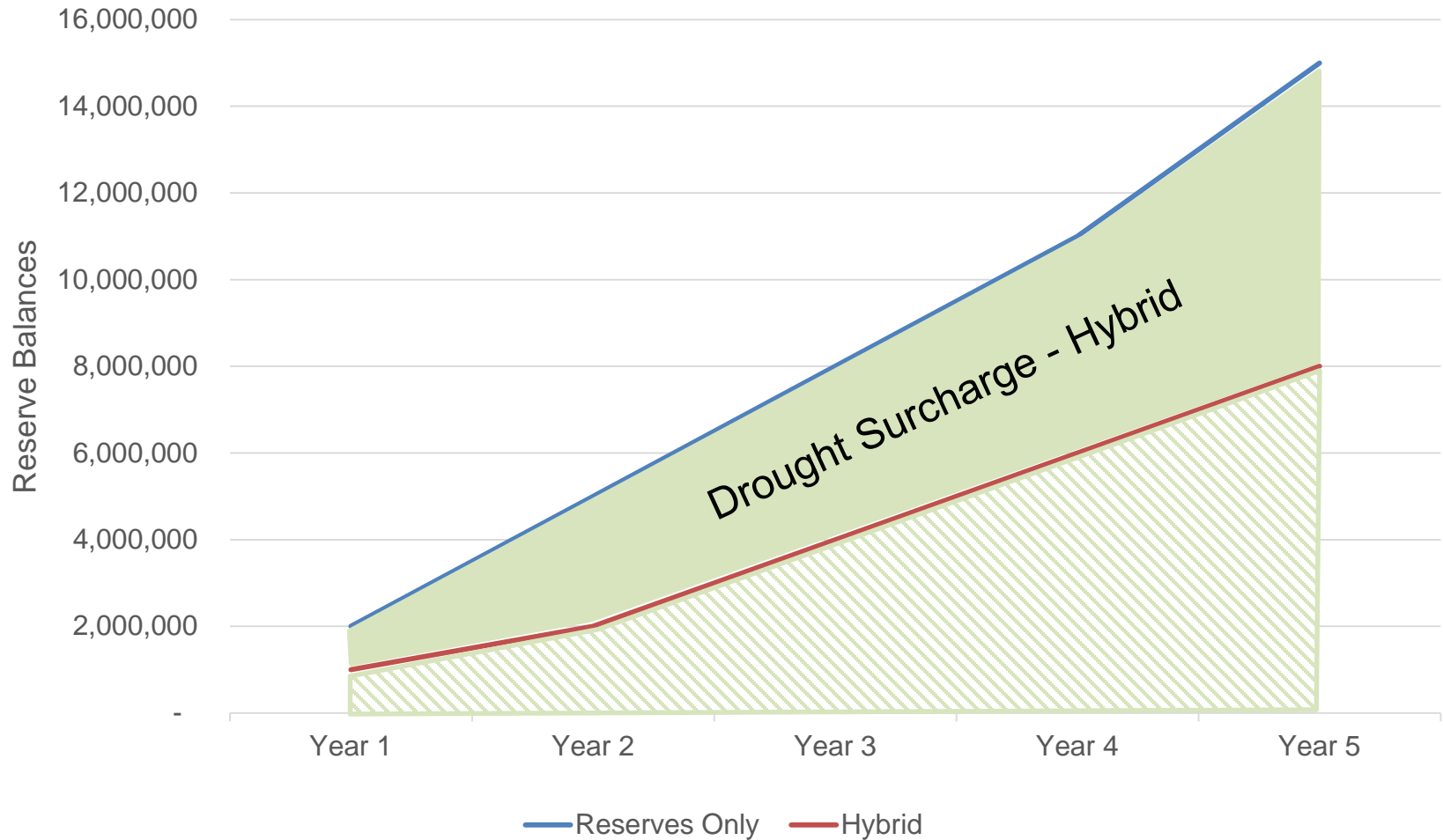
Drought Surcharge vs. Reserves vs. Hybrid



- \$15 million example would offset ~14% of budgeted FY18 revenues.

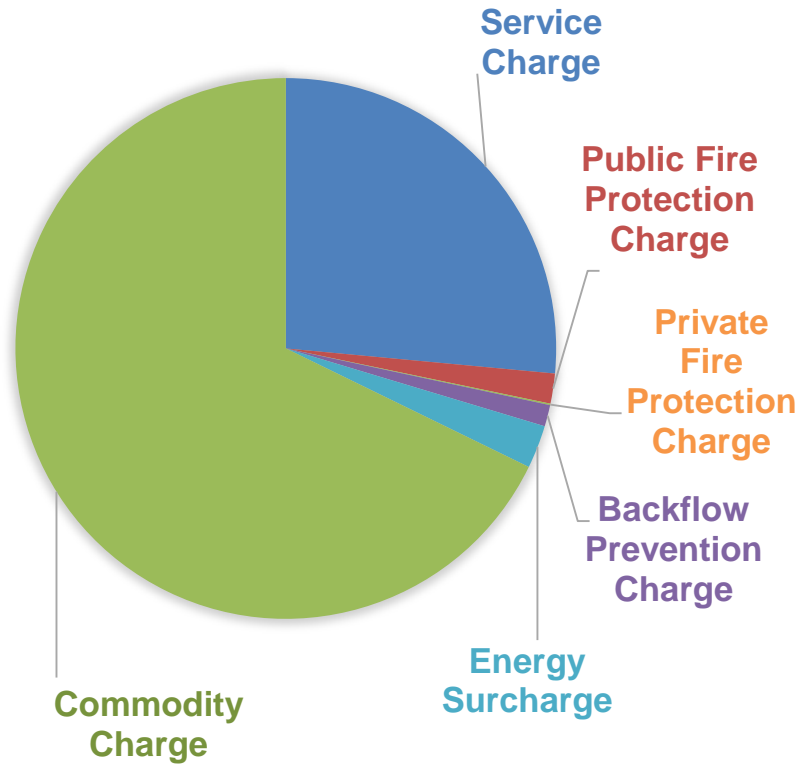
RATE STRUCTURE ANALYSIS STATUS

Drought Surcharge vs. Reserves vs. Hybrid

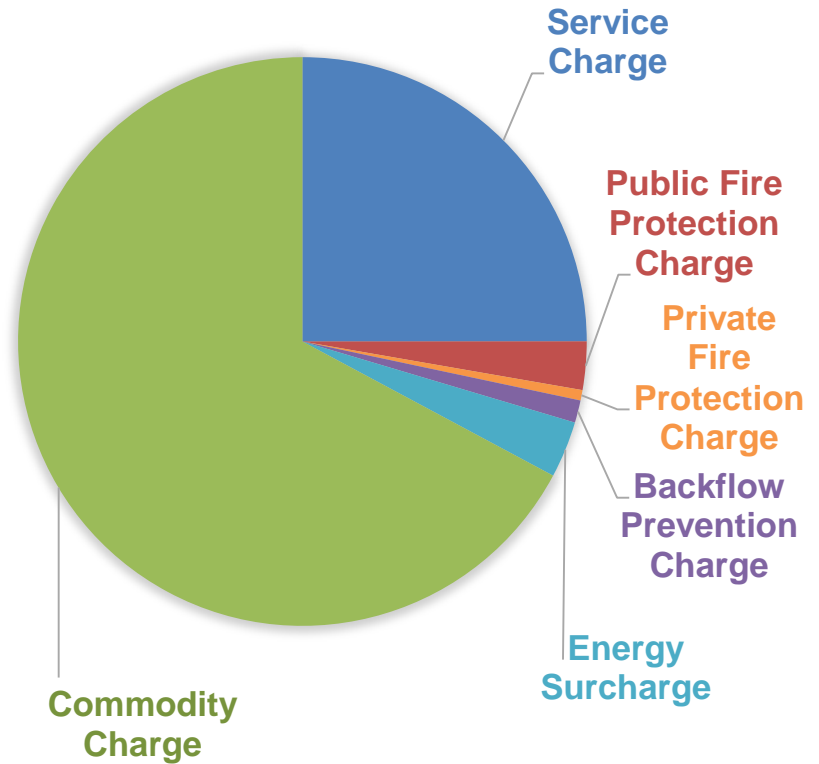


RATE STRUCTURE ANALYSIS STATUS

CURRENT REVENUE

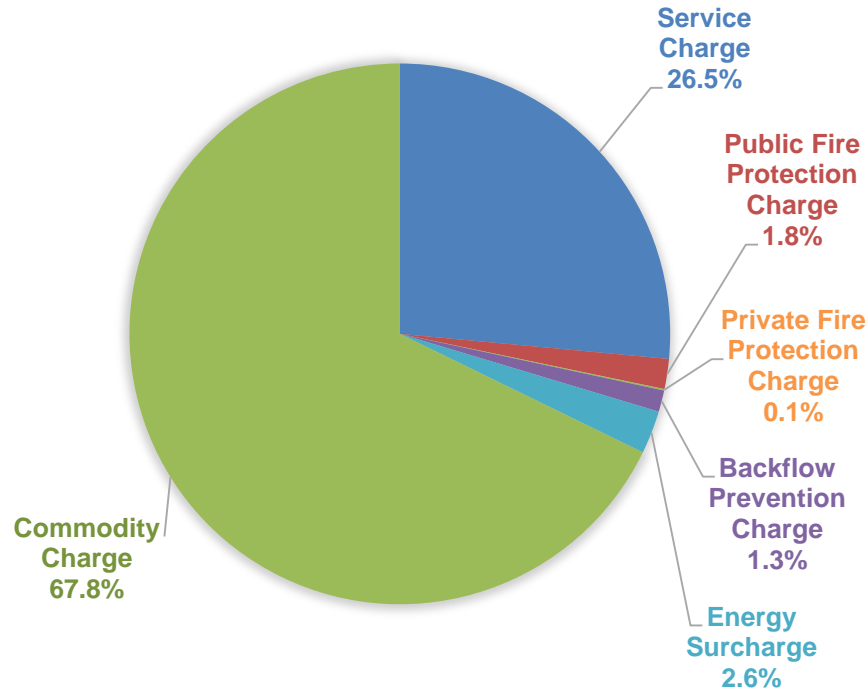


POTENTIAL CHANGES

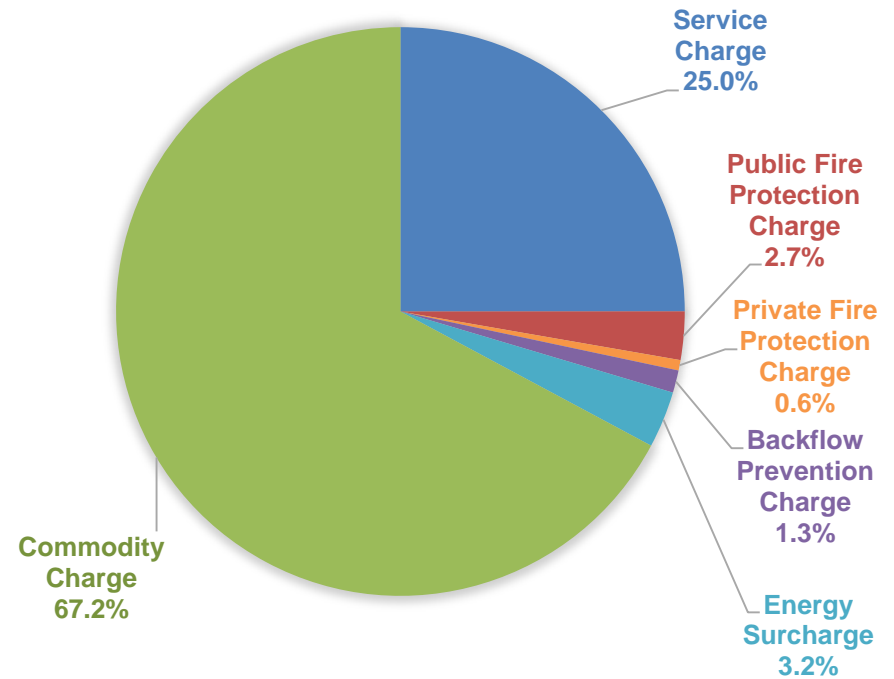


RATE STRUCTURE ANALYSIS STATUS

CURRENT REVENUE



POTENTIAL CHANGES



Affordability Assistance Program - Existing

- 50% reduction in fixed (service & demand) charges available to low-income customers over 62 or receiving disability insurance benefits
 - Qualifying income varies by household size (1 person < \$32.5k)
 - One page application plus proof of qualifications
 - Program communicated via publications, website, etc.
 - Continued qualification audited by staff

	FY16	FY15	FY14
Number of Participants	675	720	790
Rate Assistance Provided	\$71,558	\$76,627	\$83,834

Available Funds *	\$122,990	\$193,774	\$184,895
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* Program funded with non-rate revenues; late fees currently designated as funding source.

Affordability Assistance – Statewide Activities

- 20% of households in California at low income, challenged with drinking water affordability
- State developing a plan to fund and implement a low-income rate assistance program (AB 401)
 - Program structure proposed by February 2018
 - Proposition 218 impediments
 - Potential public goods charge
- District working with ACWA and CUWA to inform efforts and explore options for rate assistance
- Any modification to District program would be considered subsequently, if still applicable