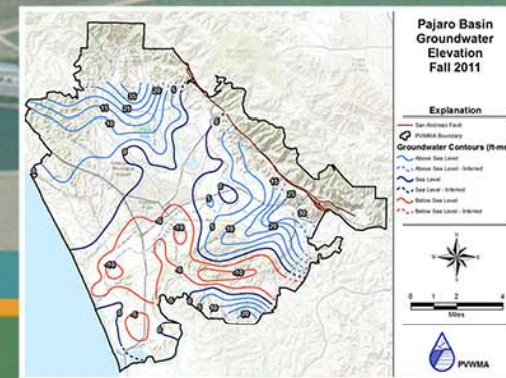




Pajaro Valley
Water Management Agency

AHFC Meeting No. 14



PRESENTATION TO PROVIDE
RATE SETTING SERVICES

July 17, 2014

carollo
Engineers...Working Wonders With Water®

Where we are today...

		Nov-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
		Phase I - Rate Setting Methodology & Development					Phase II - Calculation & Implementation							
Regular Monthly Meeting (RMM)			RMM	RMM	RMM	RMM & Cost Recovery Workshop	RMM & Board Presentation	RMM	RMM	RMM	RMM & Board Presentation	RMM	RMM & Board Presentation	RMM
Primary Topic	Rate Overview		Revenue Requirements	Customer Analysis	Rate Design/ Cost Recovery	Rate Design/ Cost Recovery	Revenue Requirements	Cost Allocation	Rate Design/ Cost Recovery	Draft Report	Draft Report	Final Report
Secondary Topic	System & 2010 Review		Cost Allocation	Cost Analysis	Customer Impacts	Customer Impacts	Cost Allocation	Cost Analysis	Customer Impacts	Proposition 218	Final Report
AHFC Decision						Recommend Cost Recovery Altern.					Review Draft Report			
Board Decision							Cost Recovery Workshop				Review Draft Report		Board Approval	Prop. 218 Process
Rate Setting Process	Data Acquisition/ Analysis	No December Meeting Held	Revenue Requirements / Identify Cost Components	Customer Analysis	Identify Cost Recovery Alternatives		Finalize Revenue Requirements	Cost & Functional Allocation	Final Rate Development	Preparation of Draft Report		Finalize Report		Prop. 218 Initiation
Deliverables				Revised BMP Cashflow Model	Tiered Rate Builder							Draft Report		Final Report

Intermediate Meeting to Discuss Rate Design

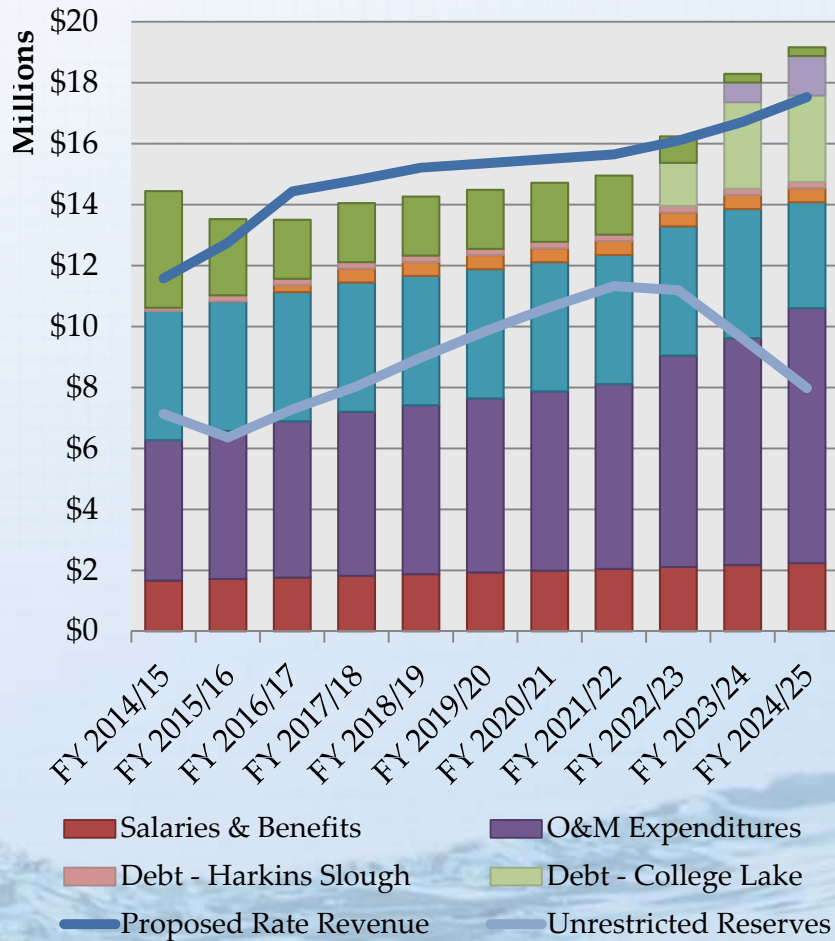
Today's Agenda

- Recap of Meeting No. 13
- Review of Committee Requested Rate Designs
- Rate Design Recommendation & Discussion
- Next Steps

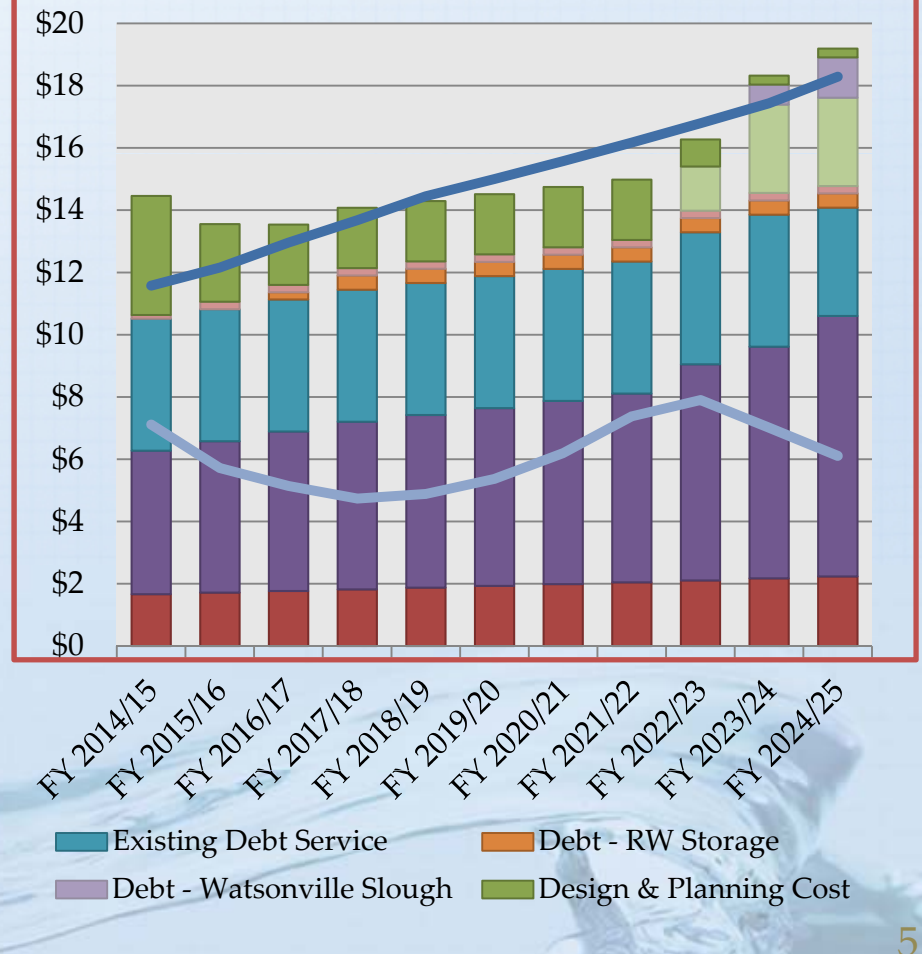
Recap of Meeting No. 13

Revenue smoothing is preferred by AHFC, rather than larger initial increases

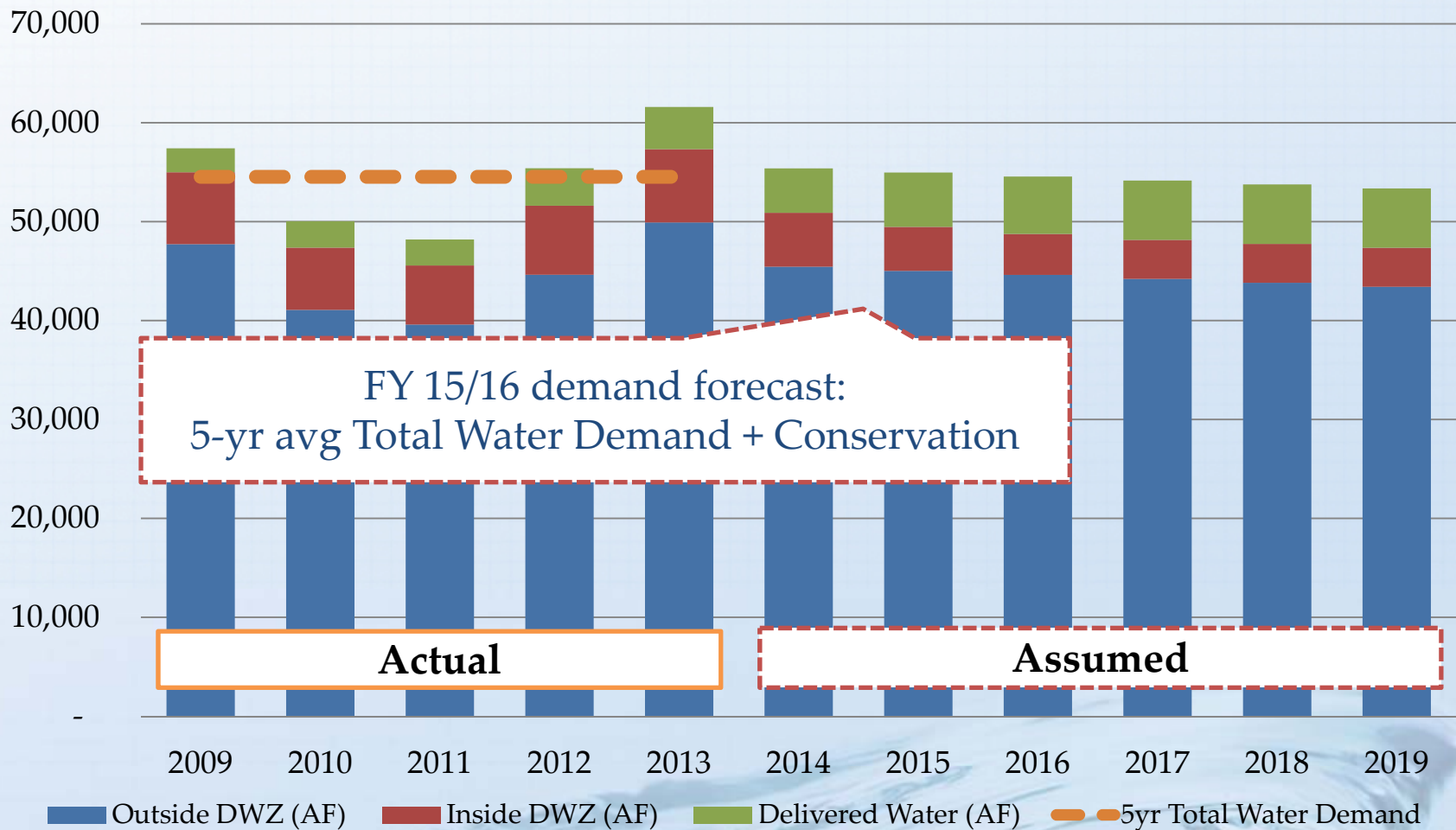
Larger, Initial Increases



Revenue-Smoothing



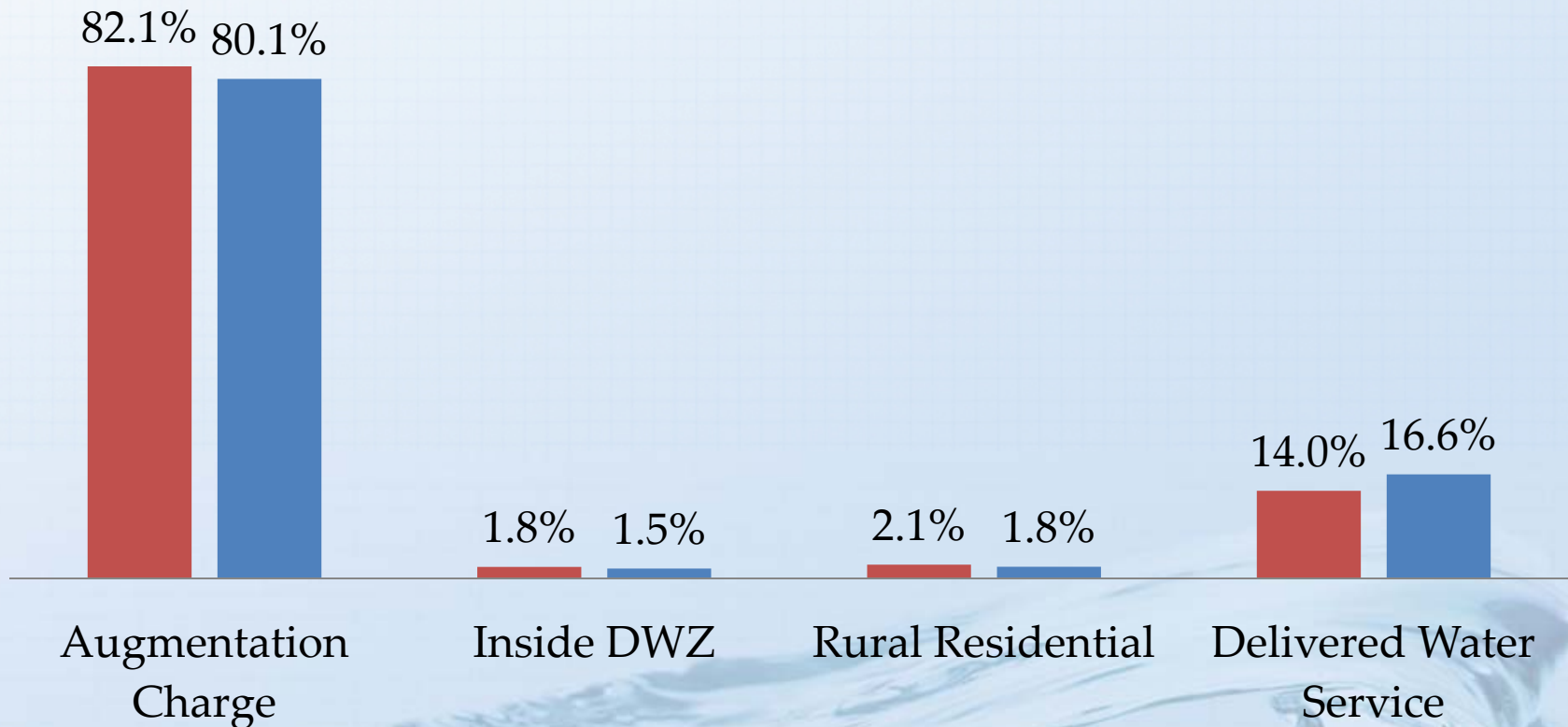
Forecasted Total Water Demands account for conservation and the relationship of Delivered Water and DWZ pumping



Changes to budget and water demands cause minor shifts from 2010 analysis

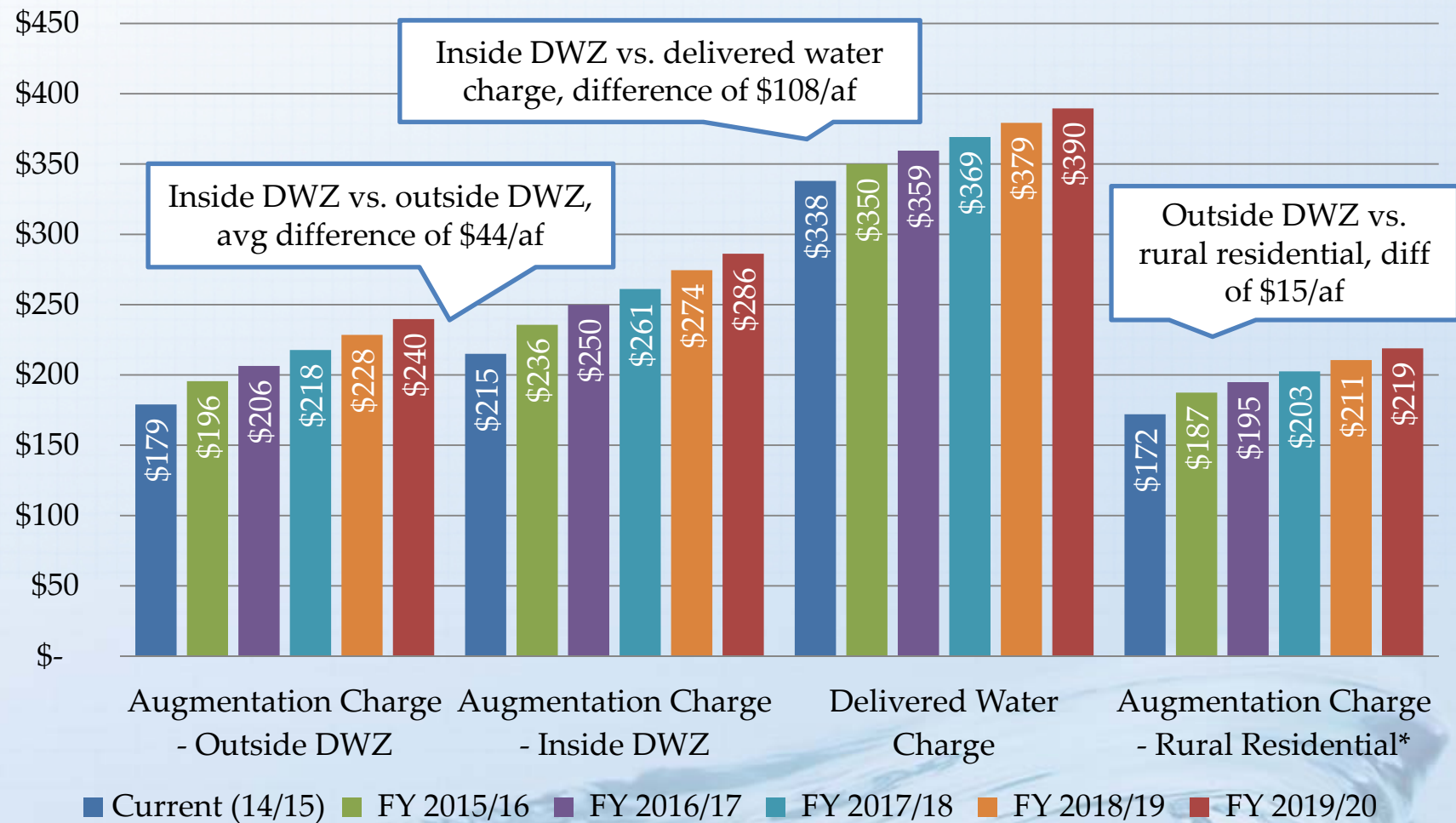
Allocation of Revenue Requirements

■ 2010 Allocation ■ 2015 Allocation



Cost of Service analysis results in varied increases between classes

Updated Cost of Service – Increases vary by class



*Rural Residential users charged 60% of an AF

Committee Requested Rate Designs

AHFC Requested Rate Design Alternatives

1. Rate Smoothing

- What if rates were smoothed over next 5-years?

2. Increased Delivered Water Zone Allocation

- What if the cost allocation to Inside-DWZ was increased?

3. Use of Reserves

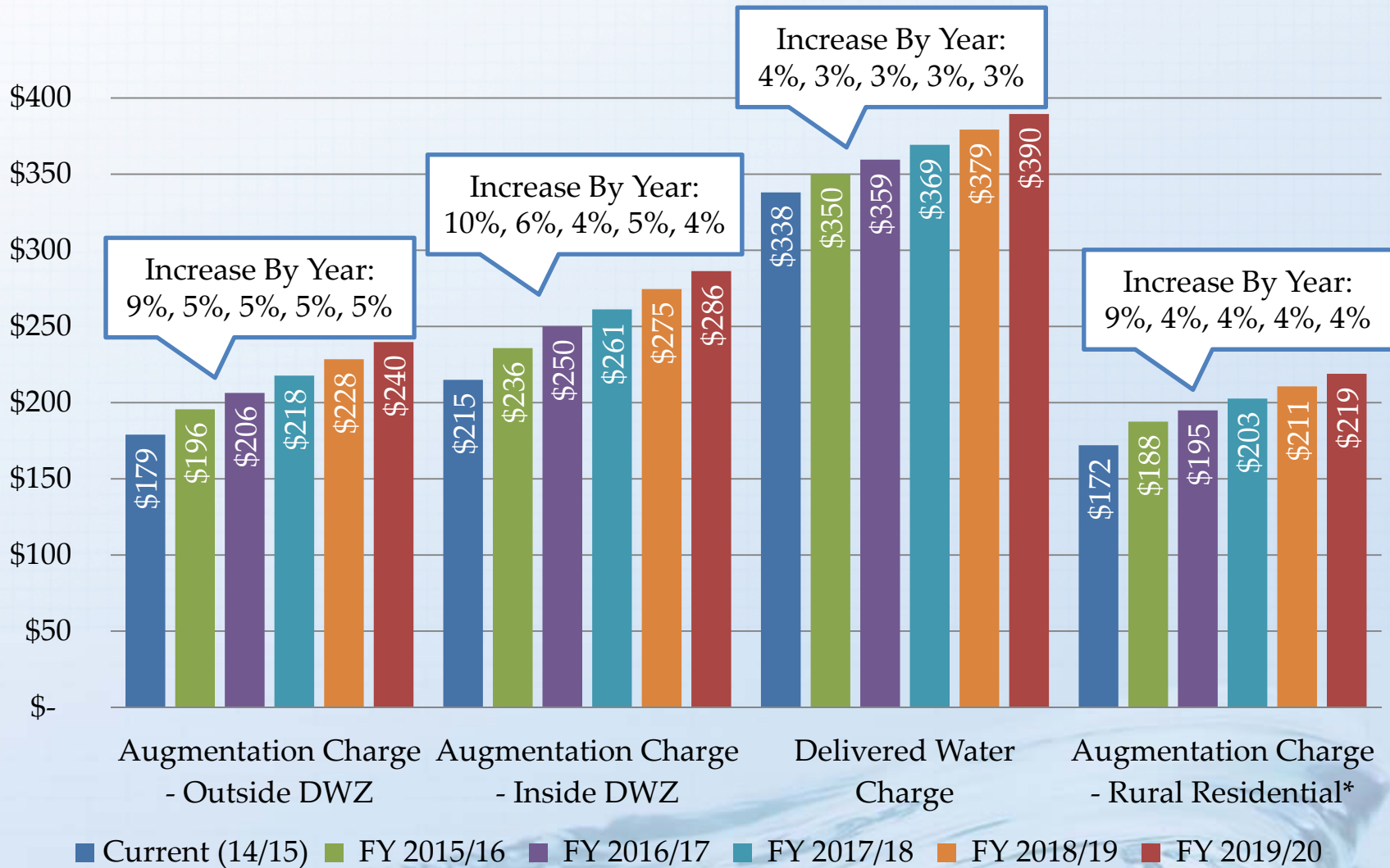
- What if reserves were used to fund early projects?

4. Revenue Sensitivity

- What if demand falls below forecasted levels?

Baseline Preliminary Rates

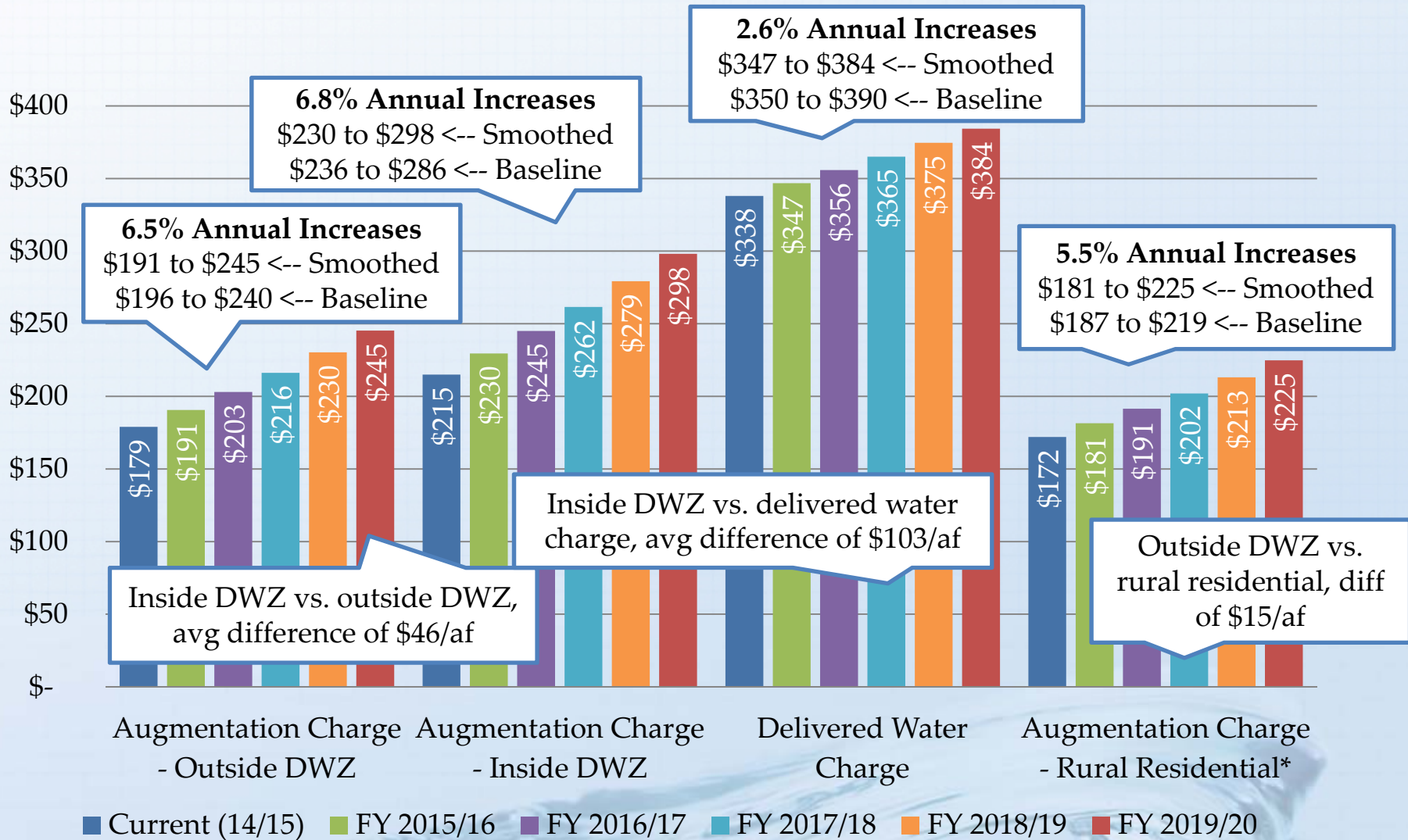
Rates shown prior to implementation of any AHFC requests



*Rural Residential users charged 60% of an AF

Rate Smoothing Alternative is Feasible

Requires use of reserves to smooth rates. Reserves are backfilled in outer years.



*Rural Residential users charged 60% of an AF

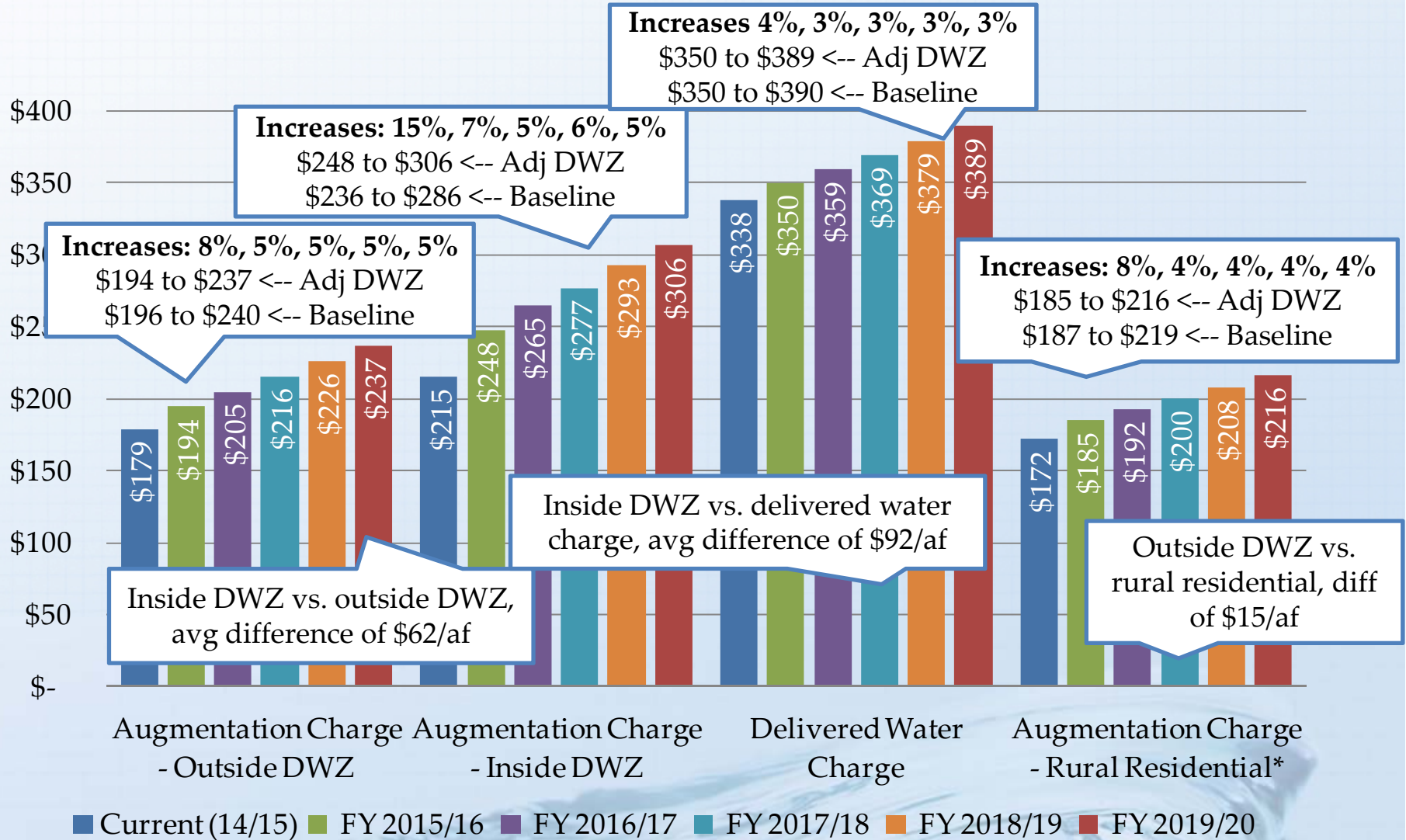
Rate smoothing results in short-term underfunding

Forecasted Revenues	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
Required Revenue (No Smoothing)	\$11,810,000	\$12,277,000	\$12,761,000	\$13,265,000	\$13,790,000
Revenue with Smoothing	\$11,501,000	\$12,127,000	\$12,783,000	\$13,431,000	\$14,123,000
Difference	\$(309,000)	\$(150,000)	\$22,000	\$164,000	\$333,000

- Rate smoothing calculated to be revenue neutral over the forecasted five years
- Net impact is an \$63,000 increase to reserves

Increased Allocation to DWZ Service

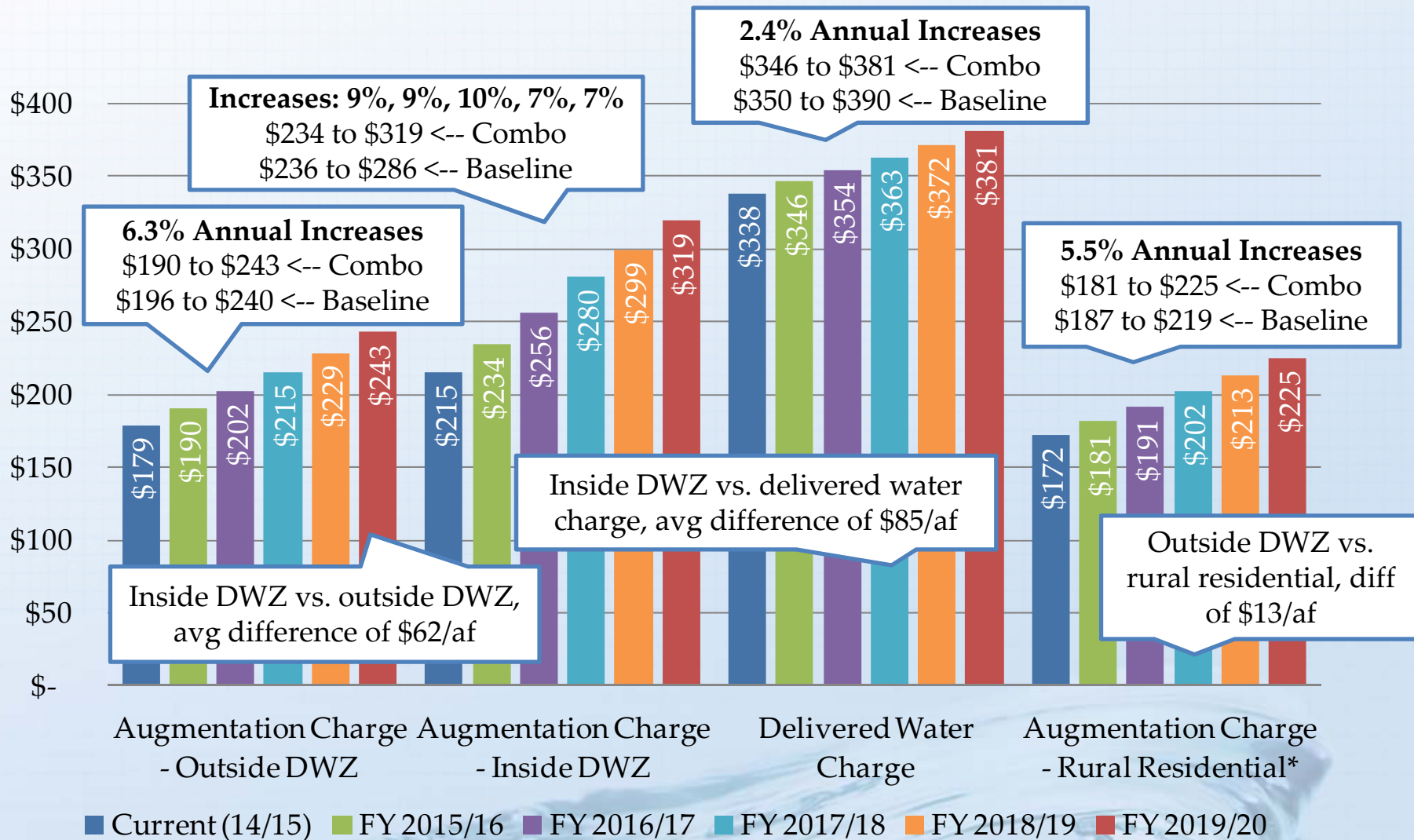
Impact reduces difference between Augmentation-inside DWZ and DWS rates



*Rural Residential users charged 60% of an AF

Rate Smoothing & Increased DWZ Allocation

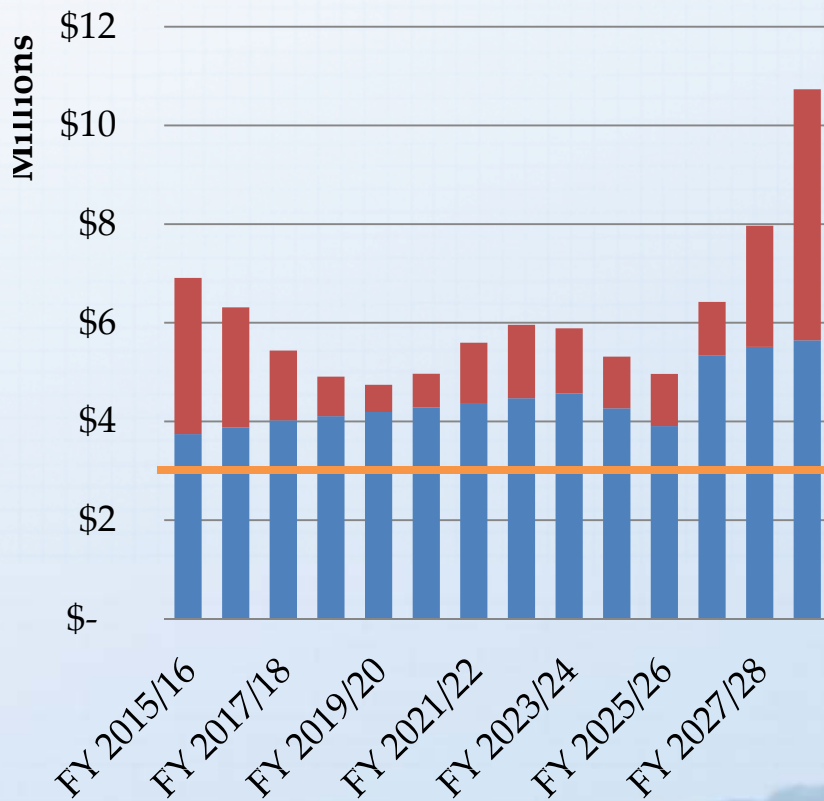
Combination of both feasible rate alternatives



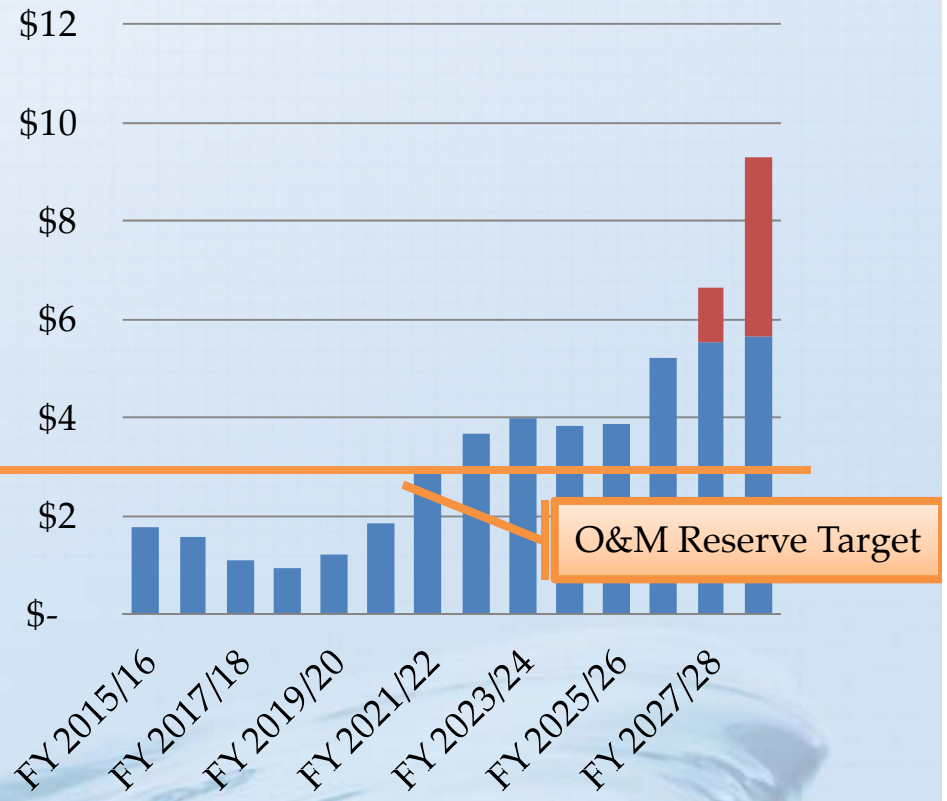
*Rural Residential users charged 60% of an AF

Reserve levels fall well below targets to fund Storage Tanks

Reserves:
Tanks are Debt funded



Reserves:
Tanks are Reserve funded



■ Operating Fund Balance ■ Capital Fund Balance

O&M Reserve Target

Impact of non-drought or excessive conservation on Revenues

Demand Summary	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
1) Baseline Demands	55,000	54,600	54,200	53,800	53,400
2) Initial Year Reduction (5%)	52,200	52,200	52,200	52,200	52,200
3) Double Conservation (2%/yr)	54,400	54,000	53,600	53,300	52,900
4) Another Drought Year	60,500	54,600	54,200	53,800	53,400

Revenue Sensitivity	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	5-yr Impact
1) Baseline Revenue	\$11,718,000	\$12,262,000	\$12,812,000	\$13,299,000	\$13,804,000	
2) Initial 5% Reduction	\$(586,000)	\$(567,000)	\$(541,000)	\$(465,000)	\$(390,000)	\$(2,549,000)
3) Double Conservation (2%/yr)	\$(117,000)	\$(123,000)	\$(128,000)	\$(133,000)	\$(138,000)	\$(639,000)
4) Another Drought Year	\$ 1,171,000	\$ -	\$ -	\$ -	\$ -	\$1,171,000



Rate Design Recommendation & Discussion

Key Questions to AHFC

- Continue with Baseline Rates?
- Utilize Rate Smoothing, with short-term Use of Reserves?
- Increase costs allocated to Inside Delivered Water Zone Users?
- Use of Reserves for Storage tanks, with higher revenue increases?
- What further information is necessary to make a recommendation to the Board?

Next Steps

Where are we going...

		Nov-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
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Deliverables				Revised BMP Cashflow Model	Tiered Rate Builder						Draft Report		Final Report	



Next Steps

- Confirm Rate Design Recommendation (July- 8/7/14)
- Discussion of Proposition 218 Process (August)
- Receive and Discussion of Draft Report (September)

Questions?

Proposed Cost Allocation bases used to distribute revenue requirements between functions

Expenditures * Values are rounded to the nearest \$1,000 and reflect the FY2014/15 Budget	Allocation Basis			
	Aug Outside	Aug Inside	DWS	Rural
	81%	81% + 4%	11%	4%
Administration	\$1,153,000	\$50,000	\$161,000	\$53,000
	Estimated percent of time the position spent on that function			
	70%	70%+ 0%	28%	2%
Facility Operations <i>Harkins Slough, CDS, Supplemental Wells, Recycled Water Facility</i>	\$2,354,000	\$ -	\$920,000	\$60,000
	Cost to pump at pressure allocated to Delivered Water Users. Remaining operating costs allocated on the ratio of the groundwater and delivered water consumption to total consumption			
	89%	89%+ 0%	11%	0%
Metering Program	\$255,000	\$-	\$30,000	\$-
	Allocated directly to Metering			

Proposed Cost Allocation bases used to distribute revenue requirements between functions

Expenditures * Values are rounded to the nearest \$1,000 and reflect the FY2014/15 Budget	Allocation Basis			
	Aug Outside	Aug Inside	DWS	Rural
Basin Management Planning <i>Modeling & Monitoring, Basin Management, & Basin Funding</i>	87%	87% + 0%	11%	2%
	\$1,006,000	\$ -	\$130,000	\$25,000
	Ratio of the groundwater and delivered water consumption to total consumption			
Capital & Debt Service Payments <i>Capital Project & Reserves, SWRCB Note #1, SWRCB Note #2, & 1999 COP, Coastal Distribution System, City of Watsonville – Recycled Water Facility</i>	82%	82% + 2%	14%	2%
	\$4,334,000	\$102,000	\$761,000	\$111,000
	Ratio of consumption and available capacity.			
	The amount of available (or standby) Delivered Water Service capacity is directly allocated to Inside DWZ users			