



# Comprehensive Cost of Service and Rate Design Study Draft Report

October 15, 2009

Rates Advisory Committee

# Executive Summary

Pages ES1 – ES30

- Summary of Final Report
  - Rate Setting Process
  - Water Delivery Rates
  - Water Supply Rates
  - Wastewater Rates
  - Recycled Water Rates
  - Other Issues

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# Introduction

Pages 1 - 3

- Background on SAWS
- Discussion of 2003 Rate Study
- Scope of Study
- RAC Involvement

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# Overview of the Rate Study Process

Pages 4 - 9

- Identify Pricing Objectives

Classification	Rank	Objective
Essential	1	Conservation/Demand Management
	2	Financial Sufficiency
	3	Rate Stability
Very Important	4	Revenue Stability
	5	Equitable Contributions from New Customers
	5	Affordability to Disadvantaged Customers
Important	7	Cost of Service Based Allocations
	8	Minimization of Customer Impacts
	9	Simple to Understand and Update
Least Important	10	Legality
	10	Ease of Implementation
	12	Economic Development

RAC  
Dec.

Priorities are relative; all objectives are important.

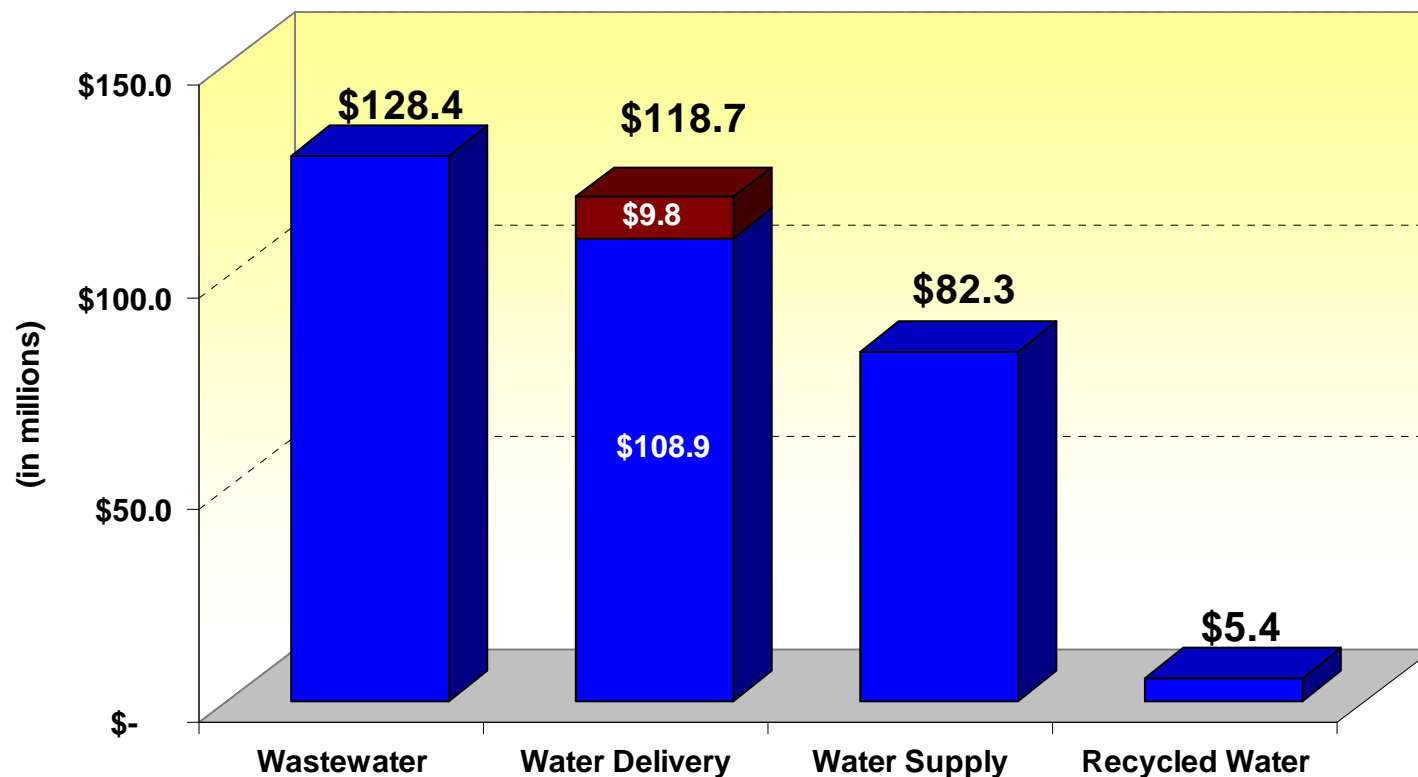
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# Overview of the Rate Study Process

Pages 4 - 9

- Identify Revenue Requirements



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# Overview of the Rate Study Process

Pages 4 - 9

- Allocate Costs
- Design Rate Structure
  - Conceptual Design
  - Staff Recommendation
  - RAC Input
- Assess Effectiveness of Addressing Pricing Objectives

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# Water Delivery

Pages 10 - 37

- Water Delivery System Description
- Recent Drought Conditions Experience
- Customer Classes
- Existing Water Delivery Rate Structure

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# Water Delivery

Pages 10 - 37

- Water Delivery Revenue Requirements

<b>Customer Class</b>	<b>Revenue Requirements (in Millions)</b>
Residential	\$71.6
General	\$34.4
Wholesale	\$0.17
Irrigation	\$11.6
<b>Total Revenue Requirements</b>	<b>\$117.7</b>

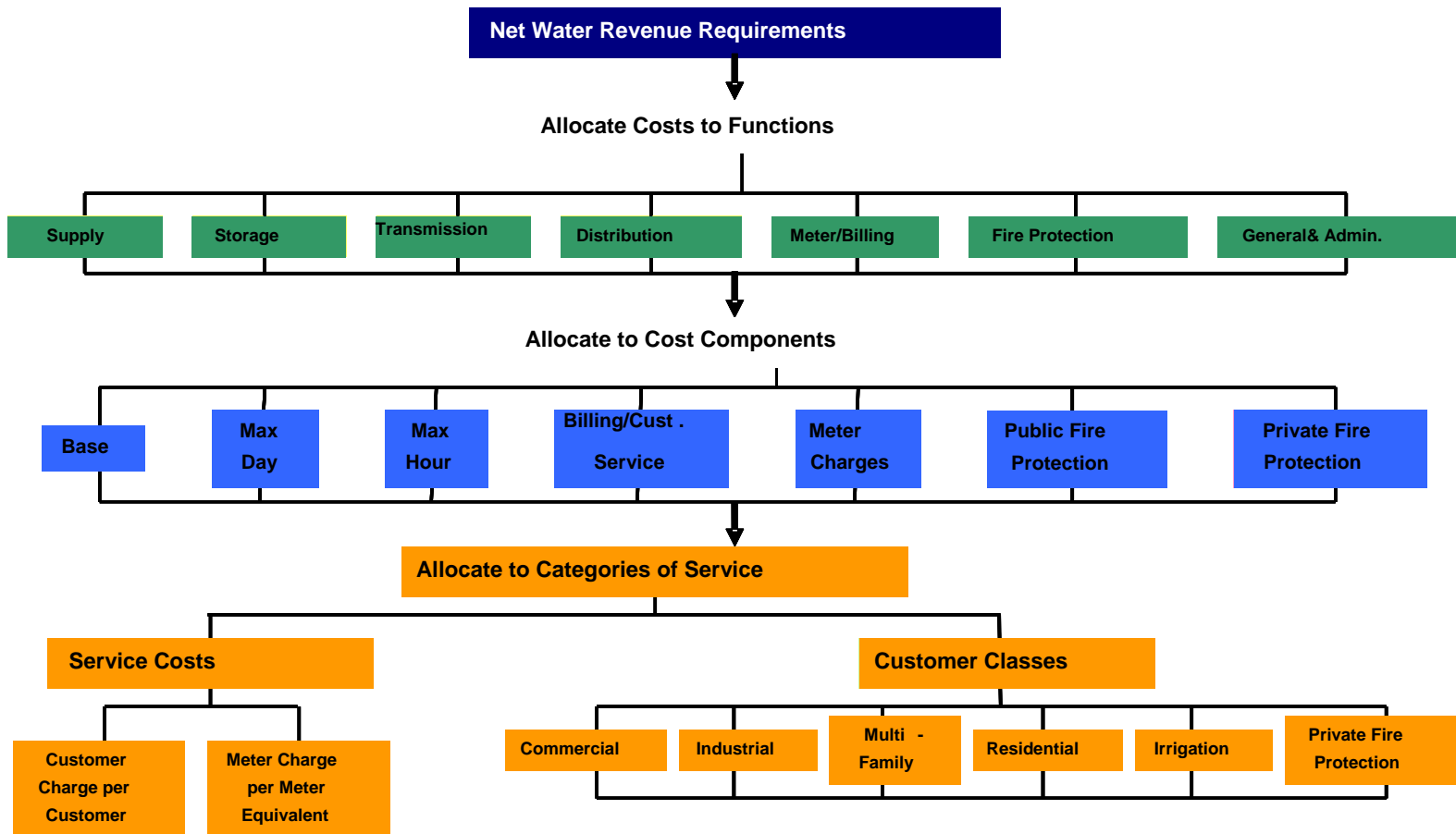
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# Water Delivery

Pages 10 - 37

## • Cost of Service Analysis



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# Water Delivery

Pages 10 - 37

- **Original Conceptual Design**
  - **Overall:**
    - Concurrence with concept of discretionary versus non-discretionary water consumption as foundation for conceptual rate design
    - Resolved that rates should be based on cost of service principles to serve each class of customers
  - **Residential Class Rate Structure:**
    - Resolved that the Block One upper limit be moved to 5,985 but that the 4th block remain at 17,205
    - Resolved that it is appropriate to increase the length of the seasonal rates period by two months
    - Resolved to leave the current differentials between the non-seasonal and seasonal rates unchanged

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# Water Delivery

Pages 10 - 37

- Original Conceptual Design (cont.)
  - **General/Wholesale Class Rate Structure:**
    - Resolved to change the base from 90% to 100% of average annual usage
    - Resolved to reduce the blocks from five to four and implement the new cut-offs
  - **Irrigation Class Rate Structure:**
    - Resolved to modify the block cut-offs to tie to the differences in the residential block cut-offs
    - Resolved to add seasonal rates

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# Water Delivery

Pages 10 - 37

- Calculation of Rates Under Alternatives
  - **RAC and Staff recommendation for Water Delivery rates:**
    - **Residential Class:**
      - Reduce Block 1 and Block 2 rates to reward customers using water efficiently and push more costs to block four to target excessive water users
    - **General Class:**
      - Tie Block 1 rate to existing Block 1 rate
    - **Irrigation Class:**
      - Tie Block 1 rate to Residential block rates, beginning with Block 2 Residential rate

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# Water Supply

Pages 38 - 42

- Water Supply System Description
- Existing Rate Structure
- Revenue Requirements

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# Water Supply

Pages 38 - 42

- Conceptual Design Process: Five Alternatives
  - Alt. 1: Four blocks tied to Water Delivery differentials (Conceptual Design rate structure)
  - Alt. 2: Four blocks tied to future Water Supply cost differentials
  - Alt. 3: Four blocks using uniform differentials
  - Alt. 4: Two blocks tied to Water Supply costs (RFC recommendation)
  - Alt. 5: Four tiers tied to Water Delivery differentials with modifications (RAC and Staff Recommendation) –
    - General and Wholesale classes to have a single, non-tiered rate
    - Residential to have four-tiered rates with the same block cut-offs, number of blocks, and block differentials as those for the RAC/Staff recommended Water Delivery rate structure.
    - Irrigation to have three tiers with same rates as Residential blocks two, three and four

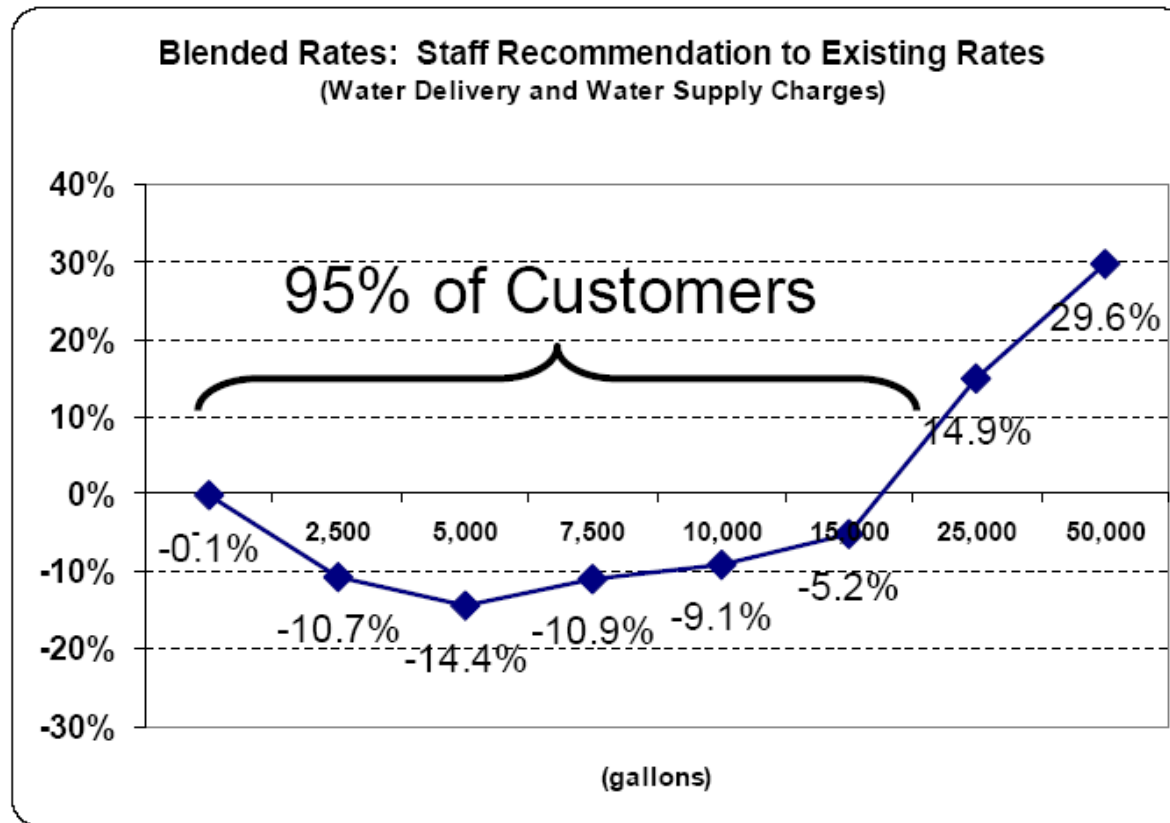
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# Water Delivery and Water Supply Combined Rates and Customer Impacts

Pages 43 - 54

- Combined Rates and Customer Impacts



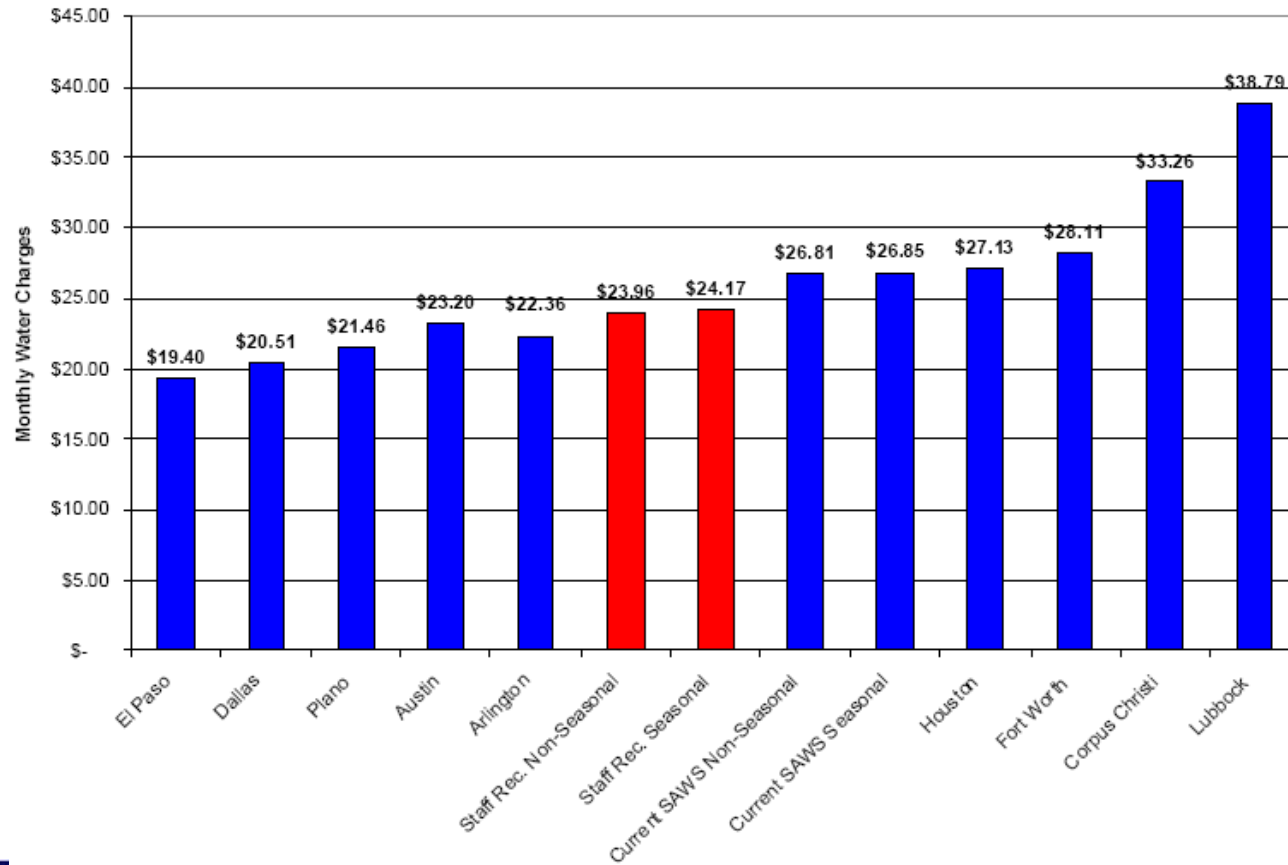
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# Water Delivery and Water Supply Combined Rates and Customer Impacts

Pages 43 - 54

- Comparisons with Other Cities



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# Wastewater

Pages 55 - 61

- Wastewater System Description
- Existing Wastewater Rate Structure
- Revenue Requirements
- Cost of Service Allocation
- Conceptual Design
- Alternative Rate Structures
- After analysis, RAC and Staff agreed to recommend to maintain current rate structure
  - No compelling requirement to make change at this time

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# Recycled Water

Pages 62 - 65

- Recycled Water System Description
- Revenue Requirements
  - System is being supported in part by revenues generated from Water Delivery and Water Supply.
  - Recycled water system provides a significant alternative Water Supply source
  - Delays the need to pursue other Water Supply sources that are more expensive.
  - It is a common practice throughout the country to support recycled water operations in this way.

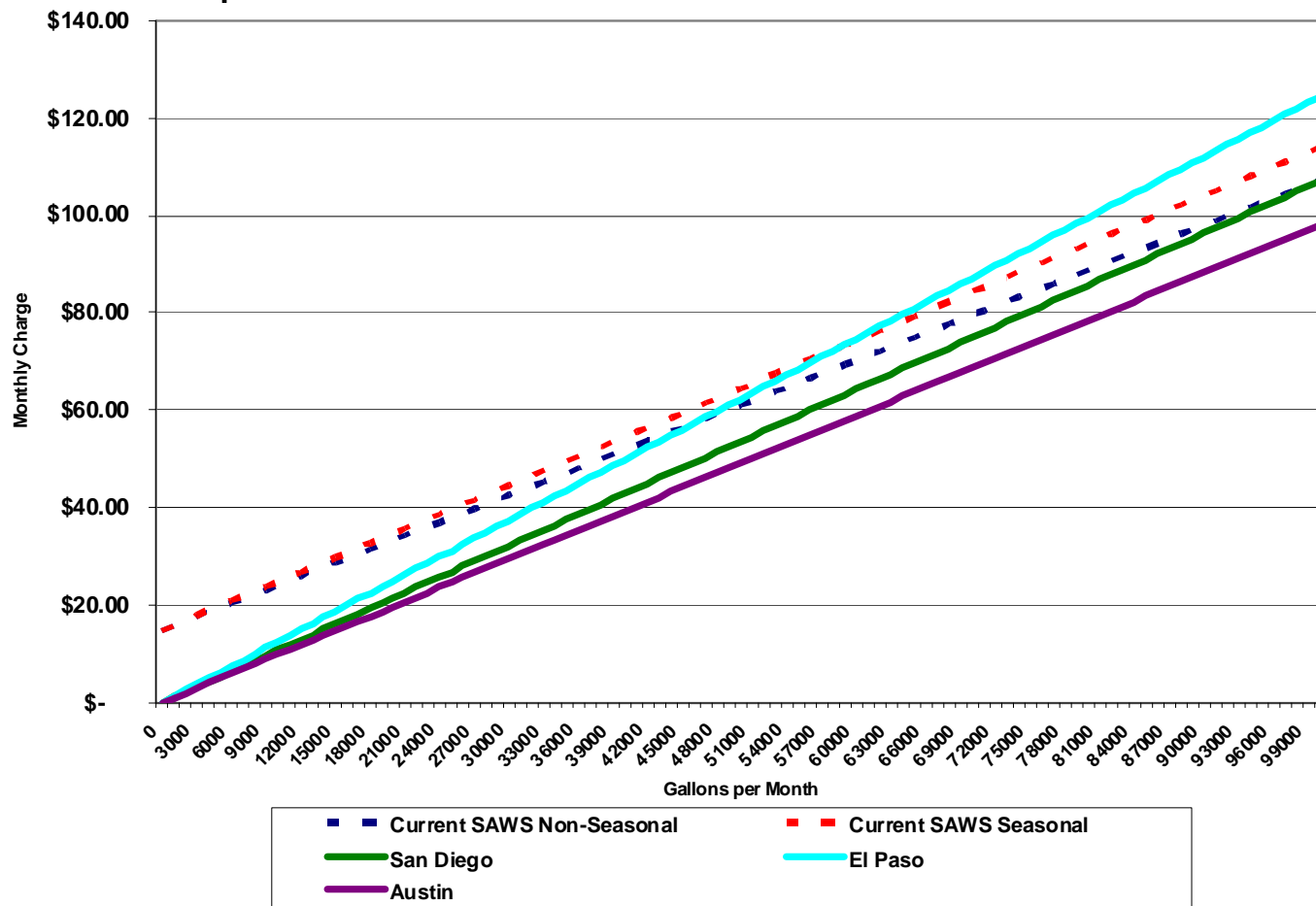
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# Recycled Water

Pages 62 - 65

- Rate Comparison



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# Recycled Water

Pages 62 - 65

- After analysis, RFC and Staff agreed to recommend to keep current rate structure the same
- Make rate increases in future at same time other rate increases considered

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# Other System-Wide Fees

Pages 66 - 69

- Fire Protection Costs
  - RFC recommends changes in fees to comply with AWWA standards
- Lift Station Maintenance Fee
  - Current calculation method is reasonable
- Edwards Aquifer Recharge Zone Charge
  - Narrow geographic location-based rates are not a widely used practice
  - Limited gains with respect to equitable cost recovery do not justify the additional costs of effort of maintaining such charges.
  - RFC recommends that such charges not be pursued.

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