



**ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7**

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**ORIGINATING SECTION: ADMINISTRATION**  
**CONTACT: Osborn Solitei**

**AGENDA DATE: October 19, 2016**

**ITEM NO. 11**

**SUBJECT: Proposed Treated Water Rate Schedules for Calendar Years 2017 and 2018**

**SUMMARY:**

- Staff are proposing to extend the current temporary surcharge of \$0.57 per 100 cubic feet (CCF) for another year.
- The table below shows the proposed volume-based rates for calendar year (CY) 2017 and CY 2018.

<b>Volume-based Rate</b>	<b>CY 2017<sup>1</sup></b>	<b>CY 2018</b>
Rate per CCF	\$1.98	\$2.04
Temporary Surcharge per CCF	\$0.57	-
<b>Total per CCF</b>	<b>\$2.55</b>	<b>\$2.04</b>

<sup>1</sup>Includes a temporary one-year surcharge of \$0.57 CCF which will sunset on December 31, 2017; any extension of the temporary surcharge will require a separate Board approval.

- If adopted, the proposed fixed charges and volume-based rates will become effective on January 1, 2017 and apply to calendar years (CY) 2017 and CY 2018.
- The tables below show the proposed fixed charges per Retailer and Direct Customer for CY 2017 and CY 2018. CY 2018 Total Fixed Charges by Retailer/Direct Customer may vary but the total amounts of \$15,686,384 and \$163,226 will not be changed without Board approval.

<b>Fixed Charge per Retailer</b>	<b>CY 2017</b>	<b>CY 2018<sup>1</sup></b>
City of Pleasanton	\$4,468,719	\$4,647,458
Dublin San Ramon Services District	\$4,363,160	\$5,014,000
California Water Service Company	\$2,751,052	\$3,148,143
City of Livermore	\$2,640,824	\$2,876,783
<b>Total Retailer Fixed Charge</b>	<b>\$14,223,755</b>	<b>\$15,686,384</b>

<b>Fixed Charge per Direct Customer</b>	<b>CY 2017</b>	<b>CY 2018<sup>1</sup></b>
Lawrence Livermore Laboratory	\$61,273	\$60,060
Veterans Hospital	\$55,489	\$68,911
Wente Vineyards	\$19,941	\$25,096
East Bay Regional Park District	\$5,949	\$7,656
Livermore Area Parks and Recreation District	\$863	\$1,489
State of California Department of Water Resources	\$15	\$15
<b>Total Direct Customer Fixed Charge</b>	<b>\$143,531</b>	<b>\$163,226</b>

<sup>1</sup>CY 2018 Fixed Charges per Retailer/Direct Customer are shown as an example only. The General Manager is authorized to reallocate CY 2018 Fixed Charges per Retailer/Direct Customer based on updated two-year rolling averages to be determined at the end of FY 2016-17.

**RECOMMENDED ACTION:**

Staff recommends adopting the attached resolution approving the Treated Water Service Rates for CY 2017 and CY 2018.



## MEMORANDUM

**DATE:** October 19, 2016

**TO:** Jill Duerig, General Manager

**FROM:** Osborn Solitei, Assistant General Manager, Finance

**SUBJECT: Proposed Treated Water Rate Schedules for Calendar Years 2017 and 2018**

### **BACKGROUND:**

The Agency's water enterprise fund has relied on reserves to fund operations while experiencing significant losses in water rate revenue due to required conservation during the drought. In order to recover from these significant financial losses, in 2015 Raftelis Financial Consultants, Inc. ("RFC") was hired to analyze Zone 7's cost of service and propose a three-year wholesale water rate schedule for CY 2016, 2017 and 2018. Ultimately, the Board approved a three-year rate schedule for CY 2016, 2017 and 2018 with a temporary conservation surcharge for CY 2016 which sunsets on December 31, 2016. The 2015 cost of service study projected water sales of 28,380 acre-feet of water for FY 2015-16, but only 23,648 acre-feet of water were actually sold. Even with the temporary conservation surcharge in place, use of reserves during FY 2015-16 totaled \$8.6M.

### **DISCUSSION:**

Continued revenue losses due to drought conditions and State-mandated water use restrictions prompted staff to rehire RFC to revisit restructuring rates to include a fixed component and to determine whether the temporary conservation surcharge should be extended.

Staff met with the Retailers on the following dates to review and discuss RFC's preliminary financial model, key assumptions, rate structure examples and potential impacts to the Retailers using preliminary numbers:

- August 9, 2016
- August 23, 2016
- September 15, 2016

In addition to the above meetings with the Retailers, there have been several ongoing discussions about the rate study.

Direct outreach to the public included:

- Post card that were mailed to 94,000 businesses and residents on September 14, 2016
- eNewsletters distributed August 24, 2016 and September 16, 2016.
- Ads in local newspapers
  - The Independent – September 22, 2016
  - Pleasanton Weekly – September 23, 2016

RFC and staff gave a presentation on the proposed treated water rates and rate structure at the September 28, 2016 Special Board Meeting.

For Fiscal Year 2016-17, Fund 100 – Water Enterprise unaudited beginning fund balance is approximately \$5.8M. Without additional revenue adjustments or temporary surcharges, the revenues will not be able to cover all of the operating expenses. In addition, the current rates are calculated almost entirely as a volume-based rate using the Retailers’ and Direct Customers’ water demand projections.

In the 2015 Rate Study, temporary surcharges of \$7M and \$5M were projected for CY 2017 and CY 2018, respectively. However, due to FY 2015-16 revenue shortfall from reduced water sales, Zone 7 also needs to recover an additional \$4.1M. The total required revenue to recover over the last two fiscal years remaining for the temporary surcharge is \$16.1M (\$7M + \$5M + \$4.1M). In order to smooth out the temporary surcharge, RFC recommends that Zone 7 recover the total required revenue evenly over the course of the two years. However, under staff’s recommendation to continue the current Temporary Surcharge of \$0.57/CCF, \$7.7M will be recovered in FY 2016-17 and \$8.2M in FY 2017-18, totaling \$15.9M. Similar to this year’s updated analysis, the temporary surcharge for CY 2018 would be revaluated next year.

Additionally, RFC recommends that Zone 7 implement a fixed rate component that would recover 35% of revenue requirements. Currently, nearly 100% of revenue is recovered through volume-based rates although most of the expenses are fixed. Furthermore, the volume-based rates are calculated based on the Retailers and Direct Customers’ water demand projections, which may increase risk of a revenue shortfall if the Retailers and/or Direct Customers use less water than was previously projected. Establishing a fixed charge component would not entirely eliminate the revenue volatility, but it would mitigate a good portion of the volatility that exists in revenue collection and secure a baseline level of stable revenue each month. As a result of incorporating a fixed charge component, the current volume-based rate would drop as it would only recover 65% of revenue versus 100% of revenue.

The proposed volume-based rates and temporary surcharges are calculated based on water demand projections, and the proposed fixed charge allocations are based on the proportional share of each Retailer and Direct Customer’s average usage over the past two years. The table below shows the proposed volume-based rates for CY 2017 and 2018.

<b>Volume-based Rate</b>	<b>CY 2017<sup>1</sup></b>	<b>CY 2018</b>
Rate per CCF	\$1.98	\$2.04
Temporary Surcharge per CCF	\$0.57	-
<b>Total per CCF</b>	<b>\$2.55</b>	<b>\$2.04</b>

<sup>1</sup>Includes a temporary one-year surcharge of \$0.57 per 100 cubic feet (CCF) which will sunset on December 31, 2017; any extension of the temporary surcharge will require a separate Board approval.

The tables below show the proposed fixed charges of \$14,223,775 for Retailers and \$143,531 for Direct Customers for CY 2017 and \$15,686,384 for Retailers and \$163,226 for Direct Customers for CY 2018. The General Manager is authorized to reallocate CY 2018 Fixed Charges per Retailer/Direct Customer based on updated rolling averages to be determined at the end of FY 2016-17. CY 2018 Total Fixed Charges by Retailer/Direct Customer may vary but

the total amount will not be changed without Board approval. Actual monthly billing will be 1/12 of the annual amount.

<b>Fixed Charge per Retailer</b>	<b>CY 2017</b>	<b>CY 2018<sup>1</sup></b>
City of Pleasanton	\$4,468,719	\$4,647,458
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<b>Fixed Charge per Direct Customer</b>	<b>CY 2017</b>	<b>CY 2018<sup>1</sup></b>
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<b>Total Direct Customer Fixed Charge</b>	<b>\$143,531</b>	<b>\$163,226</b>

<sup>1</sup>CY 2018 Fixed Charges per Retailer/Direct Customer are shown as an example only. The General Manager is authorized to reallocate CY 2018 Fixed Charges per Retailer/Direct Customer based on updated two-year rolling averages to be determined at the end of FY 2016-17.

**FUNDING:**

Treated Water Sales revenue accrues to Fund 100 – Water Enterprise and, through transfers, to Fund 120 – Renewal, Replacement and System-Wide Improvements.

**RECOMMENDED ACTION:**

Staff recommends adopting the attached resolution approving the following Treated Water Service Rates for CY 2017 and CY 2018:

- a) Based on rates previously approved for CY 2017 and CY 2018, restructuring the current treated water rates to include a fixed charge to recover 35% of revenue requirements and volume-based rate to recover 65% of revenue requirements.
- b) Treated Water rate schedule for the volume-based rate of \$1.98 per CCF for CY 2017 and \$2.04 per CCF for CY 2018.
- c) Temporary surcharge of \$0.57 per CCF for CY 2017. This surcharge will **sunset December 31, 2017.**
- d) Establish a fixed charge component of \$14,223,775 for Retailers and \$143,531 for Direct Customers in CY 2017 based on a two-year rolling average of proportional use.
- e) Establish a fixed charge component of \$15,686,384 for Retailers and \$163,226 for Direct Customers in CY 2018 based on a two-year rolling average of proportional use.
- f) Authorize the General Manager to reallocate CY 2018 Fixed Charge per Retailer and Direct Customer based on updated two-year rolling average of proportional use, to be determined at the end of FY 2016-17.
- g) Eliminate the previously adopted monthly Treated Water Service Charge of \$153 and \$157 per metered service for CY 2017 and CY 2018, respectively.

**ATTACHMENTS:**

- Board Resolution
- Raftelis Financial Consultants, Inc. – Draft 2016 Wholesale Water Rate Study

ZONE 7  
ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT  
BOARD OF DIRECTORS

RESOLUTION NO

INTRODUCED BY  
SECONDED BY

***TREATED WATER SERVICE RATES FOR  
CALENDAR YEARS 2017 AND 2018***

WHEREAS Zone 7 has experienced significant revenue losses due to drought conditions and State-mandated water use reductions; and

WHEREAS in 2015, the Zone 7 Board of Directors engaged an independent water rate consultant, Raftelis Financial Consultants, Inc. (“RFC”), to prepare a Cost of Service Study to identify the cost of providing wholesale treated water service. In October 2015, the Zone 7 Board adopted treated water rates for Calendar Years (CY) 2016, 2017 and 2018 and a Temporary Conservation Surcharge for CY 2016 which sunsets on December 31, 2016; and

WHEREAS continued revenue losses due to drought conditions and State-mandated water use reductions prompted staff to hire RFC to revisit restructuring rates to include a fixed component and to determine whether the temporary conservation surcharge should be extended; and

WHEREAS based on the rate study results, staff recommends restructuring the treated water rates to include a fixed charge to recover 35% of revenue requirements and volume-based rate to recover 65% of revenue requirements; and

WHEREAS calculations of fixed and volume-based rates are based on the rates previously adopted for Calendar Years 2017 and 2018; and

WHEREAS there is still a need for a Temporary Surcharge.

NOW, THEREFORE BE IT RESOLVED that the Board of Directors of Zone 7 of the Alameda County Flood Control and Water Conservation District hereby adopts the following treated water fixed charges and volume-based rates for CY 2017 and CY 2018.

FIRST, a water delivery charge, per the table below for all metered water delivered to each customer per month per 100 cubic feet (CCF) for CY 2017 and CY 2018 that includes a temporary surcharge of \$0.57 per CCF for calendar year 2017. This surcharge will **sunset December 31, 2017.**

<b>Volume-based Rate</b>	<b>CY 2017<sup>1</sup></b>	<b>CY 2018</b>
Rate per CCF	\$1.98	\$2.04
Temporary Surcharge per CCF	\$0.57	-
<b>Total per CCF</b>	<b>\$2.55</b>	<b>\$2.04</b>

<sup>1</sup>Includes a temporary one-year surcharge of \$0.57 per 100 cubic feet (CCF) which will sunset on December 31, 2017; any extension of the temporary surcharge will require a separate Board approval.

SECOND, a fixed charge of \$14,223,775 for Retailers and \$143,531 for Direct Customers for CY 2017 per the tables below. Actual monthly billing will be 1/12 of the annual amount.

<b>Fixed Charge per Retailer</b>	<b>CY 2017</b>
City of Pleasanton	\$4,468,719
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<b>Total Retailer Fixed Charge</b>	<b>\$14,223,755</b>

<b>Fixed Charge per Direct Customer</b>	<b>CY 2017</b>
Lawrence Livermore Laboratory	\$61,273
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East Bay Regional Park District	\$5,949
Livermore Area Parks and Recreation District	\$863
State of California Department of Water Resources	\$15
<b>Total Direct Customer Fixed Charge</b>	<b>\$143,531</b>

THIRD, a fixed charge of \$15,686,384 for Retailers and \$163,226 for Direct Customers for CY 2018. Actual monthly billing will be 1/12 of the annual amount.

FOURTH, authorize the General Manager to reallocate CY 2018 Fixed Charge per Retailer and Direct Customer based on updated two-year rolling average of proportional use, to be determined at the end of FY 2016-17. CY 2018 Fixed Charges of \$15,868,364 and \$163,226 for Retailers and Direct Customers, respectively, will not be changed without Board approval.

FIFTH, rates and service charges for other treated water services, including recharge, temporary treated water, fire and standby and In-lieu treated water service shall remain as set in Zone 7 Board resolution 15-95.

SIXTH, eliminate the monthly Treated Water Service Charge of \$153 and \$157 per metered service for CY 2017 and CY 2018, respectively as set forth in Zone 7 Board resolution 15-95.

BE IT FURTHER RESOLVED that said fixed charges and volume-based rate schedules for treated water service as adopted herein shall be effective on January 1, 2017 and shall end on the next effective date for such water rates as adopted by the Board.

ADOPTED BY THE FOLLOWING VOTE:

AYES:

NOES:

ABSENT:

ABSTAIN:

I certify that the foregoing is a correct copy of a resolution adopted by the Board of Directors of Zone 7 of Alameda County Flood Control and Water Conservation District on October 19, 2016.

By \_\_\_\_\_  
President, Board of Directors