ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT, ZONE 7
100 NORTH CANYONS PARKWAY, LIVERMORE, CA 94551 • PHONE (925) 454-5000 • FAX (925) 454-5727

ORIGINATING SECTION: ADMINISTRATIVE SERVICES
CONTACT: Osborn Solitei

AGENDA DATE: October 21, 2015 ITEM NO. **12**

SUBJECT: Proposed Treated Water Rate Schedules for Calendar Years 2016, 2017 and 2018

SUMMARY:

- The proposed treated water rate schedules apply to calendar years 2016, 2017 and 2018.
- If adopted, the 2016 rates per hundred cubic feet (CCF) will become effective on January 1, 2016, and subsequently January of 2017 and 2018.

	2016 (Adopted)	2016*	2017	2018
For the first 3,300 cubic feet	$4.22	$3.15	$2.93	$3.32
For the next 30,000 cubic feet	$3.38	$3.15	$2.93	$3.32
For the next 300,000 cubic feet	$2.69	$3.15	$2.93	$3.32
For all over 333,300 cubic feet	$2.36	$3.15	$2.93	$3.32

* Includes a temporary one-year conservation surcharge of $0.57 per 100 cubic feet (CCF); any additional or future conservation surcharge will require a separate board approval.

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 calendar years 2016, 2017 and 2018:

a) Treated Water/Private Fire and Standby Service/Temporary Treated Water rates schedule for 2016; based on $1,372 per acre-foot. Treated Water/Private Fire and Standby Service/Temporary Treated Water rates schedule for 2017; based on $1,276 per acre-foot. Treated Water/Private Fire and Standby Service/Temporary Treated Water rates schedule for 2018; based on $1,446 per acre-foot.
b) Temporary Conservation surcharge of $0.57 per CCF. This surcharge will **sunset December 31, 2016.**
c) Eliminate a **four-tiered** variable rate structure to a **uniform** rate structure.
d) Recharge Fee for 2016 of $870 per acre-foot and for 2017 and 2018 of $839 per acre-foot.
e) In-Lieu Water Rate for 2016, 2017 and 2018 of $139 per acre-foot.

M E M O R A N D U M

DATE: October 21, 2015

TO: Jill Duerig, General Manager

FROM: Osborn Solitei, Assistant General Manager – Finance

SUBJECT: **Proposed Treated Water Rate Schedules for Calendar Years 2016, 2017 and 2018**

BACKGROUND:

Zone 7 is faced with a need to stabilize treated water rate revenue and recover from deep financial losses after four years of drought. Therefore on July 15, 2015, the Board authorized the General Manager to negotiate and execute a Professional Services Agreement with Raftelis Financial Consultants, Inc. ("RFC"), for a Cost of Service Study.

The following meetings were held during the water rate process:

- A staff kick-off meeting was held on August 12, 2015 with RFC, Zone 7 staff and Retailer staff to discuss the Cost of Service study approach. This was an opportunity for the Retailers to give input early in the process.
- On August 19, 2015, RFC and Zone 7 staff met with the Retailer staff to review the preliminary Financial Model and key assumptions.
- On August 26, 2015, RFC gave a presentation to the Board of Directors on the Cost of Service Study approach and key assumptions.
- On September 8, 2015, RFC and Zone 7 staff met with Retailer staff to review and discuss the preliminary Financial Model, key assumptions and examples of rate structures and potential impacts to the Retailers using rough numbers in the preliminary model merely to provide those examples.
- On September 16, 2015, RFC gave a presentation to the Board of Directors on the proposed treated water rates and rate structure.
- After September 16, 2015, staff held one-on-one meetings with the Retailers.
- In addition, direct outreach to the public included:
    - Mailers,
    - eNewsletters (serving as press releases, with follow-up articles in Contra Costa Times, The Independent and the Pleasanton Weekly), and
    - Paid quarter page ads that ran on October 15th in the Independent and Valley Times and on October 16th in the Pleasanton Weekly.

- A letter was received from Dublin San Ramon Service District (DSRSD) containing their comments (see attachment).

DISCUSSION:

Treated Water:
At this meeting, RFC will give a brief presentation to their Cost of Service study and their recommendations (Executive Summary attached).

However, after receiving comments from the September 16, 2015 Board meeting, staff recommends the following:

- Maintaining the rate structure as substantially 100% variable for calendar year 2016.
- Eliminate the four-tier rate structure to an uniform rate structure.
- Implementing the Temporary Conservation Surcharge:
    - The purpose of the Temporary Conservation Surcharge is to recover revenue shortfalls.
    - At $0.57/CCF, $7M will only be recovered if demand meets projections.
    - The Temporary Conservation Surcharge will **<u>sunset on December 31, 2016.</u>**
    - In any subsequent year, a Temporary Conservation Surcharge would be calculated to include any shortage from the previous year's collection plus current year needs before being proposed to the Board.
    - Any future proposed Temporary Conservation Surcharge would have to be approved by the Board.
- Approve 10% revenue adjustments above CPI for calendar years 2016, 2017, and 2018. The resulting rates in 100 Cubic Feet are shown in the table below:

	2016 (Adopted)	**2016[1]**	**2017**	**2018**
For the first 3,300 cubic feet	$4.22	$3.15	$2.93	$3.32
For the next 30,000 cubic feet	$3.38	$3.15	$2.93	$3.32
For the next 300,000 cubic feet	$2.69	$3.15	$2.93	$3.32
For all over 333,300 cubic feet	$2.36	$3.15	$2.93	$3.32

1. CY 2016 is the only year that includes the Temporary Conservation Surcharge of $0.57/CCF

The resulting rates in Acre Feet are shown in the table below:

	2016 (Adopted)	**2016[1]**	**2017**	**2018**
For the first 3,300 cubic feet	$1,838	$1,372	$1,276	$1,446
For the next 30,000 cubic feet	$1,471	$1,372	$1,276	$1,446
For the next 300,000 cubic feet	$1,173	$1,372	$1,276	$1,446
For all over 333,300 cubic feet	$1,029	$1,372	$1,276	$1,446

1. CY 2016 is the only year that includes the Temporary Conservation Surcharge of $248/AF

- Consider issuing debt in FY 17/18
    - Actual debt amount will be finalized during the fiscal year.

- After the Temporary Conservation Surcharge is eliminated, a fixed revenue (~35% fixed) component should be incorporated into a new rate structure.
- Reconsider rate restructuring for Calendar Year 2019.

Recharge Fee:
The annual rate schedule includes a recharge fee for retailer pumping beyond their respective independent/groundwater pumping quota. This rate applies to the retail agencies with which we have treated water delivery contracts. The proposed 2016 rate is $870 per acre-foot and $839 per acre-foot for 2017 and 2018 based on the volume of estimated water delivery and estimated expenditures in the Water Enterprise fund. This fee applies only when the Retailers exceed their respective groundwater pumping quota (GPQ). Historically, this fee has been rarely used and then only for small quantities since the retailers generally do not exceed their independent quota.

In-Lieu Water Rate:
In the event staff concludes that surplus surface water is available and that it would be cost-effective to offer it to retailers at a reduced rate to achieve groundwater management objectives, in-lieu treated water could be offered. In-lieu water is treated water that the Retailers can purchase from Zone 7 instead of pumping their respective GPQ. This rate was established in 1993 to encourage artificial recharge when surplus surface water is available.

The rate is based on the power and chemical costs at the Del Valle and Patterson Pass Water Treatment plants and is proposed at $139 per AF for 2016, 2017 and 2018.

Temporary Treated:
The temporary treated water rate is proposed to be the same as the treated water rate. The need for temporary services stems from the inability of customers to obtain water in the outlying areas of the valley. The use of these services is limited. The proposed Temporary Treated Water rate is the same as the treated water rate.

Fire and Standby Service:
Each year the Board also sets a treated water schedule for fire and standby service for the Lawrence Livermore National Laboratory (LLNL). The proposed fire and standby service rate is the same as the treated water rate.

RECOMMENDED ACTION:
Staff recommends adopting the attached resolution approving the following Treated Water Service Rates for 2016, 2017 and 2018:

a) Treated Water/Private Fire and Standby Service/Temporary Treated Water rates schedule for 2016; based on $1,372 per acre-foot. Treated Water/Private Fire and Standby Service/Temporary Treated Water rates schedule for 2017; based on $1,276 per acre-foot. Treated Water/Private Fire and Standby Service/Temporary Treated Water rates schedule for 2018; based on $1,446 per acre-foot.
b) Temporary Conservation surcharge of $0.57 per CCF. This surcharge will **sunset December 31, 2016.**

c) Eliminate a **four-tiered** variable rate structure to a **uniform** rate structure.
d) Recharge Fee for 2016 of $870 per acre-foot and for 2017 and 2018 of $839 per acre-foot.
e) In-Lieu Water Rate for 2016, 2017 and 2018 of $139 per acre-foot.

ATTACHMENTS:

- Board Resolution
- Raftelis Financial Consultants, Inc. – Cost of Service Study Executive Summary
- DSRSD Letter

ZONE 7
ALAMEDA COUNTY FLOOD CONTROL AND WATER CONSERVATION DISTRICT

BOARD OF DIRECTORS

RESOLUTION NO

INTRODUCED BY
SECONDED BY

Adoption of the Treated Water Service Rates for calendar years 2016, 2017, 2018

WHEREAS Zone 7 has experienced significant loss of revenue due to drought conditions and State-mandated water use reductions.

WHEREAS the Board of Directors engaged an independent water rate consultant, Raftelis Financial Consultant Inc. ("RFC") to prepare a Cost of Service Study to identify the cost of providing wholesale treated water service and the study recommends a three-year rate schedule with a temporary conservation surcharge to be imposed for 2½ years in the report, *Zone 7 Water Agency Wholesale Water Rate Study*;

WHEREAS the Agency will eliminate a four-tiered variable rate structure to a uniform or one-tiered variable rate structure for treated water service charge. Since 98% of the Agency total usage and charges occur in Tier 4, the current rate structure substantially reflects a uniform rate or one-tiered rate structure;

NOW, THEREFORE BE IT RESOLVED by the Board of Directors of Zone 7 of the Alameda County Flood Control and Water Conservation District to adopt the following treated water rate schedule per hundred cubic feet (CCF) for calendar years 2016, 2017, 2018 for all treated water service including treated water service, temporary water treated service, fire and standby water service:

FIRST, Water delivery charge, based on $1,372 per acre-foot for 2016, $1,276 per acre-foot for 2017 and $1,446 per acre-foot for 2017 in 100 cubic feet (CCF) units for all metered water delivered to each customer per month; including a temporary conservation surcharge of $0.57 per 100 cubic feet (CCF) for 2016 will be applied to all metered treated water delivered to each customer per month. This surcharge will **sunset December 31, 2016** and any proposed extension would have to be reviewed, evaluated and approved by the Board;

	2016 (Adopted)	**2016***	**2017**	**2018**
For the first 3,300 cubic feet	$4.22	$3.15	$2.93	$3.32
For the next 30,000 cubic feet	$3.38	$3.15	$2.93	$3.32
For the next 300,000 cubic feet	$2.69	$3.15	$2.93	$3.32
For all over 333,300 cubic feet	$2.36	$3.15	$2.93	$3.32

*Includes a temporary conservation surcharge of $0.57 per 100 cubic feet (CCF) that requires a board approval to be extended beyond one year.

Treated Water service a service charge of $148 per month per metered service for 2016, $153 per month per metered service for 2017 and $157 per month per metered service for 2018; and

BE IT RESOLVED by the Board of Directors of Zone 7 of the Alameda County Flood Control and Water Conservation District that the following rate schedule for Recharge, Temporary Treated Water, Fire and Standby and In-Lieu services be adopted:

SECOND, for Recharge services a recharge fee of $870 per acre-foot for 2016, and $839 per acre-foot for 2017 and 2018, which is the unit cost of replenishment water to achieve full cost of recovery when it is necessary to replenish the main groundwater basin when water is pumped in excess of a retailers Groundwater Pumping Quota or Independent Quota.

THIRD, for Temporary Treated Water service an initial service establishment charge $148 per turnout for 2016, $153 for 2017 and $157 for 2018 for each new direct connection to the Zone system; and

A monthly meter service charge of $21.00 per turnout for 2016, 2017 and 2018; and

FOURTH, for Fire and Standby services a service charge $148 per month for 2016, $153 for 2017 and $157 for 2018 for each connection; and

There shall be no charge for water used for extinguishing accidental fires. All other water used shall be charged based on the treated water rate;

FIFTH, for In-Lieu water services, a water rate of $138 for calendar years 2016, 2017 and 2018, authorize the General Manager of Zone 7 of Alameda County Flood Control and Water Conservation District to offer to any treated water contractor who takes delivery of treated water from Zone 7 in lieu of pumping groundwater per their Groundwater Pumping Quota should appropriate circumstances be identified; and Zone 7 may offer this rate to its treated water contractors who have a Groundwater Pumping Quota (GPQ) (including well pumping capacity) if sufficient surface water is available and if it is deemed financially and operationally prudent; and, In-Lieu quantities will be limited to each contractor's GPQ plus any accumulated carry-over.

BE IT FURTHER RESOLVED that said rate schedules for treated water service as adopted herein shall be effective on January 1, 2016 and shall end on the next effective date for such water rates as adopted by the Board.

BE IT FURTHER RESOLVED that the General Manager of Zone 7 of the Alameda County Flood Control and Water Conservation District is hereby authorized to continue to enter into, renew, modify and otherwise administer all Temporary Treated Water service agreements in accordance with said rate schedules adopted herein and as may be modified from time to time.

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 21, 2015.

By____

President, Board of Directors

MEMORANDUM REGARDING COST OF SERVICE STUDY

Agency: Zone 7 Water Agency

To: Board of Directors – Zone 7 Water Agency

From: Habib Isaac, Manager at RFC

Re: Cost of Service Rate Study

1 EXECUTIVE SUMMARY

1.1 BACKGROUND OF THE ZONE 7 WATER AGENCY

The Agency was established in 1957 for flood protection and as water agency providing both untreated water to support area agriculture and as a wholesale water agency to provide a reliable supply of high quality water to the Livermore-Amador Valley. In 1961, Zone 7 contracted for State Water Project water to be delivered through the South Bay Aqueduct. Through its four retail water purveyors, the Agency provides wholesale water services to approximately 220,000 residents and business within its service area, which encompasses Dublin, Livermore, Pleasanton, and, by special agreement with the Dublin San Ramon Services District, the Dougherty Valley portion of San Ramon. The Agency's water resources include imported water from the State Water Project, local groundwater storage, surface water captured in the Del Valle Reservoir and offsite groundwater banking in Kern County. Historically, the majority of the Agency's water demand has been met by imported water from the State Water Project, with almost 80% of the current total water demand supported by imported water. These supplies have been limited due to the severe drought conditions locally and throughout the State of California.

The Agency's Water Utility, like other agencies in California, is faced with challenges related to the reduction in water usage as a result of conservation. This is not a situation that is unique to the Agency, as many agencies throughout the State of California are faced with drought concerns while reinvesting in their utility systems to ensure the delivery of safe and reliable water.

1.2 ASSUMPTIONS USED IN THE STUDY

The period for the Study uses Fiscal Year 2015-16 budget as the base year and the model projects through Fiscal Year 2024-25; however, the proposed rates herein are for Calendar Years 2016, 2017 and 2018, as the Agency will continue to periodically review rates and take a measured approach with any potential rate adjustments.[1] Certain cost escalation assumptions and inputs were incorporated into the Study to adequately model expected future costs of the Water Enterprise. These assumptions were based on discussions with and/or direction from Agency management. Assumptions include inflation factors, CPI indexing of rates, projected sales by retailer and other miscellaneous assumptions. These assumptions are presented in **Tables 1-1, 1-2** and **1-3**.

[1] Tables in this report show a five-year period, starting with FY 2015-16 through FY 2019-20.

Table 1-1: Inflation Factor Assumptions

Key Factors	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
General	3%	3%	3%	3%	3%
Salary	3%	3%	3%	3%	3%
Benefits	3%	3%	3%	3%	3%
Utilities	5%	5%	5%	5%	5%
Supplies	3%	3%	3%	3%	3%
CPI Index to Rates	3%	3%	3%	3%	3%
Energy	5%	5%	5%	5%	5%

Table 1-2: Growth & Demand Assumptions

Key Factors	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Water Demand			***See Table 1-3***		
Miscellaneous Revenue	1%	1%	1%	1%	1%
Proposed Debt			$43M		
Reserve Interest Rate	0.5%	0.5%	0.5%	0.5%	0.5%
Debt Interest Rate	5%	5%	5%	5%	5%
Debt Term (years)	30	30	30	30	30

Table 1-3: Projected Retailer Usage Assumptions

	Projected Demand in Acre Feet				
Retailers	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
City of Pleasanton	9,660	10,890	11,900	11,920	11,950
DSRSD	8,364	9,418	9,742	10,062	10,369
Cal Water	5,228	5,776	5,824	6,239	6,633
Livermore	4,921	5,080	5,160	5,170	5,240
Total	**28,173**	**31,164**	**32,626**	**33,391**	**34,192**

1.3 WATER UTILITY

The current water rate structure of the Agency consists of two components: a minor monthly service charge per turnout and a 4-tier variable water rate structure, with over 98% of all water sales falling into Tier 4. **Table 1-4** identifies the Agency's current rate structure**,** the variable commodity rate structure is comprised of declining tiers.

Table 1-4: Current Treated Water Rates

Customer Class	Current Allotments	2015 Rates (Jan 1, 2015)	2016 Rates (Jan 1, 2016)
	Units (CCF)	**$**	**$**
Treated Water			
Tier 1	0-33	**$4.097**	**$4.220**
Tier 2	34 – 333	**$3.280**	**$3.379**
Tier 3	334 – 3,333	**$2.615**	**$2.694**
Tier 4	> 3,333	**$2.294**	**$2.363**
Fixed Charge (Turn-Outs)	Service Charge	**$144.00**	**$148.00**

1.4 FINANCIAL HEALTH AND PROPOSED RECOMMENDATIONS

1.4.1 Water Utility Financial Health

The approved Fiscal Year 2015-16 budget, reflected a starting fund balance equal to $15.4M and projected water sale revenue of $34.1M. Based on unaudited actuals for Fiscal Year 2014-15, the ending balance for Fund 100 was only $14.4M, or a reduction of approximately $1M. During Calendar Year 2015, the Agency's retailers are required to meet mandatory conservation through Executive Order B-29-15, which sets conservation goals to each retail water agency throughout the State to achieve an overall state-wide 25% reduction in water usage. These cutbacks also affect the Agency's revenue stability as nearly 100% of the Agency's revenue is recovered through variable rates and fixed revenue recovery is negligible, even though a majority of the Agency's costs are fixed. Based on the most recent water demand projections provided by the Retailers and confirmed by Agency staff (as shown on Table 1-3), RFC recalculated expected water sale revenues using the Agency's current rates (prices) and the new expected water demand figures (quantities). Recalculating water sales revenue using prices times new quantities, resulted in an amount equal to $29.4M, which is a reduction of approximately $4.7M in projected revenues for the current fiscal year. As a result, the new starting fund balance and the calculated water sales together generate an expected shortfall by Fiscal Year End 2015-16. Table 1-5 displays the differences between the adopted Fiscal Year 2015-16 budget and the new revised starting balance and projected ending balance for Fiscal Year 2015-16 and Fiscal Year 2016-17

Table 1-5: Fiscal Year 2015-16 Budget and Projections (Fund 100 – Water Enterprise)

FY 15-16 Budget	Adopted Budget FY 2015-16	Revised FY 2015-16	Projected FY 2016-17[4]
Total Water Sales	$34,191,645	$29,496,884[1]	$33,531,512
Other Revenues	$360,991	$360,991	$286,534
Total Revenues	***$34,552,636***	***$29,857,875***	***$33,818,046***
Operation Expenses	$35,619,302	$31,884,216[2]	$33,946,534
AMP Transfer	$7,000,000	$7,000,000	$12,661,760
Total Expenses	***$42,619,302***	***$38,884,216***	***$46,608,294***
Net Cash	***($8,066,666)***	***($9,026,341)***	***($12,790,248)***
Fund 100 Beginning Balance	***$15,404,825***	***$14,388,282[3]***	***$5,361,941***
Projected Ending Fund Balance	***$7,338,159***	***$5,361,941***	***($7,428,307)***

[1] Calculated Fiscal Year 2015-16 revenue based on Tables 1-3 and 1-4

[2] Revised Fiscal Year 2015-16 projected expenses

[3] Unaudited Fiscal Year 2014-15 Actuals

[4] Projected FY 2016-17 – No Rate Changes (Includes 3% CPI for FY 2016)

With the reduction in revenues, the Agency is projected to have a negative net cash flow of ($9.0M). For Fund 100, the Fiscal Year 2015-16 ending fund balance is projected to be approximately $5.36M. Fund 100 includes four designated reserves, including Operating Reserve, Drought Contingency Reserve, Emergency Reserve, and Rate Stabilization Reserve. Table 1-6 provides projected ending fund balances for each reserve.

Table 1-6: Fund 100 –Water Enterprise Reserve Balances

Reserves	Unaudited 2014-15 Ending	Adopted Budget 2015-16 Ending	Revised 2015-16[1] Ending	Actual Performance	Min Target	Max Target
Fund 100 – Water Enterprise						
Operating	$6,123,594	$3,122,788	$2,795,328	**32 days of O&M**	32 days of O&M	90 days of O&M
Drought Contingency	$0.00	$0.00	$0.00	**0% of Sales**	7% of Sales	20% of Sales
Emergency	$4,353,940	$2,246,460	$1,989,152	**1% of Assets**	1% of Assets	3% of Assets
Rate Stabilization	$3,910,748	$1,968,911	$577,461	**2% of Sales**	Min of 6% of Sales	
Total	**$14,388,282**	**$7,338,159**	**$5,361,941**			

[1] Emergency and Rate Stabilization set to minimum balance and difference transferred to operating.

Figure 1-1 illustrates operating position of the Water Utility, where the expenses are shown by stacked bars; and total revenues at current rates are shown by the horizontal green trend line. **Figure 1-2** summarizes the projected CIP and its funding sources (currently 100% PAYGO) and **Figure 1-3** displays the ending total reserve balance for Fund 100 – Water Enterprise and **Figure 1-4** displays the total reserve balance for Fund 120 – Water Renewal, Replacement & System-wide Improvements Capital Reserve (Capital Reserve).

Figure 1-1: Operating Position at Current Rates

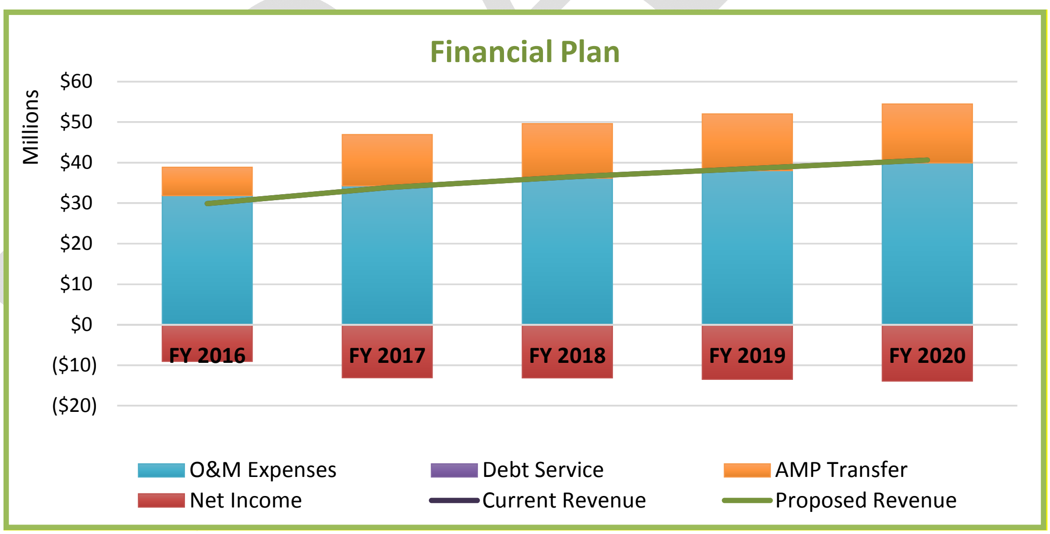


Figure 1-2: Capital Improvement Program and Funding Source

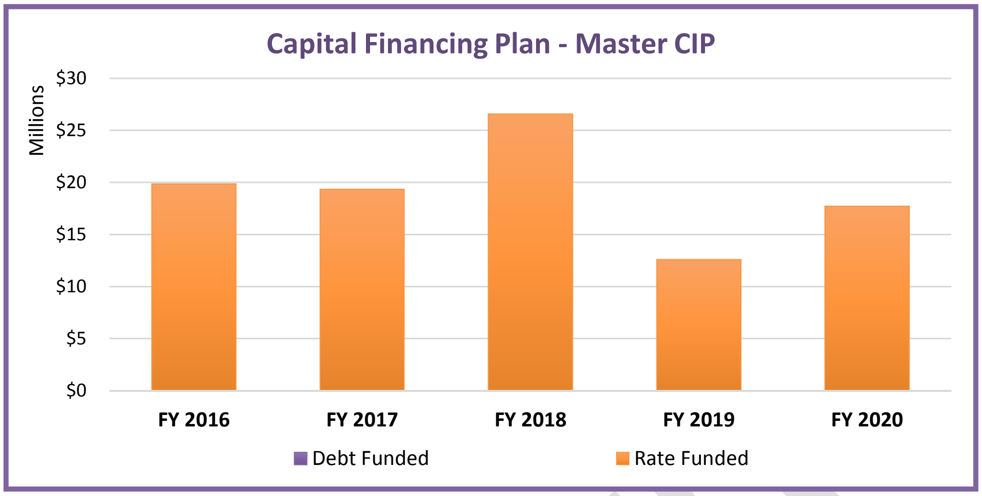


Figure 1-3: Projected Ending Operating Fund (Fund 100) Reserves at Current Rates

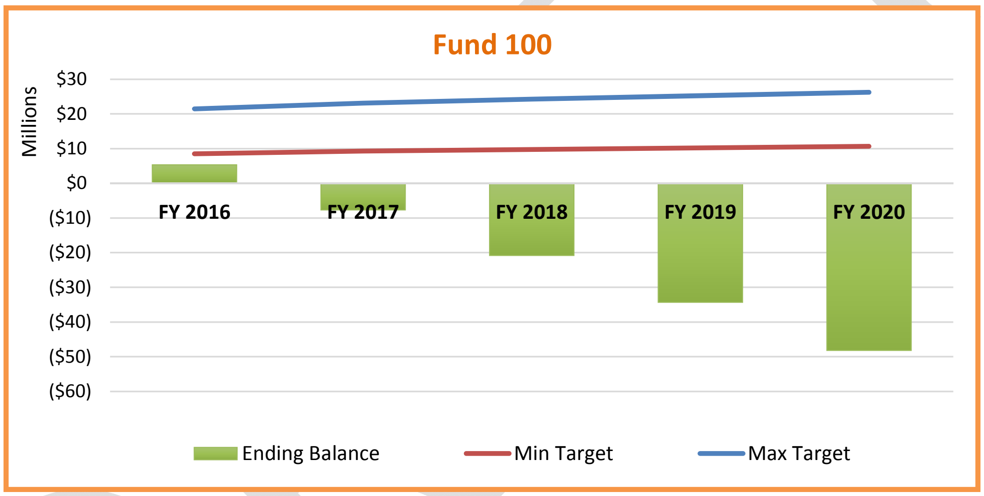
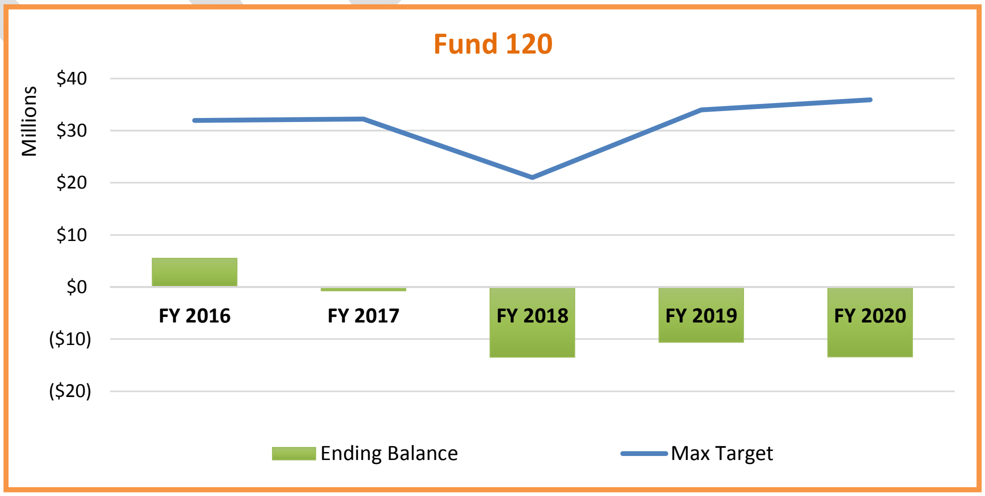


Figure 1-4: Projected Ending Capital Reserve (Fund 120) Reserves – Master CIP



1.4.2 Water Utility Recommendations

Financial Recommendations

As part of our cost of service study and rate model development, we first reviewed the Agency's projected revenue requirements over a 10-year planning horizon to determine how current rates could support the utility's revenue needs in the short-term and long-term.

Based on the the initial review, if the Agency does not increase its rates, it will have negative net cash at Fiscal Year End 2015-16 that will deplete reserves to offset annual shortfalls. The Agency's reserves will be fully depleted by Fiscal Year 2016-17 if rates are not significantly increased. In addition, the Agency's annual planned capital improvement expenditures average approximately $19.2M over the next five years. The Agency currently has a healthy level of capital reserves for Fiscal Year 2015-16; however, given the necessary reinvestment in the Agency's water utility system, reserves would only cover the scheduled capital projects for Fiscal Year 2015-16, and without revenue adjustments, reserves would be depleted after funding Fiscal Year 2016-17 projects. Therefore, revenue adjustments and capital project deferrals are necessary to ensure positive net operating cash, adequate liquidity to fund ongoing capital, and to build up reserves to meet the Agency's adopted reserve policies.

After reviewing the Agency's current financials, revenue requirements, reserve policies, and expected reduced water sale revenues, the proposed financial plan was developed to meet the following criteria:

- Recover lost revenue due to a reduction in sales through a Temporary Conservation Surcharge
  - The Temporary Conservation Surcharge would be in place while revenue adjustments are made to permanently replace revenue generated from the Temporary Conservation Surcharge
  - **Temporary Conservation Surcharge would sunset after June 30, 2018.**
- Fund capital through a combination of Pay-As-You-Go (PAYGO) (cash on hand) and Debt financing
  - Proposed a bond issue in Fiscal Year 2017-18, equal to $43M (See Appendix B)
  - Bond proceeds would be deposited into Fund 120 and used for necessary capital projects
- Build up reserves to meet minimum target level over the three year planning period
- Provide rate stability for future years outside the 3-year planning period

Given the severity of the drought and the financial impact on the Agency, staff revisited the master capital improvement program to determine whether certain capital projects could be deferred. As a result, the proposed financial plan and recommended rates incorporate the Capital Improvement Program with a revised schedule reflecting such deferrals (Revised CIP).

In conjunction with meeting the criteria referenced above and the schedule adjustments to the capital improvement plan, it is recommended that the Agency adjust revenue by 10% above CPI for each of the Calendar Years 2016, 2017 and 2018. Each revenue adjustment would occur in January, with the first adjustment taking place on January 1, 2016. Implementing these revenue adjustments would enable the Agency to eliminate the Temporary Conservation Surcharge after June 30, 2018.

Figure 1-5 illustrates the operating position of the Water Utility under the proposed necessary revenue requirements, where the expenses are shown by stacked bars; and total revenues at current rates and proposed rates are shown by the horizontal trend lines. **Figure 1-6** summarizes the projected Revised CIP and its funding sources, either PAYGO or debt financed. **Figure 1-7** through **Figure 1-9** display the ending total reserve balances for Fund 100, Fund 120, and both funds combined, where the horizontal trend line indicates the target reserve balance (as defined within the Agency's reserve policies) and the bars indicate ending reserve balance.

Figure 1-5: Proposed Necessary Revenue Requirements

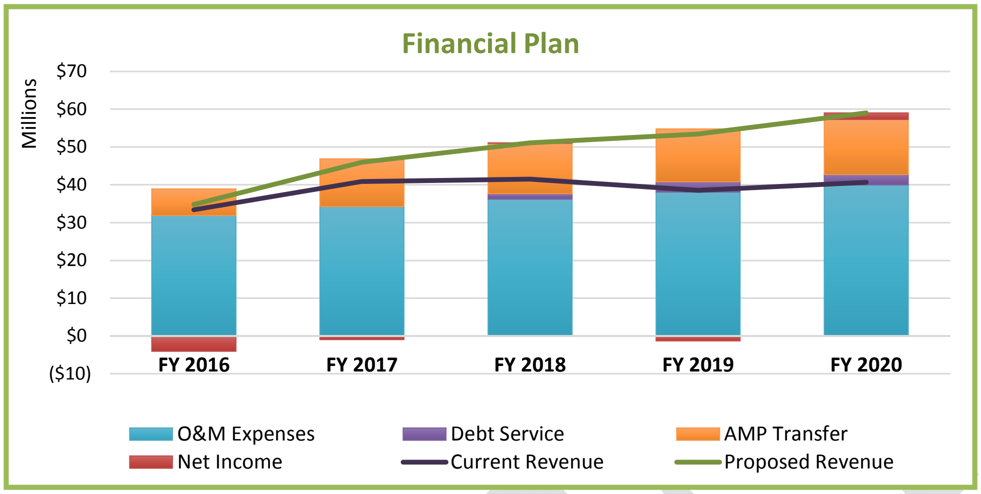


Figure 1-6: Projected Revised CIP and Funding Source

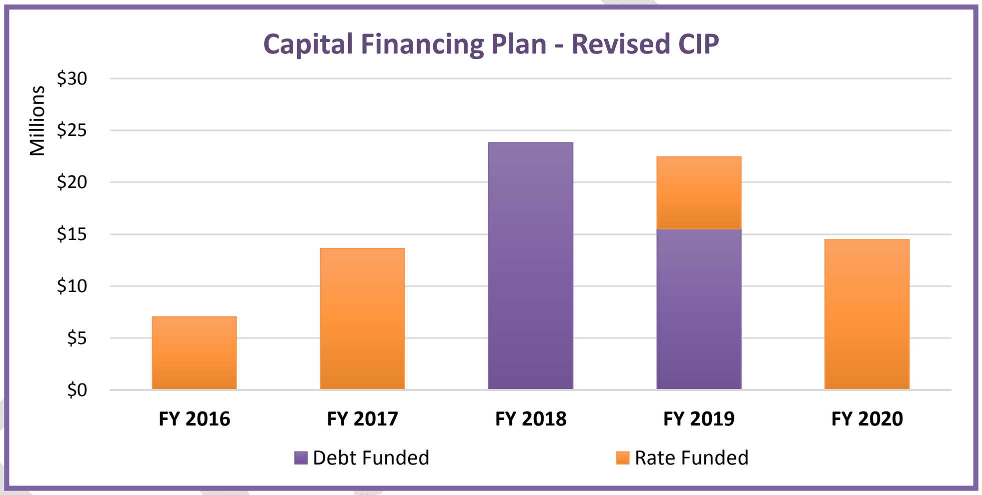


Figure 1-7: Projected Ending Reserves (Fund 100)

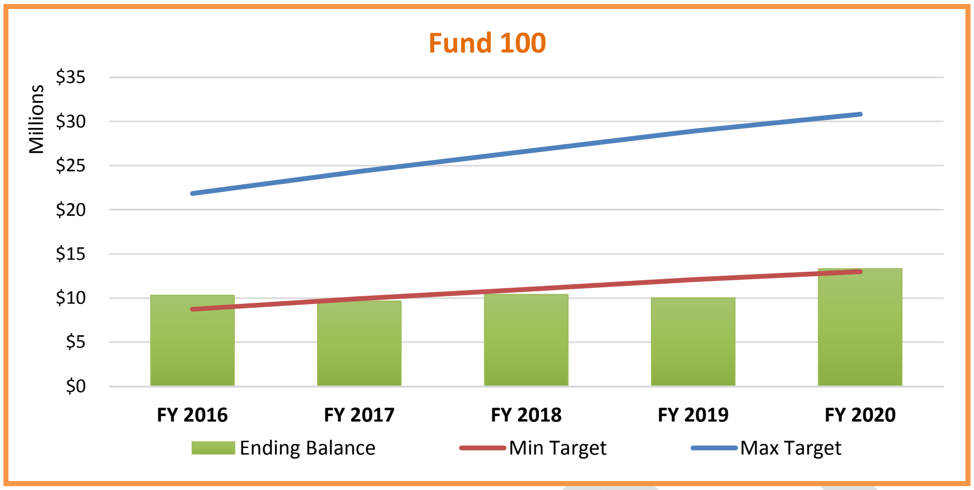


Figure 1-8: Projected Ending Reserves (Fund 120)

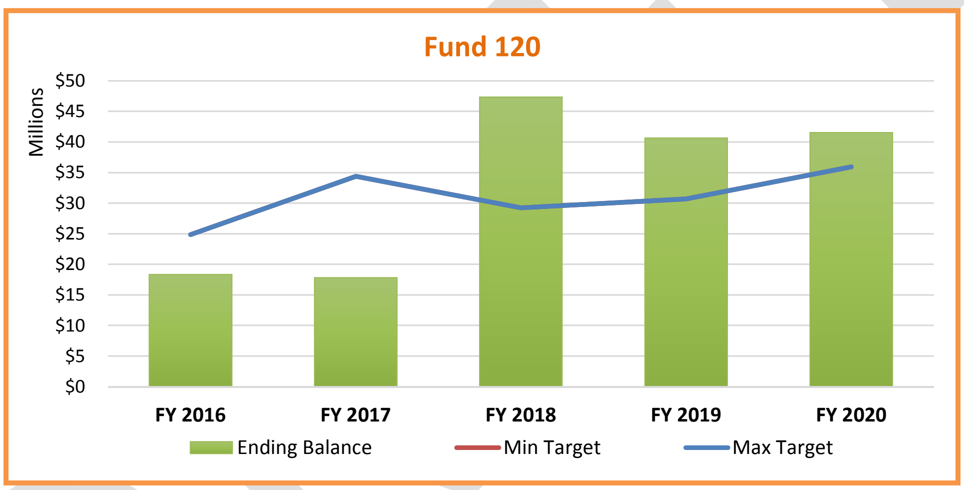
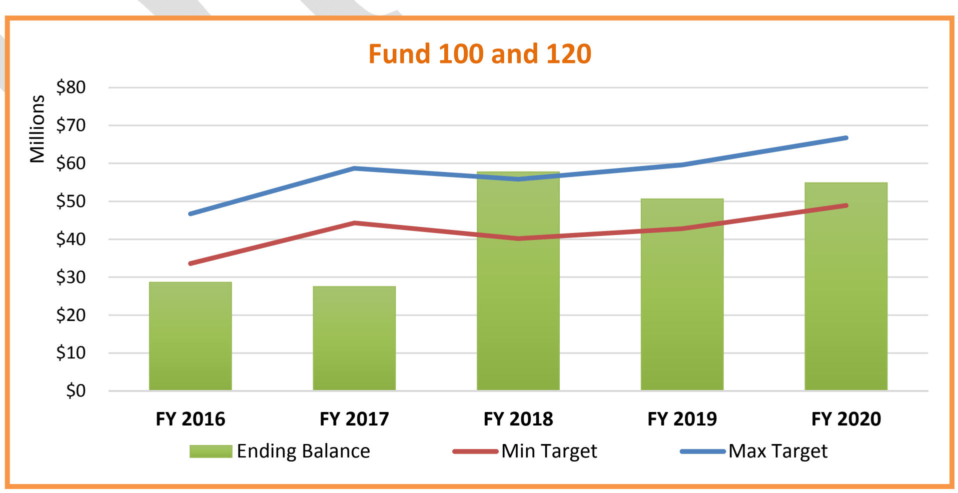


Figure 1-9: Projected Ending Reserves (Fund 100 and 120)



Rate Structure Recommendations

RFC also reviewed the current rate structure and consumption data as part of updating the Agency's rate structure. As such, RFC also recommends the following proposed adjustments to the current rate structure:

- RFC recommends adjusting the current 4-tiered variable rate structure and increase the amount of revenue recovery from a fixed charge. ***Currently, the monthly service charge only recovers approximately $65,000*** (less than 1%). RFC recommends establishing a fixed charge to recover approximately 35% of required revenue. Moving forward, the new fixed charge will provide increased revenue stability to the Agency and will provide its retailers rate stability in subsequent years after the temporary conservation surcharge sunsets. In order to equitably recover the new fixed charge, RFC recommends using historical water sales for allocating the 35% of revenue recovery to each retailer.
- RFC recommends that the fixed charge be allocated using the historical 5-year rolling average of demand and 3-year rolling average of peak usage for each retailer. To determine the percentage of fixed costs to recover from 5-yr rolling average demand versus 3-yr rolling average peak month, The Agency's CIP was allocated between average flow demand and peak demand.
- For the variable rate component, RFC recommends eliminating the use of tiers and establishing a uniform rate per hundred cubic feet for the retailers. As previously mentioned, more than 98% of total usage and charges occur in Tier 4; therefore, the current rate structure substantially reflects a uniform rate.
- RFC recommends implementing a Temporary Conservation Surcharge to recover the projected revenue shortfall over the next 3-years. The Temporary Conservation Surcharge should be recovered as a fixed component to ensure stable revenue recovery and it is recommended to recover this surcharge using the 5-year rolling average of historical water sales.

The proposed rate structure is set forth in Table 1-7 below. The proposed rates for the monthly fixed charges and the commodity charge of the Agency's treated water service fees are set forth in Tables 1-6 through 1-8 below.

Table 1-7: Proposed Rate Structure

Customer Class	Proposed (Commencing 1-1-16)
Fixed Charge Unit Cost ($/CCF)	
Base	5-year rolling average
Peaking	3-year rolling average
Temporary Conservation Surcharge ($/CCF) [1]	5-year rolling average
Variable Rate ($/CCF)	Uniform

Table 1-8 through **Table 1-9** summarizes the proposed water rates.

Table 1-8: Proposed Fixed Charges

Fixed Charge	FY[1] 2015-16	FY[1] 2016-17	FY[1] 2017-18
Total Fixed Charge	$11,067,688	$13,870,928	$16,487,141
Base	$7,658,907	$9,598,767	$11,409,202
Peaking	$3,408,780	$4,272,161	$5,077,939
5-year rolling average demand (CCF)	15,479,594	14,862,695	14,244,616
3-year rolling average peak month (CCF)	1,901,801	1,805,460	1,706,764
Fixed Charge Unit Cost ($/CCF)			
Base	$0.50	$0.65	$0.81
Peaking	$1.80	$2.37	$2.98

[1] The Agency's proposed rates are adjusted each January with the first adjustment occurring on January 1, 2016.

Table 1-9: Proposed Temporary Conservation Surcharge

Temporary Conservation Surcharge Calculation	FY[1] 2015-16	FY[1] 2016-17	FY[1] 2017-18
Temporary Conservation Surcharge Revenues	$3,500,000	$7,000,000	$5,000,000
5-year rolling average demand (CCF)	7,739,797[2]	14,862,695	14,244,616
Temporary Conservation Surcharge ($/CCF)	$0.46	$0.48	$0.36

[1] The Agency's proposed rates are adjusted each January with the first adjustment occurring on January 1, 2016.
[2] In Fiscal Year 2015-16, Temporary Conservation Surcharge is recovered over 6 months of water sales.

Table 1-10: Proposed Variable Commodity Rate

Variable Rate Calculation	FY[1] 2015-16	FY[1] 2016-17	FY[1] 2017-18
Variable Revenue	$20,735,384	$25,987,273	$30,888,764
Projected Water Sales (CCF)	12,362,340	13,665,220	14,302,067
Variable Rate ($/CCF)	**$1.68**	**$1.91**	**$2.16**
Variable Rate ($/AF)	*$732*	*$832*	*$941*

[1] The Agency's proposed rates are set for each calendar year and adjusted each January with the first adjustment occurring on January 1, 2016.

Given the multiple components that make up the cost of service study and related water rate model as well as the recommended changes to the rate structure, it is important to identify how the change in the proposed rate structure would impact retailers. **Table 1-12** identifies how the change in the rate structure would affect each retailer based on RFC's recommendation to recover 35% of the Agency's required revenue through fixed charges based on historical usage. Note that this 35% allows the agency to recover only a portion of its fixed costs.

However, it is first worthy to note the difference in percentage share of responsibility between retailers when charging based on current usage, usage over the last five years, or peak usage over the last 3 years. Table 1-11 provides a summary of each retailers' percentage share allocation. As an example, if all costs were recovered through a variable rate based on usage, the City of Pleasanton would be responsible for 34% of the total cost. Similarly, instead of current usage, if all costs were recovered based on the last five years of historical usage, the City of Pleasanton would be responsible for 1% more of total costs, or 35%. Lastly, using the last 3 years of peak usage, the City of Pleasanton would be responsible for 2% more of costs when compared to expected Fiscal Year 2015-16 usage, or 36% instead of 34%. Given that RFC's recommendation uses all three components - with 65% of total revenue requirements recovered based on Fiscal Year 2015-16 usage and 35% based on the historical usage, the actual impact to the City of Pleasanton from changing the rate structure generates a very slight difference of 1.4%, as shown in **Table 1-12.** As such, the rate structure change has minimal impact to each retailer, but provides a significant amount of increased revenue stability to the Agency. In addition, the new proposed rate structure would also provide rate stability to Retailers since drastic rate spikes would be minimized when a significant reduction in sales occurs in one particular year.

Table 1-11: Rate Impact – Rate Structure Change

Retailers	FY 2015-16 Usage	5-Year Average	3-Year Peak Avg
City of Pleasanton	34%	35%	36%
DSRSD	30%	27%	26%
Cal Water	19%	20%	21%
Livermore	17%	17%	18%
Total	**100%**	**100%**	**100%**

Table 1-12: Rate Impact – Rate Structure Change

Retailers	Current Rate Revenue	New Rate Structure	Total △	Percentage △
City of Pleasanton	$9.82M	$9.96M	+$142k	1.4%
DSRSD	$8.50M	$8.25M	-($250k)	(2.9%)
Cal Water	$5.35M	$5.50M	+$165k	3.1%
Livermore	$5.02M	$4.99M	-($23k)	(0.4%)

APPENDIX A – PROJECTED PRO FORMA – AT CURRENT RATES

	FY 2015 - 16	FY 2016 - 17	FY 2017 - 18	FY 2018 - 19	FY 2019 - 20
Revenue					
Total Rate Revenue	$28,911,884	$32,940,662	$35,594,219	$37,595,390	$39,691,412
Conservation Surcharge	$0	$0	$0	$0	$0
Investment Earnings	$90,000	$12,833	$12,833	$12,833	$12,833
Other Revenue	$855,991	$864,551	$873,196	$881,928	$890,748
Total Revenue	**$29,857,875**	**$33,818,046**	**$36,480,248**	**$38,490,151**	**$40,594,993**
Expenses					
O&M Expenses	$31,884,216	$33,946,534	$35,617,340	$37,130,377	$38,726,781
Existing Debt Service	$0	$0	$0	$0	$0
Proposed Debt Service	$0	$0	$0	$0	$0
Total Expenses	**$31,884,216**	**$33,946,534**	**$35,617,340**	**$37,130,377**	**$38,726,781**
Net Cash Flow before Transfers	**($2,026,341)**	**($128,488)**	**$862,908**	**$1,359,774**	**$1,868,212**
AMP Transfer to Fund 120	$7,000,000	$12,661,760	$13,399,000	$13,950,000	$14,530,000
Net Cash Flow	**($9,026,341)**	**($12,790,248)**	**($12,536,092)**	**($12,590,226)**	**($12,661,788)**
Fund 100 Beginning Balances	$14,388,282	$5,361,941	($7,428,307)	($19,964,398)	($32,554,624)
Fund 100 Ending Balances	$5,361,941	($7,428,307)	($19,964,398)	($32,554,624)	($45,216,413)
Fund 120 Beginning Balances	$24,725,199				
Sinking Fund	($3,884,630)				
Encumbrances/Carryovers	($2,876,245)				
Fund 120 Available Balances	$17,964,324	$18,327,784	$17,806,619	$7,998,841	$1,090,896
Revenues	$7,433,460	$13,098,835	$14,002,222	$15,552,055	$14,998,374
Expenses	($7,070,000)	($13,620,000)	($23,810,000)	($22,460,000)	($14,470,000)
Fund 120 Ending Balances	$18,327,784	$17,806,619	$7,998,841	$1,090,896	$1,619,270
TOTAL BEGINNING BALANCE	**$32,352,606**	**$23,689,725**	**$10,378,312**	**($11,965,557)**	**($31,463,728)**
TOTAL ENDING BALANCE	**$23,689,725**	**$10,378,312**	**($11,965,557)**	**($31,463,728)**	**($43,597,143)**

APPENDIX B – DEFERRED CIP SUMMARY

CIP Options	Capital Improvement Plan				
	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Master CIP	$19.9M	$19.3M	$26.6M	$12.6M	$17.7M
Deferred CIP	$7.1M	$13.6M	$23.8M	$22.5M	$14.5M
Difference	($12.8M)	($5.7M)	($2.8M)	$9.9M	($3.2M)
Proposed Debt Issue			**$43M**		
Debt Payments			$1,398,606	$2,797,212	$2,797,212

APPENDIX B – DEFERRED CIP DETAIL

	Projects from Fund 120:	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	SUBTOTAL
	Administrative & Engineering Building - Sinking Fund (Fund 120)	$418,000	$429,000	$440,000	$450,000	$60,000	$1,797,000
	Administrative & Engineering Building Lease (Water System)	$557,000	$567,000	$578,000	$590,000	$348,000	$2,640,000
	Arroyo del Valle Permit Extension	$280,000	$240,000				$520,000
	Asset Management Program Management	$280,000	$50,000	$50,000	$50,000	$50,000	$480,000
	Booster Pump station	$300,000	$300,000	$300,000	$300,000	$300,000	$1,500,000
	Capital Improvement Program Management	$26,000	$14,000	$29,000	$14,000	$31,000	$114,000
	Chain of Lakes Facilities (COL Pipeline)				$702,000	$3,651,000	$4,353,000
	Chain of Lakes Master Planning			$20,000	$20,000	$20,000	$60,000
	Corrosion Master Plan Update				$270,000		$270,000
	Dougherty Reservoir Recoating				$2,110,000		$2,110,000
	DVWTP Ammonia System Replacement			$2,250,000			$2,250,000
	DVWTP Carbon Dioxide Installation Project		$730,000				$730,000
	DVWTP Filter Rehabilitation - Phase 1			$490,000	$500,000	$500,000	$1,490,000
	DVWTP Filter Valves Replacement	$400,000					$400,000
	DVWTP Interior Coating Improvements to the 4.5 MG Steel Clearwell			$2,390,000			$2,390,000
	DVWTP Main Plant Generator Replacement				$30,000		$30,000
	DVWTP Parking Lot Repair			$540,000			$540,000
	DVWTP Rehabilitation Project			$400,000			$400,000
	DVWTP Roof Replacement and Rehabilitation for 3.0 MG Clearwell	$80,000	$1,030,000				$1,110,000
	Hopyard Well 6 & Stoneridge Sodium Hypochlorite Tank Replacement	$500,000					$500,000
	Laboratory Equipment Replacement	$120,000	$130,000	$120,000	$130,000	$140,000	$640,000
	MGDP Concentrate Disposal Pipeline Inspection and Cleaning	$520,000					$520,000
	MGDP De-Mister Modifications		$310,000				$310,000
	Minor Renewal/Replacement Projects	$360,000	$380,000	$400,000	$410,000	$430,000	$1,980,000
	Mocho Well No.1 Sanding Investigation			$300,000			$300,000
	Mocho 2 Well Improvements/Rehabilitation	$200,000					$200,000
	Mocho Well 2 - VFD Retrofit			$350,000			$350,000
	Mocho Well No. 3 OSG R/R					$490,000	$490,000
	Mocho Wellfield Automation & Control Valves	$100,000					$100,000
	Monitoring Well Replacements & Abandonments	$110,000		$150,000		$160,000	$420,000
	Ozonation at DVWTP	$1,000,000	$3,160,000	$11,900,000	$12,250,000		$28,310,000
	PPWTP Aqua Ammonia Facility Installation				$350,000	$1,820,000	$2,170,000
	PPWTP Carbon Dioxide Installation		$600,000				$600,000
	PPWTP Chemical Systems Replacement		$160,000	$600,000			$760,000
	PPWTP Clearwell Improvements (seismic)	$100,000	$520,000				$620,000
	PPWTP Filter Pipe Replacement Project			$100,000	$600,000		$700,000
	PPWTP Filter Rehabilitation			$160,000	$695,000	$695,000	$1,550,000
	PPWTP HVAC Improvements					$430,000	$430,000
	PPWTP Sludge Handling Improvements				$890,000	$2,730,000	$3,620,000
	SCADA Enhancements	$240,000	$240,000	$260,000	$1,200,000	$280,000	$2,220,000
	System-Wide Installation of Line Valves	$50,000		$60,000		$60,000	$170,000
	Wellfield Switchboard Replacement Project					$1,300,000	$1,300,000
Projects Split with Fund 130:							
40/60	Additional Treated Water Storage	$600,000	$4,000,000	$1,148,000			$5,748,000
30/70	Reliability Intertie (D/R)				$132,000	$201,000	$333,000
35/65	Transmission System Planning Update	$60,000					$60,000
70/30	Water Quality Management Program	$21,000	$14,000	$21,000	$14,000	$28,000	$98,000
	Contingency	$750,000	$750,000	$750,000	$750,000	$750,000	$3,750,000
	Annual Totals:	$7,072,000	$13,624,000	$23,806,000	$22,457,000	$14,474,000	
			Total 5-Year Existing Projects (Fund 120)				**$81,433,000**
			Adopted 5-Year CIP Total (Fund 120)				$96,106,000
			Offset in 5-Year CIP thru Deferral:				**$14,673,000**

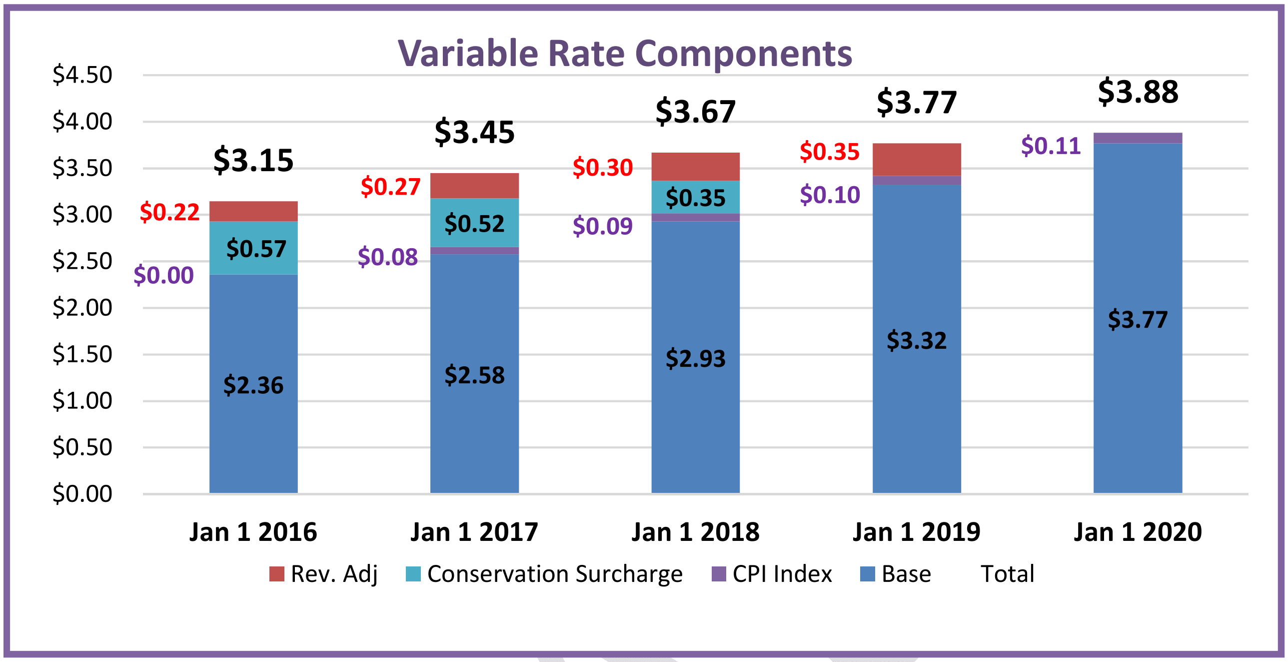
APPENDIX C – PROPOSED FINANCIAL PLAN PRO-FORMA

			FY 2015 - 16	FY 2016 - 17	FY 2017 - 18	FY 2018 - 19	FY 2019 - 20
Revenue							
Water Sales - Existing Rate			$28,911,884	$32,940,662	$35,594,219	$37,595,390	$39,691,412
Additional Revenue Needs:							
Fiscal Year	**Revenue Adjustment**	**Month Effective**					
FY 2015 - 16	10%	January	$1,445,594	$3,294,066	$3,559,422	$3,759,539	$3,969,141
FY 2016 - 17	10%	January		$1,811,736	$3,915,364	$4,135,493	$4,366,055
FY 2017 - 18	10%	January			$2,153,450	$4,549,042	$4,802,661
FY 2018 - 19	10%	January				$2,501,973	$5,282,927
FY 2019 - 20	1%	January					$290,561
FY 2020 - 21	1%	January					
FY 2021 - 22	0%	January					
FY 2022 - 23	0%	January					
FY 2023 - 24	0%	January					
FY 2024 - 25	0%	January					
Total Additional Revenue			$1,445,594	$5,105,803	$9,628,236	$14,946,047	$18,711,345
Total Rate Revenue			$30,357,478	$38,046,465	$45,222,455	$52,541,437	$58,402,757
Conservation Surcharge			$3,500,000	$7,000,000	$5,000,000	$0	$0
Investment Earnings			$90,000	$49,794	$56,995	$64,839	$72,127
Other Revenue			$855,991	$864,551	$873,196	$881,928	$890,748
Total Revenue			**$34,803,469**	**$45,960,810**	**$51,152,646**	**$53,488,204**	**$59,365,632**
Expenses							
O&M Expenses			$31,884,216	$33,946,534	$35,617,340	$37,130,377	$38,726,781
Existing Debt Service			$0	$0	$0	$0	$0
Proposed Debt Service			$0	$0	$1,398,606	$2,797,212	$2,797,212
Total Expenses			**$31,884,216**	**$33,946,534**	**$37,015,946**	**$39,927,589**	**$41,523,993**
Net Cash Flow before Transfers			**$2,919,253**	**$12,014,276**	**$14,136,701**	**$13,560,615**	**$17,841,639**
AMP Transfer to Fund 120			$7,000,000	$12,661,760	$13,399,000	$13,950,000	$14,530,000
Net Cash Flow			**($4,080,747)**	**($647,484)**	**$737,701**	**($389,385)**	**$3,311,639**
Fund 100 Beginning Balances			$14,388,282	$10,307,535	$9,660,052	$10,397,752	$10,008,368
Fund 100 Ending Balances			$10,307,535	$9,660,052	$10,397,752	$10,008,368	$13,320,007
Fund 120 Beginning Balances			$24,725,199				
Sinking Fund			($3,884,630)				
Encumbrances/Carryovers			($2,876,245)				
Fund 120 Available Balances			$17,964,324	$18,327,784	$17,806,619	$47,341,630	$40,630,398
Revenues			$7,433,460	$13,098,835	$53,345,011	$15,748,769	$15,393,277
Expenses			($7,070,000)	($13,620,000)	($23,810,000)	($22,460,000)	($14,470,000)
Fund 120 Ending Balances			$18,327,784	$17,806,619	$47,341,630	$40,630,398	$41,553,675
TOTAL BEGINNING BALANCE			**$32,352,606**	**$28,635,319**	**$27,466,671**	**$57,739,382**	**$50,638,766**
TOTAL ENDING BALANCE			**$28,635,319**	**$27,466,671**	**$57,739,382**	**$50,638,766**	**$54,873,682**

[1] Revenues in Fund 120 for Fiscal Year 2017-18 includes proceeds (~39M) from proposed bond issue to fund future capital needs while maintaining a healthy level of reserves.

[2] Fund 120 Ending Balances are designated for capital projects.

APPENDIX D –RATE COMPONENTS AT 100% VARIABLE



MONTHLY CUSTOMER IMPACT BASED ON 10 CCF WITH TEMPORARY CONSERVATION SURCHARGE:

Rate	Jan 1, 2016	Jan 1, 2017	Jan 1, 2018	Jan 1, 2019	Jan 1, 2020
Rate per CCF ($)	$3.15	$3.45	$3.67	$3.77	$3.88
% Increase	33%	10%	6%	3%	3%
Increase at 10 CCF ($)	$7.90	$3.00	$2.20	$1.00	$1.10

APPENDIX E – WHOLESALER RATE COMPARISONS

WHOLESALE WATER RATES INCREASES BY OTHER AGENCIES

Wholesaler	2011	2012	2013	2014	2015
San Francisco Public Utilities Commission*	15%	38%	11%	(16%)	20%
Metropolitan Water District of Southern California**	6%	7%	7%	5%	4%
San Diego County Water Authority (SDCWA)	11.3%	11.9%	9.7%	3.5%	4.8%
Santa Clara Water District	8%	8%	8%	9%	17%
Zone 7	2.5%	5.0%	0.0%	2.7%	3.0%

*SFPUC sold more water to the wholesale customers than anticipated in the previous year in 2013 so rates were lowered in 2014 to reflect a refund to the wholesale customers.

** Projected increases taken from MWD's February 25, 2014 Board workshop rate Scenario A.

PROJECTED WHOLESALER RATE PER CCF

	San Francisco Public Utilities Commission	Zone 7 Water Agency	San Diego County Water Authority*
2016	$3.75	$3.15	$3.30
2017	$3.78	$2.93	No data
2018	$3.79	$3.32	No data
2019	$4.31	$3.77	No data

*Converted the 2016 SDCWA published rate of $1,439 per AF to CCF by dividing by conversion factor of 435.6.

Note: Data was not available for Santa Clara Valley Water District and Metropolitan Water District of Southern California.

APPENDIX F – RETAILER RATE COMPARISONS

RETAILER WATER RATES INCREASES BY NEIGHBORING AGENCIES

Retailer	2011	2012	2013	2014	2015
EBMUD	7.5%	6.1%	6.1%	9.9%	9.4%
San Jose Municipal Water	6.0%	9.5%	8.0%	11%	28%
Alameda County Water District	8.0%	6.1%	0.0%	7.0%	0.0%
Contra Costa Water District	4.0%	5.3%	5.0%	4.8%	4.6%
Zone 7	2.5%	5.0%	0.0%	2.7%	3.0%

RETAILER METER CHARGES INCREASES BY NEIGHBORING AGENCIES

Retailer	2011	2012	2013	2014	2015
EBMUD	7.5%	6.0%	6.0%	9.7%	9.5%
San Jose Municipal Water	6.0%	9.5%	8.0%	11.0%	28.0%
Alameda County Water District	8.0%	19.0%	0.0%	7.0%	30.0%
Contra Costa Water District	1.0%	1.0%	1.0%	1.0%	1.0

Archer

Dublin San Ramon Services District
Water, wastewater, recycled water

7051 Dublin Boulevard
Dublin, CA 94568-3018

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October 8, 2015

Ms. Sarah Palmer, President, Board of Directors
Zone 7 Water Agency
100 North Canyon Parkway
Livermore, CA 94551

Subject: Proposed Water Rate Increase Considered by Zone 7

Dear President Palmer, Members of the Board:

On behalf of the Dublin San Ramon Services District (DSRSD) I would like to offer the following comments on the proposed rates being considered by Zone 7. DSRSD appreciates the impact that significant water conservation levels achieved by Tri-Valley water users has had on Zone 7 revenue and reserves. Further, we are grateful for Zone 7's outreach that resulted in productive discussions with our staff, and we appreciate Zone 7's direct outreach to Tri-Valley consumers. While there have been several Board and Committee meetings, as well as meetings with retailers, it is our understanding that no formal proposal has yet been presented to the Board for consideration. Based on the latest written information available (as presented to the Zone 7 Board on September 16, 2015) the proposal would impact the DSRSD's Water Enterprise Fund by increasing our water purchase expenses by $2,685,400 or 32.2%. In terms of our average residential customer, this represents an impact of $17.69 on each bimonthly bill, or a 16.3% increase. As such, these very significant increases warrant a measured approach to rate setting. Your rate consultant commented that this rate process is exceptionally fast and we agree. We are concerned about several specific matters currently being discussed that may yet come before you for consideration. Our comments and concerns are outlined below.

DROUGHT SURCHARGE WITH SUNSET DATE

We fully support the need for a proposed rate increase to offset the impact of the significant water conservation levels achieved in the Zone 7 service area. We agree that using reserves, while prudent in the past, cannot continue indefinitely. As was the case last year, we strongly urge the Board to adopt a specific sunset date or require annual action by the Zone 7 Board. In this way, customers can see an end to this charge as consumption increases over time.

MULTI-YEAR RATE SETTING

We are very supportive of Zone 7's effort to move to multi-year rate setting. DSRSD has found many benefits to such an approach: increases to efficiency by not having to prepare and process a rate increase each year, creation of fiscal discipline on the expense side of the ledger and "living within the means available," public support, long-term budget predictability, and a commensurate positive effect of the District's credit rating. We strongly encourage the Zone 7 Board to continue to work with your rate consultants to develop a long-term rate and reserve plan.

STRUCTURAL CHANGES TO RATES

We understand that it is prudent to consider changes in rate structure, such as those that will improve cash flow throughout the year. Your rate consultant and staff have attempted to develop this new rate on an extremely fast timetable. The new fixed charges change the allocation of costs between agencies and create administrative burdens to the retailers such as DSRSD who have adopted "pass through" rates.

A major change in rate structure should be evaluated more fully and implemented over time to minimize the impact to all water customers in the valley and allow the retail agencies to build consensus for an approach that will, for the first time, lead to different water rates in different parts of the valley. Additional time will allow additional outreach, not only to retailers but to the consumers in the valley.

We are adamantly opposed at this time to the adoption of a fixed dollar monthly charge. At this time, we cannot pass through a fixed dollar amount to our customers. DSRSD would need time to go through a rate adjustment process at the retail level in accordance with Proposition 218. As such, we have no way to recover a charge assessed in this manner.

RENEWAL AND REPLACEMENT CAPITAL EXPENDITURES

Capital replacement and rehabilitation spending is a major cost component of the Zone 7 rate. We appreciate and welcome the Zone's outreach, deferral of select projects, and serious consideration of debt financing. However, we feel that the significant increase in funding for this capital program should be vetted more thoroughly, and the need for and benefit derived from these expenditures should be explained to all customers. If all stakeholders are fully involved in the process and understand system needs, we believe ratepayers will support any required rate increase.

PUBLIC OUTREACH

An aggressive public outreach and engagement process must be undertaken in the weeks leading up to your October 21, 2015 rate decision to ensure public openness and transparency associated with the decision.

SUMMARY

We know this is a difficult decision for you and your Board. We believe that a Zone 7 rate decision incorporating the points above will meet the financial needs of the Zone while building support for the proposed rate among the retailers and the community.

Sincerely,

Ed R Duarte

EDWARD R. DUARTE
President of the Board of Directors,
Dublin San Ramon Services District

ERD/jja

cc: Ms. Jill Duerig, General Manager, Zone 7
Mr. Nelson Fialho, City Manager, Pleasanton
Mr. Marc Roberts, City Manager, Livermore
Mr. Frank Vallejo, District Manager, California Water Service
Mr. Chris Foss, City Manager, Dublin
Mr. Greg Rogers, City Manager, San Ramon