



Finance and Insurance Committee Meeting

Consideration of Alternative Treatment Cost Recovery Mechanism

February 23, 2016

Objectives-Goals

- Objective – Fixed Charge Concept
 - Cost of Service
 - Align charges with service commitment/investment
 - Cost recovery – revenue stability

Treatment Fixed Charge Concept

- 38% of total Treatment revenue requirements
 - Cost of Service based: sum of Treatment Demand and Standby costs
 - Used to develop fixed or demand charge

Fixed Cost Recovery - An Industry Perspective

- Cost-of-service considerations – What is the cost of providing on-demand service and standby service?
- Declining water use driving trend to increase fixed cost recovery – fixed revenues

Align Charges with Service Commitment/Investment

- MWD is the treated water service provider for Member Agencies
- MWD service obligation – be capable of meeting average and peak week treated water demands of Member Agencies
- Investment in treatment capacity designed to meet the needs of Member Agencies
- Meet average and peak week demands AND provide on-demand and standby capacity

Treatment Fixed Charge Concept (\$ millions)

FY 2016/17 Treatment Revenue Requirement

| | |
|---|--------------|
| Direct O&M at WTPs | \$59 |
| Indirect O&M (WSO, IT, Eng., HR) | 46 |
| A&G (Legal, Finance, Audit, Ethics) | 30 |
| Capital Costs (Debt, PAYGO) 54% of Total | 140 |
| LESS: Revenue Offsets / Decline in Reserves | <u>-18</u> |
| TOTAL Net Revenue Requirement | \$257 |

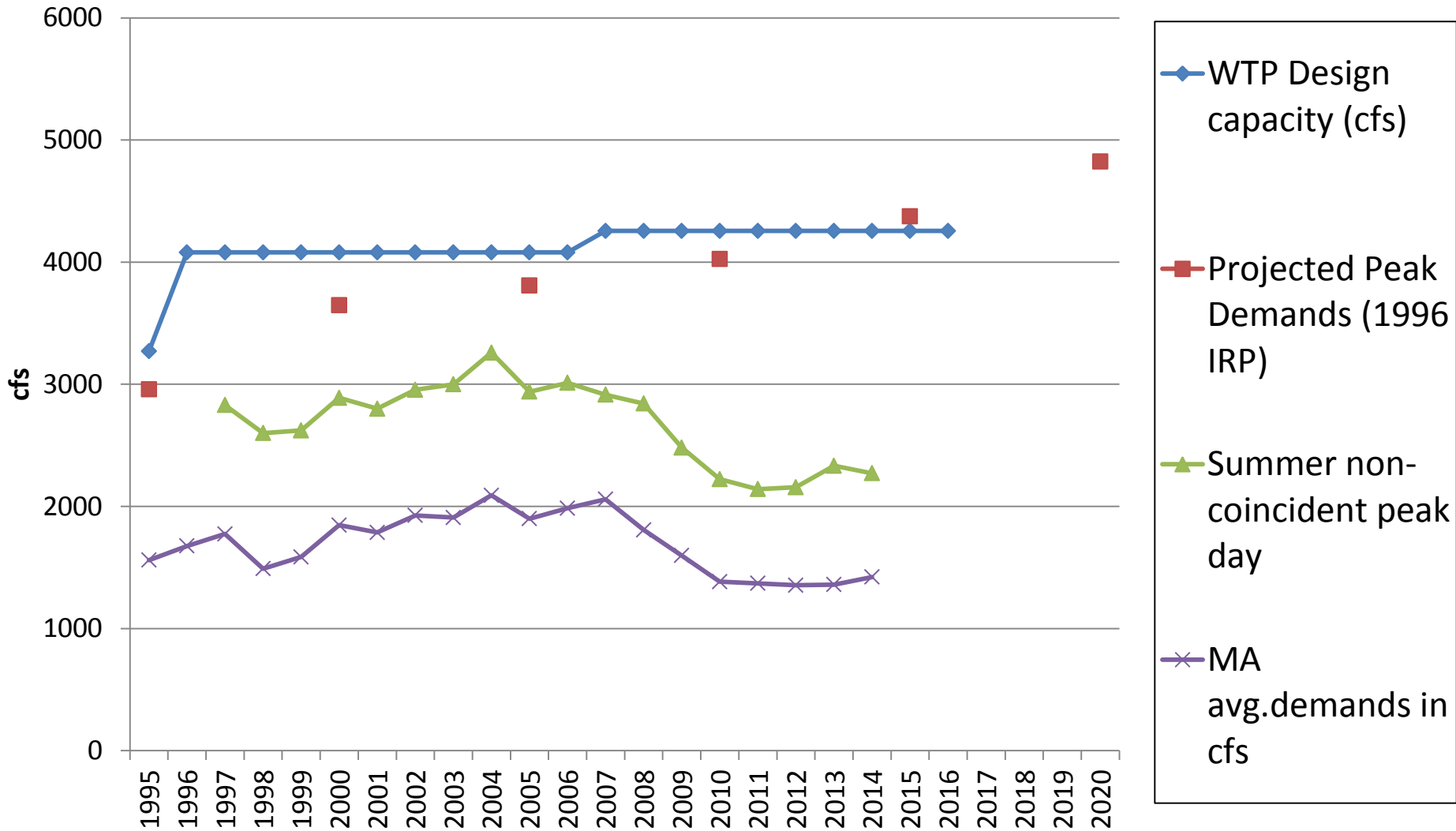
Treatment Fixed Charge Concept (\$ millions)

| | | |
|---|-------|---------------------|
| FY 2016/17 Treatment Revenue Requirement | | \$257 (100%) |
| Variable | | \$24 (9%) |
| Fixed | | \$233 (91%) |
| Commodity | \$135 | 38% of Total |
| Demand | \$41 | |
| Standby | \$57 | |

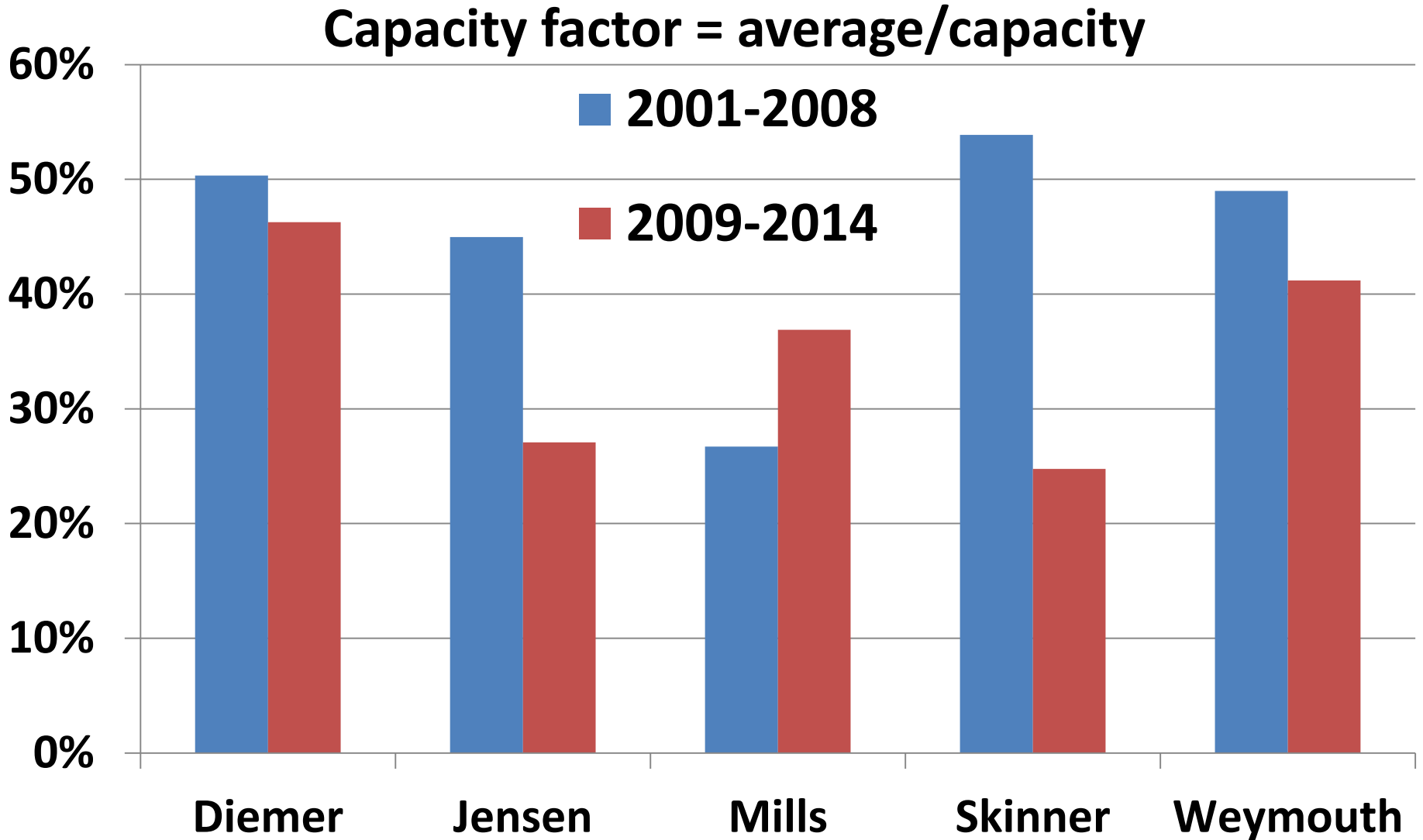
Current Treatment Surcharge: 100% Volumetric Cost Recovery

- $$\frac{\text{Revenue Requirement}}{\text{Treated Water Sales}} = \$/AF \text{ Volumetric Rate}$$
 - Demand and Standby treatment capacity and reduced treated water sales revenue
 - Potential for Member Agencies to stop using the MWD treatment system and make no contribution to Demand and Standby-related costs
 - MWD retains the obligation to serve Member Agencies

Long-Term Treated Water Demand Has Not Materialized



WTP Utilization Has Declined



Align Charges with Service Commitment/Investment

Cost of Service principles, i.e., pay for the service provided:

Member Agencies pay only when taking treated water and in effect require all system users to bear the cost burden for demand or standby capacity

MWD has invested in treatment capacity to serve the Member Agencies, but today does not require the beneficiaries of demand or standby capacity to pay anything for the cost of this dedicated capacity; for the cost of this service

Fixed Cost Recovery

Cost-of-Service Perspective

- Demand or standby service – “...rate charged should reflect the cost of having capacity reserved and available for the customer.” (1)
 - Fixed Demand Charge – reflect peaking costs and demands
 - Consumption Rate

(1) AWWA M1 Principles of Water Rates, Fees, and Charges, Sixth Edition

Fixed Revenue Recovery is Common

| Agency | Wholesale Cost Recovery |
|--|--|
| Massachusetts Water Resource Authority, MA | Customers are assessed a <u>fixed annual amount based on their proportional share of the previous year's demand</u> . FY 2015 assessment = \$3,239 per million gallons. Fixed revenue recovery = 100%. |
| North Texas Municipal Water District, TX | Customers pay on a volumetric basis. Fixed costs are recovered under <u>take-or-pay contracts based on the higher of estimated test-year demand or the maximum volume of water used in any previous year</u> . FY 2016 fixed charge = \$1.88 per kgal. Estimated fixed revenue recovery = 85%. |
| Upper Trinity Regional Water District, TX | Customers pay their proportionate share of demand costs under <u>take-or-pay contracts based on a minimum daily volume equal to 18% of their highest peak day demand in the preceding five-year period</u> . FY 2015 annual demand charge = \$388,110 per MGD. Estimated fixed revenue recovery under minimum take-or-pay contracts = 78%. |
| San Francisco Public Utilities Commission, CA | 4 wholesale customers are subject to a <u>take-or-pay requirement specifying a minimum annual volume</u> they must purchase. Estimated fixed revenue recovery from wholesale customers under minimum take-of-pay contracts = 24%. |

Fixed Revenue Recovery is Common

| Agency | Wholesale Cost Recovery |
|---|---|
| Great Lakes Water Authority, MI | <u>60% of the annual revenue requirement is estimated to be recovered through a fixed demand charge</u> ; 40% recovered through volumetric rates. |
| Jordon Valley Water Conservancy District, UT | Each wholesale customer has a <u>contracted take-or-pay minimum purchase volume</u> . Estimated fixed revenue recovery from wholesale customers under minimum take-or-pay contracts = 100%. |
| Dallas Water Utilities, TX | Wholesale customers pay a <u>fixed demand charge</u> and a volumetric rate. The demand charge is based on the higher of current year demand or the average of the previous five years. Demand charge is \$243,453 per mgd per year and the volumetric rate is \$0.4305 per kgal. Estimated fixed charge revenue from wholesale customers = 60%. |
| Portland Water Bureau, OR | Wholesale customers specify a <u>minimum annual “guaranteed purchase quantity”</u> as well as seasonal and daily peaking factor. If actual peaking factors exceed those specified, customers must pay a surcharge. Fixed revenue recovery from wholesale customers under minimum take-of-pay contracts = 100% |

Current Treatment Surcharge: 100% Volumetric Cost Recovery

- $$\frac{\text{Revenue Requirement}}{\text{Treated Water Sales}} = \$/AF \text{ Volumetric Rate}$$
 - Demand and Standby treatment capacity and reduced treated water sales revenue
 - Potential for Member Agencies to stop using the MWD treatment system and make no contribution to Demand and Standby-related costs
 - MWD retains the obligation to serve Member Agencies

FY 2016/17 Treatment Revenue Requirement (Hypothetical Pro Forma – For Example Only)

Status Quo Treated Surcharge (\$/AF)

| | |
|-------------------------------------|----------------|
| Treatment Revenue Requirement | \$257,479,354 |
| Forecasted Treated Water Sales (AF) | <u>822,000</u> |
| Treated Surcharge (\$/AF) | \$313 |

FY 2016/17 Status Quo Treatment Surcharge (100% Volumetric)

(HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY)

| Member Agency | Projected Test Year Treated Water Sales | | x | Total Revenue Requirement | = | Member Agency Revenue Requirement |
|-------------------|---|----------------|---|---------------------------|---|-----------------------------------|
| | AF | % | | | | |
| Anaheim | 3,947 | 0.48% | x | \$257,479,354 | = | \$1,236,208 |
| Beverly Hills | 10,212 | 1.24% | x | 257,479,354 | = | 3,198,735 |
| Burbank | 6,354 | 0.77% | x | 257,479,354 | = | 1,990,241 |
| Calleguas | 88,943 | 10.82% | x | 257,479,354 | = | 27,860,023 |
| Central Basin | 27,937 | 3.40% | x | 257,479,354 | = | 8,750,956 |
| Compton | 0 | 0.00% | x | 257,479,354 | = | 87 |
| Eastern | 53,248 | 6.48% | x | 257,479,354 | = | 16,679,159 |
| Foothill | 7,461 | 0.91% | x | 257,479,354 | = | 2,337,078 |
| Fullerton | 7,639 | 0.93% | x | 257,479,354 | = | 2,392,937 |
| Glendale | 15,693 | 1.91% | x | 257,479,354 | = | 4,915,618 |
| Inland Empire | 0 | 0.00% | x | 257,479,354 | = | 0 |
| Las Virgenes | 20,314 | 2.47% | x | 257,479,354 | = | 6,362,979 |
| Long Beach | 42,391 | 5.16% | x | 257,479,354 | = | 13,278,470 |
| Los Angeles | 61,097 | 7.43% | x | 257,479,354 | = | 19,137,588 |
| MWDOC | 141,285 | 17.19% | x | 257,479,354 | = | 44,255,500 |
| Pasadena | 17,238 | 2.10% | x | 257,479,354 | = | 5,399,667 |
| San Diego CWA | 97,266 | 11.83% | x | 257,479,354 | = | 30,467,286 |
| San Fernando | 92 | 0.01% | x | 257,479,354 | = | 28,723 |
| San Marino | 673 | 0.08% | x | 257,479,354 | = | 210,923 |
| Santa Ana | 4,929 | 0.60% | x | 257,479,354 | = | 1,543,796 |
| Santa Monica | 3,920 | 0.48% | x | 257,479,354 | = | 1,227,816 |
| Three Valleys | 36,641 | 4.46% | x | 257,479,354 | = | 11,477,206 |
| Torrance | 14,919 | 1.81% | x | 257,479,354 | = | 4,673,233 |
| Upper San Gabriel | 8,350 | 1.02% | x | 257,479,354 | = | 2,615,453 |
| West Basin | 103,936 | 12.64% | x | 257,479,354 | = | 32,556,355 |
| Western MWD | 47,515 | 5.78% | x | \$257,479,354 | = | 14,883,317 |
| TOTAL | 822,000 | 100.00% | | | | \$257,479,354 |
| | | | | Unit Cost per AF | | \$313 |

Proposed Treatment Rate Design: Volumetric + Fixed Revenue Recovery

- Volumetric Revenue Recovery = 62%

$$\frac{\text{Revenue Requirement}}{\text{Treated Water Sales}} = \$/AF \text{ Volumetric Rate}$$

- Fixed Revenue Recovery = 38%

$$\text{Revenue Requirement} * \text{Proportional Demand} \\ = \$ \text{ Annual Fixed Charge}$$

Proposed Treatment Rate Design: Volumetric + Fixed Revenue Recovery

2-Part Test for Minimum Demand

Greater of:

1. TYRA of Treated Water Sales OR
2. Average of 1998 – 2007 Treated Water Sales

2007 was the last significant treatment
plant capacity addition

FY 2016/17 Treatment Revenue Requirement

Hypothetical Pro Forma
For Example Only

| Status Quo Treatment Surcharge (\$/AF) | |
|---|------------------|
| Total Treatment Revenue Requirement | \$257,479,354 |
| Forecast Treated Water Sales (AF) | <u>822,000</u> |
| Treated Surcharge (\$/AF) | \$313 |
| Treatment Fixed Annual Charge (\$/AF) | |
| Fixed Demand | \$40,822,844 |
| Fixed Standby | 56,724,561 |
| Total Fixed Charge Revenue Requirement | \$97,547,405 |
| % of Total Revenue Requirement | 37.9% |
| Fixed Charge Units of Service (AF) | <u>1,341,701</u> |
| Annual Fixed Charge (\$/AF) | \$73 |
| Treatment Volumetric Rate (\$/AF) | |
| Net Remaining Revenue Requirement | \$159,931,949 |
| % of Total Revenue Requirement | 62.1% |
| Forecast Treated Water Sales (AF) | <u>822,000</u> |
| Volumetric Rate (\$/AF) | \$195 |

| FY 2016/2017 Member Agency Fixed Charge Revenue Requirement (38% Revenue Recovery) | | | | | | | | |
|--|---|---|--|----------------|---|--|---|--|
| (HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY) | | | | | | | | |
| Member Agency | Avg. 1998 - 2007 Treated Water Sales (AF) | TYRA 2006 - 2015 Treated Water Sales (AF) | Units Used in Fixed Charge Calculation | % of Total | x | Total Fixed Charge Revenue Requirement | = | Member Agency Annual Fixed Revenue Requirement |
| Anaheim | 13,134 | 12,126 | 13,134 | 0.98% | X | \$97,547,405 | = | \$954,911 |
| Beverly Hills | 13,008 | 11,386 | 13,008 | 0.97% | x | 97,547,405 | = | 945,725 |
| Burbank | 12,816 | 10,089 | 12,816 | 0.96% | x | 97,547,405 | = | 931,758 |
| Calleguas | 112,585 | 114,712 | 114,712 | 8.55% | x | 97,547,405 | = | 8,340,091 |
| Central Basin | 67,191 | 46,198 | 67,191 | 5.01% | x | 97,547,405 | = | 4,885,071 |
| Compton | 3,514 | 1,924 | 3,514 | 0.26% | x | 97,547,405 | = | 255,451 |
| Eastern | 73,423 | 73,323 | 73,423 | 5.47% | x | 97,547,405 | = | 5,338,173 |
| Foothill | 11,623 | 9,933 | 11,623 | 0.87% | x | 97,547,405 | = | 845,074 |
| Fullerton | 11,513 | 11,072 | 11,513 | 0.86% | x | 97,547,405 | = | 837,031 |
| Glendale | 25,094 | 19,585 | 25,094 | 1.87% | x | 97,547,405 | = | 1,824,421 |
| Inland Empire | 0 | 0 | 0 | 0.00% | x | 97,547,405 | = | 0 |
| Las Virgenes | 22,106 | 22,810 | 22,810 | 1.70% | x | 97,547,405 | = | 1,658,376 |
| Long Beach | 44,267 | 36,397 | 44,267 | 3.30% | x | 97,547,405 | = | 3,218,416 |
| Los Angeles | 79,762 | 87,950 | 87,950 | 6.56% | x | 97,547,405 | = | 6,394,377 |
| MWDOC | 244,203 | 204,975 | 244,203 | 18.20% | x | 97,547,405 | = | 17,754,580 |
| Pasadena | 21,779 | 21,181 | 21,779 | 1.62% | x | 97,547,405 | = | 1,583,398 |
| San Diego CWA | 251,381 | 156,458 | 251,381 | 18.74% | x | 97,547,405 | = | 18,276,450 |
| San Fernando | 387 | 206 | 387 | 0.03% | x | 97,547,405 | = | 28,135 |
| San Marino | 1,041 | 931 | 1,041 | 0.08% | x | 97,547,405 | = | 75,664 |
| Santa Ana | 15,788 | 13,331 | 15,788 | 1.18% | x | 97,547,405 | = | 1,147,853 |
| Santa Monica | 12,627 | 9,252 | 12,627 | 0.94% | x | 97,547,405 | = | 918,014 |
| Three Valleys | 49,467 | 41,833 | 49,467 | 3.69% | x | 97,547,405 | = | 3,596,498 |
| Torrance | 21,052 | 18,130 | 21,052 | 1.57% | x | 97,547,405 | = | 1,530,565 |
| Upper San Gabriel | 13,963 | 7,346 | 13,963 | 1.04% | x | 97,547,405 | = | 1,015,173 |
| West Basin | 145,421 | 125,668 | 145,421 | 10.84% | x | 97,547,405 | = | 10,572,734 |
| Western MWD | 61,511 | 63,538 | 63,538 | 4.74% | x | \$97,547,405 | = | 4,619,464 |
| TOTAL | 1,328,654 | 1,120,354 | 1,341,701 | 100.00% | | | | \$97,547,405 |
| Annual Fixed Charge (\$/AF) | | | | | | | | \$73 |

FY 2016/2017 Member Agency Volumetric Revenue Requirement (62% Volumetric)

(HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY)

| Member Agency | Projected Test-Year Treated Water Sales | | | Total Revenue Requirement = | Member Agency Revenue Requirement |
|-------------------------|---|----------------|---|-----------------------------|-----------------------------------|
| | AF | % | x | | |
| Anaheim | 3,947 | 0.48% | X | \$159,931,949 = | \$767,864 |
| Beverly Hills | 10,212 | 1.24% | x | 159,931,949 = | 1,986,877 |
| Burbank | 6,354 | 0.77% | x | 159,931,949 = | 1,236,228 |
| Calleguas | 88,943 | 10.82% | x | 159,931,949 = | 17,305,107 |
| Central Basin | 27,937 | 3.40% | x | 159,931,949 = | 5,435,611 |
| Compton | 0 | 0.00% | x | 159,931,949 = | 54 |
| Eastern | 53,248 | 6.48% | x | 159,931,949 = | 10,360,172 |
| Foothill | 7,461 | 0.91% | x | 159,931,949 = | 1,451,664 |
| Fullerton | 7,639 | 0.93% | x | 159,931,949 = | 1,486,361 |
| Glendale | 15,693 | 1.91% | x | 159,931,949 = | 3,053,310 |
| Inland Empire | 0 | 0.00% | x | 159,931,949 = | 0 |
| Las Virgenes | 20,314 | 2.47% | x | 159,931,949 = | 3,952,331 |
| Long Beach | 42,391 | 5.16% | x | 159,931,949 = | 8,247,852 |
| Los Angeles | 61,097 | 7.43% | x | 159,931,949 = | 11,887,212 |
| MWDOC | 141,285 | 17.19% | x | 159,931,949 = | 27,489,072 |
| Pasadena | 17,238 | 2.10% | x | 159,931,949 = | 3,353,975 |
| San Diego CWA | 97,266 | 11.83% | x | 159,931,949 = | 18,924,595 |
| San Fernando | 92 | 0.01% | x | 159,931,949 = | 17,841 |
| San Marino | 673 | 0.08% | x | 159,931,949 = | 131,014 |
| Santa Ana | 4,929 | 0.60% | x | 159,931,949 = | 958,921 |
| Santa Monica | 3,920 | 0.48% | x | 159,931,949 = | 762,651 |
| Three Valleys | 36,641 | 4.46% | x | 159,931,949 = | 7,129,006 |
| Torrance | 14,919 | 1.81% | x | 159,931,949 = | 2,902,754 |
| Upper San Gabriel | 8,350 | 1.02% | x | 159,931,949 = | 1,624,575 |
| West Basin | 103,936 | 12.64% | x | 159,931,949 = | 20,222,209 |
| Western MWD | 47,515 | 5.78% | x | \$159,931,949 = | 9,244,694 |
| TOTAL | 822,000 | 100.00% | | | \$159,931,949 |
| Volumetric \$/AF | | | | | \$195 |

Summary of FY 2016/2017 Member Agency Treatment Revenue Requirement Impacts

(HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY)

| Member Agency | Status Quo Treated Water Surcharge | Proposed Rate Design | | | | |
|-------------------|------------------------------------|----------------------------------|--------------------------------|---------------------------|-------------------------------|------------------------------|
| | | Fixed Charge Revenue Requirement | Volumetric Revenue Requirement | Total Revenue Requirement | \$ Difference From Status Quo | % Difference From Status Quo |
| Anaheim | \$1,236,208 | \$954,911 | \$767,864 | \$1,722,775 | \$486,567 | 39% |
| Beverly Hills | 3,198,735 | 945,725 | 1,986,877 | 2,932,602 | (266,132) | -8% |
| Burbank | 1,990,241 | 931,758 | 1,236,228 | 2,167,985 | 177,745 | 9% |
| Calleguas | 27,860,023 | 8,340,091 | 17,305,107 | 25,645,198 | (2,214,825) | -8% |
| Central Basin | 8,750,956 | 4,885,071 | 5,435,611 | 10,320,681 | 1,569,725 | 18% |
| Compton | 87 | 255,451 | 54 | 255,505 | 255,418 | > 100% |
| Eastern | 16,679,159 | 5,338,173 | 10,360,172 | 15,698,345 | (980,813) | -6% |
| Foothill | 2,337,078 | 845,074 | 1,451,664 | 2,296,738 | (40,340) | -2% |
| Fullerton | 2,392,937 | 837,031 | 1,486,361 | 2,323,392 | (69,545) | -3% |
| Glendale | 4,915,618 | 1,824,421 | 3,053,310 | 4,877,732 | (37,886) | -1% |
| Inland Empire | 0 | 0 | 0 | 0 | 0 | 0% |
| Las Virgenes | 6,362,979 | 1,658,376 | 3,952,331 | 5,610,707 | (752,272) | -12% |
| Long Beach | 13,278,470 | 3,218,416 | 8,247,852 | 11,466,268 | (1,812,202) | -14% |
| Los Angeles | 19,137,588 | 6,394,377 | 11,887,212 | 18,281,589 | (855,999) | -4% |
| MWDOC | 44,255,500 | 17,754,580 | 27,489,072 | 45,243,652 | 988,152 | 2% |
| Pasadena | 5,399,667 | 1,583,398 | 3,353,975 | 4,937,373 | (462,295) | -9% |
| San Diego CWA | 30,467,286 | 18,276,450 | 18,924,595 | 37,201,045 | 6,733,759 | 22% |
| San Fernando | 28,723 | 28,135 | 17,841 | 45,976 | 17,253 | 60% |
| San Marino | 210,923 | 75,664 | 131,014 | 206,678 | (4,245) | -2% |
| Santa Ana | 1,543,796 | 1,147,853 | 958,921 | 2,106,774 | 562,978 | 36% |
| Santa Monica | 1,227,816 | 918,014 | 762,651 | 1,680,665 | 452,849 | 37% |
| Three Valleys | 11,477,206 | 3,596,498 | 7,129,006 | 10,725,505 | (751,701) | -7% |
| Torrance | 4,673,233 | 1,530,565 | 2,902,754 | 4,433,319 | (239,914) | -5% |
| Upper San Gabriel | 2,615,453 | 1,015,173 | 1,624,575 | 2,639,748 | 24,295 | 1% |
| West Basin | 32,556,355 | 10,572,734 | 20,222,209 | 30,794,944 | (1,761,412) | -5% |
| Western MWD | 14,883,317 | 4,619,464 | 9,244,694 | 13,864,158 | (1,019,159) | -7% |
| TOTAL | \$257,479,354 | \$97,547,405 | \$159,931,949 | \$257,479,354 | \$0 | 0% |

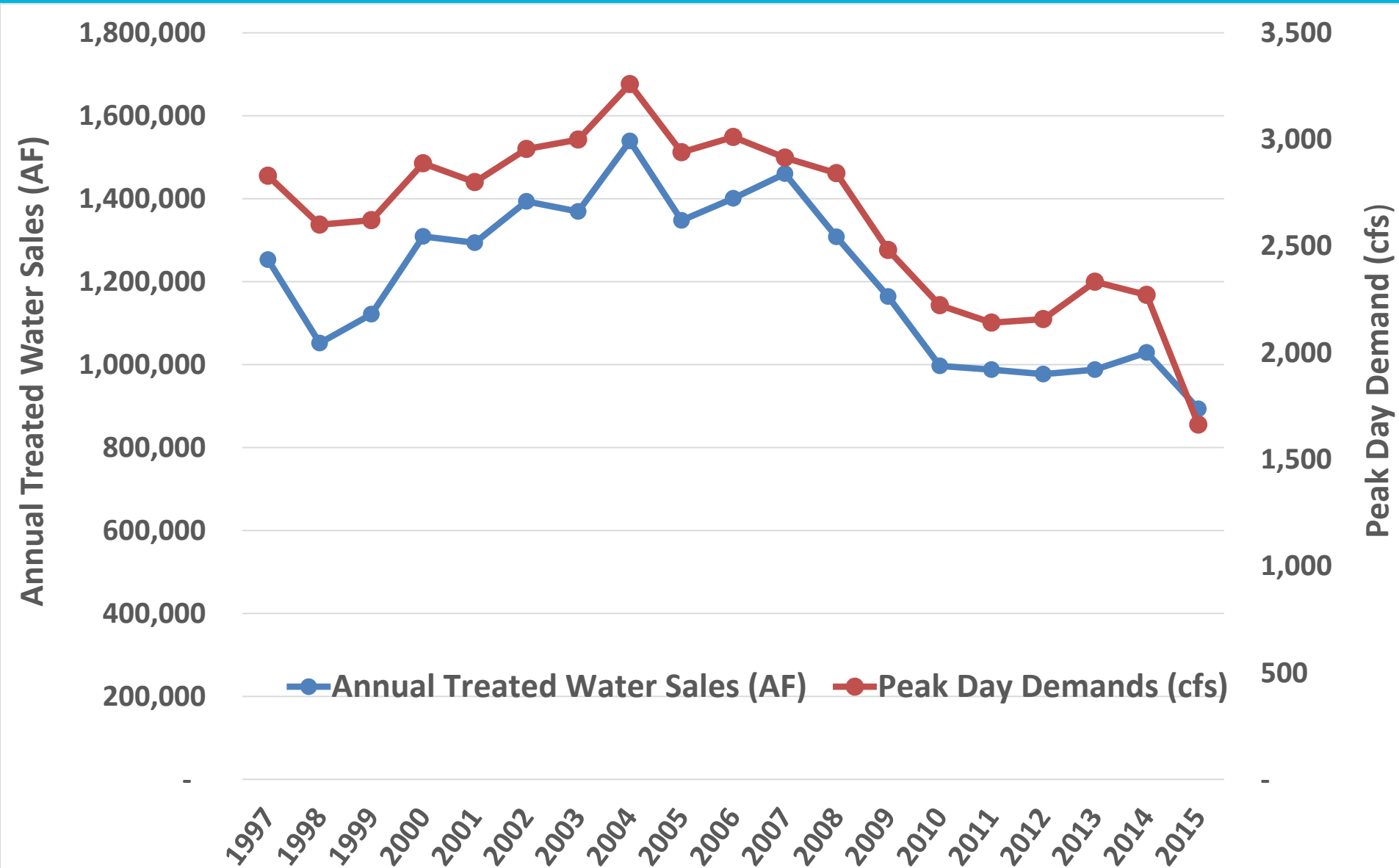
Proposed Treatment Rate Design: Volumetric + Fixed Revenue Recovery

2-Part Test for Minimum Demand

Questions – Concerns from 1-15-16 Manager's Meeting:

1. How are peak demands captured?
2. Minimum forever?

Correlation Between Annual Treated Sales and Treated Peak Day Demands = .95



Revenue Requirement Impacts of Peaking Factors in the Minimum Charge

| Member Agency | Minimum: > of 1998-2007 | Minimum: > of 1998 - 2007 OR | \$ Difference | % Difference |
|-------------------|-------------------------|---|---------------|--------------|
| | OR 2006 - 2015 TYRA | 2006 - 2015 TYRA AND 2013 - 2015 Peaking | | |
| Anaheim | \$1,722,775 | \$1,880,003 | \$157,228 | 9% |
| Beverly Hills | 2,932,602 | 3,056,005 | 123,402 | 4% |
| Burbank | 2,167,985 | 2,158,712 | (9,274) | 0% |
| Calleguas | 25,645,198 | 26,269,066 | 623,868 | 2% |
| Central Basin | 10,320,681 | 9,515,216 | (805,465) | -8% |
| Compton | 255,505 | 197,671 | (57,833) | -23% |
| Eastern | 15,698,345 | 16,869,107 | 1,170,761 | 7% |
| Foothill | 2,296,738 | 2,278,411 | (18,326) | -1% |
| Fullerton | 2,323,392 | 2,346,647 | 23,255 | 1% |
| Glendale | 4,877,732 | 4,869,738 | (7,994) | 0% |
| Inland Empire | 0 | 0 | 0 | --- |
| Las Virgenes | 5,610,707 | 5,799,214 | 188,506 | 3% |
| Long Beach | 11,466,268 | 11,260,314 | (205,954) | -2% |
| Los Angeles | 18,281,589 | 19,169,363 | 887,774 | 5% |
| MWDOC | 45,243,652 | 44,086,858 | (1,156,794) | -3% |
| Pasadena | 4,937,373 | 5,159,315 | 221,942 | 4% |
| San Diego CWA | 37,201,045 | 35,379,254 | (1,821,791) | -5% |
| San Fernando | 45,976 | 116,636 | 70,660 | 154% |
| San Marino | 206,678 | 297,300 | 90,623 | 44% |
| Santa Ana | 2,106,774 | 1,956,865 | (149,909) | -7% |
| Santa Monica | 1,680,665 | 1,678,702 | (1,963) | 0% |
| Three Valleys | 10,725,505 | 11,372,852 | 647,347 | 6% |
| Torrance | 4,433,319 | 4,367,355 | (65,964) | -1% |
| Upper San Gabriel | 2,639,748 | 2,569,783 | (69,965) | -3% |
| West Basin | 30,794,944 | 30,246,079 | (548,865) | -2% |
| Western MWD | 13,864,158 | 14,578,887 | 714,729 | 5% |
| TOTAL | \$257,479,354 | \$257,479,354 | \$0 | 0% |

FY 2016/2017 Member Agency Revenue Requirement Impacts

(HYPOTHETICAL PRO FORMA - FOR EXAMPLE ONLY)

| | | Option #1 | Option #2 | Dollar Difference from Status Quo | |
|-------------------|--------------------|------------------------|---|-----------------------------------|-------------|
| | Status Quo Treated | Minimum: > of 1998- | Minimum > of 1998-2007 OR 2006-2015 TYRA <u>AND</u> 2013-2015 PEAKING | | |
| Member Agency | Water Surcharge | 2007 OR 2006-2015 TYRA | | Option #1 | Option #2 |
| Anaheim | \$1,236,208 | \$1,722,775 | \$1,880,003 | \$486,567 | \$643,795 |
| Beverly Hills | 3,198,735 | 2,932,602 | 3,056,005 | (266,132) | (142,730) |
| Burbank | 1,990,241 | 2,167,985 | 2,158,712 | 177,745 | 168,471 |
| Calleguas | 27,860,023 | 25,645,198 | 26,269,066 | (2,214,825) | (1,590,957) |
| Central Basin | 8,750,956 | 10,320,681 | 9,515,216 | 1,569,725 | 764,260 |
| Compton | 87 | 255,505 | 197,671 | 255,418 | 197,585 |
| Eastern | 16,679,159 | 15,698,345 | 16,869,107 | (980,813) | 189,948 |
| Foothill | 2,337,078 | 2,296,738 | 2,278,411 | (40,340) | (58,666) |
| Fullerton | 2,392,937 | 2,323,392 | 2,346,647 | (69,545) | (46,290) |
| Glendale | 4,915,618 | 4,877,732 | 4,869,738 | (37,886) | (45,880) |
| Inland Empire | 0 | 0 | 0 | 0 | 0 |
| Las Virgenes | 6,362,979 | 5,610,707 | 5,799,214 | (752,272) | (563,765) |
| Long Beach | 13,278,470 | 11,466,268 | 11,260,314 | (1,812,202) | (2,018,156) |
| Los Angeles | 19,137,588 | 18,281,589 | 19,169,363 | (855,999) | 31,776 |
| MWDOC | 44,255,500 | 45,243,652 | 44,086,858 | 988,152 | (168,642) |
| Pasadena | 5,399,667 | 4,937,373 | 5,159,315 | (462,295) | (240,353) |
| San Diego CWA | 30,467,286 | 37,201,045 | 35,379,254 | 6,733,759 | 4,911,968 |
| San Fernando | 28,723 | 45,976 | 116,636 | 17,253 | 87,913 |
| San Marino | 210,923 | 206,678 | 297,300 | (4,245) | 86,378 |
| Santa Ana | 1,543,796 | 2,106,774 | 1,956,865 | 562,978 | 413,069 |
| Santa Monica | 1,227,816 | 1,680,665 | 1,678,702 | 452,849 | 450,887 |
| Three Valleys | 11,477,206 | 10,725,505 | 11,372,852 | (751,701) | (104,354) |
| Torrance | 4,673,233 | 4,433,319 | 4,367,355 | (239,914) | (305,878) |
| Upper San Gabriel | 2,615,453 | 2,639,748 | 2,569,783 | 24,295 | (45,670) |
| West Basin | 32,556,355 | 30,794,944 | 30,246,079 | (1,761,412) | (2,310,277) |
| Western MWD | 14,883,317 | 13,864,158 | 14,578,887 | (1,019,159) | (304,430) |
| Total | \$257,479,354 | \$257,479,354 | \$257,479,354 | \$0 | \$0 |

Minimum Forever?

- Under Status Quo and All Approaches, service levels should be re-defined in conjunction with treatment plant capacity decisions

Recommended Approach

- Volume Rate and Fixed Charge Based on a Minimum
 - Appropriate assignment of demand and standby capacity costs
- Peaking Could be Considered as Part of the Fixed Charge Determination

Status Quo

- Maintain Current 100% Volumetric Treatment Cost Recovery

Summary

- Recommended Fixed-Minimum and Volume Method
 - Acknowledge treatment cost of service – Demand and Standby-related costs
 - Enhance treatment and total system fixed revenue recovery