



# Austin Water Utility

## Joint Subcommittee on Financial Plan

December 7, 2011

# Meeting Schedule Discussion

# New Handouts

## New Handouts

- Presentation
- AWU 2012 Approved Budget Fund Summary
- AWU 2012 Fixed and Variable Cost Summary
- Question Responses
- 2 Related Topic Articles

# Resolution Summary

## Council Resolution

- City Manager directed to work with Joint Subcommittee of the 3 commissions and the public
- City Manager to develop short-term and long-term financial plan recommendations to strengthen the financial stability of AWU

# Resolution Tasks

- Implement a graduated progressively-based Revenue Stability Fee which increases with water usage to encourage water conservation
- Financial policy development to include:
  - Implement a separate Revenue Stability Reserve Fund
  - Develop recommendations for fixed revenue goals and a phased approach to achieving the goals
  - Develop recommendations related to debt ratios and other financial metric goals and plan to meet targeted goals
  - Financial policies on water and wastewater impact fees
- Develop water conservation programs and marketing plan targeted to high-volume, low-income households who do not qualify for a fee waiver
- Consider options for addressing volatility through volumetric rates and structures based on practices of other utilities

# Topics & Meeting Summary



# Topics Summary

- Tiered Revenue Stability Fee
- **Fixed Revenue Goals**
- Revenue Volatility
- Revenue Stability Reserve Fund
- Financial Metrics
- Impact Fee Policies
- Water Conservation & Marketing
- Drought Emergency Rates
- Other Topics

# Meeting Schedule Summary

| Meetings         | Topic Summary  |
|------------------|--|
| Meeting 1        | <ul style="list-style-type: none"> <li>• Background Information, Topics Summary</li> </ul>   |
| Meeting 2        | <ul style="list-style-type: none"> <li>• Tiered Revenue Stability Fee Structure Discussion</li> </ul>  |
| <b>Meeting 3</b> | <ul style="list-style-type: none"> <li>• <b>Tiered Revenue Stability Fee Structure AWU Preliminary Recommendations</b></li> <li>• <b>Fixed Revenue Goals Discussion</b></li> </ul>   |
| Meeting 4        | <ul style="list-style-type: none"> <li>• Tiered Revenue Stability Fee Structure AWU Recommendations</li> <li>• Fixed Revenue Goals Preliminary AWU Preliminary Recommendations</li> <li>• Revenue Volatility Discussion</li> </ul> |

# Meeting Schedule Summary

| Meetings  | Topic Summary   |
|-----------|---|
| Meeting 5 | <ul style="list-style-type: none"> <li>• Tiered Revenue Stability Fee Structure Subcommittee Vote</li> <li>• Fixed Revenue Goals AWU Recommendation</li> <li>• Revenue Volatility AWU Preliminary Recommendations</li> <li>• Revenue Stability Reserve Fund Discussion</li> </ul> |
| Meeting 6 | <ul style="list-style-type: none"> <li>• Fixed Revenue Goals Subcommittee Vote</li> <li>• Revenue Volatility AWU Recommendations</li> <li>• Revenue Stability Reserve Fund AWU Preliminary Recommendations</li> <li>• Financial Metrics Discussion</li> </ul>                     |
| Meeting 7 | <ul style="list-style-type: none"> <li>• Revenue Volatility Subcommittee Vote</li> <li>• Revenue Stability Reserve Fund AWU Recommendations</li> <li>• Financial Metrics AWU Preliminary Recommendations</li> <li>• Impact Fee Policies Discussion</li> </ul>                     |

# Meeting Schedule Summary

| Meetings   | Topic Summary   |
|------------|---|
| Meeting 8  | <ul style="list-style-type: none"> <li>• Revenue Stability Reserve Fund Subcommittee Vote</li> <li>• Financial Metrics AWU Recommendations</li> <li>• Impact Fee Policies AWU Preliminary Recommendations</li> <li>• Water Conservation &amp; Marketing Discussion</li> </ul> |
| Meeting 9  | <ul style="list-style-type: none"> <li>• Financial Metrics Subcommittee Vote</li> <li>• Impact Fee Policies AWU Recommendations</li> <li>• Water Conservation &amp; Marketing AWU Preliminary Recommendations</li> <li>• Drought Emergency Rates Discussion</li> </ul>        |
| Meeting 10 | <ul style="list-style-type: none"> <li>• Impact Fee Policies Subcommittee Vote</li> <li>• Water Conservation &amp; Marketing AWU Recommendations</li> <li>• Drought Emergency Rates AWU Preliminary Recommendations</li> </ul>  |

# Meeting Schedule Summary

| Meetings   | Topic Summary   |
|------------|---|
| Meeting 11 | <ul style="list-style-type: none"> <li>• Water Conservation &amp; Marketing Subcommittee Vote</li> <li>• Drought Emergency Rates AWU Recommendations</li> </ul>                     |
| Meeting 12 | <ul style="list-style-type: none"> <li>• Drought Emergency Rates Vote</li> <li>• AWU Summary of Recommendations</li> <li>• Joint Subcommittee Summary of Recommendations</li> </ul> |

## Meeting Schedule Flexibility

- Meeting schedule to remain flexible
  - Currently each topic is scheduled to be covered in 4 meetings over 6 weeks
  - Topics of revenue stability fee structure, fixed revenue goals, and revenue stability reserve fund are related and recommendations could be combined and considered together
  - If desired by Joint Subcommittee, more meetings and time will be scheduled before any final recommendation is completed and vote by Subcommittee

# AWU 2012 Approved Budget Overview



# AWU Approved 2012 Budget

- Revenue: \$463.4 Million
- Requirements: \$465.9 Million

## City Website Links for AWU FY 2012 Budget:

AWU Budget Overview and Budget Detail by Activity:

[http://www.ci.austin.tx.us/budget/11-12/downloads/fy12\\_approved\\_volume2.pdf#page=70](http://www.ci.austin.tx.us/budget/11-12/downloads/fy12_approved_volume2.pdf#page=70)

AWU Budget Fund Summary:

[http://www.ci.austin.tx.us/budget/11-12/downloads/fy12\\_approved\\_volume2.pdf#page=351](http://www.ci.austin.tx.us/budget/11-12/downloads/fy12_approved_volume2.pdf#page=351)

AWU Rates and Fees Schedule:

[http://www.ci.austin.tx.us/budget/11-12/downloads/fy12\\_approved\\_volume2.pdf#page=583](http://www.ci.austin.tx.us/budget/11-12/downloads/fy12_approved_volume2.pdf#page=583)

AWU Financial Policies:

[http://www.ci.austin.tx.us/budget/11-12/downloads/fy12\\_approved\\_volume2.pdf#page=806](http://www.ci.austin.tx.us/budget/11-12/downloads/fy12_approved_volume2.pdf#page=806)





# AWU 2012 Budget – Revenue

(\$ in Millions)

|  | 2008-09<br>Actual | 2009-10<br>Actual | 2010-11<br>Amended | 2011-12<br>Approved |
|--|-------------------|-------------------|--------------------|---------------------|
| <b>Revenues</b>                          |                   |                   |                    |                     |
| <b>Service &amp; Other Revenue</b>       |                   |                   |                    |                     |
| Water Service                            | \$ 193.4          | \$ 168.0          | \$ 214.6           | \$ 217.3            |
| Wastewater Service                       | 193.6             | 186.8             | 199.3              | 216.4               |
| Reclaimed Water Service                  | -                 | 0.4               | 0.6                | 0.9                 |
| Revenue Stability Fee                    | -                 | -                 | -                  | 17.0                |
| Miscellaneous Revenue                    | 6.1               | 6.0               | 6.1                | 6.4                 |
| Interest Income                          | 1.3               | 0.7               | 1.6                | 0.8                 |
| <b>Total Service &amp; Other Revenue</b> | <b>\$ 394.4</b>   | <b>\$ 361.9</b>   | <b>\$ 422.2</b>    | <b>\$ 458.8</b>     |
| <b>Transfers In</b>                      |                   |                   |                    |                     |
| Public Works                             | \$ 0.3            | \$ 0.3            | \$ 0.3             | \$ 0.3              |
| Capital Recovery Fees                    | 8.6               | 17.9              | 6.5                | 4.3                 |
| Capital Improvement Program              | 2.0               | -                 | -                  | -                   |
| <b>Total Transfers In</b>                | <b>\$ 10.9</b>    | <b>\$ 18.2</b>    | <b>\$ 6.8</b>      | <b>\$ 4.6</b>       |
| <b>Total Revenue</b>                     | <b>\$ 405.3</b>   | <b>\$ 380.1</b>   | <b>\$ 429.0</b>    | <b>\$ 463.4</b>     |



# AWU 2012 Budget – Requirements

(\$ in Millions)

|                                     | 2008-09<br>Actual | 2009-10<br>Actual | 2010-11<br>Amended | 2011-12<br>Approved |
|-------------------------------------|-------------------|-------------------|--------------------|---------------------|
| <b>Operating Requirements</b>       |                   |                   |                    |                     |
| Treatment                           | \$ 61.7           | \$ 58.4           | \$ 63.2            | \$ 67.5             |
| Pipeline Operations                 | 31.6              | 33.7              | 31.8               | 33.8                |
| Engineering Services                | 9.4               | 10.0              | 12.1               | 12.0                |
| Water Resources Mgmt                | 3.4               | 3.8               | 4.1                | 4.0                 |
| Environ. Affairs & Conservation     | 13.0              | 11.8              | 13.6               | 12.3                |
| Support Services - Utility          | 15.1              | 16.3              | 16.5               | 16.7                |
| Reclaimed Water Services            | -                 | -                 | -                  | 0.3                 |
| One Stop Shop                       | 1.0               | 0.5               | 0.5                | 0.5                 |
| Other Operating Expenses            | 6.1               | 4.7               | 8.7                | 6.5                 |
| <b>Total Operating Requirements</b> | <b>\$ 141.3</b>   | <b>\$ 139.2</b>   | <b>\$ 150.5</b>    | <b>\$ 153.6</b>     |

# AWU 2012 Budget – Requirements

(\$ in Millions)

|   | 2008-09<br>Actual | 2009-10<br>Actual | 2010-11<br>Amended | 2011-12<br>Approved |
|---|-------------------|-------------------|--------------------|---------------------|
| Other Operating Requirements              |                   |                   |                    |                     |
| Accrued Payroll                           | \$ 0.4            | \$ 0.4            | \$ 0.4             | \$ 0.2              |
| Workers' Comp. Fund                       | 1.2               | 1.0               | 1.0                | 1.0                 |
| Liability Reserve Fund                    | 0.6               | 0.6               | 0.6                | 0.6                 |
| Administrative Support - City             | 6.9               | 6.5               | 7.1                | 8.3                 |
| AE Billing & Customer Care                | 12.3              | 12.3              | 13.8               | 16.5                |
| 311 System Support                        | -                 | 1.0               | 1.0                | 1.0                 |
| CTM Support                               | 4.0               | 4.2               | 4.2                | 3.1                 |
| CTECC Emergency Op Center                 | -                 | -                 | -                  | -                   |
| Wage Adjust. Market Study                 | -                 | -                 | -                  | 0.6                 |
| Addtnl. Contrib. to Retirement            | 1.0               | 2.0               | 3.2                | 4.4                 |
| <b>Total Other Operating Requirements</b> | <b>\$ 26.4</b>    | <b>\$ 28.0</b>    | <b>\$ 31.3</b>     | <b>\$ 35.7</b>      |

# AWU 2012 Budget – Requirements

(\$ in Millions)

|                             | 2008-09<br>Actual | 2009-10<br>Actual | 2010-11<br>Amended | 2011-12<br>Approved |
|-----------------------------|-------------------|-------------------|--------------------|---------------------|
| <b>Debt Service</b>         |                   |                   |                    |                     |
| Revenue Bonds               | \$ 150.4          | \$ 151.5          | \$ 163.8           | \$ 182.0            |
| Commercial Paper            | 1.9               | 0.5               | 1.3                | 0.8                 |
| Contract Bonds              | 0.5               | 0.6               | -                  | -                   |
| General Obligation Bonds    | 4.0               | 4.5               | 4.8                | 5.6                 |
| Water District Bonds        | 0.9               | 2.1               | 1.6                | 0.7                 |
| <b>Total Debt Service</b>   | <b>\$ 157.7</b>   | <b>\$ 159.2</b>   | <b>\$ 171.5</b>    | <b>\$ 189.1</b>     |
| <b>Transfers Out</b>        |                   |                   |                    |                     |
| CIP Transfers               | \$ 45.8           | \$ 26.5           | \$ 49.9            | \$ 49.9             |
| General Fund                | 26.5              | 29.0              | 31.3               | 31.9                |
| Radio Communications Fund   | 0.4               | 0.3               | 0.3                | 0.3                 |
| Sustainability Fund         | 3.8               | 4.1               | 4.2                | 4.6                 |
| Economic Incentives Reserve | -                 | -                 | 0.3                | 0.3                 |
| Public Improvement District | 0.1               | 0.1               | 0.1                | 0.1                 |
| Environmental Remediation   | 0.2               | 0.2               | 0.2                | 0.4                 |
| <b>Total Transfers Out</b>  | <b>\$ 76.8</b>    | <b>\$ 60.2</b>    | <b>\$ 86.3</b>     | <b>\$ 87.5</b>      |



# AWU 2012 Budget – Summary

(\$ in Millions)

|                              | 2008-09<br>Actual | 2009-10<br>Actual | 2010-11<br>Amended | 2011-12<br>Approved |
|------------------------------|-------------------|-------------------|--------------------|---------------------|
| Beginning Balance            | \$ 51.6           | \$ 64.0           | \$ 49.0            | \$ 46.8             |
| Revenue Summary              |                   |                   |                    |                     |
| Service & Other Revenue      | \$ 394.4          | \$ 361.9          | \$ 422.2           | \$ 458.8            |
| Transfers In                 | 10.9              | 18.2              | 6.8                | 4.6                 |
| Total Revenue                | \$ 405.3          | \$ 380.1          | \$ 429.0           | \$ 463.4            |
| Requirements Summary         |                   |                   |                    |                     |
| Operating Requirements       | \$ 141.3          | \$ 139.2          | \$ 150.5           | \$ 153.6            |
| Other Operating Requirements | 26.4              | 28.0              | 31.4               | 35.7                |
| Debt Service                 | 157.7             | 159.2             | 171.5              | 189.1               |
| Transfers Out                | 76.8              | 60.2              | 86.3               | 87.5                |
| Total Requirements           | \$ 402.2          | \$ 386.6          | \$ 439.7           | \$ 465.9            |
| Adjustment to GAAP           | \$ 9.3            | \$ 0.9            | \$ -               | \$ -                |
| Ending Balance               | \$ 64.0           | \$ 58.4           | \$ 38.3            | \$ 44.3             |

# Questions & Discussion?

# **AWU Preliminary Recommendations for the Tiered Revenue Stability Fee Structure**

## Revenue Stability Fee Structure Goals

- Lower use customers pay a lower fee than higher use customers
- More progressive percentage increases
- Increased fixed revenue and reduced revenue volatility
- Ease of understanding for customer
- Ease of implementation within new billing system



## Structure Options

- Based on 12 month average water use
- Based on current month water use
- Increase current fixed minimum monthly charge
- Fee charged for accounts above a certain level of water use
- Meter based fees such as current structure
- Quarterly volumetric rate increases to true-up revenue shortfalls – Los Angeles

## Current Revenue Stability Fee

- Revenue distribution by class based on number and size of meters within each class
  - Class fee revenue determined by applying the number of meters by size times the appropriate fee
  - Results in different percentage of fixed revenue from each customer class
  - Ability to implement this year within billing system

## Additional Option from Committee

- Revenue Stability Fee based on cost of service volumetric revenue percentages
  - Fee could be based on pre-Revenue Stability Fee volumetric revenue
  - Alternative fee determination could be based on total cost of service allocation
  - Results in reduction in residential fee revenue and an increase in non-residential fee revenue
  - Would require a different Fee for each customer class to recover appropriate revenue
  - Decisions on customer class fixed revenue goals will be discussed later in presentation

# AWU Preliminary Recommendations

- Revenue Stability Fee structure based on current month water use
  - 3 tiers of fees:
    - Tier 1: bills in rate block 1 use of 0 – 2,000 gals.
    - Tier 2: bills in rate block 2 use of 2,001 – 9,000 gals.
    - Tier 3: bills in rate blocks 3-5 use of over 9,000 gals.
  - Lower revenue stability fee charged to lower water use customers with higher fee to higher water users
  - More progressive fee structure than current fee
  - Manageable amount of revenue volatility

# AWU Preliminary Recommendations

- Revenue Stability Fee structure based on current month water use
  - Customers can reduce their fee in following month
  - Easy to understand for the customer
  - Provides conservation incentive
  - Lower billing system modification costs

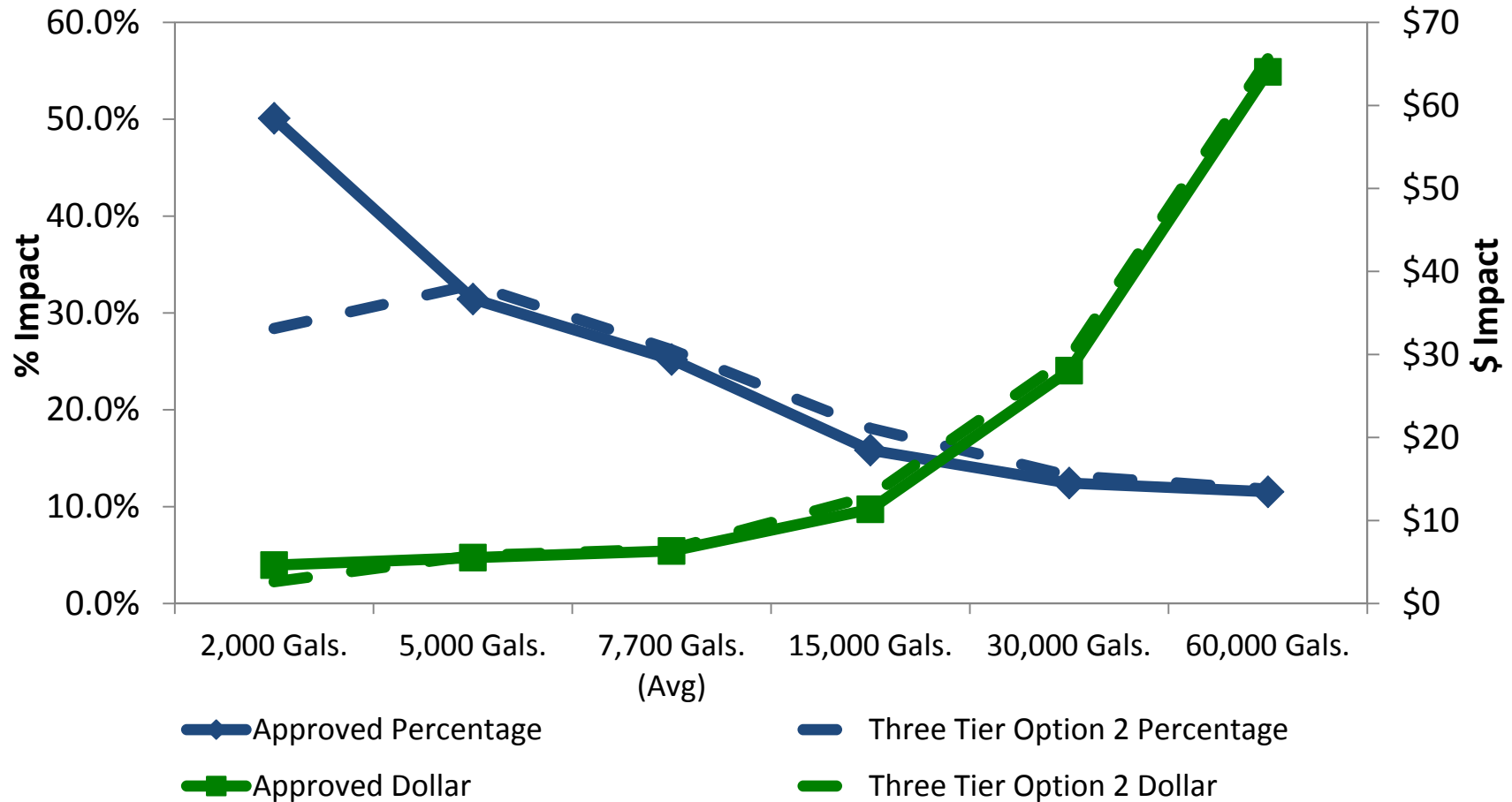
# Residential Water Bill Impacts Approved vs. 3 Tier Option #2

Residential Water Bill Comparison - FY 2011 to FY 2012

|  |  |   |
|--|--|---|
| <b>Tier 1</b><br><b>Rate Block 1</b><br><b>0 - 2,000</b> | <b>Tier 2</b><br><b>Rate Block 2</b><br><b>2,001 - 9,000</b> | <b>Tier 3</b><br><b>Rate Blocks 3-5</b> |
| <b>\$2.40</b>  | <b>\$4.65</b>  | <b>\$6.00</b>                           |

| <b>Monthly Usage (Gallons)</b> | <b>FY 2011 Rates Water Bill</b> | <b>FY 2012 Rates Water Bill</b> | <b>\$ Variance</b> | <b>% Variance</b> |
|--------------------------------|---------------------------------|---------------------------------|--------------------|-------------------|
| 2,000                          | \$ 9.22                         | \$ 11.84                        | \$ 2.62            | 28.4%             |
| 5,000                          | \$ 17.56                        | \$ 23.33                        | \$ 5.77            | 32.9%             |
| 7,700 (Avg)                    | \$ 25.07                        | \$ 31.65                        | \$ 6.58            | 26.2%             |
| 15,000                         | \$ 71.58                        | \$ 84.52                        | \$ 12.94           | 18.1%             |
| 30,000                         | \$ 225.33                       | \$ 254.97                       | \$ 29.64           | 13.2%             |
| 60,000                         | \$ 555.03                       | \$ 620.67                       | \$ 65.64           | 11.8%             |

# Residential Monthly Water Bill Impacts Approved vs. 3 Tier Option #2



## Non-Residential Recommendations

- Revenue Stability Fee for Multifamily, Commercial, and Large Volume customers
  - Continue meter based Revenue Stability Fee
  - Analyze other alternatives for fee structure
    - such as tiered fee based on consumption levels
- Revenue Stability Fee for Wholesale customers
  - Develop individualized fees for each wholesale customer based on their revenue levels and fixed revenue goals
  - Would not change their total cost of service



# Questions and Discussion?

# New Topic: Fixed Revenue Goals

## Topic Summary: Fixed Revenue Issues

- How much fixed revenue should AWU collect within its rate revenue?
- Should all customer classes have the same fixed revenue goals?
- What mechanisms should be used to recover fixed revenue?
- How long should AWU phase in any increase in fixed revenue?

# AWU 2012 Fixed Costs Summary

|                     | <u>Fixed<br/>Costs</u> | <u>Variable<br/>Costs</u> | <u>Total<br/>Costs</u> |
|---------------------|------------------------|---------------------------|------------------------|
| Personnel Costs     | \$ 78.1                | \$ 5.3                    | \$ 83.4                |
| Contractuals        | \$ 50.1                | \$ 39.0                   | \$ 89.1                |
| Commodities         | \$ 0.1                 | \$ 16.5                   | \$ 16.6                |
| Expense Refunds     | \$ -                   | \$ (0.4)                  | \$ (0.4)               |
| Non-CIP Capital     | \$ -                   | \$ 0.6                    | \$ 0.6                 |
| Debt & Transfers    | <u>\$ 276.5</u>        | <u>\$ -</u>               | <u>\$ 276.5</u>        |
| Total Costs         | <u>\$ 404.8</u>        | <u>\$ 61.0</u>            | <u>\$ 465.8</u>        |
| Percentage of Total | 86.9%                  | 13.1%                     | 100.0%                 |

# Fixed vs. Variable Revenue History

## FY 2011 Actual Water Service Revenue\*:

|                   |           |        |
|-------------------|-----------|--------|
| Fixed Revenue:    | \$23.7 M  | 10.2%  |
| Variable Revenue: | \$207.9 M | 89.8%  |
| Total Revenue:    | \$231.6 M | 100.0% |

## FY 2012 Budget Water Service Revenue:

|                   |           |        |
|-------------------|-----------|--------|
| Fixed Revenue:    | \$40.2 M  | 17.2%  |
| Variable Revenue: | \$194.1 M | 82.8%  |
| Total Revenue:    | \$234.3 M | 100.0% |

\* FY 2011 actual water service revenue Close 2 unaudited

# Fixed Revenue By Customer Class

AWU 2012 Approved Water Budget (In Millions)

|                       |    | <u>Fixed<br/>Revenue</u> | <u>Variable<br/>Revenue</u> | <u>Total<br/>Revenue</u> |
|-----------------------|----|--------------------------|-----------------------------|--------------------------|
| Residential           | \$ | \$ 26.2                  | \$ 77.5                     | \$ 103.7                 |
|                       | %  | 25.3%                    | 74.7%                       | 100.0%                   |
| Multifamily           | \$ | \$ 5.7                   | \$ 37.1                     | \$ 42.8                  |
|                       | %  | 13.3%                    | 86.7%                       | 100.0%                   |
| Commercial            | \$ | \$ 7.9                   | \$ 55.1                     | \$ 63.0                  |
|                       | %  | 12.5%                    | 87.5%                       | 100.0%                   |
| Large Volume          | \$ | \$ 0.3                   | \$ 12.7                     | \$ 13.0                  |
|                       | %  | 2.3%                     | 97.7%                       | 100.0%                   |
| Wholesale             | \$ | \$ 0.1                   | \$ 11.7                     | \$ 11.8                  |
|                       | %  | 0.8%                     | 99.2%                       | 100.0%                   |
| Total Revenue         | \$ | <u>\$ 40.2</u>           | <u>\$ 194.1</u>             | <u>\$ 234.3</u>          |
|                       | %  | 17.2%                    | 82.8%                       | 100.0%                   |
| Total Non-Residential | \$ | \$ 14.0                  | \$ 116.6                    | \$ 130.6                 |
|                       | %  | 10.7%                    | 89.3%                       | 100.0%                   |

## Fixed Revenue By Customer Class

- Residential currently subsidized 7.0% by Commercial and Large Volume Customers
- Current plan to reduce subsidy at least 1.0% per year
- FY 2012 fixed and variable revenue percentages are impacted by subsidy level
  - Residential 25.3% would be 24.1%
  - Commercial 12.5% would be 13.4%
  - Large Volume 2.3% would be 2.5%
- Future rate increases would have to increase fixed revenue proportionately to maintain same percentages

# Other City Practices



# Fixed Revenue Goals

Joint Subcommittee Meeting  
December 7, 2011

# What Is the Right Fixed Revenue Goal for Water and Wastewater Utilities?

California PUC (2006) – up to 50% of fixed costs

CUWCC BMP 1.4 – no more than 30% of total revenue

NYC DEP Survey – up to 25% of total revenue

MWDSC Survey – 1% to 93% of total revenue (most in 20% to 65% range)

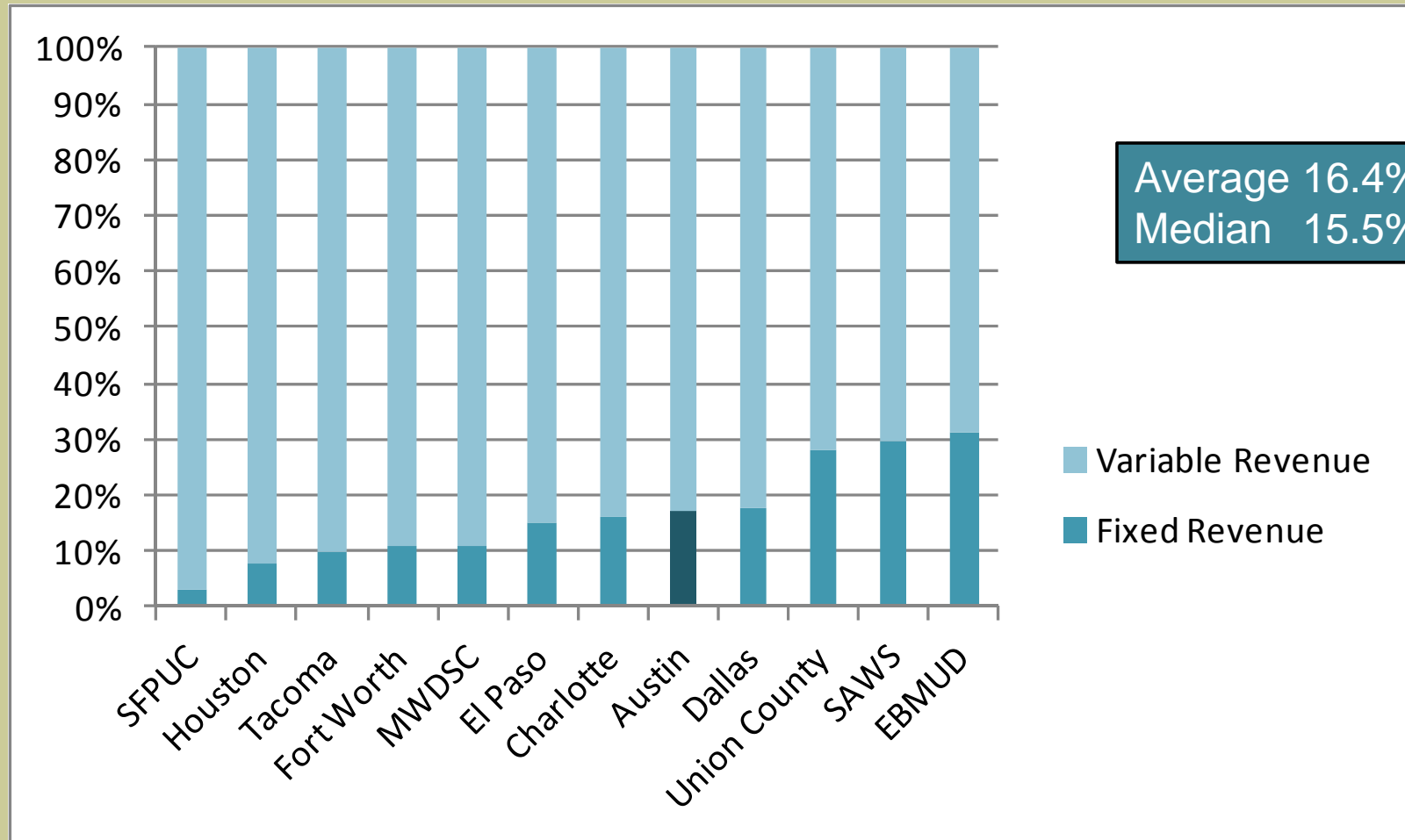
# What Is the Right Fixed Revenue Goal for Water and Wastewater Utilities?

Most utilities have no set goal for fixed revenue as percentage of total revenue

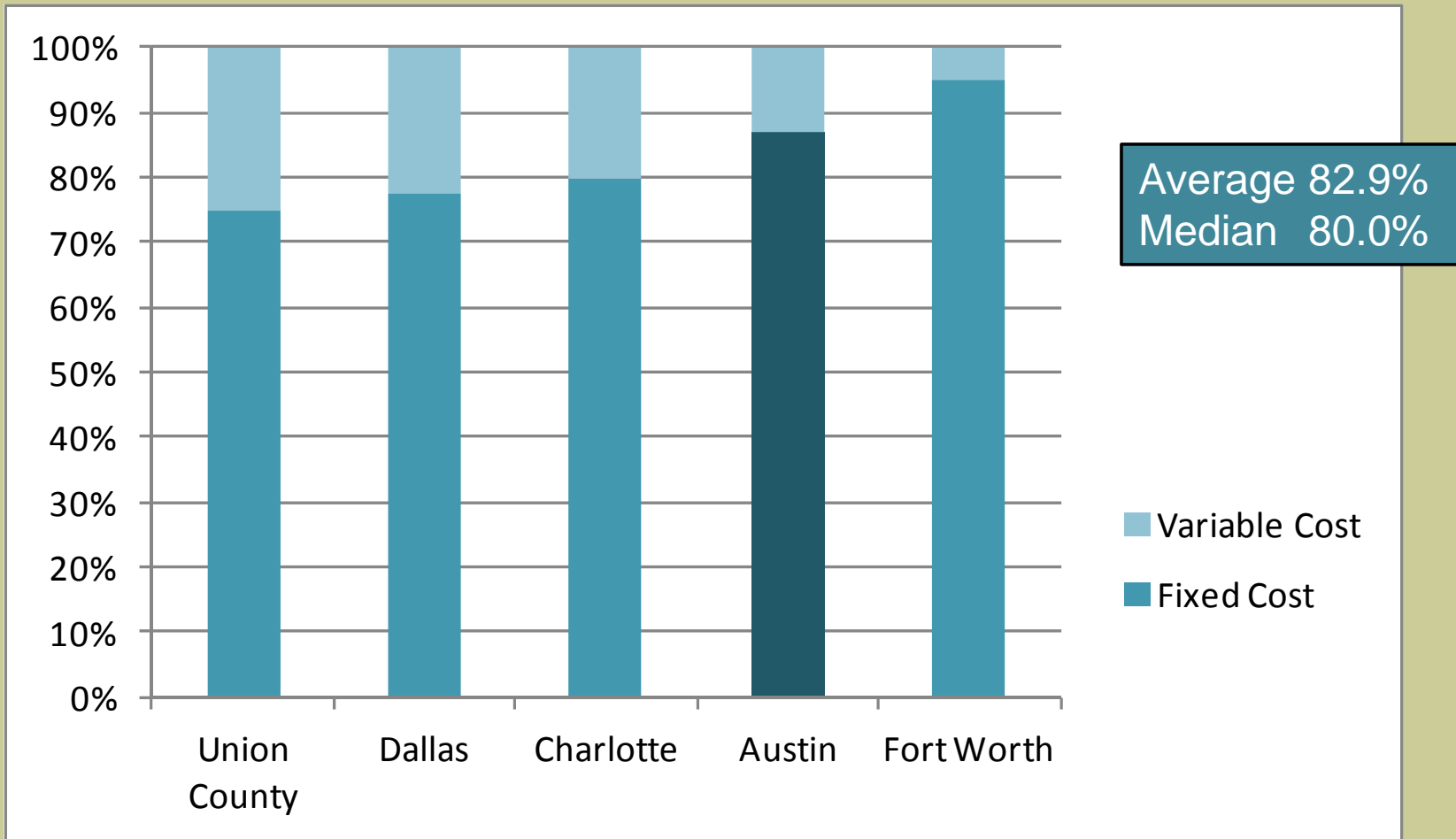
Charlotte-Mecklenburg adopted policy of recovering minimum of 20% of debt service costs from fixed revenues

Union County, VA, is proposing fixed revenue goal of at least 20% of total revenue

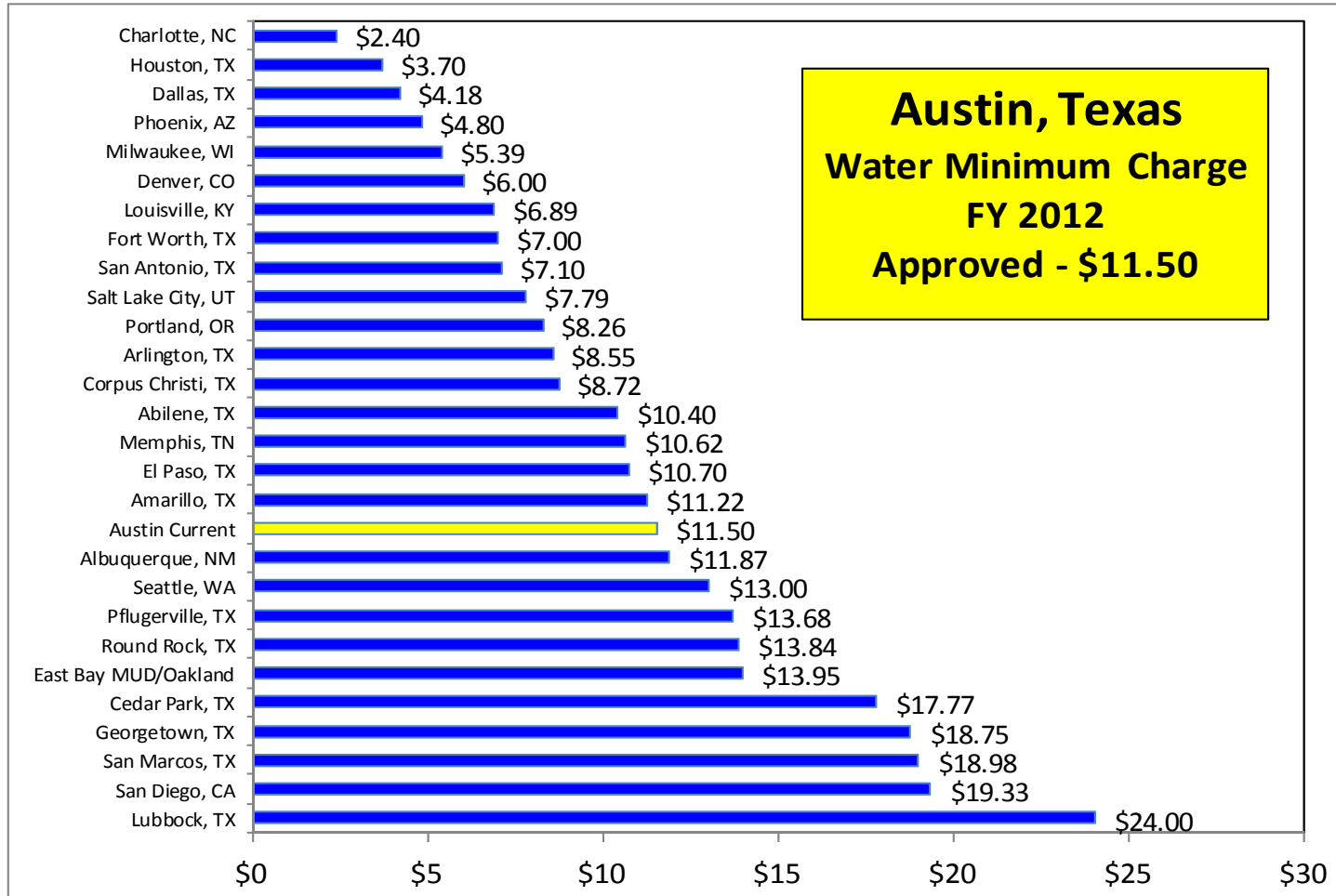
# Comparison of Fixed Revenues



# Comparison of Fixed Costs



# Residential Fixed Charge Comparison



\* Austin Texas FY 2012 rate (includes RSF).  
Other utility minimum fixed charges based on rates as of January 2011.

## Fixed Revenue Goals

- Increase fixed revenue from each customer class
- Determine mechanisms to collect fixed revenue
- Determine time frame to phase-in the increases in fixed revenue



# Fixed Revenue Goal Summary

|                                  | Fixed Revenue | Variable Revenue | Total Revenue | Current Fee Equivalent (5/8" Meter) |
|----------------------------------|---------------|------------------|---------------|-------------------------------------|
| <b>FY 2012: Budget</b>           |               |                  |               |                                     |
| \$ Revenue                       | \$ 40.2       | \$ 194.1         | \$ 234.3      | \$ 4.40                             |
| % Revenue                        | 17.2%         | 82.8%            | 100.0%        |                                     |
| <b>FY 2012: 20% Fixed Option</b> |               |                  |               |                                     |
| \$ Revenue                       | \$ 46.9       | \$ 187.4         | \$ 234.3      | \$ 6.10                             |
| % Revenue                        | 20.0%         | 80.0%            | 100.0%        |                                     |
| <b>FY 2012: 25% Fixed Option</b> |               |                  |               |                                     |
| \$ Revenue                       | \$ 58.6       | \$ 175.7         | \$ 234.3      | \$ 9.10                             |
| % Revenue                        | 25.0%         | 75.0%            | 100.0%        |                                     |
| <b>FY 2012: 30% Fixed Option</b> |               |                  |               |                                     |
| \$ Revenue                       | \$ 70.3       | \$ 164.0         | \$ 234.3      | \$ 12.10                            |
| % Revenue                        | 30.0%         | 70.0%            | 100.0%        |                                     |



## Mechanisms to Collect Fixed Revenue

- Residential
  - Minimum charge based on meter size
  - Tiered revenue stability fee based on monthly water use
- Non-Residential Retail
  - Minimum charge based on meter size
  - Meter based revenue stability fee
  - Tiered revenue stability fee based on monthly water use
- Wholesale
  - Minimum charge based on meter size
  - Individualized fixed revenue charges

# Phase In of Fixed Revenue Increases

- Residential
  - Any increase over current 25% fixed revenue could be phased in over 3-5 years or longer
  - A goal of 25% would require offsetting of increased revenue from removal of subsidy by Commercial and Large Volume customers
- Non Residential Retail
  - Multifamily and Commercial might require more than 5 years to phase in due to doubling of fixed revenue
  - Large Volume customers could be implemented in a shorter time frame since these customers have individualized rates
- Wholesale
  - Individualized fixed revenue could be implemented in a shorter time frame since these customers have individualized rates at cost of service

# Questions & Discussion?

## Next Meeting Topics

- Tiered Revenue Stability Fee Structure – AWU Recommendations
- Fixed Revenue Goals – AWU Preliminary Recommendations
- Revenue Volatility Discussion or Revenue Stability Reserve Fund

# End of Presentation

**Backup Slides not within Presentation**

# Los Angeles Department of Water and Power – Annual Water Revenue Adjustments

A Water Revenue Adjustment (WRA) recovers any shortage in revenue due to variation in water sales through application of the Water Revenue Adjustment Factor (WRAF).

**WRAF = (a)/(b)**, expressed to the nearest \$0.001 per ccf

- (a) is the Water Revenue Adjustment Account ending balance
- (b) Is the total estimated water sales for 12 months commencing with the effective date of the WRAF, excluding recycled water and public irrigation sales.

# LADWP Option – What It Means for AWU

If AWU had a WRAF in place in 2010, it would have resulted in a calculated adjustment of \$0.96 per kgal, but would have been capped at an adjustment of \$0.24 per kgal\*, which would be added to the block rates.

$$\text{WRAF} = \frac{\$38,000,000}{39,400,000 \text{ kgal}} = \$0.96 \text{ per kgal}$$

**\*WRAF shall not exceed \$0.18 per HCF, which is equal to \$0.24 per kgal**



# LADWP Option – Quarterly Adjustments

## Water Procurement Adjustment

- Purchased water, demand side management, and reclaimed water expenditures

## Water Quality Improvement Adjustment

- Water quality related expenditures

## Water Security Adjustment

- Expenditures to secure and protect water supply, storage, and conveyance infrastructure

# LADWP Option – Quarterly Adjustments

## Owens Valley Regulatory Adjustment

- Expenditures to operate and maintain infrastructure and related facilities for Owens Lake Dust Mitigation Project and Lower Owens River Project

## Low-Income Subsidy Adjustment

- Cost of credits provided to lifeline and low-income customers