I. Introduction

- Introduction
- Northern Water Financial Structure
- Rate Study Methods
- Financial Plan
- Next Steps
- How You Can Help
- Questions and Comments
## Goals and Objectives

### Goals
- What adjustments are needed in Northern Water’s revenue structure (primarily assessment rates) to ensure the future financial health of the organization and continue meeting C-BT O&M commitments?

### Objectives
- How much revenue is needed?
- What is an equitable allocation of costs between different classes of C-BT water users?
- How should rates be adjusted to meet future financial needs?
- How do rates compare with other organizations?
## The Rate Study

### Will...
- Provide data and information for making a fair and equitable decision
- Develop a range of possible financial futures with associated rate adjustments
- Analyze the cost-of-service for rate classes
- Be the start of financial planning discussions

### Will not...
- Make a decision on rates
- Perform asset evaluation/condition
- Recommend wholesale changes to rate structure
- Propose changes to ad valorem tax or fixed rate assessments
- Evaluate/change business processes or level of service
- Be the end of financial planning discussions
2. Northern Water Financial Structure
Northern Water

- Established Under 1937 Water Conservancy Act
- Partner Agency With Federal Govt. for C-BT
  - Repayment Contract
  - C-BT O&M
- Supplemental water supply
  - 1.6 million acres in 8 counties
    - 650,000 irrigated acres
    - 860,000 residents
- C-BT Project
  - Transmountain Diversion Project
  - Constructed 1938-1957
  - Municipal, ag, industrial
  - Average deliveries = 215,000 AF/year
Water Activity Enterprises

- Six Water Activity Enterprises
  - SWSP
  - PVP
  - NISP
  - Hydropower
  - Windy Gap
  - Windy Gap Firming
- Fully participant funded (tax revenue and assessments do not fund enterprises)
- Rate study does not include rate analysis for water activity enterprises
  - Revenue/expenses included as lump sum
Class A – Property Taxes
- Levy and collect taxes on all property within District boundaries
- For districts formed prior to April 22, 1957, rate shall not exceed 1 mill

Class B, C and D – Assessments
- Fixes rates at which water shall be leased, sold or contracted for
- Equitable although not necessarily equal or uniform
- Periodically examined and adjusted
Article 15 – Minimum Levies and Assessments. Disposition of Excess Revenues.
- Levies and assessments for water shall meet the District’s obligations under the repayment contract.
- District shall exercise its full powers under the Water Conservancy Act to produce the funds necessary to meet all obligations.

Article 14 – Definition of Costs
- All expenditures of whatsoever kind connected with construction of the Project.

Article 9 - Cost of O&M
- Joint Works (Power/Water) – 50% NW/50% Reclamation
- Transferred Works (Water) – 100% NW
Revenue – Property and SO Taxes

- Largest Revenue Source
- 1 mill levy on 1.6 million acres in District boundaries
  - Larimer
  - Boulder
  - Broomfield
  - Weld
  - Morgan
  - Logan
  - Washington
  - Sedgwick
- Specific Ownership Tax (auto registrations, etc.)
- Has become difficult to predict
- Received as 5-Year Assessed Valuation Average
Revenue - Assessments

- Only User Charge Revenue Source
- Includes
  - Class B, C, D Assessments
  - Carryover
  - Other Special Charges
- More Predictable Than Other Sources
- Low Percentage of Overall Revenue
  - % assessment change = much smaller % total revenue change
  - Only open-rate contracts (2/3 of contracts) subject to rate changes
- Includes carryover charges
Allotment Contracts – Types

- 1,077 Allotment Contract Holders (Allottees)
- 310,000 acre-foot units (AFUs)
- Contract Class
  - Class B – Municipal
  - Class C – Corporate (Municipal/Domestic, Irrigation, Industrial, Multi-Purpose)
  - Class D – Irrigation
- Assessment Class
  - Fixed Rate – Contracts Entered Into Before 1959
  - Open Rate – Contracts Entered Into In/After 1959
- Other Classifications
  - Unit 1 – Non-Unit 2
  - Unit 2 – Deliveries from Boulder Reservoir
# Allotment Contracts – The Numbers

<table>
<thead>
<tr>
<th>Class</th>
<th>Fixed Rate (AFU)</th>
<th>Open Rate (AFU)</th>
<th>Total (AFU)</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class B - Muni/Domestic</td>
<td>45,209</td>
<td>104,359</td>
<td>149,568</td>
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<tr>
<td>Class C - Muni/Domestic</td>
<td>0</td>
<td>46,392</td>
<td>46,392</td>
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<td><strong>Sub-total - Muni/Domestic</strong></td>
<td><strong>45,209</strong></td>
<td><strong>150,751</strong></td>
<td><strong>195,960</strong></td>
<td><strong>63%</strong></td>
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<tr>
<td>Class C - Irrigation</td>
<td>42,332</td>
<td>18,173</td>
<td>60,505</td>
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<tr>
<td>Class D - Irrigation</td>
<td>12,865</td>
<td>29,614</td>
<td>42,479</td>
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<td><strong>Sub-total - Irrigation</strong></td>
<td><strong>55,197</strong></td>
<td><strong>47,787</strong></td>
<td><strong>102,984</strong></td>
<td><strong>33%</strong></td>
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<td>Class C - Industrial</td>
<td>0</td>
<td>10,315</td>
<td>10,315</td>
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<td>Class C - Multi-Purpose</td>
<td>0</td>
<td>707</td>
<td>707</td>
<td>0.2%</td>
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<td><strong>Total</strong></td>
<td><strong>100,406</strong></td>
<td><strong>209,560</strong></td>
<td><strong>309,966</strong></td>
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<tr>
<td><strong>Percentage</strong></td>
<td><strong>32%</strong></td>
<td><strong>68%</strong></td>
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* There were 34 AFUs classified as Inactive at the time of this accounting.
Assessment Rates

- **Current Rates**
  - Irrigation - $10.00 per AFU
  - Other Uses - $28.00 per AFU
  - Unit 2 and Tax Exempt Surcharge - $0.50 per AFU
  - Winter Service Charge - $200 + $1.50 per ac-ft delivered
Revenue – Charges for Services

- Assessments: 21%
- Charges for Services: 16%
- Other Op: 8%
- Other Non-Op: 2%
- Property and SO Taxes: 53%

Sources:
- Enterprise Funds (SWSP, PVP, NISP, Hydropower)
- Municipal Sub-District (Windy Gap, WG Firming)
- Reclamation – C-BT Joint Works (multipurpose facilities)
- WAPA – C-BT Joint Works

Revenue Directly Finances Costs Incurred
Revenue – Other

Revenue

- Property and SO Taxes 53%
- Assessments 21%
- Charges for Services 16%
- Other Op 8%
- Other Non-Op 2%

- Smallest Revenue Source
- Windy Gap Carriage Charges
- Gain-Loss on Disposition of Assets
- Earnings on Investments
- Hydropower Loan Receivable
- Inclusions
  - Infrequent, but large
  - Helped build reserves
  - No large inclusions remaining
Expenses – O&M

- Largest Expense Category (nearly half)
- Routine C-BT Infrastructure Operation and Maintenance
- Includes:
  - O&M (O&M crews and expenses)
  - Portion of Programs Budget (Admin, Management, Technical)
- Less Than Half of O&M Expenses Paid by Assessments
- Variable Depending on Annual O&M Needs

Expenses

- O&M 29%
- Programs - O&M 18%
- Capital Projects 10%
- Capital Outlay 3%
- Debt Service 5%
- Programs - General 35%
Expenses - Programs

- More District-Wide and Long-Term Projects
  - Admin, Financial, Management
  - Communications, Records
  - Engineering
  - IMS, Conservation
  - Information Technology
  - Water Quality

- Includes Labor, Materials, Services (incl. Consultants)
Expenses – Debt Service

- Low Debt Service
  - Pay-As-You-Go Approach

- Includes
  - Building Certificates-of-Participation
  - Reclamation Contracts Payable
    - Horsetooth Safety-of-Dam Modernization
    - Pole Hill Canal Modernization
  - Original C-BT Repayment
    Completed 2001 (from Escrow)
  - Low Assessments Limit Debt Capacity
Expenses – Capital Projects & Outlay

- **Capital Purchases**
  - Fleet
  - Other Equipment
  - Computers

- **Capital Projects**
  - C-BT Infrastructure Improvement and Replacement
  - IT Systems Implementation
  - Other Facility Improvements

- Can be Variable, But More Predictable and Manageable
Reserves

- Restricted Reserves
  - C-BT Repayment Contract
  - Building COPs
  - Hydropower
  - Emergency

- Funding
  - Property Tax Revenue
  - Inclusions
  - Sales of Assets

- Uses
  - Primarily Large Capital Expenditures
  - Potential Use for Revenue Stability
Recent Financial Performance

<table>
<thead>
<tr>
<th>Pre-Recession</th>
<th>Post-Recession</th>
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<tbody>
<tr>
<td>Property tax revenue aligned with expenses</td>
<td>Flat property tax revenue, increasing expenses</td>
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<tr>
<td>• 8% annual increase in tax revenue</td>
<td>• 1% annual increase in tax revenue</td>
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<tr>
<td>Enhanced reserves</td>
<td>• Large capital expenditures</td>
</tr>
<tr>
<td>• Property tax revenue</td>
<td>• Small increases in assessments (based on willingness to pay rather than revenue requirement)</td>
</tr>
<tr>
<td>• Large inclusions</td>
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<tr>
<td>• Building sale</td>
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<tr>
<td>Small increases in assessments (small revenue requirement)</td>
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</tbody>
</table>
Historical Revenue and Expenses
Historical Operating Expense and Assessment Increase
Historical Operating Expense and Assessment Increase

**Historic Average Annual Increases**

Operating Expenses: 6%
Historical Operating Expense and Assessment Increase
Historical Operating Expense and Assessment Increase

![Graph showing historical increases in operating expenses and assessment increases.]

**Historic Average Annual Increases**
- Operating Expenses: 6%
- Property Tax Revenue: 4%
- Muni/Dom, Ind Open Rate Assessment: 3%
- Irr Open Rate Assessment: 2%
Recent Large Expenditures

- Capital Expenses Paid From Reserves
  - Carter Lake Outlet
  - Pole Hill Canal
  - Ruedi Reservoir Contracts *
  - Carter Lake Hydropower Loan
  - New Red Top Valley Ditch Water Rights Purchase *

- Programs
  - Water Quality Program
  - Fire Response/Mitigation
  - Platte River/Upper Colorado Recovery Programs
  - Upper Colorado River Wild and Scenic Alternative

* Colorado Water Users’ portion (10,825 ac-ft per year) of the Upper Colorado River Endangered Fish Recovery Program.
2014 Budget

- As budgeted (2014)
  - Includes 10825 repayment/expenses
  - Revenue > Expenses (by $2.5M)
  - Net replenishment of reserves
2014 Budget

- As budgeted (2014)
  - Includes 10825 repayment/expenses
  - Revenue > Expenses (by $2.5M)
  - Net replenishment of reserves

- In near-term future
  - Back to “normal”
  - Expenses > Revenue (by $3.1M in 2014)
  - Could manifest over several years
3. Study Methods
1997-98 Rate Study

- Water Rate Advisory Committee
  - Working group of staff, Board, municipalities, irrigation
  - High degree of sensitivity to irrigation rates and Fixed Rate customers
  - Desire to remain identified as an irrigation water provider
  - Municipal and industrial move towards a uniform rate

- Established Current Rate Setting Methodology
  - Open rate irrigation based on ability-to-pay ~ $10.00
  - Remaining open rate customers cover remaining revenue requirements equally ~ $28.00/unit
Drivers for Increasing Costs/Rates

- Inflation
- Long term stability
- Increasing levels of service
  - Environmental Programs
  - Water Quality Regulations
  - IT/Data Needs
- Reinvestment in repairs and replacements
  - Aging (60 year old) project and facilities
- Capital reserves requirements
- Fixed versus variable costs
- Water scarcity
A Comprehensive Rate Study Includes Three Basic Building Blocks

**Rate Design**
- Develop understanding of community needs
- Evaluate different rate structures against predefined criteria
- Identify implementation constraints
- Adopt new rate structures that meet community needs

**Cost-of-Service**
- Allocate revenue requirements to customers
- Calculate cost-of-service specific to customer class
- Determine revenue requirements for extraterritorial customers
- Allocate costs to utility functions
- Determine used and useful rate base

**Financial Plan**
- Refine/Define financial policies
- Identify capital and operating costs
- Identify funding sources and uses
- Project cash balances
- Identify Revenue Requirements
- Refine assumptions on system growth
- Run scenarios
- Conduct sensitivity analysis

Bullet points under each task are general in nature; some may not pertain to the Northern Water Rate Study.
The Rate Study Has Multiple Objectives

- Financial Cost Recovery
- Fairness and Equity
- Simplicity and Transparency

Rate Design
- Develop understanding of financial cost
- Evaluate different design options
- Identify costs
- Address the needs of different community needs

Costs and Revenue
- Allocate revenue requirements to customers
- Allocate cost of service specific to customer class

Financial Plan
- Refine/Define financial policies
- Identify capital and operating costs
- Identify funding sources and uses
- Project cash balances

- Identify Revenue Requirements
- Refine assumptions on system growth
- Run scenarios
- Conduct sensitivity analysis
Current Rate Study Objectives

- **Cost Recovery**
  - Northern Water will recover sufficient revenue in order to pay its costs and maintain balanced cash flows.

- **Revenue Stability**
  - Northern Water requires a stable revenue stream in the face of variable external factors, such regional environmental and economic conditions.

- **Cost-of-Service Equity**
  - Rates shall be developed such that C-BT water assessments approximate the cost borne by Northern Water in providing that service, to the extent feasible and consistent with legal requirements.
Current Rate Study Objectives, cont’d

- **Predictability**
  - The rate structure must be understandable and price levels should reasonably predictable. Rate restructuring impacts should be minimized, in both the short-term and long-term.

- **Operational Efficiency**
  - The rate study assumes Northern Water will continue to operate and maintain C-BT project facilities consistently, reliably, and efficiently.

- **Administrative Ease**
  - Northern Water desires to minimize the administrative burdens associated with implementing and sustaining the use of a rate structure.
Open rate customers are the focus of this study

Revenue requirements will be established using a risk-based economic and financial forecast

Assessments will be established to meet revenue requirements and overall objectives of Northern Water

Assessments between customer classes will be examined using a variety of methods:

- Uniform Cost Allocation
- Cost of Service
- Ability to Pay (Irrigation)
Financial and Rate Comparisons with Similar Districts

- Is Northern Water cost competitive and efficient?
- Rate comparisons are notoriously delicate and imperfect
  - CCID tiered rates (a.f./ac.)
  - Variety of sources for cost recovery
- Potential Metrics
  - Cost/revenue per acre-foot delivered
  - Net assessment per acre-foot
  - Reserves as percentage of revenue
  - Reserves as percentage of O&M
4. Financial Plan
The Rate Study Is Currently In The Financial Planning Phase

- Develop understanding of community needs
- Evaluate different rate structures against predefined criteria
- Identify implementation constraints
- Adopt new rate structures that meet community needs

- Allocate revenue requirements to customers
- Calculate cost-of-service specific to customer class
- Determine revenue requirements for extraterritorial customers
- Allocate costs to utility functions
- Determine used and useful rate base

- Refine/Define financial policies
- Identify capital and operating costs
- Identify funding sources and uses
- Project cash balances
- Run scenarios
- Conduct sensitivity analysis

Bullet points under each task are general in nature; some may not pertain to the Northern Water Rate Study.
Determination of User Charge Revenue Requirements (UCRR)

Total Revenue Requirement of District Fund

Non-User Charge Revenues
- Taxes
- Reclamation Charges
- Subdistrict Charges
- Other / Non-Operating

User Charge Revenues
- Open-Rate Contracts
- Fixed-Rate Contracts
- Other Charges (Carryover, Tax Exempt Fees, etc.)

Additional User Charge Revenue Requirement (UCRR)
2015 Status Quo Forecast

Revenue ($28.3 M)

- Property and SO Taxes: $14.9 M (53%)
- Assessments: $6.3 M (22%)
- Charges for Services: $4.5 M (16%)
- Other Non-Op: $0.6 M (2%)
- Other Op: $2.1 M (7%)

Expenses ($33.5 M)

- O&M 30%
- Programs - O&M 16%
- Programs - General 32%
- Capital Projects 14%
- Capital Outlay 3%
- Debt Service 5%
Scenarios

- Risk-Based Analysis
  - Economic Conditions (uncontrollable variables)
  - Reserve Targets (controllable variables)
  - User Charge Revenue Requirements (controllable)
Risk-Based Scenarios

Rate Study Scenarios

- **Status Quo**
  - Maintain average historical rate of increase to Assessments (3%)

- **Basic Cost Recovery (Break-Even)**
  - Cost Recovery
  - Maintain existing target reserves during Average Regional Economy

- **Moderate Reserve Recovery**
  - Cost Recovery
  - Target 100% O&M and 50% Programs Reserve with Average Regional Economy

- **Aggressive Reserve Recovery**
  - Cost Recovery
  - Target 100% O&M and 100% Programs Reserve with Average Regional Economy
Risk-Based Presentation

Target Reserves - Under Average Regional Economic Conditions

- Target Reserve - Existing
- Target Reserve - 100% O&M, 100% Programs
- Target Reserve - 100% O&M, 50% Programs
Risk-Based Presentation

Projected Reserves - Average Regional Economy

Projected Reserves - Under Average Regional Economic Conditions

Target Reserve - 100% O&M, 100% Programs

Target Reserve - 100% O&M, 50% Programs

Target Reserve - Existing
Risk-Based Presentation

Projected Reserves - Sluggish to Robust Regional Economy
Projected Reserves - Average Regional Economy

Range of Projected Reserves - Under Sluggish to Robust Regional Economic Conditions

Target Reserve - 100% O&M, 100% Programs
Target Reserve - 100% O&M, 50% Programs
Target Reserve - Existing
# Scenario Overview

## Economic Conditions

<table>
<thead>
<tr>
<th>Category</th>
<th>Robust Regional Economy</th>
<th>Average Regional Economy</th>
<th>Sluggish Regional Economy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1500 AFU/year (recent max)</td>
<td>900 AFU/year (recent avg)</td>
<td>300 AFU/year (recent min)</td>
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<tr>
<td>Fixed to Open Rate Transfers</td>
<td>No Funding Issues</td>
<td>Limited Funding Issues</td>
<td>Long-Term Funding Issues</td>
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<tr>
<td>Federal Funding of Joint Works O&amp;M</td>
<td>4% increase (1995-2011)</td>
<td>3% increase (average)</td>
<td>1-2% increase (1937-2011)</td>
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</table>

### Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Robust Regional Economy</th>
<th>Average Regional Economy</th>
<th>Sluggish Regional Economy</th>
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</thead>
<tbody>
<tr>
<td>Operating Expenses</td>
<td>3% increase (at inflation)</td>
<td>3% increase (at inflation)</td>
<td>2% increase (2010-1012)</td>
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<tr>
<td>Capital Projects</td>
<td>3% increase (at inflation)</td>
<td>3% increase (at inflation)</td>
<td>1% increase</td>
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<tr>
<td>Capital Outlay</td>
<td>3% increase (at inflation)</td>
<td>3% increase (at inflation)</td>
<td>2% increase</td>
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</table>
## Scenario Overview

### Reserve Targets

<table>
<thead>
<tr>
<th>Category</th>
<th>Existing</th>
<th>100% O&amp;M, 50% Reserves</th>
<th>100% O&amp;M, 100% Reserves</th>
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<tr>
<td><strong>Reserve Targets</strong></td>
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<tr>
<td>Restricted</td>
<td>Existing</td>
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<tr>
<td>Unrestricted - Fixed Asset</td>
<td>Existing</td>
<td>Existing</td>
<td>Existing</td>
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<tr>
<td>Unrestricted - O&amp;M</td>
<td>Existing (68% of 2013 budget)</td>
<td>100% of 2013 budget</td>
<td>100% of 2013 budget</td>
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<tr>
<td>Unrestricted - Programs</td>
<td>Existing (7% of 2013 budget)</td>
<td>50% of 2013 budget</td>
<td>100% of 2013 budget</td>
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</tbody>
</table>
Comparison of Historical and Projected Revenue

Historical and Projected Revenue*

*Excludes 10825 Program Payments
Comparison of Historical and Projected Operating Expenses

Historical and Projected Expenses*

- 6% Historic Average
- 3% Projected
- Status Quo (Average)
- Sluggish Regional Economy
Status Quo

- Projected Reserves - Sluggish to Robust Regional Economy
- Reserve Balance - Average Regional Economy

- Target Reserve - 100% O&M, 100% Programs
- Target Reserve - 100% O&M, 50% Programs
- Target Reserve - Existing

- 2014: $(20,000,000)
- 2015: $(15,000,000)
- 2016: $(10,000,000)
- 2017: $(5,000,000)
- 2018: $0
- 2019: $5,000,000
- 2020: $10,000,000
- 2021: $15,000,000
- 2022: $20,000,000
- 2023: $25,000,000

Northern Water
Basic Cost Recovery

Additional UCRR = $5.6M / Year
Historical and Projected Revenue and Expenses – Basic Cost Recovery
Moderate Reserve Recovery

Additional UCRR = $6.9M / Year
Historical and Projected Revenue and Expenses – Moderate Reserve Recovery
Aggressive Reserve Recovery

Additional UCRR = $8.2M / Year
Historical and Projected Revenue and Expenses – Aggressive Reserve Recovery
Reserve Levels
Financial Plan Summary

- Northern Water reserves have been used to finance recent large capital projects, thus declined significantly.
- Forecasted annual revenue drops below annual expenses beginning in 2015.
- As a result, action is required to balance revenues and expenses and rebuild cash reserves.
5. Next Steps
Schedule

<table>
<thead>
<tr>
<th>Task</th>
<th>Description</th>
<th>Sep-13</th>
<th>Oct-13</th>
<th>Nov-13</th>
<th>Dec-13</th>
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<td>Project Management</td>
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<td>Initial Project Meeting</td>
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<td>Revenue Requirements Analysis</td>
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<td>Cost of Service Analysis</td>
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<td>Ability-to-Pay Analysis</td>
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<td>7</td>
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<td>Comparison of Rates and Financial Performance</td>
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<td>Northern Water Meetings</td>
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<td>Final Report and Presentation</td>
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- Board/Allottee Meetings (see list)

1. January 10, 2014 - Presentation at Northern Water Board meeting
2. January (mid), 2014 - Special allottee Rate Study meeting
3. April 9, 2014 - Special allottee Rate Study meeting following Spring Water User meeting
4. May 1, 2014 - Public Hearing at Planning & Action meeting
5. June 13, 2014 - Adoption of Rate Study and 2014 rates at Northern Water Board meeting

Current Status: May 2014 Study Completion
6. How You Can Help
Please Comment

- Comments are Welcome and Encouraged

- Suggested Topics
  - Rate Study Methods
  - Financial Plan
    - Importance of Reserve Funding
    - Pay-as-you-Go Financing Approach
  - Importance of Benchmarking
  - Implementation of Rate Changes
    - Phasing
    - Future Price Stability and Predictability
Contact Information

- Jerry Gibbens – Project Manager (970-622-2299)
- E-mail
  - ratestudy@northernwater.org
- Website:
  - www.northernwater.org
QUESTIONS AND COMMENTS?

Allottee Informational Meeting
January 10, 2014