

Rate Study Handout

June 5, 2014

This document summarizes rate design alternatives and staff recommendations as presented by CH2M HILL (Rate Study consultant) and Northern Water staff during the June 5, 2014 Rate Hearing session.

Rate Design Alternatives

Table 1 summarizes the near-term results of the rate design alternatives analyzed in the Rate Study. Option 1 is the existing structure, in which open-rate irrigation assessments are based on the calculated ability-to-pay rate and municipal, industrial and multipurpose assessments (M&I) recover remaining revenue requirements. Options 2 and 3 are cost-of-service based assessments, which are the same in the near term, but vary beyond FY2018.

Table 1. Summary of Rate Design Options Analyzed in Rate Study

Assessment Design Option	Customer Class	2015 (\$/AFU)		2016 (\$/AFU)		2017 (\$/AFU)		2018 (\$/AFU)	
<i>Option 1 – Existing Structure</i>									
Smooth Increase	M&I	30.50	9%	37.20	22%	45.40	22%	55.40	22%
	Irrigation	10.90	9%	13.80	27%	17.30	25%	22.00	27%
Step Increase	M&I	30.50	9%	51.90	70%	53.50	3%	55.10	3%
	Irrigation	10.90	9%	18.70	72%	20.20	8%	22.00	9%
<i>Option 2 – Base Assessment Design</i>									
Smooth Increase	M&I	30.50	9%	36.60	20%	43.90	20%	52.70	20%
	Irrigation	10.90	9%	15.40	41%	21.60	40%	30.20	40%
Step Increase	M&I	30.50	9%	49.10	61%	51.10	4%	53.10	4%
	Irrigation	10.90	9%	20.90	92%	25.10	20%	30.10	20%
<i>Option 3 – Open Rate Assessment Design</i>									
Smooth Increase	M&I	30.50	9%	36.60	20%	43.90	20%	52.70	20%
	Irrigation	10.90	9%	15.40	41%	21.60	40%	30.20	40%
Step Increase	M&I	30.50	9%	49.10	61%	51.10	4%	53.10	4%
	Irrigation	10.90	9%	20.90	92%	25.10	20%	30.10	20%

Note: Percentages shown are year over year percent increases. Proposed FY2015 irrigation rates were adjusted downward slightly (\$0.10) from those shown in the draft Cost-of-Service Rate Study report to maintain a 9% increase.

Staff Recommendations

Based on results of the Rate Study analysis and comments received by allottees and the public during the Rate Study process, and during/since the May 1, 2014 Rate Hearing session, Northern Water staff is recommending Fiscal Year 2015 assessments shown in Table 2 to the Board of Directors. FY2015 assessments will be set by the Board as part of the FY2015 Rate Hearing process.

Table 2. Staff Recommendations for FY2015 Assessments

Description	Current – FY2014 (\$/AFU)	% Increase	Proposed – FY2015 (\$/AFU)
Open-rate irrigation	\$10.00	9.0%	\$10.90
Open-rate municipal, industrial, multipurpose	\$28.00	8.9%	\$30.50
Open-rate Unit 2 charge	\$0.50	100%	\$1.00
Open-rate Tax Exempt charge	\$0.50	-100%	\$0

Staff is also recommending that the Board adopt a forward guidance resolution that provides advance notice to allottees of the general direction of and significant changes in assessments. This resolution (or any variant thereof) does not need to be adopted as part of the FY2015 Rate Hearing process; it can be adopted (or not adopted) at any time by the Board.

Key components of the proposed resolution include:

1. Open-rate assessments will be based on cost-of-service based practices (Options 2, 3). Differentiation between Options 2 and 3 is not recommended at this time pending additional discussion on fixed-rate contracts (see number 6 below).
2. Open-rate assessment changes will be implemented using a Smooth Increase.
3. Target reserve levels used for planning purposes will be consistent with the total unrestricted reserve balance analyzed for the Moderate Reserve Recovery scenario.
4. Using financial planning tools developed in the rate study (and/or other tools), annually set assessments and provide estimates of open-rate assessments for the following two (2) fiscal years.
5. Continue implementing existing cost-control measures, seek new opportunities to control internal costs, and continue seeking opportunities to jointly fund operational expenses with partners and other external funding sources.
6. Study options for addressing differences between fixed-rate and open-rate allotment contracts, including conducting meetings with allottees.
7. Study and discuss unrestricted reserves, including potential refinement of the purpose, funding, and amounts to be held in reserve given the uncertainties and risks faced by Northern Water.