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RAFTELIS FINANCIAL CONSULTANTS, INC.

Memo

To: Darlene Morrow Truver
From: Sudhir D. Pardiwala/Jon Davis
No. of Pages: 2
Date: December 16, 2006
Re: **Changes in Final Wastewater Rates from November 20 Executive Summary Draft Handout**

Rates presented in the November 20, 2006 version of the Wastewater Cost of Service Report Executive Summary have changed slightly from what is now shown in the FINAL version of the report. There were several changes to our rate calculations that are reflected in the new rates. Despite the various changes, the overall revenue increase targeted for MWWD has remained 8.75% in the first year. We revised the fees as we received updated information about operating costs, debt data from the City's rate case, and update of the rate structure for the 95 percent return factor for Single Family Residential (SFR) customers.

User rates for both Residential and Commercial/Industrial customer classes increased slightly. Three changes to the Test Year Cost of Service drove the increase:

- Additional O&M costs mostly related to employee benefits that were not available at the time of the executive summary were provided by the City in the Rate Case model and incorporated into the COS model increasing net revenue requirements.
- Interest on bond proceeds was updated to reflect the updated amount of bond proceeds reducing the capital portion of net revenue requirements.
- Revenue under existing rates was updated to reflect the existing rates multiplied by usage under the existing rate structure for SFR users. A recommendation of this Study was to modify the SFR rate structure adjusting the sewer cap from 14 hcf and 100% return to 20 hcf and 95% return.

Proposed rates from November 20 and from the December 15 FINAL Report are shown below.

Original Tables from November 20

Table ES-2 Proposed Residential Rate Schedule

| Description | Usage Rate (\$/hcf of water use) | Base Fee (\$/account) |
|---------------|----------------------------------|-----------------------|
| SFR Rates (1) | \$2.840 | \$12.31 |
| MFR Rates | \$3.970 | \$12.31 |

(1) SFR rate based on a 20 hcf sewer cap

Table ES-3 Proposed Commercial/Industrial Rate Schedule

| Flow (3 per hcf of wastewater) | TSS (\$/lb) | COD (\$/lb) | Base Fee (\$/account) |
|--------------------------------|-------------|-------------|-----------------------|
| \$3.975 | \$0.4392 | \$0.1791 | \$12.31 |

Original Tables from FINAL REPORT December 15

Table ES-2 Proposed Residential Rate Schedule

| Description | Usage Rate (\$/hcf of water use) | Base Fee (\$/account) |
|---------------|----------------------------------|-----------------------|
| SFR Rates (1) | \$2.890 | \$12.31 |
| MFR Rates | \$4.038 | \$12.31 |

(1) SFR rate based on a 20 hcf sewer cap and a 95% return factor

Table ES-3 Proposed Commercial/Industrial Rate Schedule

| Flow (3 per hcf of wastewater) | TSS (\$/lb) | COD (\$/lb) | Base Fee (\$/account) |
|--------------------------------|-------------|-------------|-----------------------|
| \$3.0257 | \$0.4431 | \$0.1801 | \$12.31 |

The calculation of the Capacity Fee also increased since its inclusion in the November 20 Executive Summary. Two changes to the Capacity Fee calculation drove the increase:

- Expansion Debt Interest was modified to include interest on projected expansion related CIP projects to be financed through revenue bonds. The interest generated by debt service reserve contributions from expansion bond proceeds was then deducted.
- The changes in the operating costs and rates discussed above resulted in changes to System Reserves included in the capacity fee calculation.

The net impact of these changes was a \$208 increase in the Capacity Fee to \$4,124.