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RAFTELIS FINANCIAL CONSULTANTS, INC.

Memo

To: Marsi Steirer
From: Sudhir D. Pardiwala/Steve Vuoso
No. of Pages: 3
Date: December 16, 2006
Re: **Changes in Final Water Rates from November 17 Executive Summary Draft Handout**

The final water rates presented in the December 14 report have changed slightly from those presented in the Executive Summary Draft of November 17. The overall revenue requirements have not changed and remain at 6.5 percent per year and the total rate revenue to be recovered in FY 08 remains at \$287.4 million. The small changes to the rates originally proposed in the Executive Summary handed out on November 17 resulted from updated information about operating costs, update of capacity fees and related revenues, and reallocation of certain customer service costs, as shown below:

1. Using updated capacity fees resulted in greater capacity fee revenues and less operating cash needed to fund capital projects (capacity fees had not been calculated as of November 17th).
2. Certain operating costs that were previously allocated to General Plant were correctly re-allocated as customer service costs.
3. Additional costs relating to employee benefits that weren't available at the time of the executive summary were provided by the City and incorporated into the model.
4. We have retained the amount of revenue to be collected from fixed charges at roughly 22 percent by revising the amount of peaking related capital costs to be recovered from the meter charges.

The capacity fee calculation was not distributed on November 17th because the calculation was not complete.

The tables below show the rates originally published in the Executive Summary and the latest rates we have calculated.

TABLE ES-2
Original Executive Summary Rates on November 17, 2006

<u>Service Charge</u>						
Meter Size inches	2007 Existing \$/month	2008 City \$/month	2008 Proposed \$/month	2009 Proposed \$/month	2010 Proposed \$/month	2011 Proposed \$/month
5/8	15.87	16.90	15.09	16.07	17.12	18.23
3/4	15.87	16.90	15.09	16.07	17.12	18.23
1	17.11	18.22	23.37	24.89	26.51	28.23
1 1/2	75.41	80.31	42.30	45.05	47.98	51.10
2	116.24	123.80	65.97	70.26	74.82	79.69
3	414.73	441.69	121.58	129.48	137.90	146.86
4	692.00	736.98	200.85	213.91	227.81	242.62
6	1,542.72	1,643.00	397.26	423.08	450.58	479.87
8	2,081.78	2,217.10	633.89	675.09	718.97	765.71
10	2,793.63	2,975.22	910.75	969.95	1,033.00	1,100.14
12	3,892.44	4,145.45	1,698.75	1,809.17	1,926.76	2,052.00
16	6,514.14	6,937.56	2,961.20	3,153.68	3,358.67	3,576.98

<u>Commodity Rate</u>						
Customer Class	2007 Existing \$/HCF	2008 City \$/HCF	2008 Proposed \$/HCF	2009 Proposed \$/HCF	2010 Proposed \$/HCF	2011 Proposed \$/HCF
<u>SFR</u>						
0 - 7	1.731	1.844	2.264	2.411	2.568	2.735
8 - 14	2.163	2.304	2.429	2.587	2.755	2.934
Over 14	2.372	2.526	2.689	2.864	3.050	3.248
<u>General Service</u>						
Other Domestic (MFR)	2.003	2.133	2.428	2.586	2.754	2.933
Commercial & Industrial	2.003	2.133	2.352	2.505	2.668	2.841
Temp. Constr. & Irrigation	2.003	2.133	2.474	2.634	2.806	2.988

TABLE ES-2
Final Rates On December 14

		Service Charge				
Meter Size inches	2007 Existing \$/month	2008 City \$/month	2008 Proposed \$/month	2009 Proposed \$/month	2010 Proposed \$/month	2011 Proposed \$/month
5/8	15.87	16.90	15.18	16.17	17.22	18.34
3/4	15.87	16.90	15.18	16.17	17.22	18.34
1	17.11	18.22	22.17	23.61	25.15	26.78
1 1/2	75.41	80.31	38.13	40.61	43.25	46.06
2	116.24	123.80	58.09	61.87	65.89	70.17
3	414.73	441.69	104.98	111.80	119.07	126.81
4	692.00	736.98	171.83	183.00	194.89	207.56
6	1,542.72	1,643.00	337.46	359.39	382.76	407.63
8	2,081.78	2,217.10	537.01	571.92	609.09	648.68
10	2,793.63	2,975.22	770.49	820.57	873.91	930.71
12	3,892.44	4,145.45	1,435.00	1,528.28	1,627.61	1,733.41
16	6,514.14	6,937.56	2,499.62	2,662.10	2,835.13	3,019.42

		Commodity Rate				
Customer Class	2007 Existing \$/HCF	2008 City \$/HCF	2008 Proposed \$/HCF	2009 Proposed \$/HCF	2010 Proposed \$/HCF	2011 Proposed \$/HCF
<u>SFR</u>						
0 - 7	1.731	1.84	2.262	2.409	2.566	2.732
7-14	2.163	2.30	2.461	2.621	2.791	2.973
Over 14	2.372	2.53	2.775	2.955	3.147	3.352
<u>General Service</u>						
Other Domestics (MFR)	2.003	2.133	2.461	2.621	2.791	2.972
Commercial & Industrial	2.003	2.133	2.357	2.510	2.673	2.847
Temp. Constr. & Irrigation	2.003	2.133	2.524	2.688	2.863	3.049