

August 7, 2013

General Manager Gouveia,

I have reviewed the information provided by both the rate study committee and Board President John Dralla and have the following comments:

1. The rate study committee's analysis results in a recommendation for a flat rate for all residential users and a rate based upon usage for commercial customers.

The analysis performed by President Dralla results in a recommendation for a hybrid rate for residential users with a fixed SSU component and a variable SSU component based upon imputed use.

The analyses which were performed do not provide any differing information from what was discovered during the previous rate study, i.e.:

- a. There is no direct correlation between level of water usage (and therefore assumed wastewater production) and number of SSUs associated with a residence. Although when you look at the average water usage associated with each of the District's SSU categories it would appear that the larger SSU residences use more water than the lower SSU residences, this is not true within each class of SSU residence. As a typical example, there are residences in the 3, 4, and 5 SSU category that use more water than the residences in the 6, 7, 9, and 9.9 category. Therefore, it is inequitable to base the rates on the assumption that the larger SSU residences will produce more wastewater than the smaller SSU residences and therefore should pay more. The assumption that the larger SSU residences will produce more wastewater is also one of the underlying assumptions contained in the analysis performed by President Dralla, i.e., imputed use.
- b. Due to the lack of water meters for all District residential customers it is not feasible to utilize water usage as a basis for the District's residential rates. Any residential rate structure based upon usage would require the District to make assumptions on flows from any customers who do not have a meter (such as the Old Subdivision) or require water meters for all customers which is definitely problematic. Usage for areas such as the Lake Alpine Resort Area are currently based on pump run times which may or may not be accurate and installation of water meters in this area is probably infeasible. In addition, a residential rate structure based upon usage will require the ability to obtain water meter readings from the LAWC, which is now problematic due to privacy concerns, calculation of new residential rates by District staff each year and the costs associated therewith, etc., etc.
- c. The one area that the District can utilize a usage based rate structure is for its commercial users as there are water meters and measured data for these customers.

Based on my review of the past rate study work and the two analyses presented I would recommend the following rate structure:

Residential: Flat rate for all residential customers

Commercial: Usage rate based upon a cost per gallon for collection, treatment, and disposal and year round water usage data.

This is essentially the same approach as option 3 which was presented in the previous rate study work. As the District currently has budget projections for the next three years, I would recommend a rate structure that sets a fixed flat rate for residential customers for the next three years and also a cost per gallon for the next three years. These would be based upon the average of the requirements of the budgets for the next three years. Depending on the budget and the rate study, this may require the District to use some of its reserves in a year that may have a shortfall in revenue versus expenses but would be made up in a subsequent year. I won't know the extent of this until I do the rate study.

Then next question is whether the District really needs to do a rate study. The two questions which need to be answered to determine this are 1.) Is there something wrong with the current rate structure and 2.) Based upon the District's budget projections will there be a shortfall in funds required to operate the District. The answer to the first question is yes as the current rate structure is based on the assumption that the larger SSU residences will create more wastewater which is not proven out by the LAWC data. Therefore the current rate structure does not meet the proportionality requirements of state law. The answer to the second question is also yes as review of the approved budget projections you provided me indicates a shortfall in funds over the next three years of approximately \$150,000 if you include the contingency allowances. Therefore, a rate study is warranted at this time.

Hopefully this e-mail provides adequate information for the District to proceed.

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