



Report on Demand Management Costs Functionalization

Finance & Insurance Committee
Item 9-3
August 19, 2019

Cost Allocation Study

- In April 2018 the Board directed staff to undertake a demand management cost allocation study
- Phase 1
 - Determine the appropriate functional assignment of demand management costs
- Phase 2
 - Consider whether to incorporate functionalization recommendations into cost-of-service for recovery under existing rate structure or design a new rate and/or charge to recover demand management costs

Cost Allocation Study

- Metropolitan retained Peter Mayer principal at WaterDM to undertake a demand management cost functionalization study
- May 2019 Board Workshop
 - Background information on demand management and introduced functional assignment
- July 2019 Board Workshop
 - Reviewed functional assignment and recommended methodology for functionalizing demand management
- July 2019 Member Agencies Managers' Meeting
- August 2019 Report

Functional Assignment of Metropolitan's Demand Management Costs

July 26, 2019

Prepared for:

The Metropolitan Water District of Southern California

Prepared by:



Demand Management Cost Functionalization Report

- Mr. Mayer concluded that Metropolitan's prior functionalization and cost allocation to transportation was reasonable given the long-term capital planning in place over the last 25 years.
- After reviewing Metropolitan's more recent resource planning, Mr. Mayer concludes it is reasonable to assign Metropolitan's future demand management costs to the following operational functions:
 - Supply
 - Conveyance & Aqueduct
 - Distribution, and
 - Storage.
- Mr. Mayer assigns demand management costs to each functional category in Metropolitan's cost-of-service process according to the relative share of each category's budgeted revenue requirements.

Next Steps

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| Fall | Phase 2: staff will evaluate whether to recover demand management costs under our existing rate structure or to design a new rate and/or charge |
| December 2019 | Presentation of the biennial budget and rates process for fiscal years 2020/21 and 2021/22 |
| February 2020 | Metropolitan will propose rates and charges for calendar years 2021 and 2022 |
| Feb to March 2020 | Board workshops |
| April 2020 | Board action regarding biennial budget and rates and charges for calendar years 2021 and 2022 |

