

# Alt #3 Demand Management Fixed Charge

	Cost Recovery Component	Approx. % of DM Costs (1)	Charge / Rate
Alt #3A	DM Charge - Functionalized	100%	Fixed \$
Alt #3B	DM Charge – Non-Functionalized	100%	Fixed \$

(1) Using hypothetical revenue requirement share



# Alt #3A – Functionalized Fixed Charge

Member agencies pay an annual fixed charge based on allocated Demand Management costs

- Considerations

- › Consistent with WaterDM recommendation, i.e., functionalization of DM costs
- › Consistent with underlying WaterDM recommendation, i.e., DM expenditures avoid average, peak and standby costs
- › Demand Management costs are largely fixed in nature and this approach provides a fixed revenue source
- › Depending on the allocation approach, potential exists for member agencies to not be allocated any DM costs even though they may demand services at any time



# Alt #3A – Functionalized Fixed Charge

(hypothetical)

Function	% Rev Req	Supply Portion \$M	Transportation Portion \$M	Total \$M
Supply	20%	\$20		\$20
Conveyance and Aqueduct	51%		\$51	51
Storage - Emergency	4%		4	4
Storage - Drought	7%	7		7
Storage - Regulatory	1%		1	1
Distribution	17%		17	17
<b>Total</b>	<b>100%</b>	<b>\$27</b>	<b>\$73</b>	<b>\$100</b>

Allocate Supply and Transportation Portion of DM costs to member agencies based on some measure of sales and all transactions

For example: historic water deliveries – over a pre-determined historic period: a long-term, multi-year, rolling average of all sales and transactions

# Alt #3A – Functionalized Fixed Charge

## Hypothetical Example

Member Agency A: for the historic period, had 5% of total Supply Portion and 4% of total Transportation Portion

Supply Portion of DM Costs:

$$5\% \text{ of } \$27\text{M} = \$1.35\text{M}$$

Transportation Portion of DM Costs:

$$4\% \text{ of } \$73\text{M} = \underline{\$2.92\text{M}}$$

Member Agency A – Total Demand Management

Annual Fixed Charge \$4.27M



# Regional Benefits of Demand Management

- Metropolitan's annual expenditures for demand management programs are a necessary and legislated expense for the provision of water service across the region.
- For Metropolitan, Demand Management Investments
  - › reduce and avoid future capital and other costs
  - › increase reliability
  - › **reduce the region's reliance on imported water supplies**
  - › decrease burden on infrastructure
  - › free up conveyance capacity

**...to the benefit of all existing and potential system users**