

ATTACHMENT B: System Average Rate Calculation

The system average rate is a calculated unit of measure to define a comparative basis per billing unit of water sold. The system average rate is calculated by dividing the revenue derived from water rates by the number of projected billing units for the fiscal year.

$$\frac{\text{Retail Water Rate Revenues} / \text{Projected Billing Units}}{\text{System Average Rate}}$$

PWP staff performs revenue requirements analyses annually to determine the adequacy of existing rates to recover necessary revenues. If the revenue requirement analyses determine that rate adjustments are necessary, the revenue shortfall (if any) for each component from existing rates is divided by estimated billing units. The result of this calculation is the system average rate adjustment needed for each component to cover the revenue shortfall. The sum of adjustments for each component equals the overall system average rate adjustment.

| Sales (Million Billing Units) | FY 2022 PLAN | | | |
|----------------------------------|------------------------|------------------------------|--|---------------------------------------|
| | FY 2022 Baseline | | FY 2022 Increase | |
| | Projected Annual Sales | 11.141 | Apr - Jun Sales | 2.391 |
| | Dollars (Millions) | System Average Rate (per BU) | Dollars (Millions) | System Average Rate Increase (per BU) |
| Distribution and Customer Charge | \$27.4 | \$2.46 | \$0.3 | \$0.10 |
| Commodity Charge | \$26.9 | \$2.42 | \$0.7 | \$0.31 |
| Capital Improvement Charge | \$11.2 | \$1.01 | \$0.0 | \$0.00 |
| Revenues from Rates | \$65.5 | \$5.89 | \$1.0 | \$0.41 |
| | | | FY 2022 system average rate after increase | \$6.30 |
| | | | System average rate increase percentage | 7.1% |
| Distribution and Customer Charge | \$32.1 | \$2.88 | | |
| Commodity Charge | \$29.3 | \$2.63 | | |
| Capital Improvement Charge | \$15.6 | \$1.40 | | |
| Net Revenue Requirement* | \$77.0 | \$6.91 | | |
| Distribution and Customer Charge | (\$4.7) | (\$0.42) | (\$4.4) | |
| Commodity Charge | (\$2.4) | (\$0.21) | (\$1.7) | |
| Capital Improvement Charge | (\$4.4) | (\$0.39) | (\$4.4) | |
| Shortfall | (\$11.5) | (\$1.02) | (\$10.5) | |

| Funding Sources to address shortfall | |
|--------------------------------------|---------------|
| Bond Proceeds | \$8.8 |
| Water Fund Reserves | \$1.7 |
| Cash Flow | \$10.5 |

| Sales (Million Billing Units) | FY 2023 PLAN | | | |
|----------------------------------|-------------------------------|------------------------------|---|---------------------------------------|
| | FY 2023 Baseline | | FY 2023 Increase | |
| | Projected Annual Sales 10.555 | | Jan - Jun Sales 4.200 | |
| | Dollars (Millions) | System Average Rate (per BU) | Dollars (Millions) | System Average Rate Increase (per BU) |
| Distribution and Customer Charge | \$28.4 | \$2.69 | \$0.5 | \$0.12 |
| Commodity Charge | \$28.4 | \$2.69 | \$0.9 | \$0.22 |
| Capital Improvement Charge | \$10.6 | \$1.01 | \$0.5 | \$0.12 |
| Revenues from Rates | \$67.4 | \$6.39 | \$1.9 | \$0.46 |
| | | | FY 2023 system average rate after increase \$6.85 | |
| | | | System average rate increase percentage 7.2% | |
| Distribution and Customer Charge | \$35.8 | \$3.39 | | |
| Commodity Charge | \$29.7 | \$2.81 | | |
| Capital Improvement Charge | \$16.2 | \$1.53 | | |
| Net Revenue Requirement* | \$81.7 | \$7.73 | | |
| Distribution and Customer Charge | (\$7.4) | (\$0.70) | (\$6.9) | |
| Commodity Charge | (\$1.3) | (\$0.12) | (\$0.4) | |
| Capital Improvement Charge | (\$5.6) | (\$0.52) | (\$5.1) | |
| Shortfall | (\$14.3) | (\$1.34) | (\$12.4) | |

| Funding Sources to address shortfall | |
|--------------------------------------|---------------|
| Bond Proceeds | \$12.0 |
| Water Fund Reserves | \$0.4 |
| Cash Flow | \$12.4 |

Note: Immaterial differences may occur due to rounding.

*Net Revenue Requirement is total revenue requirement less non-operating revenues .

Staff recommendations for rate adjustments may not recover the full revenue shortfalls in a single year, but are frequently based on multi-year adjustments to better align revenues and expenses and to moderate customer bill impacts. Any remaining revenue shortfalls are addressed by the use of eligible alternative funds such as water fund reserves and bond proceeds.