

RATE SUB-COMMITTEE MINUTES April 27, 2023

A meeting of the Rate Sub-Committee was held on Thursday, April 27, 2023, at 10:00 a.m. The Rate Sub-Committee offered both in-person and virtual connection.

Chairman Bill Long announced a quorum was present.

COMMITTEE MEMBERS PRESENT:

In-Person: Bill Long, Kevin Karney, Ann Nichols, Seth Clayton, Tom Goodwin, Curtis Mitchell, and Jim Broderick.

Virtual: none

COMMITTEE MEMBERS ABSENT AND EXCUSED:

None

OTHERS PRESENT:

In-Person: Chris Woodka, Leann Noga, Garrett Markus, Patty Rivas, Stephanie Shipley, Lee Miller, and Peter Levish, SECWCD staff.

Virtual: Pat Edelmann, SECWCD Board member.

APPROVAL OF MINUTES:

Mr. Long confirmed that members of the Committee received their copy of the March 24, 2023, minutes and asked if there were any corrections or additions. Hearing none, Mr. Goodwin moved, seconded by Mr. Clayton, to approve the March 24, 2023, minutes. Motion unanimously carried.

PRESENTATIONS

Review 2019 Financial Study Recommendations

2019 Finance Study Recommendations Compared to Action Taken by the Board of Directors

Mrs. Noga summarized the recommendations of the 2019 Finance Study and then summarize the action the Board of Directors took to apply to 2020.

Review 2019 Water and Storage Rate Action

PROJECT WATER RATE RECOMMENDATION PRESENTED JUNE 2019

From \$7.00 per AF for both M&I & Irrigation to

Project Water			
Cost of Service Matrix - 2020 Test Year			
Allocation Method	Customer Class		\$/AFU
Uniform	M&I	\$	14.29
	Irrigation	\$	14.29
Split	M&I	\$	15.25
	Irrigation	\$	13.14

PROJECT WATER RATE APPROVED NOVEMBER 2019

From \$7.00 per AF for both M&I & Irrigation to

Project Water Rates	
M&I	13.14
Irrigation	13.14

RETURN FLOW RATE RECOMMENDATION PRESENTED JUNE 2019

From \$6.00 per AF for both M&I & Irrigation to

Return Flows	
M&I	\$18.78
Irrigation	\$16.18

RETURN FLOW RATE APPROVED NOVEMBER 2019

From \$6.00 per AF for both M&I & Irrigation to

Project Water Rates	
M&I	12.00
Irrigation	12.00

Page 2
Rate Sub-Committee Meeting
April 27, 2023

Storage Rate Recommendation Presented June 2019

Municipal Carryover of Project Water		
Description	Losses (Af or %)	Opportunity Cost (\$/Af)
M&I Project Water Cost per Acre Foot (\$15.25)		
Annual Evaporation Losses	10%	\$ 1.53
50% Transp Loss (on evaporation)	10%	\$ 0.17
Forgone Return Flow Sales*	40%	\$ 10.17
Total Opportunity Cost of Carryover Water		\$ 11.88

* Forgone return flow sales is 40% of the M&I Project Water cost per acre foot (\$/Af).

Winter Water	
Irrigation	\$5.72

STORAGE RATE WAS UNCHANGED NOVEMBER 2019

SURCHARGE FEES JUNE 2019

Surcharges were not reviewed; Recommendation was to review in future

SURCHARGE FEES REVIEW MARCH 2020

Research was completed on each surcharge which was presented to the Finance Committee in March 2021 and March 24, 2023, Rate-Sub Committee Meeting

Rate Table 2020-2023

Description	2023 Rates and Surcharges (\$/ac-ft)					
	Water Rate	Safety of Dams	Water Activity	Environmental Stewardship	Augmentation	Total Charge
Project Water Sales						
Irrigation	\$ 13.14	\$ 0.50	\$ 0.75	\$ 0.75	\$ -	\$ 15.14
Municipal	\$ 13.14	\$ 0.50	\$ 1.50	\$ 0.75	\$ -	\$ 15.89
Project Water Sales used for Well Augmentation						
Irrigation used for Well Augmentation	\$ 13.14	\$ 0.50	\$ 0.75	\$ 0.75	\$ 2.60	\$ 17.74
Municipal used for Well Augmentation	\$ 13.14	\$ 0.50	\$ 1.50	\$ 0.75	\$ 2.60	\$ 18.49
Storage Charges						
Winter Water Storage*	\$ 2.80	\$ 0.25	\$ -	\$ 0.75	\$ -	\$ 3.80
Carry-Over Project Water	\$ -	\$ 1.00	\$ 1.25	\$ 0.75	\$ -	\$ 3.00
If & When Storage						
In District	\$ -	\$ 0.50	\$ 0.50	\$ 0.75	\$ -	\$ 1.75
Out of District	\$ -	\$ 2.00	\$ 4.00	\$ 0.75	\$ -	\$ 6.75
Aurora	\$ -	\$ -	\$ 10.00	\$ -	\$ -	\$ 10.00
Project Water Return Flows						
Irrigation	\$ 12.00	\$ 0.50	\$ -	\$ 0.75	\$ -	\$ 13.25
Municipal	\$ 12.00	\$ 0.50	\$ -	\$ 0.75	\$ -	\$ 13.25

*\$2.80 transferred to the Bureau of Reclamation

What we learned over the past 3 years

2024 Finance Rate Model Results

Mrs. Noga presented the 2024 Finance Rate Model results explaining that there is a projected \$8.16 million deficit in the 10-year forecasting period. In the year 2024 the deficit is forecasted at a deficit of \$530,014.

Mr. Long ask what the Water Activity Enterprise audited deficit was in 2022. Mrs. Noga reply that the 2022 audited deficit was \$295,000.

Parameter:	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	Total
Proposed Water Rate Increase by \$0.00		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Rate increase	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Project Water Irrigation Sales	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14
Project Water Municipal Sales	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14
Irrigation used for Well Augmentation	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14
Municipal used for Well Augmentation	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14	\$ 13.14
Storage Winter Water Storage	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage Carry-Over Project Water	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage In District	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage Out of District	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Storage Aurora - Contracted	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Project Water Irrigation Return Flows Sales	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00
Project Water Municipal Return Flows Sales	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00
Revenue Requirement	(2,181,497)	(2,235,255)	(2,293,445)	(2,362,924)	(2,434,500)	(2,508,238)	(2,584,202)	(2,662,459)	(2,743,079)	(2,826,132)	(2,911,692)	(25,561,927)
Revenue at Existing Approved Rates	1,694,747	1,705,241	1,714,918	1,721,728	1,728,742	1,735,966	1,743,407	1,751,071	1,758,965	1,767,096	1,775,471	17,402,605
Revenue at Proposed Rates	1,694,747	1,705,241	1,714,918	1,721,728	1,728,742	1,735,966	1,743,407	1,751,071	1,758,965	1,767,096	1,775,471	17,402,605
Variance with Required Revenue & Existing Approved Rates	(486,750)	(530,014)	(578,527)	(641,196)	(705,759)	(772,272)	(840,795)	(911,388)	(984,114)	(1,059,036)	(1,136,220)	(8,159,322)
Variance with Required Revenue & Proposed Rates	(486,750)	(530,014)	(578,527)	(641,196)	(705,759)	(772,272)	(840,795)	(911,388)	(984,114)	(1,059,036)	(1,136,220)	(8,159,322)

Page 3
Rate Sub-Committee Meeting
April 27, 2023

First Use and Full Use Project Water Sales

Mr. Long stated that staff had been working to analyze Project Water, Augmentation and Return Flows regarding how they are accounted for and the customer benefits. Staff discovered that some customers are receiving the benefits of full cost Project Water, but they are not being charged the full rate. Mrs. Noga explained this is an approach to balance the cost and benefits of Project Water without changing the current rate of Project Water. Mrs. Noga summarized the following recommendations.

The Enterprise currently sells Fryingpan-Arkansas First Use Project Water for \$13.14 per acre-foot, with a presumed consumptive use of 60 percent of each acre-foot of water. This rate is applied to both M&I and Irrigation customers. For each acre-foot sold of First Use water, 40 percent should return to the Enterprise for resale and sold as Return Flows. No change is recommended in the rate for Project Water that generates a full Return Flow.

The Enterprise currently sells Fryingpan-Arkansas Full Use Project Water for \$13.14 per acre-foot, with an actual 100 percent consumptive use of each acre-foot of water because no Return Flow is generated. The actual value of Project Water which does not generate a Return Flow that is a Full Use of water is valued at \$21.90, or \$13.14 for the 60 percent First Use, and \$8.76 for the 40 percent Return Flow. It is recommended that Project Water that will not generate a Return Flow sell for \$21.90 per acre-foot. Based on 2023 Budget amounts, this would generate an additional \$232,500, with \$204,871 coming from M&I users and \$27,629 from Irrigation users.

Project Water Return Flows currently sell at \$12 per acre-foot, but are a fully consumed Full Use of Project Water. It is recommended that Return Flows should sell at the rate of Full Use water, or \$21.90 per acre-foot. Based on 2023 Budget amounts, this would generate an additional \$69,062. All Return Flows would be from Irrigation, since M&I would be sold as Full Use water.

If the above description were implemented and First Use water was charged \$13.14, Full Use water was charged \$21.90, and Return Flow water was charged \$21.90 this would generate a total of \$301,562 of additional Project Water Revenues for the Enterprise annually.

Surcharge Fees

The Enterprise currently applies four surcharges: Water Activity Enterprise, Safety of Dams, Environmental Stewardship and Augmentation. The surcharges were applied at various times, in some cases at different rates, for specific purposes. The surcharges generally cover expenses that are not typical within the budget in order to make the Enterprise budget whole. The surcharges are applied to all types of water and storage. Mrs. Noga summarized the following recommendations.

In regard to the First Use and Full Use of Project Water description, if implemented it is recommended that the augmentation surcharge be removed and discontinued, as the Full Use water rate would reflect augmentation use.

The Enterprise Surcharge was created by Board resolution in 2000. The resolution named no specific surcharge amount or dollar value to be recovered. But does state, "The Enterprise is established for the purpose of pursuing, establishing and continuing water activities as a business, separate and distinct from the Southeastern District's governmental activities. ...The Enterprise's activities may include (without limitation) planning, engineering, acquisition of water and water rights, use, reuse, storage, augmentation, and mitigation of depletions from wells within Southeastern District boundaries, exchange, supply, distribution, development,

Page 4
Rate Sub-Committee Meeting
April 27, 2023

construction, operation, maintenance and repair of water projects and facilities, and related contracting, financing, and administration activities.” District staff interprets this resolution to support the current and future needs of the Enterprise. The Enterprise Surcharge is also tied to the Aurora Storage Contract. For the above stated reasons, it is recommended that the Enterprise Surcharge continue and be assessed for all water and storage sales and be re-evaluated annually to support the revenue requirement which water and storage rate do not cover.

The Safety of Dams Surcharge was implemented to pay the debt of the Safety of Dams repair completed on Pueblo Reservoir in 1998. The debt for this Safety of Dams repair will be completed in 2024. The expenses for the remainder of the debt is budgeted annually and is assumed in the revenue requirement produced by the Finance Rate model. It is recommended that the Safety of Dams surcharges be rolled into the Water Activity Enterprise Surcharge, and applied in a way that reflects current charges.

The Environmental Surcharge was implemented in 2014 to recover cost of non-budgeted items or paid in full capital expenses recovery. Non-Budget items could include but are not limited to Fry-Ark contract requirement such as Twin Lakes exchange, fish hatchery water use, trasit loss, evaporation, Aquatic Nuisance Species Control, Streamflow Forecasting, 10825 recovery program, etc. When the environmental surcharge was first calculated the costs were based on \$7 per acre-foot, the rate for Project water at that point in time. It is recommended that an updated calculation be completed using the current programs and cost basis of Full Cost Water rate of \$21.90 per acre-foot.

Recommendations include to remove and discontinue the Augmentation Surcharge and that the remaining surcharges both the Safety of Dams and Environmental Surcharge be rolled into the Water Activity Enterprise Surcharge, and applied in a way that reflects current charges. By implementing the surcharge recommendation the Enterprise, which is budgeted to generate a total of \$595,899 in surcharge revenue would experience a loss of \$13,926 in regard to the Augmentation Surcharge revenue. It is further recommended that the Water Activity Enterprise Surcharge be increase by a \$1 applied to all customers. This would generate \$242,471 in additional revenue to assist with meeting revenue requirements according to the Financial Rate Model projects for 2024.

ACTION ITEMS:

None

INFORMATION ITEMS:

None

OTHER BUSINESS:

None

NEXT MEETING:

The next Rate Sub-Committee meeting is scheduled for Friday, May 19, 2023, at 10:00 (is this time correct I show 12:30 p.m. a.m.

ADJOURN:

Page 5
Rate Sub-Committee Meeting
April 27, 2023

Chairman Long adjourned the meeting at 11:46 a.m.

Respectfully submitted,

Leann Noga
Administrator of Finance and Administration