## Alt #3 Demand Management Fixed Charge

<table>
<thead>
<tr>
<th>Cost Recovery Component</th>
<th>Approx. % of DM Costs (1)</th>
<th>Charge / Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alt #3A DM Charge - Functionalized</td>
<td>100%</td>
<td>Fixed $</td>
</tr>
<tr>
<td>Alt #3B DM Charge – Non-Functionalized</td>
<td>100%</td>
<td>Fixed $</td>
</tr>
</tbody>
</table>

(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)

<table>
<thead>
<tr>
<th>Function</th>
<th>% Rev Req</th>
<th>Supply Portion $M</th>
<th>Transportation Portion $M</th>
<th>Total $M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply</td>
<td>20%</td>
<td>$20</td>
<td></td>
<td>$20</td>
</tr>
<tr>
<td>Conveyance and Aqueduct</td>
<td>51%</td>
<td></td>
<td>$51</td>
<td>51</td>
</tr>
<tr>
<td>Storage - Emergency</td>
<td>4%</td>
<td></td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Storage - Drought</td>
<td>7%</td>
<td>7</td>
<td></td>
<td>7</td>
</tr>
<tr>
<td>Storage - Regulatory</td>
<td>1%</td>
<td></td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Distribution</td>
<td>17%</td>
<td>$27</td>
<td>$73</td>
<td>$100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>$27</strong></td>
<td><strong>$73</strong></td>
<td><strong>$100</strong></td>
</tr>
</tbody>
</table>

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:

\[
\text{5\% of } 27M = 1.35M
\]

Transportation Portion of DM Costs:

\[
\text{4\% of } 73M = 2.92M
\]

Member Agency A – Total Demand Management

Annual Fixed Charge

\[
\text{$4.27M}
\]
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