



October 14, 2014

990 East Mission Road
P.O. Box 2290
Fallbrook, California
92088-2290
(760) 728-1125
Fax (760) 728-6029
www.fpud.com

Board of Directors:

Milt Davies
Al Gebhart
Don McDougal
Archie D. McPhee
Bert Hayden

Staff:

Brian J. Brady
General Manager

Marcie Eilers
Admin Services Manager

Jack Bebee
Assistant General Manager

Robert H. James
Legal Counsel

Mary Lou Boultinghouse
Board Secretary

Mr. Michael D. Ott
Executive Officer
San Diego LAFCO
9335 Hazard Way, Suite 200
San Diego, California 92123

Subject: Response to Kennedy Letter, October 9, 2014

Dear Mr. Ott:

Introduction

The Michael Bell Management Consulting (MBMC) report, dated September 26, 2014, examined Rainbow Municipal Water District (Rainbow) and Fallbrook Public Utility District (FPUD) domestic, commercial, and agricultural water rates. The report was developed by experienced water utility professionals using standard analytical methods. Necessary adjustments were made for differences in how billing units are defined at each district (FPUD in thousands of gallons; Rainbow in hundreds of cubic feet.), with the report adopting the convention of one billing unit being equal to 1000 gallons. Water use ranges in each exhibit were based upon average customer use at each agency. The key findings produced from the study were:

- For the domestic class, the fixed charges for the FPUD are lower than the fixed charges for Rainbow. The rates for water consumption are lower for Rainbow. However, consumption has to exceed 45 units per month for a customer with a ¾" meter or 1" meter before the Rainbow customer has a lower monthly bill than a FPUD customer.
- For the commercial class, the fixed charges for the FPUD are lower than the fixed charges for Rainbow. The rates for water consumption are lower for Rainbow. However, Rainbow's lower rates for water consumption do not offset its higher fixed charges. For all consumption levels, FPUD rates are lower although the FPUD price advantage for a ¾" meter decreases from 29.4% to 3.5% as consumption increases.

- For the special agricultural class, the fixed charges for FPUD are lower than Rainbow fixed charges. There is a constant difference of 20.5% between the two agencies for the water consumption rate for this customer class. Based on the comparison for all consumption levels, the FPUD customer with a 2” meter has a monthly savings of 20%. For all meter sizes, the FPUD savings range from 10.5% to 20.5%.

I have reviewed Mr. Kennedy’s October 9, 2014 commentary relative to the MBMC report, and I find his conclusions without merit. My observations and analysis follow.

Observations

Mr. Kennedy bases his comments upon the following assumptions:

- Rainbow customers use an average of over 100 units¹ of water per month, so the domestic rate comparison in MBMC Exhibit 1 is not realistic because it only examines up to 60,000 gallons (60 units) per month.
- FPUD’s agricultural water rate should be \$4.06 per 1000 gallons; not the \$3.14 rate used in the MBMC report.
- FPUD’s analysis neglects to include its capital improvement charge.

Analysis

Mr. Kennedy does not specify how he calculates his 100 unit average customer monthly use. To answer that question, the following table was developed:

	AVERAGE RAINBOW CUSTOMER		Total Rainbow water meters	Total Rainbow annual sales (acre-feet)
	Monthly use (100 units)	Annual use (acre-feet)		
Unit = 1,000 gal (as used in the MBMC report)	100,000 gal	3.68	7,800	28,704
Unit = 748 gal (HCF)	74,800 gal	2.76	7,800	21,528
			3-year average purchases from SDCWA ²	20,473
			2013 budgeted sales ³	18,565 [net of system losses of 9%]

¹ Mr. Kennedy does not specify how he quantifies a billing unit or provide a citation for his claim.

² SDCWA, June 26, 2014, “Adopt the Water Authority’s rates and charges for FY 2015...” Attachment C, Page 5, Table 2 – Customer Service Charge Allocation, 3-year average deliveries (AF) FY 2011-FY 2013.

³ Rainbow MWD, Key Budget Components, Budget Year 2012-2013, Water Sales.

As documented above, Mr. Kennedy must have been referring to units of 748 gallons (HCF) which are incompatible with the MBMC report. Moreover, his claim of average customer use cannot be validated by either Rainbow's budget records or by accounting documents of the San Diego County Water Authority (SDCWA.) Based upon Rainbow's 2013 budgeted sales of 18,565 acre-feet, the district's most probable average monthly customer use (which also includes all agricultural sales) is in the mid-60,000 gallons range.

More relevant, for the purposes of analyzing domestic rates in MBMC's Exhibit 1, it should be noted that Rainbow's average summertime domestic customer usage is actually 30,000 gallons per month (40 Rainbow billing units)⁴. That is precisely why Exhibit 1 examined water usage from 5,000 to 60,000 gallons per month.

Mr. Kennedy moves on to suggest that MBMC's report (Exhibit 3) used the wrong Special Agricultural Water Rate (SAWR) from FPUD and Rainbow rate schedules. But both documents are clear in that FPUD's rate per thousand gallons is \$3.14 versus Rainbow's at \$3.78. I am confident that the Rainbow staff is aware that the \$4.06 FPUD rate is for those customers choosing not to be on the SAWR. Rainbow's rate for that same type of customer (not on the special rate) is \$4.21 per thousand gallons.

On the question of whether the MBMC report properly included the FPUD capital improvement charge, Mr. Kennedy's calculations are not correct. The capital improvement charges for ¾", 1", 1½" and 2" meter sizes are:

- ¾" meter \$8.59
- 1" meter \$11.81
- 1½" meter \$17.18
- 2" meter \$26.84

These charges have been included in Exhibits 1, 2, and 3 of the MBMC report.

Rainbow Graphs

We have corrected the two graphs attached to Mr. Kennedy's letter. Ours are enclosed herein as Attachments 1 and 2. The graphs, with corrected rates and billing units, clearly demonstrate the findings of the MBMC report.

In his concluding remarks Mr. Kennedy suggests that a water rate comparison of FPUD and Rainbow is not relevant to the LAFCO reorganization process because a divisional accounting system will keep ratemaking separated for a "Rainbow" division and a "Fallbrook" division. Mr. Kennedy is wrong for several reasons:

⁴ Rainbow Municipal Water District, Statistical Summary, June 30, 2014, Water Usage, average billing units consumed.

Mr. Michael D. Ott
Page 4
October 14, 2014

- The Rainbow Board of Directors has made water rates a cornerstone of their public relations campaign fighting Fallbrook's LAFCO application (warning that their customers would face "higher rates" by a merger with FPUD.)
- Divisional accounting does not restrict passing shared savings from the reorganization onto both groups of ratepayers in the form of lower rates.
- Applying FPUD's rate-setting policy to Rainbow agricultural rates would prove beneficial to those customers.

FPUD will continue to respond to inquiries from Rainbow customers regarding their water bills or any other merger-related questions they may have. Our goal is to provide the most factual data possible during the LAFCO deliberation process.

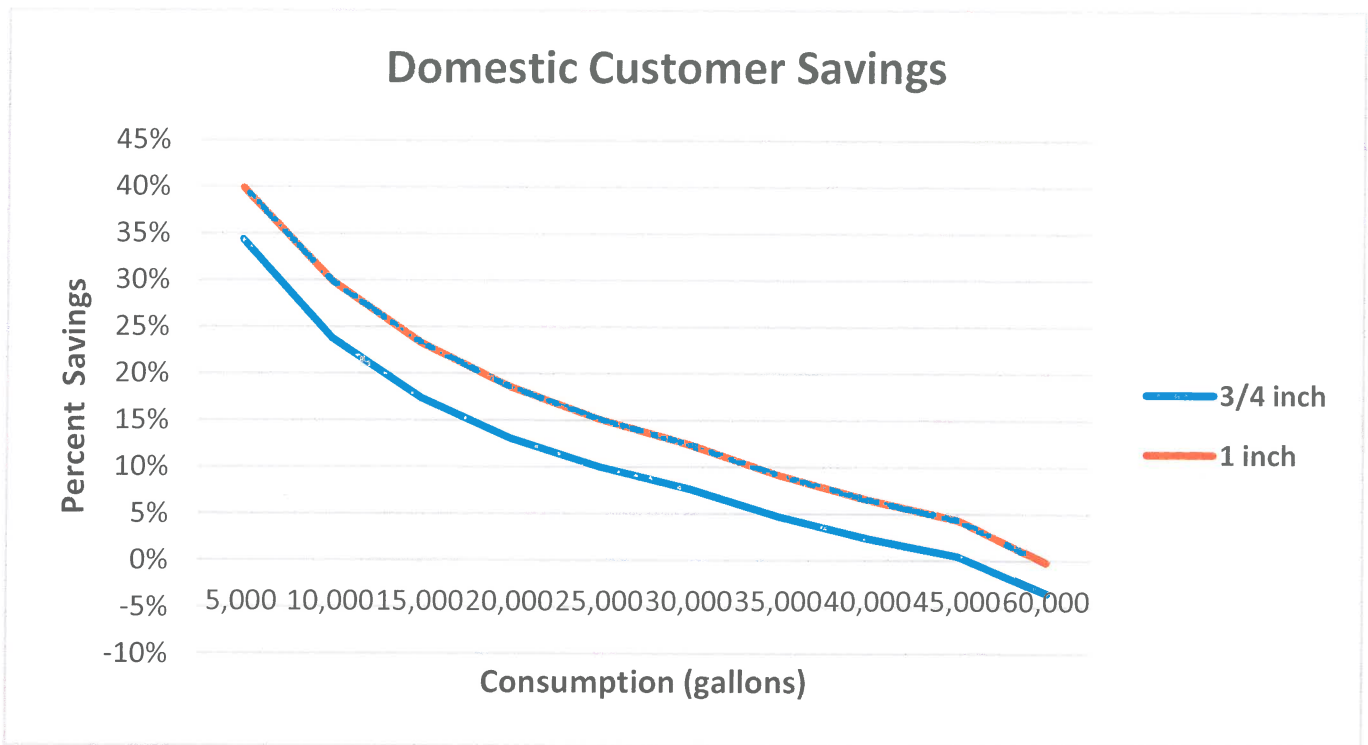
Sincerely,



Brian J. Brady, Ed.D., P.E.
General Manager

Attachments (2)

ATTACHMENT 1



ATTACHMENT 2

