

MIAMI-DADE WATER AND SEWER DEPARTMENT – WATER AND SEWER WHOLESALE RATE ANALYSIS

Client Name: *Miami-Dade Water & Sewer Department*

Type of Service: *Water and Sewer Wholesale Rate Study, Management Advisory Consulting Services*

The Miami-Dade Water and Sewer Department (MDWASD) delivers water and sewer services to most residents and businesses within Miami-Dade County (County), including wholesale water services to fifteen municipalities and wholesale sewer services to thirteen municipalities. These wholesale customers are charged according to contractual terms. MDWASD uses rate modeling software to allocate costs and calculate rates to determine projected user flows and cost recovery requirements.

Milian, Swain & Associates, Inc. (MSA) has been retained by MDWASD to provide a comprehensive rate analyses to determine the appropriate methods and calculations for the recovery of costs and capital requirements from its wholesale customers and to assess its existing rate model. The purpose of this study is to implement a defensible wholesale rate structure consistent with contractual agreements, implement an appropriate wholesale smoothing mechanism, and present wholesale rate recommendations as part of the proposed budget for Fiscal Year 2006-07. Key tasks that MSA is performing as part of this study includes:

Review Wholesale Contracts - MSA has reviewed the various contracts with MDWASD's wholesale customers to understand the cost-based rate calculation currently dictating how the operations and maintenance expenses are to be attributed to the customer. MSA has also reviewed the contracts to establish contractual terms that could potentially limit or prevent any of the recommendations provided.

Review Existing Allocations - MDWASD splits department-wide costs into local and regional costs, with local representing those costs only attributable to retail service delivery and regional costs representing those costs that affect the system as a whole, both retail and wholesale customers. As part of this task, MSA has reviewed the existing allocations, supporting data, and fee structure used to recover the costs of water and wastewater services provided to the MDWASD's wholesale customers, is identifying recovery requirements for the wholesale water and sewer systems, is performing cost-of-service analysis based on updated costs and allocation factors to determine the costs for the Department's local and regional services. To assure that the existing allocations reflect accepted cost-of-service principles, we have:

- Reviewed and analyzed methodology used to allocate regional costs to retail and wholesale customers. This includes reviewing various financial and operational data related to the current and prior fiscal year budgets; the most recent fiscal year audited financial statements; the current capital improvement program projects; projected renewal and replacement projects; debt service payments; current year projected and prior year water billing consumption; current year projected and prior year sewer billing flows; and any other pertinent documents.
- Reviewed and analyzed the methodology used to account for water loss and the resulting adjustment(s).

Analyze County's proposed smoothing mechanism - The rates charged to the wholesale customers are calculated for each Fiscal Year based on projections from the prior Fiscal Year. The County has developed a method to account for discrepancies between projected / actual

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costs, to smooth out the impact of large single-year increases and to provide municipal customers with reliable forecasting figures for the charge. MSA has analyzed the County's proposed smoothing mechanism and is proposing modifications as needed. Our analysis includes but is not limited to a review of the methodology used, timing of adjustments, as well as the correction factor and proposed recovery period.

Assess existing rate model - MSA is assessing the existing rate model to determine its ability to meet the Department's needs as well as its ability to allow for various scenarios to be efficiently analyzed with different financing assumptions, capital improvement program plans, operations and maintenance costs, and consumption / flow projections.

Coordinate, facilitate and prepare presentation material for meeting - MSA is coordinating, facilitating and preparing various meetings between MDWASD designated staff, the project Steering Committee and all the stakeholders.

Reports – MSA has provided preliminary reports summarizing findings and recommendations related to the cost allocation method, the County's proposed smoothing mechanism, and the strengths and weaknesses of MDWASD's existing rate model. MSA has also calculated wholesale rates to be charged for the Fiscal Year 2006-07. After review by the Project Manager and Steering Committee, the report will be finalized and presented to all stakeholders, and to the Board of County Commissioners.