



Financial guidance that makes a difference.

StepWise Utility Advisors, LLC

56 Inverness Drive East, Suite 111 | Englewood, CO 80111

(866) 935-3101 | [www.StepWiseAdvisors.com](http://www.StepWiseAdvisors.com)

---

## Memorandum

**Date:** September 29, 2011

**From:** Jason Mumm

**To:** Mitch Chambers, Stonegate Village Metropolitan District

**CC:** Jim Nikkel, Parker Water & Sanitation District

**Re:** Recent Changes to W.I.S.E. Cost Estimates and Service Levels

---

Since we published our draft report, *Costs and Benefits of Proposed Regionalized Water and Wastewater Utility, June 13, 2011*, there have been several developments in the proposed W.I.S.E. water delivery agreement and the costs related to the project. Below is a summary of the major changes that have direct economic impact on the analyses that we discussed in our draft report:

- Aug. 2, 2011 – The proposed rate for WISE water purchase was changed from \$1,610 per acre foot to \$1,753. Also, the estimated rate for WISE deliveries after 2020 was set at \$1,873 per acre foot.
- Aurora, Denver, and South Metro agreed in principle to acquire the ECCV Western Line for approximately \$50 million; South Metro's portion would be \$16.7 million.
- The revised delivery agreement released in August provided for a new fee called a "subscription fee" that would cause the WISE participants to remit to Denver/Aurora \$1.9m per year for 8 years (\$15.9 million in total).
- PWSD recently lowered its property tax mill levy.
- A project called the "Smoky Hill Line, Tank, and Pump Station" was identified as a specific cost shared only by South Metro members. The total added cost is estimated at \$35 million in capital cost, and about \$500,000 per year in operating expense.
- The Parker Water & Sanitation District, which had previously indicated no interest in the WISE project, has now indicated that it will subscribe for 500 acre feet of delivery.
- Sep. 19, 2011 – SVMD received a letter from South Metro substantially reallocating the capital and operating costs of the WISE project based on estimated "subscription levels" for each of its members.

## Level of Service for W.I.S.E. Water Deliveries

Previous service levels proposed for WISE were published in draft reports by consultants to South Metro. Those service levels called for deliveries under the proposed agreement to start at modest levels and increase over time to approximately 48,420 acre feet of delivery in full for all of the South Metro members by 2020.

The letter of Sep. 19<sup>th</sup>, 2011 from SMWSA provides delivery for a much lower level of service, including a lower level of service for Stonegate. The total South Metro deliveries provided by 2020 were reduced by 37,450 acre feet to just 10,650; Stonegate’s deliveries were reduced by 1,157 acre feet to 350, just 24% of the level expected earlier.

**Table 1: Changes in Stonegate Proposed Deliveries from Draft Report and Sept. 19th Letter from South Metro**

Year	Service Level Identified in Draft Report (Acre Feet)	SMWSA Delivery Levels from Sep. 19th Letter (Acre Feet)	Service Level Surplus (Shortfall)
2012	350	0	(350)
2013	350	175 <sup>1</sup>	(175)
2014	350	175	(175)
2015	350	175	(175)
2016	350	175	(175)
2017	1,097	175	(922)
2018	1,097	175	(922)
2019	1,097	175	(922)
2020	1,485	350	(1,135)
2021	1,485	350	(1,135)
2022	1,485	350	(1,135)
2023	1,485	350	(1,135)
2024	1,485	350	(1,135)
2025	1,485	350	(1,135)
2026	1,485	350	(1,135)
2027	1,485	350	(1,135)
2028	1,485	350	(1,135)
2029	1,485	350	(1,135)
2030	1,485	350	(1,135)

### Service Level Under Inclusion

Only the PWSD commitment of 500 acre feet would be retained as a WISE commitment assuming the inclusion question is approved by voters.

<sup>1</sup> The full 350 acre feet is not available for delivery until 2020 under the latest WISE delivery agreement.

## Cost Implications of Revised Commitment Level

The total costs of the WISE project have been increased since we produced our draft report. The addition of the ECCV pipeline acquisition, the subscription fee, and the acquisition and operating costs of the Smoky Hill project are all substantial increases. In addition, the rate for water purchased from the WISE project has increased by 9% from \$4.94/1000 to \$5.38/1000.

### Capital Costs

The SMWSA letter of Sep 19<sup>th</sup> proposes to increase the Stonegate capital commitment from \$12.2 million previously, to \$15.4 million for what amounts to 76% less water at the build-out period (2020 and beyond). The capital cost per acre-foot of subscription went from \$8,215 to over \$44,000.

Table 2: Stonegate Capital Cost per Acre-Foot of Subscribed WISE Delivery

Date	Acre Feet Subscribed	Total Capital Costs	Capital Cost per AF Subscribed
<b>Prior to Sep. 19<sup>th</sup> (used in Draft Report)</b>	1,485	\$12.2 million	\$8,215
<b>Based on Sep. 19<sup>th</sup> Letter from SMWSA</b>	350	\$15.4 million	\$44,000

The revised commitments include the addition of 500 acre feet of delivery for PWSD. The District had previously not committed to any WISE deliveries. As such, the increase in PWSD's commitment is also an increase in its costs. The table below summarizes the expected costs to PWSD as outlined in the Sep. 19<sup>th</sup> letter from SMWSA.

Table 3: PWSD Capital Cost per Acre-Foot of Subscribed WISE Delivery

Date	Acre Feet Subscribed	Total Capital Costs	Capital Cost per AF Subscribed
<b>Prior to Sep. 19<sup>th</sup> (used in Draft Report)</b>	0	\$0	\$0
<b>Based on Sep. 19<sup>th</sup> Letter from SMWSA</b>	500	\$8.0 million	\$16,000 <sup>2</sup>

### Operating Costs

The operating costs of WISE for South Metro members include two components: a) the cost of purchasing water from the project at the contractual rate, and b) the O&M costs of the local infrastructure required to deliver, store, and treat the water for use by customers.

<sup>2</sup> Capital costs are not shared equally among South Metro members. PWSD is not allocated any of the "local treatment" capital cost, for example, because the district is already constructing its own WTP.

Assuming a lower level of delivery at 350 acre feet (rather than 1,485), the amount paid by Stonegate in operating expenses would be less than the values used in our draft report. At 350 acre feet of full delivery, the annual cost of purchasing water would be about \$577,000. In addition, the Sep. 19<sup>th</sup> letter from SMWSA indicates that Stonegate would also pay for approximately \$210k in O&M costs for the local infrastructure. Total maximum expenditures are estimated in the letter at \$788,000<sup>3</sup> per year. Meanwhile, estimated O&M costs from our draft report were \$3.82 million, including \$2.4 million in water purchases alone.

With a new commitment level of 500 acre feet, PWSD would add \$1.01 million per year in operating expenses based on the values provided in the Sep. 19<sup>th</sup> letter. These costs were not accounted for in our draft report because prior to the Sep. 19<sup>th</sup> letter the WISE commitment level of PWSD had been zero<sup>4</sup>.

Table 4: Changes in WISE Operating Costs at 2020

Date	Stonegate	PWSD
<b>Operating Costs prior to Sep. 19<sup>th</sup> Letter (Used in Draft Report)</b>	\$3.82 million	\$0.0 million
<b>Based on Sep. 19<sup>th</sup> Letter from SMWSA</b>	\$0.80 million	\$1.01 million
<b>Total Increase/(Decrease)</b>	<b>\$(3.02) million</b>	<b>\$1.01 million</b>

### Net Effect on Draft Report Results

Accepting the lower service level from WISE would result in a lower total annual running cost for Stonegate below that depicted in our draft report. Accepting the lower service level, however, would mean reducing the district’s renewable water from 1,485 acre feet per year by 2020, to 350 acre feet per year. If one assumes that Stonegate would address the gap between service level requirement and WISE deliveries, then the district would have to acquire additional supplies at a cost either at or above those of WISE (based on findings by SAIC).

The addition of PWSD’s commitment is new information that narrows the benefits of inclusion calculated in our draft report. We estimate that the additional WISE costs would increase the PWSD’s annual revenue requirements by approximately \$1.5 million per year starting in 2013. In the consolidated inclusion area, that \$1.5 million translates into approximately \$0.39 per thousand gallons (approximately 3% increase) of combined water and sewer service based on 2012 estimated demands. This increase would marginally narrow but would not eliminate the calculated benefits of inclusion as presented in the draft report.

<sup>3</sup> Examples state long-term costs from “2020 Onward” as identified in the Sep. 19<sup>th</sup> letter from SMWSA. Costs from 2013-2020 are phased-in based on delivery availability.

<sup>4</sup> PWSD nor any of the South Metro members have made a legal commitment to the deliveries outlined in the Sep. 19’ 2011 letter. The commitment levels are assumed for the purposes of this discussion and are subject to change based on review by each individual member.