

5. Exhibit B – Table 2 Max Day and Peak Hour Rate

a. RH instituted a mandatory irrigation ordinance on August 18, 2008 (Attachment #2).

- RH's ordinance does not have an odd/even provision. DWSD's opinion is that odd/even provisions do balance out peak usage generated by automated systems.
- All DWSD Wholesale Water Customers that have executed new contracts with a mandatory irrigation ordinance have written it with odd/even AND midnight to 5:00 a.m. restrictions. In order to provide equilibrium in the negotiation process it would be necessary for DWSD to give RH a lesser decrease in the peak hour factor because the odd/even restriction was not included in the ordinance.

b. DWSD asked if RH had the potential to grandfather out secondary meters in the city because these meters are a disincentive to manage water usage. RH has discussed this and doesn't feel that there is the potential to phase them out. The city council believes that the residents are changing behaviors to be more environmentally responsible. DWSD's definition of grandfathering is that new homes aren't allowed to install them and as existing homes are sold the meters are removed and the new owner can't install a secondary meter. RH added that they are in the process of changing their billing system to provide the ability to set rates differently.

c. Questions:

- Has DWSD conducted a study determining that odd/even and midnight to 5:00 a.m. is more effective than simply midnight to 5? Answer: A formal study has not been conducted, however, when reviewing community peak usage changes based on the two factors the peaks shift solidly into the exclusionary period.

- Wouldn't you see a volume decrease with odd/even usage? Answer: Not necessarily, it may be that watering periods are being extended to make up for the inability to water every day.
- d. RH provided letters to DWSD asking for a reduction in the starting proxy numbers derived by DWSD based on significant analysis by Hubbell, Roth, and Clark.
 - e. DWSD explained that the starting numbers are set by the process and cannot be violated, the only time that these starting numbers have been recalculated was if data was submitted showing that the factors determining the starting proxy numbers were erroneous. Starting proxy numbers are based on historical SCADA data for DWSD max day and customer max day and peak hour (in RH this year was 2007), adjustments up or down based on "demographic usage" factor (RH proxy decreased for FY 2009-10), an increase of 20% uniform adjustment factor (UAF) to account for extremely dry years derived at using a drought index and historical data and set by the TAC Analytical Work Group.
 - f. RH explained that the analysis provided by RH shows that they peaked on DWSD's max day and that the data wasn't representative and not appropriate for calculating the starting proxy numbers. DWSD reviewed data for RH and Ecorse as examples to see how each community's summer usage for 2006, 2007, and 2008 corresponds with DWSD high pumpage days. 11:00 p.m. and 5:00 a.m. est were excluded. RH's data showed that as a bedroom community has a greater impact on max day and peak hour demand than Ecorse being an industrial customer.
 - g. RH has approximately 261 home foreclosures, roughly 1% of total water customers. The reduction in water usage is reflected in the difference between the 2008-09 proxy of 27.87 max day and 56.04 peak hour and 2009-10 proxy of 27.46 max day and 55.22 peak hour.
 - h. RH will keep options open bring data into the re-opener period for review. DWSD agreed that the intent is to review new data, changing demographics, usage patterns, etc. during the negotiation periods to refine the rate scenarios. It was agreed that ordinances and changes are best proven out prior to negotiation meeting re-opener.
 - i. The following rate scenarios were proposed and the highlighted area was agreed to by all:

Based on 445,000 Mcf	Max Day (mgd)	Peak Hour (mgd)	Approx. 2009-10 Rate
2008-09 Demand Proxy	27.87	56.04	
2009-10 Demand Proxy	27.46	55.22	\$ 24.87
Public Education, Municipal Irrigation Controls, Mandatory Ordinances with Midnight to 5 am exclusionary period. RH peaked on DWSD peak.	25.81	51.91	\$ 23.54
Above with odd/even provisions added to ordinance	25.54	51.38	\$ 23.32
Above with secondary meters grandfathered	25.00	50.25	\$ 22.87
RH proposed	25.43 (7.4% reduction)	48.86 (11.5% reduction)	\$ 22.42

Notes:

1. All reductions are cumulative.
2. Unit costs are set at 41 customer approved contracts.