In April 2018 the Board directed staff to undertake a demand management cost allocation study.

**Phase 1**

Determine the appropriate functional assignment of demand management costs.

**Phase 2**

Consider whether to incorporate functionalization recommendations into cost-of-service for recovery under existing rate structure or design a new rate and/or charge to recover demand management costs.
Cost Allocation Study

- Metropolitan retained Peter Mayer principal at WaterDM to undertake a demand management cost functionalization study
- May 2019 Board Workshop
  - Background information on demand management and introduced functional assignment
- July 2019 Board Workshop
  - Reviewed functional assignment and recommended methodology for functionalizing demand management
- July 2019 Member Agencies Managers’ Meeting
- August 2019 Report
Demand Management Cost Functionalization Report

Mr. Mayer concluded that Metropolitan’s prior functionalization and cost allocation to transportation was reasonable given the long-term capital planning in place over the last 25 years.

After reviewing Metropolitan’s more recent resource planning, Mr. Mayer concludes it is reasonable to assign Metropolitan’s future demand management costs to the following operational functions:

- Supply
- Conveyance & Aqueduct
- Distribution, and
- Storage.

Mr. Mayer assigns demand management costs to each functional category in Metropolitan’s cost-of-service process according to the relative share of each category’s budgeted revenue requirements.
## Next Steps

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<tr>
<td>Fall</td>
<td>Phase 2: staff will evaluate whether to recover demand management costs under our existing rate structure or to design a new rate and/or charge</td>
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<tr>
<td>December 2019</td>
<td>Presentation of the biennial budget and rates process for fiscal years 2020/21 and 2021/22</td>
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<tr>
<td>February 2020</td>
<td>Metropolitan will propose rates and charges for calendar years 2021 and 2022</td>
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<td>Feb to March 2020</td>
<td>Board workshops</td>
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<td>April 2020</td>
<td>Board action regarding biennial budget and rates and charges for calendar years 2021 and 2022</td>
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