

November 16, 2007

Bambi Spahr
Executive Director
Builders Association of Northern Nevada
5484 Reno Corporate Drive, Suite 100
Reno, NV 89511

RE: PROPOSED REVISIONS TO TMWA FEEDER MAIN FEES AND FACILITY CHARGES

Dear Bambi:

As directed by the TMWA Board, we have completed an annual review of existing Feeder Main Fees and Facility Charges. The existing Feeder Main Fees and Facility Charges and the proposed revisions that will be recommended to the TMWA Board are shown on Attachment 1. As you will recall, BANN hired a consultant (Meridian Business Advisors) to perform a comprehensive analysis of TMWA's previous analysis of Feeder Main Fees and Facility Charges. The current analysis utilizes the exact same methodologies and procedures; therefore, if BANN should decide to have an outside third party review the current analysis, it is anticipated that the process would require significantly less time and effort. Regardless, we would like to provide BANN the opportunity and sufficient time to perform a review. The tentative schedule for reviewing and implementing the recommended revisions is shown below. Review of the Feeder Main Fees and Facility Charges will be conducted simultaneously with workshops and presentations regarding miscellaneous Rule changes.

- December 4, 2007: Presentations and Workshops with TAC and SAC
- December 11, 2007: Conduct Rule/Fee Workshop
- December 11-25, 2007: Conduct Special Fee/Facility Charge Workshops (BANN, etc.)
- January 16, 2008: TMWA Board Meeting, 1st Reading of Rule/Fee Changes
- February 20, 2008: TMWA Board Meeting, 2nd Reading of Rule/Fee Changes

Based on the schedule presented above, in order for TMWA to properly evaluate and consider the results of a BANN review, it will be necessary for TMWA to receive all comments no later than December 21, 2007.

Feeder Main Fees and associated feeder main charge areas were originally implemented as approved by the Board in February 2002. The Supply/Treatment and Storage ("STS") Facility Charges were first implemented in June 2003. Feeder Main Fees and STS Facility Charges were initially revised in March 2005 and updated later again in November 2006. Attachment 1 presents a summary of the proposed changes and provides a comparison with existing Fees and Facility Charges. Feeder Main Fees are applied on a geographic basis and are based on the cost to expand the capacity of the water system in specific areas where growth is occurring. Changes to the current Feeder Main Fee area boundaries are not proposed at this time.

Feeder Main Fees and STS Facility Charges increased significantly in November 2006, primarily due to the increased cost of construction. Review of construction bids received by TMWA over the last twelve months, as compared to engineering estimates, indicate that:

- Pipeline costs have not changed significantly;
- Pumping facility costs have increased moderately; and
- Water storage tank costs are in-line with current engineering estimates.

The proposed increases in the Feeder Main Fees and STS Facility Charges are primarily a result of replacing estimated costs with actual costs; incorporating new estimates for pumping facilities; and revisions to, or the addition of, proposed finance charges.

The facility cost increases are needed to insure that TMWA is reimbursed for the cost to construct improvements to provide additional capacity to serve growth. If adopted, the new Feeder Main Fees and STS Facility Charges will apply only to applications for new or expanded water service, and do not affect the cost to serve existing customers. Based on the latest demand projections, TMWA staff is not recommending to change or delay the timing of future projects at this time; however, staff will continue to review and incorporate opportunities to delay improvements identified in the CIP as long as no reduction in service levels results.

Comments providing further explanation of the proposed increases are as follows:

1 Feeder Main Fees

- a In the past, Feeder Main Fee collections outpaced expenditures, thus no carrying or finance charge was incurred or proposed. However, expenditures now (or soon will) exceed collections in three Feeder Main Areas including Area 4 (Spanish Springs), Area 5 (The Vistas) and Area 8 (North Virginia). The relatively large finance charges proposed for Areas 5 and 8 are the result of actual recent construction costs exceeding previous engineering estimates by 150 percent and TMWA carrying the cost of construction for the foreseeable future.
- b As discussed during review of the previous revisions incorporated in November 2006, the methodology used to allocate the Sparks Feeder Main projects was changed to reflect the relative demand in Spanish Springs as compared to development further south in the older sections of Sparks. Previous methodology relied more upon the location of the improvements rather than where the supply had to be delivered. Therefore, "by design" there is a slight decrease in the Area 2 Feeder Main Fee and increases to the Area 4 and Area 5 Feeder Main Fees. However, as previously mentioned, the significantly larger increase to the proposed Area 5 Fee is primarily due to incorporating actual improvement costs of facilities constructed over the last year.

- c The decrease in the Area 10 (Stead) Feeder Main Fee is a direct result of a very competitive bidding environment that was experienced for a recent major pipeline project. The pipeline was constructed for about 80 percent of the previous engineering estimate.

2 Supply/Treatment Facility Charge

- a The proposed increase in this facility charge can be attributed to significant increases in the engineering cost estimates to construct the Mogul Bypass and Chalk Bluff Phase 4 projects and to a lesser extent, increases in the estimated cost of the Sparks Groundwater Treatment Plant and several groundwater wells. The increase for the Sparks Groundwater Treatment Plant is actually a correction of an error that was discovered in the previous analysis by BANN's consultant.

3 Storage Facility Charge

- a This facility charge is proposed to decrease slightly. This is primarily due to the fact that cost estimates for future projects did not increase and in several cases decreased slightly to reflect current market conditions.

I hope the discussions above are helpful and provide some insight into the proposed revisions to the Feeder Main Fees and Facility Charges. Please let me know if you have further concerns or questions. You can contact me at 834-8033 or at e-mail sestes@tmwa.net. Alternatively, feel free to contact TMWA's Director of Operations, Mark Foree at 834-8009 or at mforee@tmwa.net.

Sincerely,



Scott J. Estes, P.E.
Manager, Planning & Engineering

cc: TMWA Directors
Lori Williams

REVISIONS TO TMWA'S RATE SCHEDULE WSF

November 16, 2007

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ATTACHMENT 1 – PROPOSED FEEDER MAIN FEES AND FACILITY CHARGES

Area	Feeder Main Area Descriptions	Existing Fee ⁽¹⁾	Proposed Base Fee	Proposed Finance Charge	Total Proposed Fee	Increase	% Increase
1	South Truckee Meadows	\$ 955	\$ 971	\$ 0	\$ 971	\$ 16	2%
2	Sparks-East Reno	\$ 1,578	\$ 1,553	\$ 0	\$ 1,553	\$ (25)	(2)%
2A	Sparks-Inside McCarran Ring	\$ 789	\$ 776	\$ 0	\$ 776	\$ (13)	(2)%
3	NW Reno-Northgate/Mogul	\$ 1,214	\$ 1,472	\$ 0	\$ 1,472	\$ 258	21%
4	Sparks-Pyramid/Spanish Springs	\$ 2,337	\$ 2,631	\$ 66	\$ 2,697	\$ 360	15%
5	Sparks-The Vistas	\$ 2,965	\$ 3,677	\$ 577	\$ 4,254	\$ 1,289	43%
6	Sun Valley-Sullivan	\$ 1,303	\$ 1,355	\$ 0	\$ 1,355	\$ 52	4%
7	NW Reno-Mogul-Verdi	\$ 4,882	\$ 4,876	\$ 0	\$ 4,876	\$ (6)	0%
8	Sierra-North Virginia	\$ 2,596	\$ 3,665	\$ 450	\$ 4,115	\$ 1,519	59%
9	Lakeridge-Plumas	\$ 1,291	\$ 1,474	\$ 0	\$ 1,474	\$ 183	14%
10	Stead-Silver Lake	\$ 6,048	\$ 5,814	\$ 0	\$ 5,814	\$ (234)	(4)%
	Existing System Wide Charges						
	Supply-Treatment Facility Charge Unit Cost	\$3,236 ⁽²⁾	\$3,620	\$ 114	\$3,734	\$ 498	15%
	Storage Facility Charge Unit Cost	\$1,240 ⁽²⁾	\$1,004	\$ 213	\$1,217	\$ (23)	(2)%

Notes to Table:

- Existing Feeder Main Fees became effective on November 16, 2006. The existing Feeder Main Fees do not include any finance charges.
- The existing Supply-Treatment Facility Charge includes a finance charge of \$324 per GPM. The existing Storage Facility Charge Unit Cost includes a finance charge of \$233 per GPM.