



DENVER WATER

DENVER WATER 2011 RATES

Frequently Asked Questions

WHY DO YOU NEED TO RAISE RATES?

- The rate adjustment is needed to provide the funding for maintenance, repair and upgrades to existing Denver Water facilities, along with needed new capital projects.
- This vast water system is aging and will require increased repair and rehabilitation over the next several years. In addition, many Denver Water facilities were constructed in the population boom that followed World War II. Unfortunately, those assets are reaching the end of their useful service at the same time.
- We need to continue to be proactive in our work, so we avoid putting reliable water service at risk.
- Denver Water provides water on a daily basis to 1.3 million people in the Denver metropolitan area. To capture and store the large volumes of water needed, and to treat and deliver that water to customers, Denver Water owns and operates a variety of facilities, ranging from dams to reservoirs, treatment plants to canals, and pumps to pipes.
- To ensure reliable water delivery, all these facilities must operate smoothly and last for decades.



Process for developing rates

- **Step 1: Financial plan** What amount of revenue is needed?
 - Forecast revenues needed to cover projected costs (revenue requirements)
- **Step 2: Cost of service** Who bears the cost
 - Determines the cost basis for customer class rate design
- **Step 3: Rates** How revenue is recovered
 - Develops adequate, understandable, equitable, and policy-compliant rates

WHAT IS THE CAPITAL PLAN?

- We need to continue to rehabilitate and replace our infrastructure, much of which dates back to the 1940s and 1950s. The capital plan includes 300 projects. Examples of next year's major and/or critical projects include:
 - ~ Continuing a two-year project at Cheesman Dam to replace the valve system, which dates back to the early 1900s because the old valves are no longer reliable and are unsafe to operate.
 - ~ Continuing a two-year project to make major upgrades and install a new hydropower turbine at Williams Fork Reservoir because existing valves at the dam leaked and were at the end of their operating life.
 - ~ Increasing main replacements and pipe rehabilitation to extend their useful life.
 - ~ Expanding our recycled water system (Conduit 302 from Stapleton to Rocky Mountain Arsenal) and clear water storage (Lone Tree Reservoir).

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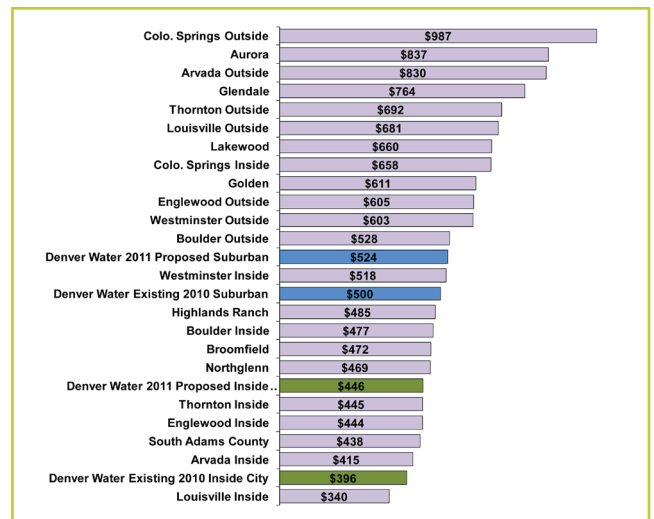
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WHAT IS THE CAPITAL PLAN? (Continued)

- We are investing in forest-health work in order to reduce the risk of costly sedimentation in our reservoirs and to keep the quality of our water supply at the highest level. The cost of remediating damage caused by fire and flood is more expensive than trying to prevent catastrophic events from happening in the first place. Projects include:
 - ~Dredging 625,000 cubic yards of sediment out of Strontia Springs Reservoir – the result of flooding caused by forest fires in the watershed.
 - ~Partnering with the U.S. Forest Service to restore forest health in watersheds critical to Denver Water’s water supply.
- We also need to expand our system capacity to meet the future needs of our customers. Over the next decade, we plan to:
 - ~Expand our recycled water system.
 - ~Enlarge Gross Reservoir.
 - ~Finish developing gravel pits (downstream reservoirs) that store reusable water.
 - ~Continue to help customers use water wisely, as conservation is a less expensive supply option than finding more water and building new storage facilities.
 - ~Explore ways to work with other water providers to bring more supplies to its system.

HOW DOES THIS AFFECT MY BILL?

- The effects on customer bills vary depending upon the amount of water you use and whether you live in Denver or are served by a suburban distributor.
- Under the current proposal:
 - ~ Average Denver residential customers would see their bills increase by about \$3.40 a month – a total of \$41 a year.
 - ~ Typical suburban residential customers served by Denver Water would see an increase of about \$2.66 per month – a total of \$32 per year.
 - ~ The average annual cost for water for an inside-city customer in 2010 was \$330, and would be \$371 in 2011.
 - ~ The average annual cost for an outside-city customer in 2010 was \$555, and would be \$587 in 2011. Adjustments also have been proposed for commercial, industrial and government customers.



- Rates for Denver Water customers living inside the city would remain among the lowest in the metro area, while rates for Denver Water residential customers in the suburbs would still fall at or below the median among area water providers.



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WHEN WOULD THESE RATES GO INTO EFFECT?

- If the proposed adjustments are approved, they would take effect March 2011. January and February bills will be calculated at the current 2010 rates.

HOW IS DENVER WATER FUNDED? HOW DO YOU MAKE MONEY?

- Denver Water is funded through water rates, new tap fees and the sale of hydropower. We do not receive taxes.
- Denver Water is a not-for-profit organization. Our rates are designed to recover the costs of providing reliable, high-quality water service. When those costs increase, the costs to ratepayers increase as well.

WHAT HAVE YOU DONE TO CUT COSTS IN THIS ECONOMY?

- We are very conscious of, and concerned with, the economic hardships everyone is facing right now. At the same time, we have an obligation to provide high-quality water service to our customers, regardless of economic conditions.
- During the drought in 2002-2004, we delayed many projects. System reinvestment was hardest hit, and we need to get back on track with our maintenance.
- Denver Water reduced 2011 planned expenditures by approximately \$10.5 million in response to changing economic conditions.
- For 2011, we are making major cuts in operating expenses, not adding new positions, and being creative with other ways to save money, such as purchasing used vehicles and equipment.

WHY DON'T YOU JUST LAY OFF EMPLOYEES OR INSTITUTE FURLOUGHS?

- Despite the downturn in the economy, Denver Water is faced with an increasing number of customers. From 1977 to 2009, our number of customers has grown 44 percent; during the same time period, the number of employees has grown only 26 percent. We are asking our employees to do more with less.
- Our water supply system must operate 365 days a year, without interruption or decreases in water quality. We have not reduced any services or compromised the reliability or quality of water service to our customers.
- Unlike other governmental entities, payroll costs are not the primary driver of our overall budget.
- Reductions in staff don't automatically translate to operating efficiencies. In fact, the opposite may be the result. Without adequate staff levels, it's unlikely that the 50+ year old infrastructure used to deliver water to our 1.3 million customers would run efficiently.
- We've maintained a higher-than-normal vacancy rate since 2004, and decisions to fill a position are considered on a case-by-case basis.
- The costs of maintaining our infrastructure are related to more than the size of the workforce. Controlling staffing levels is just one of the ways we are meeting the economic challenges that we face.



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YOU ASK US TO CONSERVE, AND WE DO, BUT YOU STILL RAISE RATES. WHY?

- In the long run, conservation is a less expensive supply option than finding more water and building new storage facilities. Conservation helps us extend supplies into the future and delay the need to build new supply projects.
- A significant portion of Denver Water's annual costs do not vary with the amount of water sold and include maintenance of the system's distribution pipes, reservoirs, pump stations and treatment plants.
- All our storage, treatment and distribution facilities must continue to operate to deliver water to each and every location.
- Conservation by individuals lowers their water bills.
- Rates are driven more by rising operating costs than by changes in water use.
- We focus on conservation, recycled water for irrigation and new supply to ensure water for the future. Less water use reduces our revenue, but conservation is critically important in the bigger picture of having a secure water future.
- Denver Water offers its customers programs to assist them in reducing the amount of water they use, thereby lowering their water bills. Specific conservation programs include residential toilet and clothes washer rebates, commercial rebates, low-income fixture retrofits, irrigation efficiency contracts, as well as outreach and education programs.

IS DENVER WATER GOING TO CONTINUE TO RAISE RATES EVERY YEAR?

- Denver Water evaluates its budget and upcoming projects on a yearly basis, but we will need to continue to invest in our system. The cost of providing water is going to go up.
- Water utilities throughout the West face a challenging future. There is a need to invest in infrastructure, new supplies, watershed protection, recycled water and conservation. And, we live in an era in which climate change likely will shrink supplies and increase demand.
- Even with a focus on cost control, productivity and efficiency, the cost of providing water is going to go up. Our job is to ensure that our customers are getting a good value for the increasing investment they will need to make.

WHY ISN'T DENVER WATER A DEPARTMENT WITHIN THE CITY OF DENVER?

- After several serious battles with drought and limited water supplies, Denver residents voted in 1918 to buy the water system from a private company. They also voted to create a non-political Board of Water Commissioners.
- Denver Water is a separate entity from the rest of the city of Denver and derives its authority from the Charter of The City and County of Denver (Article X).
- All revenues from Denver Water are placed into the Water Works Fund, and may be used only for costs associated with running the water system, thus ensuring that all revenue is reinvested in the water system, rather than being diverted to other uses

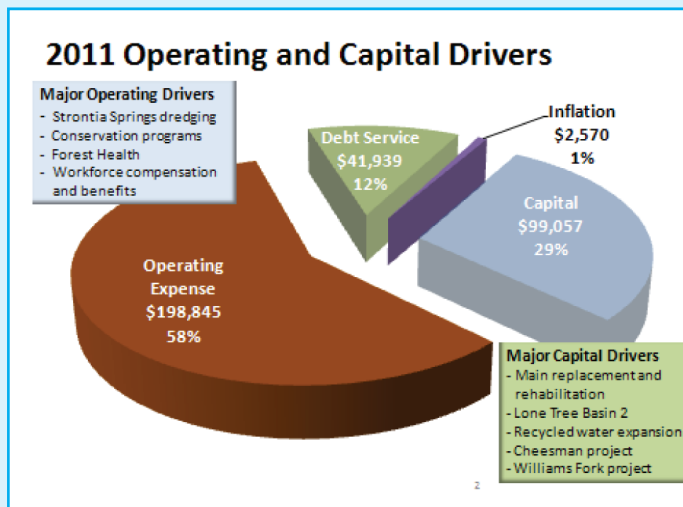


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WHAT IS THE BREAKOUT BETWEEN DENVER WATER'S CAPITAL COSTS VERSUS OPERATING COSTS?

- The 2011 budget distribution is as follows:
 - ~58.5 percent for operation and maintenance costs; 7 percent of this is attributed to a one-time expenditure for the Strontia Springs Reservoir dredging project.
 - ~12.5 percent for annual payments on debt service. Denver Water's average interest rate on debt is approximately 4.2 percent.
 - ~29 percent for capital projects. This includes repair and replacement projects.



How can I learn more about these proposed rates?

- 9 a.m. on Nov. 10, the Denver Water Board will hold its regular meeting at our headquarters. While rates will not be on the agenda, public comment will be accepted at the meeting.
- 9 a.m. on Nov. 17, the Denver Water Board will hold a regular meeting and vote on the rates proposal. Public comment will be accepted prior to the vote.
- Customers also can e-mail (dbwc@denverwater.org) or write letters (Denver Water Board, 1600 W. 12th Ave., Denver, CO 80204) with comments on rates to the Denver Water Board.
- Details of the 2011 rates proposal are posted on Denver Water's website (www.denverwater.org/BillingRates).
- Members of the public who have questions about the proposed rate adjustment may call 303-628-6320.