

Public Hearing



Water Utility Cost of Service Rate Study

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- Background
- Overview of rate study process
- Key assumptions
- Summary of results
 - Revenue requirement
 - Cost of service
- System development fees
- Discussion/ Input
- Next steps



- Study commenced in mid 2018
 - Includes acquisition of Thurston systems; over 70 systems combined
- Presented draft findings to the Board at workshop on April 9 direction provided:
 - No new debt
 - Deferred capital to address rate affordability
 - "One system" approach for cost of service rate making





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• RCW 54.24.080

- (1) The commission of each district which shall have revenue obligations outstanding shall have the power and shall be required to establish, maintain, and collect rates or charges for electric energy and water and other services, facilities, and commodities sold, furnished, or supplied by the district. The rates and charges shall be fair and, except as authorized by RCW 74.38.070 and by subsections (2) and (3) of this section, nondiscriminatory, and shall be adequate to provide revenues sufficient for the payment of the principal of and interest on such revenue obligations for which the payment has not otherwise been provided and all payments which the district is obligated to set aside in any special fund or funds created for such purpose, and for the proper operation and maintenance of the public utility and all necessary repairs, replacements, and renewals thereof.
- (3) In establishing rates or charges for water service, commissioners may in their discretion consider the achievement of <u>water conservation goals and the discouragement of wasteful</u> <u>water use practices.</u>



Revenue Requirement



Determine the amount of annual revenue necessary to fund all financial obligations

- Operating expenses
- Debt service (principal & interest)
- Capital costs and funding approach

• Meet financial parameters and targets

- Target debt service coverage ratios
- Maintain target reserve balances
- Evaluate revenue sufficiency over multi-year period
- Develop rate plan to balance financial needs and minimize customer impacts



- Study period 2019 2026
 - Study projected through 2038
- Projected rate revenue based on customer statistics plus growth
 - Growth varies by customer class
 - Includes purchase of the Thurston systems
- 2019 budget used as baseline various escalation factors used for future years
 - Includes 2 additional FTEs:
 - Engineering position in 2019
 - Water tech position in 2023
 - Includes additional power costs assumption for Thurston systems



Policy	Purpose	Target
Operating Reserve	Liquidity cushion to accommodate cyclical cash flow fluctuations.	90 Days O&M (\$283k - \$408k)
Capital Contingency Reserve	To meet emergency repairs, unanticipated capital, and project cost overruns.	2.0% of Plant (\$340k - \$475k)
System Reinvestment Funding	Promote ongoing system integrity through reinvestment in the system.	Target: Annual Depreciation (\$429k - \$1,000k)
Debt Service Coverage	Compliance with existing loan/debt covenants and maintain credit worthiness for future debt issuance.	Target: 1.25X



Description	2019-2026
Existing Rate Revenue	\$2.0 M - \$2.1 M
O&M Expenses	\$1.1 M - \$1.7 M
Existing Debt Service	\$400 k - \$326 k
New Debt Service	\$0
System Reinvestment	\$429 k - \$1,000 k
Total CIP (2019 - 2026)	\$8,417,085



- \$8.4 million in capital projects to be funded by fund balances, existing debt proceeds, rate-funded system reinvestment and connection charge revenue
- No new debt assumed







Additional Reserve / Capital Funding — Total Revenues Before Increases

Description	2019	2020	2021	2022	2023	2024	2025	2026
Proposed Increase		5.00%	5.00%	6.00%	6.00%	7.00%	7.00%	7.00%
Average Residential Bill	\$ 54.58	\$ 57.31	\$ 60.18	\$ 63.79	\$ 67.62	\$ 72.35	\$ 77.41	\$ 82.83
Change from Prior Year - \$		\$ 2.73	\$ 2.87	\$ 3.61	\$ 3.83	\$ 4.73	\$ 5.06	\$ 5.42

Notes:

[1] 2019 average residential bill includes approved rate adjustment effective April 2019

[2] Average residential bill based on 7 CCFs of water use; average use varies by system

[3] Rates exclude applicable taxes



Cost of Service

(2020 Adjustment: 5.0%)



- An equitable distribution of cost share that considers utility specific data:
 - Measures of usage and demand
 - Planning, engineering and design criteria
 - Facility requirements
- Total cost by class (equity)
- Unit costs (\$/usage; \$/customer)
- Fundamental question: Do cost differences exist to serve different customer classes of service?



• Step 1: Allocate total utility costs to cost pools



• Step 2: Develop allocation factors using class specific information



• Step 3: Allocate costs to customer classes



Peak	Costs associated with meeting incremental peak demands	FireMeters &1.15%Services12.90%	
Base	Costs associated with meeting average demands	Customer	Peak 32.10%
Customer	Fixed costs that do not vary with meter size or usage (e.g. utility billing)	30.44%	Base
Fire	Costs related to direct fire protection (hydrants) and oversizing facilities for fire flow (mains, reservoirs, etc.)		23.42%
Meters & Services	Costs associated with installation, maintenances and repairs of meters and services	۶,	

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- Existing rates:
 - System specific rate structure
- Proposed rates class based (system wide):
 - Residential
 - Large non-residential
 - Irrigation
 - Fill charge to Rainbow Lake customers



- Cost pools allocated to classes of service based on the unique demands of each group on water utility.
- Cost allocation process equitably distributes costs of the utility to each class of service.

Description	Peak	Base	Customer	Fire	Meters & Services		
2020 Revenue Requirement	\$ 684,327	\$ 499,235	\$ 648,971	\$ 24,469	\$ 275,049		
Costs Allocated By:	Peak	Waterllee	Accounts	Fire Flow	Meter Service		
Costs Anocated by.	Water Use	Water Use	Accounts	Standards	Equivalents		
Residential	69.94%	81.24%	99.85%	99.93%	97.19%		
Large Non-Residential	4.31%	5.32%	0.07%	0.07%	1.14%		
Irrigation	25.39%	13.17%	0.04%	0.00%	1.56%		
Fill Charge	0.36%	0.27%	0.04%	0.00%	0.11%		
Total	100.00%	100.00%	100.00%	100.00%	100.00%		





- ±5.0% of average is within Cost of Service (industry standard)
 - Residential and Large Non-Residential classes can decrease towards COSA
 - Irrigation and Fill charge classes can increase towards cost of service

Class of Service		2020				Differe	COSA		
		Existing	COSA		\$		%	\$ p	er CCF
Residential	\$	1,843,470	\$	1,823,948	\$	(19,522)	-1.06%	\$	8.54
Large Non-Residential		102,051		59,683		(42,368)	-41.52%		4.27
Irrigation		82,362		244,037		161,675	196.30%		7.05
Fill Charge		2,642		4,383		1,740	65.87%		6.13
Total	\$	2,030,525	\$	2,132,051	\$	101,526	5.00%	\$	8.11



Class of Service	2020	2021	2022	2023	2024	2025	2026
Residential	4.49%	4.42%	5.34%	5.15%	6.05%	5.82%	5.56%
Large Non-Residential	-2.23%	-2.23%	-2.23%	-2.23%	-2.23%	-2.23%	-2.23%
Irrigation	23.31%	23.31%	23.31%	23.31%	23.31%	23.31%	23.31%
Fill Charge	66.25%	5.30%	6.30%	6.30%	7.27%	7.27%	7.27%
Total	5.00%	5.00%	6.00%	6.00%	7.00%	7.00%	7.00%





Notes:

[1] Based on 7 CCF average monthly use

[2] Excludes applicable taxes

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System Development Fees



- Revised Code of Washington RCW 54.24.080 grants PUD's the authority to fix rates and charges for connecting to water systems
- One time charge imposed on new development or expanded connection to system as condition of service
- Based on the cost of system infrastructure
 - Existing & future
- Represents proportionate share of capital investment



Description	
Existing Charge per ERU:	\$ 2,957
Proposed Charge per ERU: Increase from Existing Charge:	\$ 4,733 1,776

Note

[1] Existing charge based on weighted average for all systems[2] Existing fees vary by system

Charges are "maximum allowable"

- By policy may set below maximum allowable
- Rates make up the difference





Note: All charges for 5/8" meter, 3/4" meter, or 1 ERU



Incorporate feedback and direction:

- Revenue requirement
- Cost of service phase-in
- System development fees
- Rate design
- Rates effective January 2020

