



# Board Meeting



## Water Utility Cost of Service Rate Study

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# Discussion Outline

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- ◆ **Background**
- ◆ **Overview of rate study process**
- ◆ **Rate design considerations**
- ◆ **Summary of results**
- ◆ **Discussion / Input**
- ◆ **Next Steps**



# Background

- ◆ **Study commenced in mid 2018**
  - Includes acquisition of Thurston systems, over 70 systems combined
- ◆ **Presented draft findings to the Board on April 9 – direction provided:**
  - No new debt
  - Deferred capital to address rate affordability
  - “One system” approach for cost of service rate making
- ◆ **Presented updated findings to the Board April 23 direction provided:**
  - Ramping overall rate increase
- ◆ **Additional direction provided by the Board on August 19:**
  - Progress towards cost of service

| Class of Service               | 2020         | 2021         | 2022         | 2023         | 2024         | 2025         | 2026         |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Residential / Small Commercial | 4.97%        | 5.03%        | 6.05%        | 6.03%        | 7.04%        | 7.01%        | 6.98%        |
| Large Commercial               | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        | 0.00%        |
| Irrigation                     | 10.00%       | 10.00%       | 11.00%       | 11.00%       | 12.00%       | 12.00%       | 12.00%       |
| Fill Charge                    | 66.25%       | 5.30%        | 6.30%        | 6.30%        | 7.27%        | 7.27%        | 7.27%        |
| <b>Total</b>                   | <b>5.00%</b> | <b>5.00%</b> | <b>6.00%</b> | <b>6.00%</b> | <b>7.00%</b> | <b>7.00%</b> | <b>7.00%</b> |



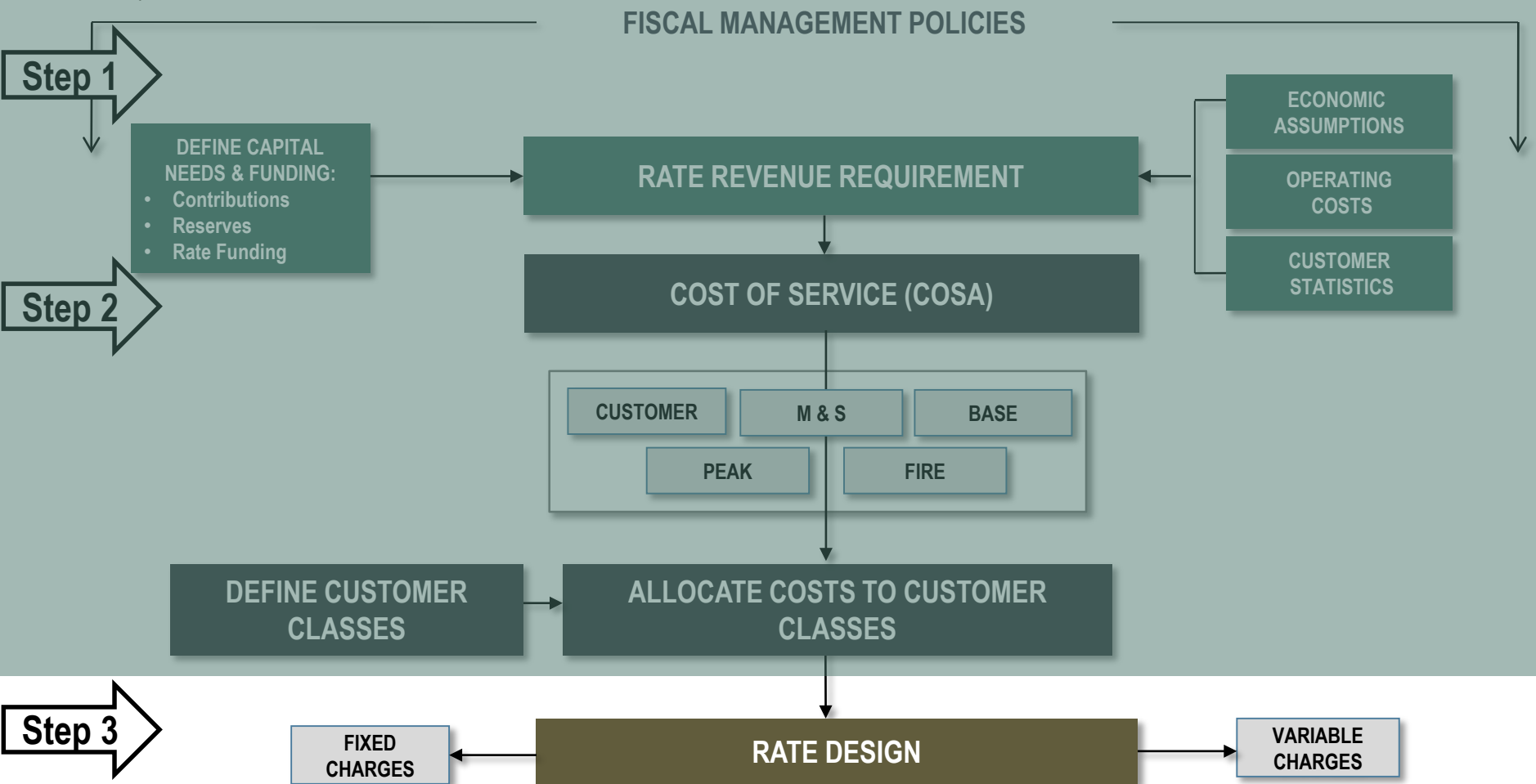
# Legal Authority for Rate Setting

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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 water conservation goals and the discouragement of wasteful water use practices.



# Overview of Rate Study Process





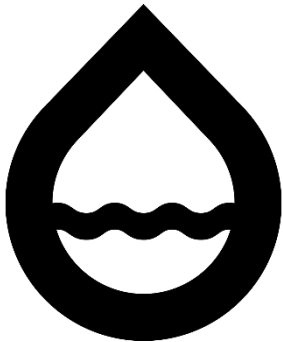
# Rate Design



# What is Rate Design?

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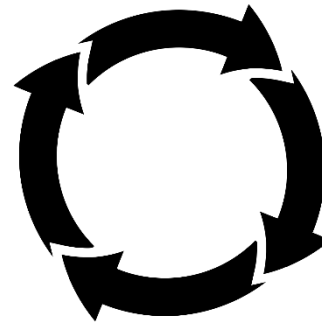
- ◆ Development of fixed and variable charges assessed to water customers



Aligns fixed and variable costs with fixed and variable revenue sources



Generates sufficient revenue to meet utility requirements



Meet goals and objectives of the utility (e.g., conservation)



Evaluate monthly rate impact for different levels of water use



## One System (Class-Based Charges)

## Large Commercial

## Irrigation





## **Rate Design Considerations** (continued)

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- ◆ **Class-based charges (consolidate all systems)**
- ◆ **Eliminates monthly capital surcharges starting 2020**
- ◆ **Meter based rates for Large Commercial & Irrigation**
- ◆ **Modify variable rates (\$/ccf or \$/gallon):**
  - No changes to Residential blocks or allowances
  - Eliminates block structure for Large Commercial customers



# Summary of Results



## Residential / Small Commercial

|   | Existing<br>2019 | Proposed<br>2020 |
|---|------------------|------------------|
| <b>Meter Charge (\$ per Month)</b>                |                  |                  |
| Varies by system<br>(ranges from \$41 to<br>\$72) |                  | \$51.12          |
| <b>Usage Charge (\$ per ccf)</b>                  |                  |                  |
| 0 to 400 CF                                       | \$0.00           | \$0.00           |
| 401 to 1,000 CF                                   | \$1.96           | \$2.05           |
| 1,001+ CF   | \$2.44           | \$2.55           |



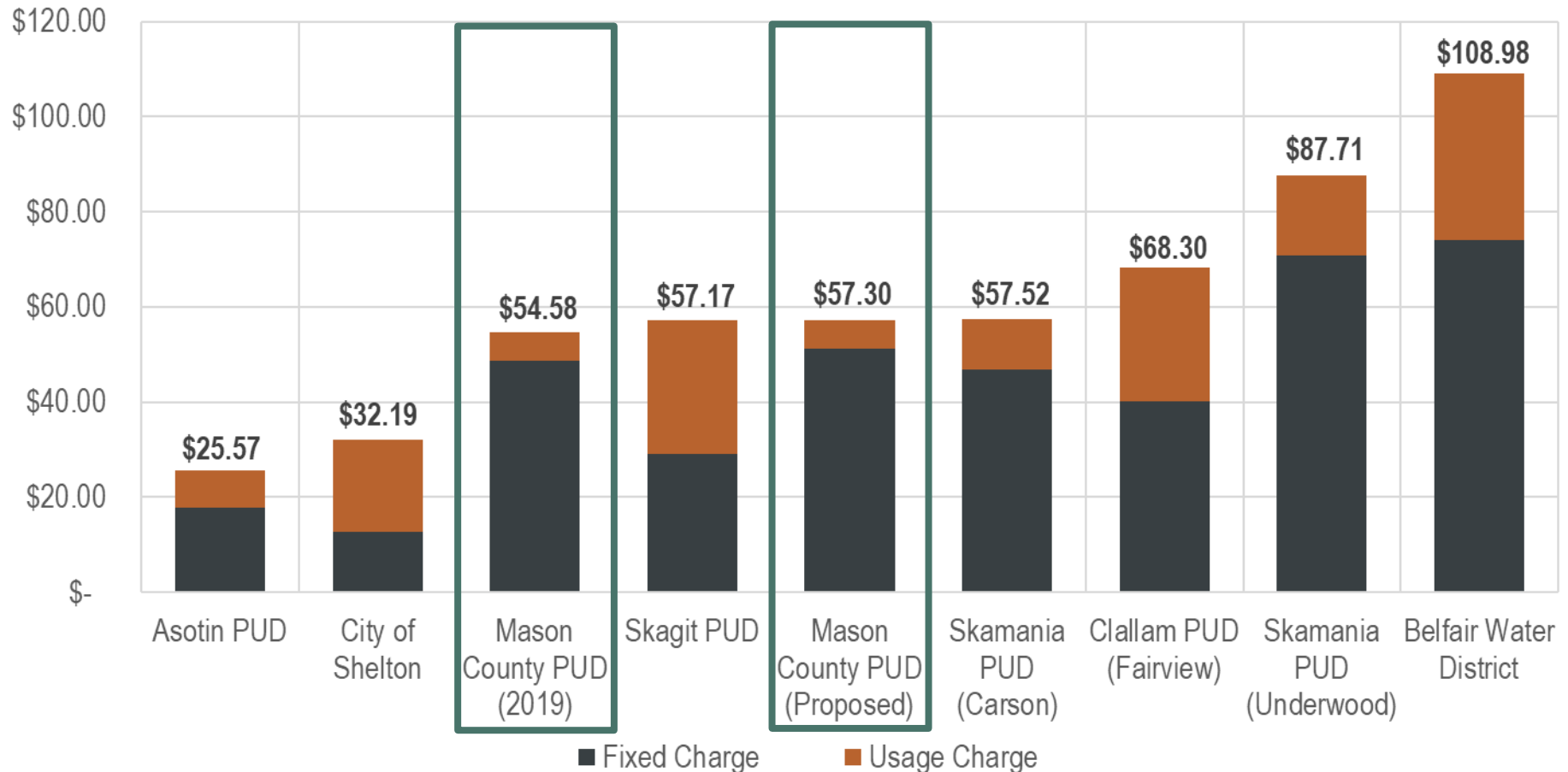
## **Residential Rate Impacts**

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- ◆ **Generally, residential customers that currently pay a capital surcharge will pay a lower monthly fixed charge in 2020**
  - Customers that do not pay a capital surcharge today, will likely pay a higher fixed charge in 2020
  - The change to monthly fixed charges range from a reduction of \$20.49 to an increase of \$9.81
- ◆ **Usage charges will increase approximately 5% for all residential customers in 2020**



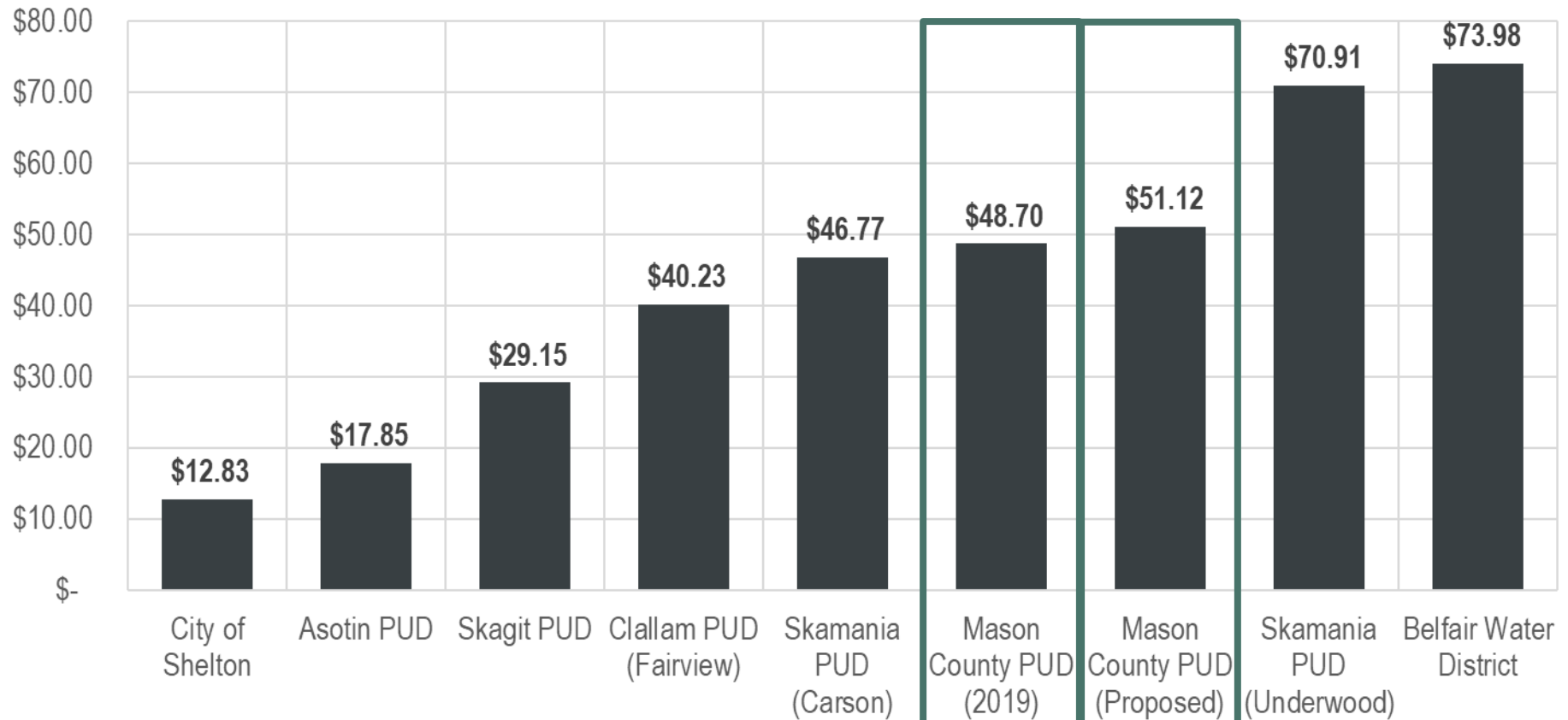
# Comparative Residential Monthly Rate Survey



**Note:** 2019 Mason County PUD fixed charge based on average for all systems (including capital surcharge)  
usage charges based on 7 CCF of water use



# Residential Monthly Fixed Charges



**Note:** 2019 Mason County PUD fixed charge based on average for all systems (including capital surcharge)



# Large Commercial

|                                    | Existing*<br>2019 | Proposed<br>2020 |
|------------------------------------|-------------------|------------------|
| <b>Meter Charge (\$ per Month)</b> |                   |                  |
| 5/8"                               |                   | \$70.04          |
| 3/4"                               |                   | \$105.05         |
| 1"                                 |                   | \$175.09         |
| 1 1/2"                             |                   | \$350.18         |
| 2"                                 | \$610.54          | \$560.29         |
| 3"                                 |                   | \$1,050.55       |
| 4"                                 |                   | \$1,750.91       |
| 6"                                 |                   | \$3,501.83       |
| 8"                                 | \$5,552.68        | \$5,602.93       |
| <b>Usage Charge (\$ per ccf)</b>   |                   |                  |
| Block 1                            | \$0.00            | \$2.07           |
| Block 2                            | \$1.96            | \$2.07           |
| Block 3                            | \$2.44            | \$2.07           |

**Note:** 2019 rates based on ERUs (not meter size). Block 1 allowances are system - and customer-specific



# Irrigation

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|                                    | Existing*<br>2019 | Proposed<br>2020 |
|------------------------------------|-------------------|------------------|
| <b>Meter Charge (\$ per Month)</b> |                   |                  |
|                                    | \$3,618.11        | \$3,979.92       |
| <b>Usage Charge (\$ per ccf)</b>   |                   |                  |
|                                    | \$1.14            | \$1.25           |

**Note:** Irrigation customer is currently billed one fixed charge for all meters. Beginning in 2020, the fixed charge will be based on the number of meters. In 2020, the monthly fixed charge per 2" meter is \$265.33





## **Next Steps**

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- ◆ **Incorporate feedback and direction for proposed rate design**
- ◆ **Rate hearing scheduled for October/November 2019**
- ◆ **Rates effective January 2020**

