

# Comprehensive Cost of Service and Rate Design Study

Rates Advisory Committee

October 30, 2008

*Agenda Items #4 and #6*

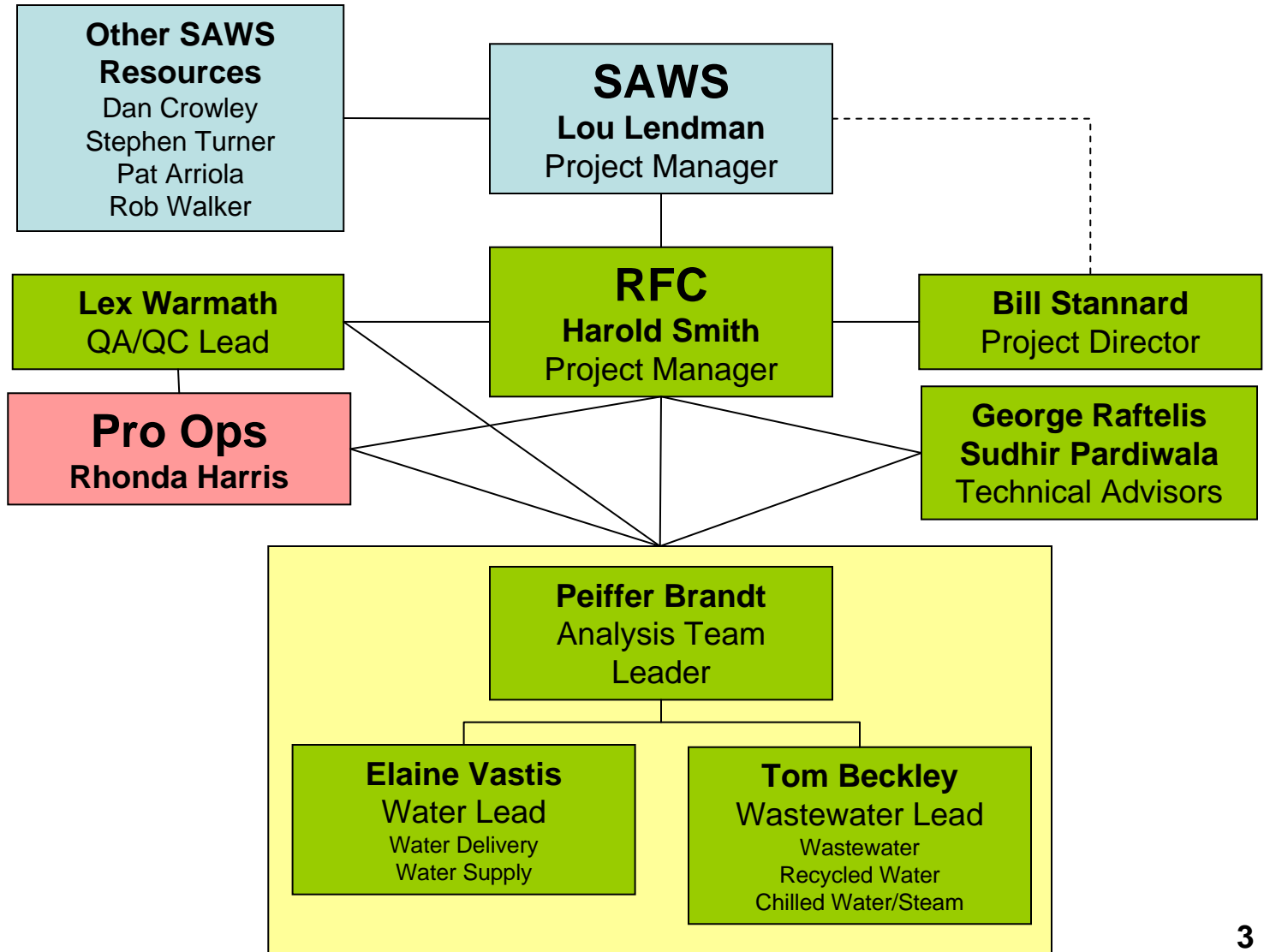


# Agenda

- Project Team
- Project Plan
- Key Issues
- Frequently Asked Questions



# Project Team





# Project Plan

1. Project Initiation And Management
2. Consumption and Current Revenue Analysis
3. Develop Revenue Requirements
4. Develop Conceptual Design
5. Rate Model Revisions and Improvements
6. Cost of Service Analysis and Rate Calculation
7. Presentation of Results and Public Involvement

A vertical image on the left side of the slide shows water flowing from a pipe at the top, falling into a hand cupped at the bottom. The water is splashing and creating ripples. The background is dark, making the water and hand stand out.

# Project Initiation And Management

## Objectives

- Develop and finalize a project plan that is responsive to the San Antonio Water System's (SAWS) needs.
- Organize the project team (consultants and SAWS staff) to work effectively in executing the project plan.
- Initiate interaction with Rates Advisory Committee (RAC).
- Begin the data collection process.

## Tasks

- ✓ Prepare Project Planning Meeting package.
- ✓ Lead Project Planning Meetings. (*Trip, October 15-17, 2008*)
- ✓ Prepare Initial RAC Meeting package.
- ✓ Initial RAC Meeting. (*Trip, October 30, 2008*)
- Finalize Project Plan.
- Review and compile data.
- Ongoing project management.



# Consumption and Current Revenue Analysis

## Objectives

- Develop accurate projections of customer demand by class and service type and to develop a thorough understanding of the drivers of demand fluctuations.
- Determine the extent to which current rates are able to generate sufficient revenues.

## Tasks

- Gather historical demand data for all customers.
- Analyze service area growth data and projections.
- Gather and analyze historical rainfall data.
- Determine peaking factors.
- Develop “units of service” schedules for the rate model that incorporate risk analysis capabilities.
- Examine price elasticity of demand.
- Calculate projected revenue under existing rates.



# Develop Revenue Requirements

## Objectives

- Project revenue requirements over a ten-year rate horizon.
- Develop an understanding of the nature of SAWS' costs.

## Tasks

- Review SAWS' current multi-year financial planning model.
- Analyze and classify SAWS' utility plant in service.
- Evaluate SAWS' operating budget.
- Evaluate SAWS' existing and proposed debt service.
- Develop escalation factors for specific components of cost.
- Develop revenue requirements schedules for rate model.



# Develop Conceptual Design

## Objectives

- Identify and prioritize RAC and SAWS pricing objectives.
- Gain preliminary “buy in” by SAWS staff and the RAC of the alternative financial and pricing structures to be incorporated into the rate model.

## Tasks

- **Develop Rates Workshop materials.**
- **Prepare for workshop.**
- **Facilitate workshop with SAWS staff and RAC. (Trip) (January, 2009)**
- **Prepare materials for Pricing Objectives Workshop.**
- **Pricing Objectives Workshop with RAC. (Trip, February, 2009)**
- **Summarize Pricing Objectives Workshop findings.**
- **Develop Conceptual Design.**
- **Prepare Conceptual Design documentation.**
- **Present Conceptual Design to SAWS staff and RAC. (Trip, March, 2009)**
- **Finalize Conceptual Design.**

A vertical image on the left side of the slide. The top portion shows water cascading over a concrete spillway into a pool of water. The bottom portion shows a pair of hands cupped together, holding a stream of water that falls into a pool, creating ripples.


# Rate Model Revisions and Improvements

## Objectives

- Develop new rate model that:
  1. Addresses proposed changes to the rate structures;
  2. Is an effective planning tool; and
  3. Is easily updated by SAWS' staff.

## Tasks

- Review existing model with SAWS' staff.
- Develop model to incorporate changes identified during conceptual design phase.
- incorporate risk analysis capabilities.
- Review model with SAWS' staff.
- Finalize rate model.
- Provide model training sessions for SAWS' staff.



# Cost of Service Analysis and Rate Calculation

## Objectives

- Develop rates consistent with SAWS' pricing objectives.

## Tasks

- Analyze SAWS' processes to determine cost causation.
- Allocate costs to functional categories.
- Review and refine customer classes.
- Develop cost allocation methodologies consistent with pricing objectives.
- Using rate model, determine preliminary rates.
- Develop rate impact and rate comparison schedules.
- Present preliminary rates to SAWS' staff. (*Trip, April/May, 2009*)
- Refine assumptions and Model input based on input from SAWS' staff.
- Present preliminary rates to RAC. (*Trip, May/June, 2009*)
- Refine assumptions and Model input based on input from RAC.
- Finalize Rate Model and discuss with staff.



# Presentation of Results and Public Involvement

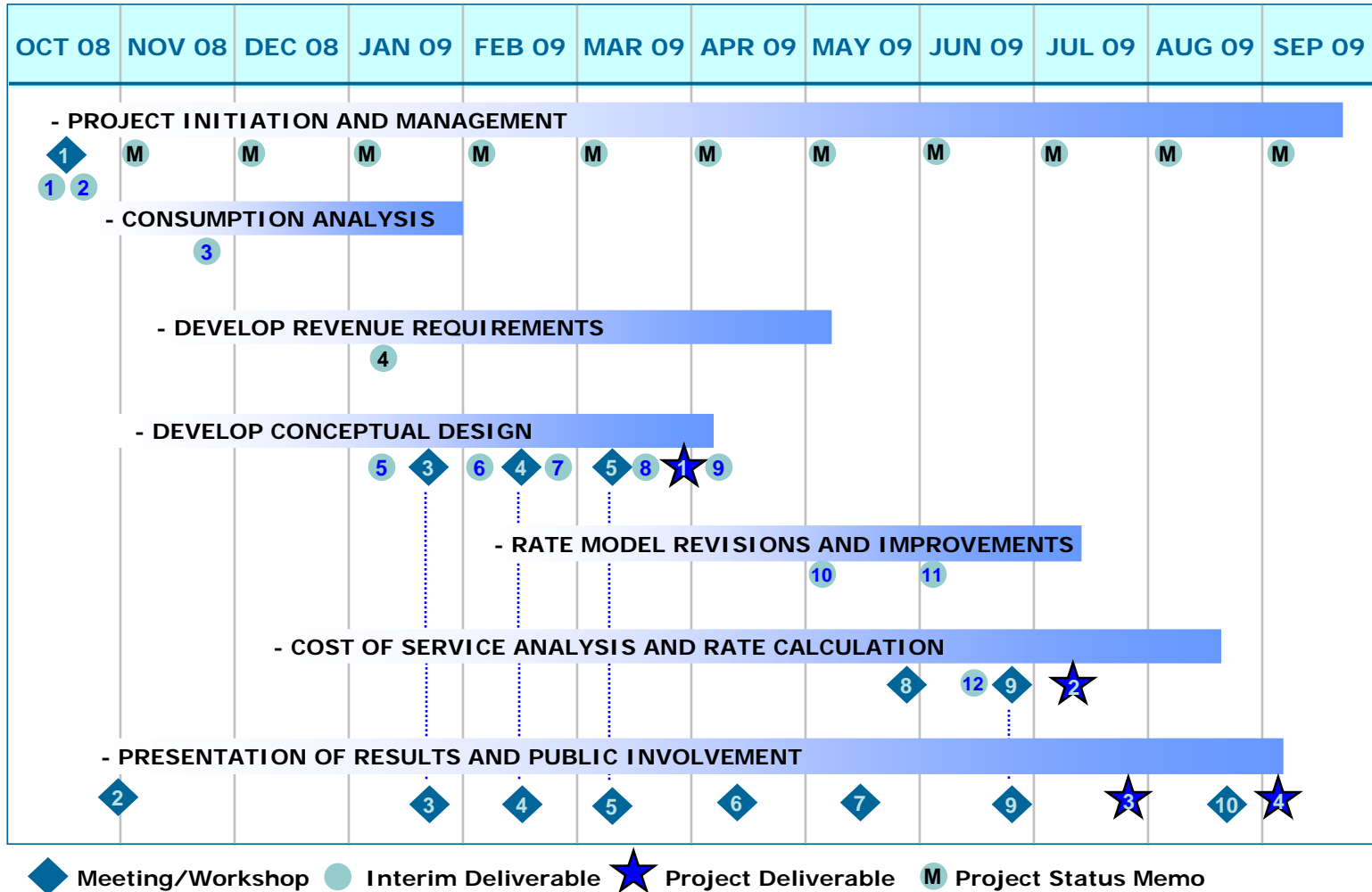
## Objectives

- Allow for appropriate participation by stakeholders in the rate setting process
- Ensure that decision makers have the information they need to make well informed decisions on SAWS' future rates.

## Tasks

- Assist SAWS' staff in the development of a public involvement and communication plan.
- Participate in public involvement and communication efforts.
- Prepare draft report documenting study results.
- Prepare rate presentations for SAWS Board and City Council.
- Present study results to SAWS' Board and City Council. (*Trip, Date TBD*)
- Prepare final report.

# Project Timeline





# Meeting/Workshops

1. Project Planning Meeting
2. RAC Kick Off Meeting
3. Rates Workshop
4. Pricing Objectives Workshop
5. Conceptual Design Presentation
6. RAC Meeting – Subject TBD
7. RAC Meeting – Subject TBD
8. Presentation of Preliminary Rates to SAWS Staff
9. Presentation of Preliminary Rates to RAC
10. Presentation of Final Rates to SAWS Board and City Council



# Key Issues

- Rate Structure
- Energy Pass Through
- Conservation Rates
- Recycle Rates
- Tiered Water Supply Fee
- Winter Average Consumption
- Funding For Water Supply Acquisition
- Drought Surcharges
- Interconnect Rate
- Raw Water Rates
- Seasonal Rates Wholesale Customers
- High Strength Surcharges
- Lift Station Maintenance
- Inside City/Outside City Rates
- Edward's Recharge Zone Rates



# Frequently Asked Questions



# Frequently Asked Question #1

Why do I have to pay for water in the first place?

- 💧 Treat and Move Water
- 💧 People, Consumables, and Assets



# Frequently Asked Question #2

Why are my water rates at my business different than they are at my home?

- 💧 Different Usage Characteristics
- 💧 Residential Peaking Factors are Higher



# Frequently Asked Question #3

Why does SAWS assess so many different charges?

- 💧 Customers that Receive Services Should pay the Cost (Turn-on Service)
- 💧 Communicates Cost Drivers (Water Supply Fee)



# Frequently Asked Question #4

Why does some of my water cost more?

- 💧 Promotes Conservation
- 💧 Recognizes Peak Usage Causes Additional Costs



# Frequently Asked Question #5

Why does water cost more during the summer?

- 💧 Peak Usage Occurs During Summer
- 💧 Further Promotes Conservation
- 💧 Attempts to Shave Peak Usage



# Frequently Asked Question #6

What is the “Water Supply Fee” and why do I have to pay both a water supply fee and a water delivery charge?

- 💧 Water Supply Fee - Identifying, Acquiring, and Integrating new Water Sources
- 💧 Water Delivery Charge – Treating and Moving Water



# Frequently Asked Question #7

Why is there a fixed “service availability charge” and a “monthly volume charge”?

- 💧 Fixed and Variable Expenses
- 💧 Service Availability Charge – Recovers Billing, Meter, and Service Availability Costs



# Frequently Asked Question #8

Why are there four water delivery charge “usage blocks” and how are the cutoffs between the blocks determined?

- 💧 Attempts to Recognize Different Levels of Usage (Essential, Non-essential, Excessive)
- 💧 Based on Customer Demographics



# Frequently Asked Question #9

Why are my sewer charges higher than my water charges?

- 💧 High Quality Water Source
- 💧 Wastewater Treatment is More Costly



# Frequently Asked Question #10

What is the “winter average” and why is it used to calculate my sewer charges?

- 💧 3-Month Average Between November 15 and March 15
- 💧 Proxy for Volume of Wastewater Discharged



# Frequently Asked Question #11

Why is the sewer monthly volume charge flat?

- 💧 Peak Water Usage does not Correspond to Peak Discharge
  - Inflow and Infiltration are responsible for peaks
- 💧 Wastewater Strength is Differentiator; Recovered through Surcharges