



Finance Committee Agenda Item

Meeting Date: January 31, 2023

Agenda Item: Water Utility Conventional Rate Case Application - Update

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BACKGROUND

The Water Utility is supported by charging users for the water used. The rates charged are monitored to ensure they are adequate to recoup the costs of the service and replacement of related infrastructure.

The current Water rates were implemented in August 2020 following a year-long Conventional Rate Case by the Public Service Commission (PSC). The PSC rate order represented an 18% increase for the average volume residential customer. At that time, Council direction was to address the need for rate increases more frequently to avoid large rate shocks to residents. The 2022-2023 Budget included a 3% increase planned to take effect July 1, 2022. The need was supported by an analysis by Ehlers during the 2022-2023 Budget development.

Having completed a Full Rate Case in 2020, the PSC offers a simplified process to adjust rates if the utility does not meet a minimum rate of return on invested assets, if their standard increase (currently 4.5%) had been implemented on the prior year's actual results. This methodology effectively inflates revenue, but ignores inflation of costs and we do not qualify for the simplified process to address rates. The only other method is to pursue a Full Rate Case, which is expected to take up to twelve months to complete.

We've updated our long-range planning created during the 2022-2023 budget process which indicated a need to increase revenues by 24% for fiscal year 2023. This larger increase was anticipated as a result of the planned replacement of the Starin Park and Fremont Street reservoirs with the Southwest Elevated Water Tower in 2022.

The initial stage of the PSC review evaluated all of our utility cost reporting before determining the revenue necessary (revenue requirement) to maintain the water system in a financially responsible manner. The PSC revenue requirement includes a required rate of return on the funds invested in the water system. The rate of return required by the PSC changes annually based on a rolling average of municipal bond rates. By ensuring the required rate of return is met, compliance with borrowing covenants and stable credit ratings are assured. As the required rate of return changed from 5.6% to 6.6% between the time we submitted the application and the PSC completed their analysis, the revenue requirement increased from an estimated 24% at the time the application was submitted to 29% as determined by the PSC. We were notified of the PSC's revenue requirement determination on November 21, 2022.

The second stage of the PSC review evaluates the cost of service by customer class and recommends a rate structure. We received notice of the PSC's cost of service results and recommended rate structure on December 20, 2022.

With these items in hand, the City has an obligation to notify the water utility customers of these results and opportunity to provide input or contest the rate proposal at a Public Hearing scheduled for January 26, 2022.

PREVIOUS ACTIONS – COMMITTEE RECOMMENDATIONS

(Dates, committees, action taken)

- 5-24-22: Finance Committee Recommended submission of conventional water rate case application with PSC
- 6-7-22: Council approved submission of conventional water rate case application with PSC
- 7-31-22: Completed application submitted to PSC for analysis
- 11-21-22: PSC released Revenue Requirement
- 12-20-22: PSC released Cost of Service Analysis and Proposed Rate Structure
- 1-26-23: Public Hearing on Water Rate Case at 2:00 pm

FINANCIAL IMPACT

(If none, state N/A)

PSC analysis projected to increase water utility revenues by \$687,376 or 30%.

STAFF RECOMMENDATION

Update on progress of application. No action requested, but feedback welcome.

ATTACHMENT(S) INCLUDED

(If none, state N/A)

1. Revenue Requirement Notification dated 11/21/2022
2. Cost of Service and Proposed Rate Structure notification dated 12/20/2022
3. Example of required Public Notice to Water Utility Customers