

MEMORANDUM

DATE: October 5, 2020

TO: Ted Corrigan, CEO and General Manager

FROM: Peggy Freese, CFO

SUBJECT: Proposed 2021 Water Rates

Background

As you are aware, the Cost of Service model Raftelis developed for DMWW is different than our previous model. That, along with the across the board rate increases we implemented in prior years, resulted in misaligned cost recovery across our customer classes. Specifically, we have been under collecting revenue from the wholesale Purchased Capacity class. Rate increases we implemented in 2020 were structured to begin realigning revenue recovery with costs incurred.

Raftelis recommended that we revise our wholesale rate structure so that customers pay a share of fixed capital costs even when they don't purchase water from us. In addition to providing revenue to offset fixed capital costs, this would also address intra-class inequity. Staff has worked with Raftelis this year to consider options for a revised Purchased Capacity rate. Tom Beckley gave a presentation at the April Finance and Audit Committee meeting and led a Board work session in July. Staff and the Board support moving toward wholesale rates that have a fixed charged based on maximum day usage combined with a volumetric rate. However, we recommend delaying the implementation of a revised wholesale rate to July 2022. Several wholesale customers have expressed concern regarding this proposed change and have questioned whether such a change is allowed in the Wholesale Master Agreement. Staff and legal counsel believe the rate changes contemplated are within the boundaries of the agreement. Since Regionalization discussions have restarted and are progressing, we feel it is appropriate to delay changing the wholesale rate structure. Our highest priority in adjusting wholesale rates is to move forward in matching revenue recovery to costs. That can be accomplished by increasing the volume rate without changing the rate structure. While a revised rate structure will preserve our revenue in the future if customers choose to go their own way, that action can be delayed to 2022.

2021 Water Rates

We recommend the following rate increases effective April 1, 2021:

Des Moines Inside City	5%
Full Service	5%-7%
Wholesale Purchased Capacity	15%
Wholesale With Storage	3%

We updated the COS model with preliminary 2021 budget numbers. The results are shown below. The results show improvement in increasing the cost recovery from Wholesale Purchased Capacity and decreasing cost recover from Des Moines and Wholesale With Storage.

Customer	Cost of Service	Rate Increase	Revenue Collected	COS Recovery
Des Moines	\$ 33,022,528	5%	\$ 34,487,849	104.4%
Full Service	11,073,050	5% - 7%	11,744,441	106.1%
Wholesale-PC	21,679,579	15%	18,939,298	87.4%
Wholesale-W/Storage	2,823,321	3%	3,426,890	121.4%
	<u>\$ 68,598,478</u>		<u>\$ 68,598,478</u>	100.0%

For the Wholesale Purchased Capacity class, rate increases of 12-15% per year will be necessary for 2021 through 2023 to reach full cost recovery for the class. This is based on estimated increases in the operating budget of 5% per year. If the Purchased Capacity rate is restructured, effective increases of the same magnitude will be necessary in order to reach full cost recovery for the class.

Capital Improvement Fees

We recommend no change in the capital improvement fee for Des Moines Inside City customers. It is our intent to increase this fee over time, but not to do annual increases. The capital improvement fee is a decreasing block structure where the decline in blocks mirrors that of the water volume rate. The structure is:

Des Moines Inside City Proposed Capital Improvement Fee		
	Consumption	Rate
Step 1	0-150,000	\$0.25 per 1,000 gallons
Step 2	151,000-450,000	\$0.17 per 1,000 gallons
Step 3	Over 450,000	\$0.13 per 1,000 gallons

We also recommend no change to the capital improvement fee for the Polk County service area. We implemented a capital improvement fee in this service area in 2015 and changed it in 2020 to a decreasing block structure to be consistent with Des Moines. The structure is:

**Polk County
Proposed Capital Improvement Fee**

	Consumption	Rate
Step 1	0-150,000	\$1.50 per 1,000 gallons
Step 2	151,000-450,000	\$0.92 per 1,000 gallons
Step 3	Over 450,000	\$0.71 per 1,000 gallons

Attached is a chart showing the 2020 rates, the proposed 2021 rates and the amount of increase for each rate.

Some Total Service customers have signaled they may wish to “buy down” their rate increases and pay an equivalent amount from their respective city/district funds, rather than pass rate increases to their customers. If Total Service customers choose to exercise this option, published rate increases for these communities may vary from what is shown on the following chart.

**DES MOINES WATER WORKS
PROPOSED 2021 RATE INCREASES
(All Rates Are Per 1,000 Gallons)**

	# of Accts	2020 Rate	2021 Rate	Inc %	Inc Amt	2021 Cap Imp Fee
Des Moines Inside	67,700					
Residential (Step 1)		\$ 4.94	\$ 5.19	5%	\$0.25	\$ 0.25
Commercial (Step 2)		3.32	3.49	5%	0.17	0.17
Industrial (Step 3)		2.55	2.68	5%	0.13	0.13
Wholesale	52					
Purchased Capacity		\$ 2.33	\$ 2.68	15%	\$0.35	
With Storage		4.44	4.57	3%	0.13	
Des Moines Outside	1,170					
Residential (Step 1)		\$ 5.37	\$ 5.64	5%	\$0.27	
Commercial (Step 2)		4.04	4.24	5%	0.20	
Industrial (Step 3)		2.89	3.03	5%	0.14	
Off Peak		2.50	2.63	5%	0.13	
Polk County	7,540					
Residential (Step 1)		\$ 9.74	\$10.23	5%	\$0.49	\$ 1.50
Commercial (Step 2)		5.96	6.26	5%	0.30	0.92
Industrial (Step 3)		4.65	4.88	5%	0.23	0.71
Pleasant Hill	3,440					
Residential (Step 1)		\$ 9.06	\$ 9.51	5%	\$0.45	
Commercial (Step 2)		7.65	8.03	5%	0.38	
Outside City		13.59	19.02	40%	5.43	
Windsor Heights	2,100	\$ 5.04	\$ 5.29	5%	\$0.25	\$ 2.00
PCRWD #1	465	\$ 4.49	\$ 4.80	7%	\$0.31	
Berwick	225	\$ 4.00	\$ 4.28	7%	\$0.28	
Runnells	185					
Water		\$ 8.60	\$ 9.03	5%	\$0.43	
Waste Water		9.33	9.80	5%	0.47	
Alleman	170	\$10.03	\$10.73	7%	\$0.70	
Cumming	145	\$ 8.45	\$ 8.87	5%	\$0.42	