



L&P Rate Increase Options Based on Rate and Cost of Service Study

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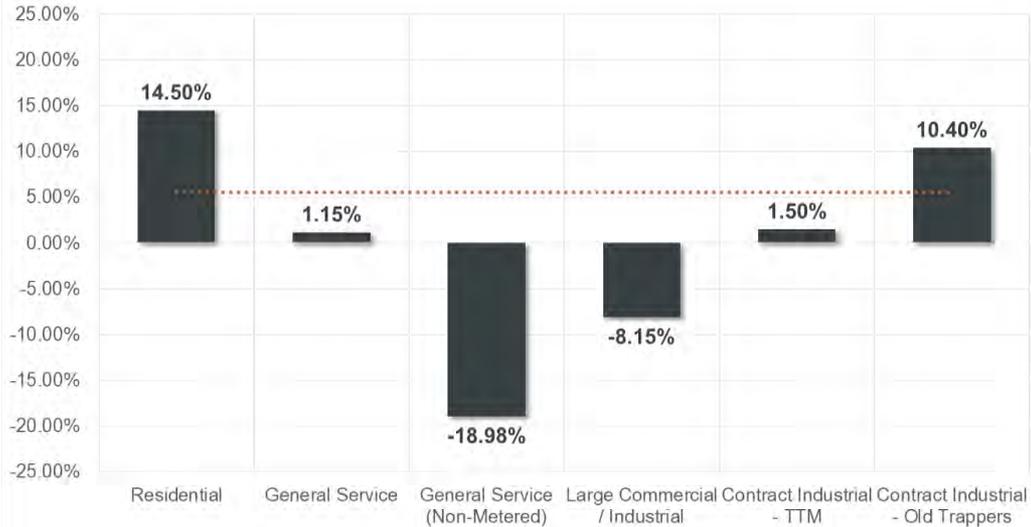
Purpose

- Council had a work session on March 18, 2019, for the preliminary results of the Rate and Cost of Service Allocation (COSA) Study prepared by FCSG.
- Study showed the need for ongoing rate increases to fund operations, system maintenance, and capital projects.
- Council discussed results and asked staff to come back with options.
- Staff has prepared some options and will ask for Council direction moving forward with potential rate increase options.

Additional Information

- Staff revised wage and benefits increases for year 1 which reduced the first year overall rate increase from 5.50% to 4.75%. Subsequent rate increases remained the same.
- Staff asked the consultants to smooth the overall rate increases over the next seven years which resulted in an annual rate increase of 4.0% across-the-board.
- The next slide is from the March 18, 2019, work session that shows the current imbalance of costs by customer service class.

Cost Service Results - FCSG



- $\pm 5.0\%$ of average is within Cost of Service (industry standard)
 - Residential can increase towards COSA
 - General service classes can decrease towards COSA
 - Smaller classes like Irrigation most unaligned with COSA
- Study findings are generally consistent with FY 2014 study

Cost of Service by Customer Class	FY 2020		Difference	
	Existing	COSA	\$	%
Residential	\$ 9,365,155	\$ 10,722,658	\$ 1,357,503	14.50%
General Service	1,766,807	1,787,156	20,349	1.15%
General Service (Non-Metered)	29,101	23,578	(5,523)	-18.98%
Large Commercial / Industrial	4,963,191	4,558,804	(404,387)	-8.15%
Contract Industrial - TTM	1,724,211	1,750,041	25,830	1.50%
Contract Industrial - Old Trappers	1,107,765	1,223,007	115,242	10.40%
Irrigation	3,358	7,434	4,076	121.36%
Rental Lighting	113,714	33,501	(80,213)	-70.54%
Street Lighting	81,442	102,076	20,634	25.34%
Total	\$ 19,154,744	\$ 20,208,255	\$ 1,053,511	5.50%

Basic Options

- Following are options – all can be adjusted but these are the three basic options
- Option 1 – a planned across-the-board increase of 4% to all classes of services each year. This continues the current imbalance of costs allocated between classes of service.
- Option 2 – Implement the 4% increase using different increases between the classes of services to try to remove the imbalance of costs between classes of services. Would require annual residential rate increases averaging 5.41% over the next 7 years.
- Option 3 – Implement 4% overall increase using different increases between classes of services to lessen but not remove the imbalance of costs between classes of services. Example shown limits the residential rate increase to 4.5% per year.

Option 2

PROJECTED RATE SCHEDULE - ALL CLASSES TO COST OF SERVICE BY FY 2026

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Annual Rate Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Cost of Service Phase-In	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Residential	5.58%	5.52%	5.46%	5.40%	5.34%	5.30%	5.24%
General Service	3.45%	3.45%	3.45%	3.45%	3.45%	3.45%	3.45%
General Service (Non-Metered)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Large Commercial / Industrial	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%	1.55%
Contract Industrial - TTM	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%
Contract Industrial - Old Trappers	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%
Irrigation	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Rental Lighting	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Street Lighting	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Option 3

PROJECTED RATE SCHEDULE (RESIDENTIAL INCREASES CAPPED AT 4.50 PERCENT)

	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Annual Rate Increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

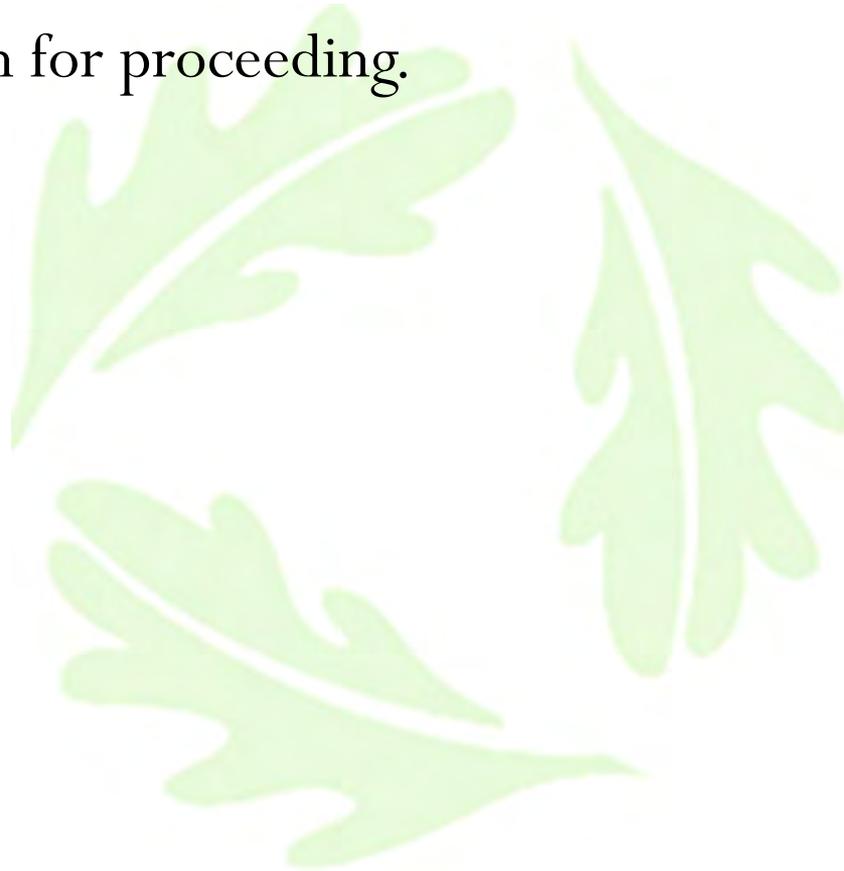
Cost of Service Phase-In	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
Residential	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
General Service	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%	4.90%
General Service (Non-Metered)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Large Commercial / Industrial	3.08%	3.05%	3.02%	2.99%	2.95%	2.94%	2.90%
Contract Industrial - TTM	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%	2.85%
Contract Industrial - Old Trappers	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%	4.35%
Irrigation	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Rental Lighting	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Street Lighting	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

Staff Input

- If the current imbalance of costs of services between classes of services is acceptable to the Council, staff recommends implementing the 4.0% across-the-board increase each year. This increase would cost the average residential customer about \$3.50 more per month.
- If the Council wants to lessen the imbalance of costs of services between classes of services, staff recommends Option 3 with a minor adjustment of the increase for both Residential and General Service Classes to 4.6%. Changing residential from 4.5% to 4.6% in Option 3 will cost an average residential customer about 8 cents more per month.
- Difference in a 4.6% increase and 4.0% increase for an average residential customer is about 50 cents more per month.

Council Direction

- Any other questions?
- Direction for proceeding.



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