
Water Rate Methodology and Rate Increase Recommendations

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Rate Setting Methodology

➤ **Current rates:**

- Do not allocate costs equitably among customer classes
- Wholesale and Industrial contracts are inconsistent in rate determination and the current rate has been determined using PPI escalator which does not distribute an equitable share of the costs

➤ **AWWA-M-1 Manual cash needs:**

- Industry standard for rate setting (best practice)
- Identifies costs to be recovered from rates
- Allocates costs to the different customer classes
- Unit costs design rate structure

Need For Water Rate Changes Beginning January 1, 2022

➤ **Capital Improvements:**

- The bulk of the capital cost is for Advanced Treatment necessitated by contamination of the Cape Fear River raw water by Chemours
- Northwest Water Plant 45 MGD Expansion & 36 MGD LPRO Treatment costing \$156.8 million with an operating cost increase of \$2.9 million. Average annual debt service payments of \$8.4 million that begin October 2022
- King's Bluff 54" Raw Water Transmission Main costing \$26.7 million. Average annual debt service payments of \$1.5 million that begin April 2022

➤ **Loss in Revenues:**

- Although the agreement is in force through June 30, 2034, H2GO is moving forward with another alternative to meet their needs for treated water beginning January 2022. Based on the FY 20 revenues from user base and volumetric charges, H2GO represents \$2.3 million or 10%
- The announced closure of the industrial customer Capital Power Corporation represents \$0.6 million or 3% of revenue generated from user base and volumetric rates and charges

➤ **Raw Water Rate Increases:**

- Proposed increase in rates for raw water purchases from Lower Cape Fear Water and Sewer Authority

Background Information

- May 2019 - Water Rate Study completed and presented to the Board of Commissioners by Raftelis Financial Consultants, Inc. using the AWWA-M-1 Manual cash needs method of setting rates (Study presented prior to a reduction in flows for wholesale and Industrial customers)
- October 2019 - Feasibility Study completed by Raftelis Financial Consultants, Inc. incorporating the recent Water Rate Study for the 2019 Debt issue financing the 54" Raw Water Transmission Line (Study prepared with a reduction in flows for wholesale customers)
- May 2020 – Engaged Raftelis Financial Consultants, Inc. to develop a financial forecast and determine the water rate requirements using the AWWA-M-1 Manual cash needs method for the 2020 Debt issue financing the 45 MGD Expansion & 36 MGD LPRO Treatment (Study prepared with a reduction in flows for wholesale customers and an increase in debt service for increased costs)
- January 2021 – Reviewed and refined the May 2020 forecast for the current known information for wholesale and industrial flows

Recommended Water Rate Changes - Retail

- Increase water base monthly service charge \$4.00 per month for all retail meter sizes
- Volumetric blocks (tiered) rate increases are the same for all meter sizes

	Current FY 21 <u>Rate</u>	Proposed FY 2022 <u>Rate</u>
<u>Retail</u>		
Block 1	\$ 2.85	\$ 4.15
Block 2	\$ 3.30	\$ 4.80
Block 3	\$ 3.85	\$ 5.70

Average Retail Customer billed at 4,500 gallons increases \$9.85 from \$24.83 to \$34.68

Recommended Water Rate Changes - Irrigation

- Implement \$5.00 monthly Irrigation base service charge to allocate additional costs associated with billing, collection, and metering
- Volumetric blocks (tiered) rate increases are the same for Residential and Commercial/Multi-Family

	Current FY 21 <u>Rate</u>	Proposed FY 2022 <u>Rate</u>
<u>Irrigation</u>		
Block 1	\$ 3.30	\$ 4.80
Block 2	\$ 4.30	\$ 6.20
Block 3	\$ 5.70	\$ 8.30

→ Residential customer billed at 6,000 gallons Increases \$14.40 from \$20.80 to \$35.20

Recommended Water Rate Changes - Industrial

- Increase water base monthly service charge \$4.00 per month for all Industrial meter sizes
- Recommend to Increase **Industrial Rate** from annual practice of PPI determined rates to the AWWA-M-1 Manual cash needs determined rate of \$4.35 (change is \$1.46)
- The increase is impacted by the costs for transmission and treatment capacity that was not distributed equitably to the Industrial customer in using the PPI rate.

Recommended Water Rate Changes - Wholesale

- Increase water base monthly service charge **\$4.00** per month for all Wholesale meter sizes
- Recommend to Increase **Wholesale Rate** from annual practice of PPI determined rates AWWA-M-1 Manual cash needs determined rate to \$5.25 (change is \$2.36)
- The wholesale customer base is mainly residential and commercial
- The increase is impacted by the costs for transmission and treatment capacity that was not distributed equitably to the wholesale customer in using the PPI rate

Other Rates and Fee Considerations for FY 2022

- Evaluate the volumes and the rates associated with the 4", 6", 8", 10", and 12" meters Minimum Usage Charge
- Evaluate if the county is recouping its costs associated with tap installation and other service fees

Questions