



DES MOINES WATER WORKS  
Board of Water Works Trustees

Agenda Item No. III B  
Meeting Date: March 26, 2019  
Chairperson's Signature  Yes  No

**AGENDA ITEM FORM**

**SUBJECT:** Authorize CEO and General Manager to Execute Professional Services Agreement with Raftelis Financial Consultants

**SUMMARY:**

In 2017, DMWW engaged Raftelis Financial Consultants to review our cost of service (COS) model. Raftelis recommended implementing a revenue requirements COS model and they developed a new model for us. We also asked Raftelis for recommendations regarding our wholesale rate structure.

In September 2018, Raftelis made a presentation to the Finance and Audit Committee highlighting the fact that our COS methodology was under allocating expenses to the wholesale service class and recommended revising our wholesale rate structure to correct the situation. Due to Regionalization discussions going on at the time, staff and the Board agreed to defer making changes until a later date.

Staff believes we should move forward on developing a revised wholesale rate structure. Raftelis prepared a proposal for DMWW outlining five work tasks related to developing this revised rate structure. The total cost of their proposal is a not-to-exceed amount of \$88,400.

**FISCAL IMPACT:**

Funds for these services were not included in the 2019 budget. Staff will identify unspent funds within the overall Utility budget to be utilized for this project.

**RECOMMENDED ACTION:**

Authorize the CEO and General Manager to execute Professional Services Agreement with Raftelis Financial Consultants.

**BOARD REQUIRED ACTION:**

Motion to authorize the CEO and General Manager to execute Professional Services Agreement with Raftelis Financial Consultants.

 Peggy Freese, CPA CFO 3/20/19 (date)	_____ (date)	 William G. Stowe CEO and General Manager 3/20/19 (date)
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Attachments: memo

**MEMORANDUM**

DATE: March 19, 2019  
TO: William Stowe, CEO and General Manager  
FROM: Peggy Freese, CFO  
SUBJECT: Agreement with Raftelis Financial Consultants

In 2017, DMWW engaged Raftelis Financial Consultants to review our cost of service (COS) study. RFC recommended changing from a historical cost COS model to a forward-looking revenue requirements model. Raftelis developed a new model for us which we began using in 2018. In addition to the development of a COS model, we asked Raftelis for recommendations regarding our wholesale rate structure.

In developing a COS model for us, Raftelis determined that our COS methodology did not reflect return on all the capital invested by DMWW. Additionally, varying demands of wholesale customers, particularly max day demands, were not addressed in our rate structure. Raftelis recommended developing a revised rate structure for wholesale customers. Raftelis made a presentation on their work to the Finance and Audit Committee in September 2018.

To avoid confusion, staff and the Board agreed not to continue development of a revised wholesale rate structure due to Regionalization discussions occurring in the fall of 2018. As a result, we feel the financial analysis work done by FCS did not compare “apples to apples.” The status quo basis in the FCS analysis assumed DMWW’s present wholesale rate structure would continue into the future. If Regionalization does not move forward, DMWW would follow the advice of Raftelis and implement a revised wholesale rate structure.

I believe DMWW needs to move forward in developing a revised wholesale rate structure. If Regionalization is to move forward, this information is a key component to accurate analysis of the cost impact to various cities. If Regionalization does not move forward, we need to be prepared to implement a new wholesale rate structure.

To move forward, I asked Raftelis for a proposal to perform several tasks related to developing a revised wholesale rate structure. I also asked them to review the analysis conducted by FCS in Phase II of the Regionalization study. This will provide us an understanding of how potential changes in the wholesale rate structure may impact Regionalization.

The proposal from Raftelis includes the following key tasks:

1. Review of Regionalization Analysis—Review the analysis conducted by FCS document and how changes in our wholesale rate structure might impact Regionalization.
2. Rate Setting Principles—Review with DMWW staff key principles to consider in wholesale rate setting and identify key considerations for a new rate methodology.
3. Recommend Options for Revised Wholesale Rate Structure—Develop potential approaches for a wholesale rate structure, including possible phase in approaches and review with DMWW legal counsel. This will also include updating DMWW’s COS model.
4. Present Recommended Wholesale Rate Structure to DMWW Board.
5. Present Recommended Wholesale Rate Structure to Wholesale Customers.

Raftelis proposed a not-to-exceed price of \$88,400 which includes travel expenses.

I recommend engaging Raftelis to perform this work for DMWW. I believe development of a revised wholesale rate structure is a key issue that needs to be addressed. Moving forward with this work dovetails nicely with ongoing Regionalization efforts. It will clarify the status quo position for DMWW and our customers and may ultimately be the basis of wholesale rates for the regional water utility.