

MEMORANDUM

DATE: September 1, 2016
TO: William Stowe, CEO and General Manager
FROM: Peggy Freese, CFO
SUBJECT: Preliminary 2017 Water Rates

Board action on rate setting takes place at the October board meeting. Our wholesale contracts require a six-month notice for rate increases, thus action in October is required in order for rates to become effective on April 1. Since development of the 2017 budget is going on concurrently, a preliminary discussion with the Finance and Audit Committee in September is necessary to enable staff to factor rate increases into the budget.

One factor to consider in setting rates is the Cost of Service Study (COS). Staff reviewed the 2015 COS with the Finance and Audit Committee meeting at their July meeting. As noted at that meeting, total costs increased 2.6% in 2015. The combination of increased costs and decreased consumption resulted in increases in the cost per 1,000 gallons in nearly all service areas.

Many line items in our operating budget can generally be expected to increase annually—labor rates, chemical prices, and energy costs to name a few. On the capital side, the aging of our assets creates an ongoing and increasing need for spending on capital projects even though we have a long history of substantial reinvestment in our infrastructure.

Attached is a chart that shows three percentages of rate increases across our service areas. Columns two and three show the actual 2014 and 2015 Cost per 1,000 gallons from the COS for those years. The fourth column shows an estimated 2016 COS per 1,000 gallons. This is projected based on increases in operating and maintenance costs over the last five years. Column five is the current rate, effective April 1, 2016.

There are three sections, showing rate increases of 5%, 10% and 15%. In each of the increase sections, there are three columns. Column one is the new rate, column two is the amount of the

increase and column three is the difference between the increased rate and the projected 2016 COS amount.

Based on these projections, we feel a 10% increase for most service areas is necessary. In some service areas these increases will not bring rates entirely in line with projected costs, although not enough to cause concern since actual results could vary from our projections. Rates will be above the actual 2015 COS results. In a few service areas, rates will continue to be higher than the COS, which is our intent. These areas have significant capital needs beyond what would normally be funded through their rates. We believe there are two rates that should have an increase other than 10%. Those are the wholesale With Storage rate and the Alleman service area. We recommend a 5% increase in the With Storage rate. Beginning in 2015, this rate has actually been above the COS amount. A 5% increase will still leave the rate above cost, but by a much smaller amount. In Alleman, cost increases have outpaced rate increases for the last several years, so we feel a 15% rate increase is appropriate for 2017.

We do not recommend any increase in water availability charges. Our last increase in water availability charges was in 2011. However we want to continue to have our rates be primarily volume based. Additionally, fixed charges are viewed as regressive.

**DES MOINES WATER WORKS
PROPOSED 2017 RATE INCREASES**

	# of Accts	2014 COS	2015 COS	Est 16 COS	2016 Rate	5% Increase			10% Increase			15% Increase		
						5% Increase	Inc Amt	Rate/COS Diff	10% Increase	Inc Amt	Rate/COS Diff	15% Increase	Inc Amt	Rate/COS Diff
Des Moines Inside	66,700													
Residential (Step 1)		3.82	4.04	4.31	3.74	3.93	0.19	(0.38)	4.11	0.37	(0.20)	4.30	0.56	(0.01)
Commercial (Step 2)		2.58	2.71	2.90	2.51	2.64	0.13	(0.26)	2.76	0.25	(0.14)	2.89	0.38	(0.01)
Industrial (Step 3)		1.99	2.06	2.21	1.93	2.03	0.10	(0.18)	2.12	0.19	(0.09)	2.22	0.29	0.01
Wholesale	39													
Purchased Capacity		1.75	1.81	1.94	1.68	1.76	0.08	(0.18)	1.85	0.17	(0.09)	1.93	0.25	(0.01)
With Storage		3.48	3.56	3.73	3.66	3.84	0.18	0.11	4.03	0.37	0.30	4.21	0.55	0.48
Off Peak		1.95	2.01	2.14	1.89	1.98	0.09	(0.16)	2.08	0.19	(0.06)	2.17	0.28	0.03
Des Moines Outside	1,300													
Residential (Step 1)		4.11	4.34	4.62	4.06	4.26	0.20	(0.36)	4.47	0.41	(0.15)	4.67	0.61	0.05
Commercial (Step 2)		2.99	3.09	3.29	3.05	3.20	0.15	(0.09)	3.36	0.31	0.06	3.51	0.46	0.22
Industrial (Step 3)		2.21	2.27	2.44	2.18	2.29	0.11	(0.15)	2.40	0.22	(0.04)	2.51	0.33	0.07
Polk County	6,800													
Residential (Step 1)		6.58	6.64	6.90	7.36	7.73	0.37	0.83	8.10	0.74	1.20	8.46	1.10	1.56
Commercial (Step 2)		3.52	3.64	3.71	4.51	4.74	0.23	1.03	4.96	0.45	1.25	5.19	0.68	1.48
Industrial (Step 3)		3.08	3.15	3.31	3.52	3.70	0.18	0.39	3.87	0.35	0.56	4.05	0.53	0.74
Pleasant Hill	3,000													
Residential (Step 1)		6.27	6.61	6.92	6.85	7.19	0.34	0.27	7.54	0.69	0.62	7.88	1.03	0.96
Commercial (Step 2)		5.68	5.83	6.02	5.78	6.07	0.29	0.05	6.36	0.58	0.34	6.65	0.87	0.63
Windsor Heights	2,000	4.26	3.84	4.07	3.81	4.00	0.19	(0.07)	4.19	0.38	0.12	4.38	0.57	0.31
PCRWD #1	467	4.76	4.54	4.85	4.00	4.00		(0.85)	4.00	-	(0.85)	4.00	-	(0.85)
Berwick	218	5.57	3.74	3.95	4.00	4.00		0.05	4.00	-	0.05	4.00	-	0.05
Runnells	182													
Water		4.66	5.66	5.90	6.50	6.83	0.33	0.93	7.15	0.65	1.25	7.48	0.98	1.58
Waste Water		4.28	6.71	7.40	7.05	7.40	0.35	0.00	7.76	0.71	0.36	8.11	1.06	0.71
Alleman	150	8.81	9.18	10.27	7.25	7.61	0.36	(2.66)	7.98	0.73	(2.30)	8.34	1.09	(1.93)
Cumming	140	5.40	5.33	6.53	6.39	6.71	0.32	0.18	7.03	0.64	0.50	7.35	0.96	0.82
Warren County	77													
Step 1		12.80	12.21	12.88	13.79	14.48	0.69	1.60	15.17	1.38	2.29	15.86	2.07	2.98
Step 2		10.94	10.32	10.89	10.13	10.64	0.51	(0.25)	11.14	1.01	0.25	11.65	1.52	0.76