

## MEMORANDUM

DATE: October 6, 2015

TO: William Stowe, CEO and General Manager

FROM: Peggy Freese, CFO

SUBJECT: Proposed 2016 Water Rates

At the September Finance and Audit Committee meeting, we had a preliminary discussion about 2016 water rates in order to solicit Committee input before making a final recommendation.

The Cost of Service Study (COS) provides the starting point of data to be considered setting rates. Staff reviewed the 2014 (COS) with the Finance and Audit Committee meeting at the July meeting. As noted at that meeting, total costs increased 9% in 2014. Operating and maintenance costs increased 13% and replacement cost depreciation increased nearly 1%. The combination of increased costs and decreased consumption resulted in significant increases in the cost per 1,000 gallons in nearly all service areas.

A number of 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.

The chart that we reviewed at the September Finance and Audit Committee meeting is attached here. It shows two different percentages of rate increases across our service areas. Columns two and three show the actual 2013 and 2014 Cost per 1,000 gallons from the COS for those years. The fourth column shows an estimated 2015 COS per 1,000 gallons. This is projected based on increases in operating and maintenance costs over the last three years. Column five is the current rate, effective April 1, 2015. There are sections showing rate increases of 7% and 10%. 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 2015 COS amount.

## **Recommendations**

We recommend a 10% increase for all customers. The second chart attached shows these recommended rate increases. These increases put rates at or just below costs, based on the COS projections. In 2015, we have seen low consumer demand and increased costs for nitrate removal and lime residuals. As a result, I believe we can expect the results of the 2015 COS to show additional increases in the cost per 1,000 gallons. In several service areas, rates would be higher than the COS, which is our intent. These areas have significant capital needs beyond what would normally be funded through their rates.

In 2015, we implemented a \$1.50 per 1,000 gallons capital improvement fee for the Polk County service area. This service area has substantial capital needs for both main replacement and main extension to facilitate development and we continue to work closely with the staff at Polk County to meet these needs. We recommend that this fee remain unchanged at \$1.50 per 1,000 gallons.

The capital improvement fee for Windsor Heights has been \$1.00 per 1,000 gallons since 2009. DMWW staff, working in conjunction with City of Windsor Heights staff, has determined that the water system in Windsor Heights has capital needs which are not being met through the current fee. We recommend increasing the capital improvement fee from \$1.00 to \$2.00 per 1,000 gallons. The staff and City Council of Windsor Heights support this recommended change.

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 2016 RATE INCREASES  
As Discussed at September F&A Meeting**

	(1)	(2)	(3)	(4)	(5)	7% Increase			10% Increase		
	# of Accts	2013 COS	2014 COS	Proj 15 COS	2015 Rate	7% Increase	Inc Amt	Rate/COS Diff	10% Increase	Inc Amt	Rate/COS Diff
Des Moines Inside	66,700										
Residential (Step 1)		3.32	3.82	3.75	3.40	3.64	0.24	(0.11)	3.74	0.34	(0.01)
Commercial (Step 2)		2.18	2.58	2.51	2.28	2.44	0.16	(0.07)	2.51	0.23	(0.00)
Industrial (Step 3)		1.63	1.99	1.93	1.75	1.87	0.12	(0.06)	1.93	0.18	(0.00)
Wholesale	39										
Purchased Capacity		1.43	1.75	1.72	1.53	1.64	0.11	(0.08)	1.68	0.15	(0.04)
With Storage		3.03	3.48	3.42	3.33	3.56	0.23	0.14	3.66	0.33	0.24
Off Peak		1.60	1.95	1.93	1.72	1.84	0.12	(0.09)	1.89	0.17	(0.04)
Des Moines Outside	1,300										
Residential (Step 1)		3.53	4.11	4.06	3.69	3.95	0.26	(0.11)	4.06	0.37	(0.00)
Commercial (Step 2)		2.50	2.99	2.93	2.77	2.96	0.19	0.03	3.05	0.28	0.12
Industrial (Step 3)		1.79	2.21	2.18	1.98	2.12	0.14	(0.06)	2.18	0.20	(0.00)
Polk County	6,800										
Residential (Step 1)		5.85	6.58	6.75	6.69	7.16	0.47	0.41	7.36	0.67	0.61
Commercial (Step 2)		3.03	3.52	3.39	4.10	4.39	0.29	1.00	4.51	0.41	1.12
Industrial (Step 3)		2.59	3.08	3.04	3.20	3.42	0.22	0.38	3.52	0.32	0.48
Pleasant Hill	3,000										
Residential (Step 1)		5.40	6.27	6.86	6.23	6.67	0.44	(0.19)	6.85	0.62	(0.01)
Commercial (Step 2)		4.82	5.68	6.69	5.25	5.62	0.37	(1.07)	5.78	0.53	(0.92)
Windsor Heights	2,000	3.38	4.26	4.42	3.46	3.70	0.24	(0.72)	3.81	0.35	(0.61)
PCRWD #1	467	3.33	4.76	5.07	4.00	4.00	-	(1.07)	4.00	-	(1.07)
Berwick	218	-	5.57	5.80	4.00	4.00	-	(1.80)	4.00	-	(1.80)
Runnells	182										
Water		5.21	4.66	4.68	5.91	6.32	0.41	1.64	6.50	0.59	1.82
Waste Water		5.22	4.28	4.38	6.41	6.86	0.45	2.48	7.05	0.64	2.67
Alleman	150	6.95	8.81	9.94	6.59	7.05	0.46	(2.89)	7.25	0.66	(2.69)
Cumming	140	3.12	5.40	6.71	5.81	6.22	0.41	(0.49)	6.39	0.58	(0.32)
Warren County	77										
Step 1		11.06	12.80	13.35	12.54	13.42	0.88	0.07	13.79	1.25	0.44
Step 2		9.42	10.94	11.42	9.21	9.85	0.64	(1.57)	10.13	0.92	(1.29)

**DES MOINES WATER WORKS  
PROPOSED 2016 RATE INCREASES**

	(1)	(2)	(3)	(4)	(5)				
	# of Accts	2013 COS	2014 COS	Proj 15 COS	2015 Rate	Increase	Inc Amt	New Rate	Rate/COS Diff
Des Moines Inside	66,700								
Residential (Step 1)		3.32	3.82	3.75	3.40	10%	0.34	3.74	(0.01)
Commercial (Step 2)		2.18	2.58	2.51	2.28	10%	0.23	2.51	(0.00)
Industrial (Step 3)		1.63	1.99	1.93	1.75	10%	0.18	1.93	(0.00)
Wholesale	39								
Purchased Capacity		1.43	1.75	1.72	1.53	10%	0.15	1.68	(0.04)
With Storage		3.03	3.48	3.42	3.33	10%	0.33	3.66	0.24
Off Peak		1.60	1.95	1.93	1.72	10%	0.17	1.89	(0.04)
Des Moines Outside	1,300								
Residential (Step 1)		3.53	4.11	4.06	3.69	10%	0.37	4.06	(0.00)
Commercial (Step 2)		2.50	2.99	2.93	2.77	10%	0.28	3.05	0.12
Industrial (Step 3)		1.79	2.21	2.18	1.98	10%	0.20	2.18	(0.00)
Polk County	6,800								
Residential (Step 1)		5.85	6.58	6.75	6.69	10%	0.67	7.36	0.61
Commercial (Step 2)		3.03	3.52	3.39	4.10	10%	0.41	4.51	1.12
Industrial (Step 3)		2.59	3.08	3.04	3.20	10%	0.32	3.52	0.48
Pleasant Hill	3,000								
Residential (Step 1)		5.40	6.27	6.86	6.23	10%	0.62	6.85	(0.01)
Commercial (Step 2)		4.82	5.68	6.69	5.25	10%	0.53	5.78	(0.92)
Windsor Heights	2,000	3.38	4.26	4.42	3.46	10%	0.35	3.81	(0.61)
PCRWD #1	467	3.33	4.76	5.07	4.00	10%	0.40	4.00	(1.07)
Berwick	218	-	5.57	5.80	4.00	10%	0.40	4.00	(1.80)
Runnells	182								
Water		5.21	4.66	4.68	5.91	10%	0.59	6.50	1.82
Waste Water		5.22	4.28	4.38	6.41	10%	0.64	7.05	2.67
Alleman	150	6.95	8.81	9.94	6.59	10%	0.66	7.25	(2.69)
Cumming	140	3.12	5.40	6.71	5.81	10%	0.58	6.39	(0.32)
Warren County	77								
Step 1		11.06	12.80	13.35	12.54	10%	1.25	13.79	0.44
Step 2		9.42	10.94	11.42	9.21	10%	0.92	10.13	(1.29)