

## MEMORANDUM

DATE: May 5, 2020

TO: Ted Corrigan, CEO and General Manager

FROM: Peggy Freese, CFO

SUBJECT: Wholesale Rate Design Next Steps

### Background

In 2017, DMWW engaged Raftelis to develop a new cost of service model. In doing so, they noted that varying demands of wholesale customers, particularly max day demands, were not addressed in our rate structure. Raftelis recommended developing a revised wholesale rate structure. Raftelis made a presentation on their work to the Finance and Audit Committee in September 2018. Due to regionalization discussions occurring at that time, staff and the Board agreed to delay implementation of a revised wholesale rate structure.

While pausing made sense in 2018, the slow progress of regionalization discussions put wholesale rate redesign in limbo and worsened the problem of under collecting costs from wholesale customers. Also, using the present wholesale rate structure in the phase II regional financial analysis completed by FCS resulted in a status quo scenario which did not accurately represent the non-regional option. Recognizing these issues and understanding analysis done would be used in regionalization discussions, we re-engaged Raftelis in 2019 to work on a revised wholesale rate structure.

At the April Finance and Audit Committee meeting, Tom Beckley of Raftelis provided an overview of the cost of service model they developed for Des Moines Water Works. He also highlighted some short comings of our current wholesale rate and suggested revising the rate structure to include a higher fixed component based on peak usage.

### Next Steps

Staff will work with Raftelis to fully develop a wholesale rate structure. A number of questions need to be addressed such as:

- How does exceeding Purchased Capacity affect what a customer pays?
- How much do customers who buy no water pay?

- What is the impact to each wholesale customer?
- What is the impact to DMWW revenue?
- How will this change be implemented (i.e., will it be phased in)?

We will develop a final recommendation to be presented to the Board in August.

### **Concurrent Work**

We have been working with Raftelis to finalize a Cost of Service (COS) report that explains the cost of service model and the cost allocations that result from the model. We plan to include this as a May board agenda item and will ask that the Board receive and file the report. Raftelis and DMWW will schedule a virtual presentation to our wholesale customers in June. Raftelis will explain the COS model and the results and staff will share our rationale and intentions regarding redesign of the wholesale rate structure. Subsequent to the group meeting, staff will follow up with individual meetings with wholesale customers to answer specific questions they may have.