

# 2008 Rate-Setting Update

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July 30, 2007



CHELAN COUNTY



# Our Purpose Today...

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- Update on timeline
- Review 2008 rate proposal
- Cost of service update
- Proposed future surcharge methodology
- Proposed policy and regulation changes
- Proposed fees and charges section
- Next steps



# Process Overview

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1. **Rate Changes** – Notice policy with 3 meetings and a hearing (existing)
2. **Surcharge Activation** – Modified notice policy, 1 meeting and hearing (proposed)
3. **Policy and Service Regulation changes** – Board resolution (existing)
4. **Fees and Charges** – Delegated to General Manager, timed with the budget process, need a resolution to establish (proposed)

# Timeline

June 18	Initial discussion
July 2	Board presentation on finalizing the approach
July ~ Aug	Staff analysis and preparation
Aug 13 -16	3 public information meetings – Rates, Surcharges and Regulations
Sept 10	Rate Hearing
Sept - Oct	Billing system testing
Oct - Dec	Connection / meter fees reviewed through budget process
Jan 1, 2008	New rates take effect
April 2008	Surcharge Hearing (if needed)
2008	Perform “cost-of-service” study

# Rate Increase Proposal

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- Percents discussed
  - 9% Water and Wastewater
  - 5% Electric
- Applied to each customer class
- Across each bill element equally
- Networks 2% increase to be approved by Board resolution



# Rate Increase Proposal

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- Projected revenue increase estimate
  - Electric – \$2.3 million
  - Water - \$330,000
  - Wastewater – \$35,000
  - Networks - \$80,000

# Rate Increase Proposal - Electric

Based on average  
monthly bill

May 06 - June 07

- Wide range within classes
- 5% across all bill elements
- Does not include all rate classes

Class	Current	Proposed	Increase
Residential	\$56.00	\$59.00	\$3.00
Commercial	\$215.00	\$226.00	\$11.00
Irrigation	\$152.00	\$160.00	\$8.00
Frost Prot	\$144.00	\$151.00	\$7.00
Streetlights	\$8.95	\$9.40	\$0.55
Discounts	(\$7.85)	(\$8.25)	\$0.40

# Rate Increase Proposal – Water

Based on average  
monthly bill

May 06 - June 07

- Residential
- 9% across all bill elements
- Summer irrigators vary in bills

Class	Current	Proposed	Increase
W - General	\$43.85	\$47.80	\$3.95
W – Squil.	\$51.80	\$56.50	\$4.70
W - Dryden	\$29.80	\$32.50	\$2.70
W - Ollala	\$48.10	\$52.40	\$4.30
W-Chelan Rdg	\$57.70	\$62.90	\$5.20
Discounts	(\$6.15)	(\$6.70)	\$0.55

# Rate Increase Proposal – Wastewater

Based on average  
monthly bills

May 06 - June 07

- Residential – Flat charge rate
- 9% across all bill elements

Class	Current	Proposed	Increase
Dryden	\$46.68	\$50.88	\$4.20
Lake Wen.	\$48.09	\$52.42	\$4.33
Peshastin	\$47.78	\$52.08	\$4.30
Discounts	(\$6.15)	(\$6.70)	\$0.55

# Rate Increase Proposal - SDCs

□ Projected revenue increase from system development charges (SDCs)

- 9% Increase
- Water/Wastewater ~ \$50,000
- Larger water meters increase in relation to capacity

*System development charges are one-time charges for customers to buy their share of capacity or infrastructure*

SDC Type	Current	Proposed	Increase
W - 5/8" meter (P)	\$2,176	\$2,372	\$196
W - 5/8" meter (S)	\$2,748	\$2,995	\$247
W - 1" meter (P)	\$5,440	\$5,930	\$490
WW – Lk Wen.	\$4,400	\$4,796	\$396
WW – Peshast.	\$4,400	\$4,796	\$396



# Rate Increase - Networks

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Wholesale telecommunications, separate from retail rates

- Overall 2% increase
- 100-plus telecom tariffs
- Follows Networks business plan



# Cost of Service Overview

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Cost of service is one component of the overall rate-setting process

1. Revenue requirement
2. Cost of Service
3. Rate Design



# What is “cost of service”

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A method to equitably allocate the revenue requirement of the utility between the classes of service

(e.g. residential, commercial, etc.)

## Why cost of service?

- Many costs are not accounted for by customer class
- Many costs are incurred for joint benefit, others are direct
- Class usage patterns vary



# Cost of Service – Analytical Steps

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1. *Functionalization* – costs arranged by major function (production, transmission, distribution, etc)
2. *Classification* – of functionalized cost to cost components (energy, delivery, customer)
3. *Allocation* – assignment of classified costs to customer classes using allocation techniques

# Cost of Service – Chelan PUD

2006 base year – methodologies based on 1999 study

Class	2006 Rev (\$00.M)	Power / Energy	Delivery	Customer Costs	Gross Margin	Cust. Count
Resident.	\$20.5	(14.9)	(10.6)	(4.0)	(\$9.0)	33,420
Comm.	13.0	(8.8)	(3.2)	(1.3)	(\$0.3)	5,565
Industrial	5.5	(6.3)	(2.1)	(0.0)	(\$2.9)	29
Irrigation	1.1	(.8)	(0.8)	(0.2)	(\$0.7)	1,112
Frost Prt.	0.2	(0.0)	(0.9)	(0.1)	(\$0.8)	391
Inter, St lights, CTCL, Cashmere	<u>6.3</u>	<u>(6.4)</u>	<u>(1.9)</u>	<u>(0.1)</u>	<u>(\$2.1)</u>	<u>6,045</u>
Total	\$46.6	(37.2)	(19.5)	(5.7)	(\$15.8)	40,997



# Rate Design / Setting Goals

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- Easy to understand and administer
- Fair, equitable and non-discriminatory
- Follow District guiding principles
- Provide stable and predictable revenue
- Promote efficient use of resource
- Freedom from controversy

Generally, major shifts are done over time



# Surcharge Procedure

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- Board guiding principle: A temporary surcharge is an appropriate way to manage risk and volatility, if necessary
- Potential exists that a surcharge may be necessary each year from 2008 - 2011
- Need to develop public notice process for surcharges, when necessary



# Surcharge Procedure – Staff Proposal

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- ❑ Communicate surcharge potential as part of the budget process
- ❑ Establish a general timeline of mid-April for a final determination
- ❑ If needed, surcharges would go into effect May 1 or June 1
- ❑ In place a maximum of 12 months and reviewed quarterly

# Surcharge Procedure – Staff Proposal

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## *Public notice process*

- Would begin during budget and continue through the 1<sup>st</sup> quarter of the new year
- If recommended, one public meeting would be scheduled in April and advertised for a reasonable amount of time (1 or 2 weeks)
- If approved a formal resolution would be presented at the next Board meeting



# Surcharge Procedure – Staff Proposal

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## Steps to change

- Modify notice policy as described
  - Initial recommendation
  - 1 informational meeting advertised 2 weeks in advance
  - If approved, resolution presented at the next Board meeting
- Resolution would modify notice policy and amend the 1980 resolution



# Regulation and Policy changes

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Use all the work required to revise rates to change Service Regulations and create a policy section

## Highlights:

- Move line extension and facilities conversion policies from rate schedules to policy section with minor changes
- Add water rights acquisition policy
- Update various regulations
- Create a delegated authority fees and charges section



# Develop Policy Section

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Current electric, water and wastewater line extensions are rate schedules

Staff recommends creating a policy section for line extensions and other related policies

Policies will need to be changed via an approved resolution

Why?:

- Timelier and more efficient changes compared with rate changes, where they are now
- Customer access and ease
- Combine in one section



# Develop Policy Section

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## Proposed Line Extension changes:

- Add developer impact fee to recover costs when PUD is required to relocate facilities
- Final inspection and acceptance
- Engineering fee for line extensions or relocates

# Fees and Charges Section

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New section being developed under delegated authority approach:

- Transformer and meter fees (all services)
- Water line extension fees
- Secondary service fees
- Various fees (Service fee, re-connect fee, etc..)

*Typically one-time, cost-based fees and charges to be reviewed at least annually as part of the budget process*



# Regulation Changes

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*Reviewing service regulations for changes such as:*

- Seasonal reconnects – clarify our service level and add customer options
- Defining tier allocations for extra housing units on residential water meters
- Clarify language



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# Work Continues...

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- Legal review is ongoing
- Communication efforts to stakeholders
- Coordinating proposed system work
- Integrating the Networks information into the overall rate process
- Begin preparing resolution package

# Public Meeting Schedule

Date	Time	Type	Location
Aug. 13	5:30 P.M.	Customer info.	Wenatchee – PUD Auditorium 327 N Wenatchee Ave
Aug. 14	5:30 P.M.	Customer info.	Chelan – City Hall, 1034 E. Woodin Ave
Aug. 15	5:30 P.M.	Customer info.	Leavenworth – PUD Office, 222 Chumstick Hwy.
Sept. 10	1 P.M.	Rate Hearing	Wenatchee – PUD Board Room, 327 N Wenatchee Ave

Questions?

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