

Memorandum



DATE: December 2, 2016

TO: Honorable Members of the Budget, Finance, & Audit Committee:
Jennifer S. Gates (Chair), Philip T. Kingston (Vice Chair), Erik Wilson, Rickey D. Callahan,
Scott Griggs, Lee M. Kleinman

SUBJECT: **Dallas Water Utilities: Water & Wastewater Retail Cost of Service Rate Study**

On Monday, December 5, 2016, the Budget, Finance, & Audit Committee will be briefed on Dallas Water Utilities: Water & Wastewater Retail Cost of Service Rate Study. The briefing is attached for your review.

Should you have any questions, please contact me at 214-670-3296.



Ryan S. Evans
First Assistant City Manager

[Attachment]

cc: Honorable Mayor and Members of the City Council
A.C. Gonzalez, City Manager
Larry Casto, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Eric D. Campbell, Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Mark McDaniel, Assistant City Manager
Joey Zapata, Assistant City Manager
M. Elizabeth Reich, Chief Financial Officer
Sana Syed, Public Information Officer
Elsa Cantu, Assistant to the City Manager – Mayor & Council
Jo M. (Jody) Puckett, Director, Dallas Water Utilities

Dallas Water Utilities:

Water & Wastewater Retail Cost of Service Rate Study

Budget, Finance & Audit Committee

December 5, 2016



Purpose

- Provide background on City of Dallas Water Utilities current retail rate structure
- Seek Council Committee recommendation to support award of December 14, 2016 agenda item to perform a comprehensive retail water and wastewater cost of service rate study

Outline

- Background
- Current Retail Rate Structure
- Retail Cost of Service and Rate Study
- Timeline and Summary
- Appendix



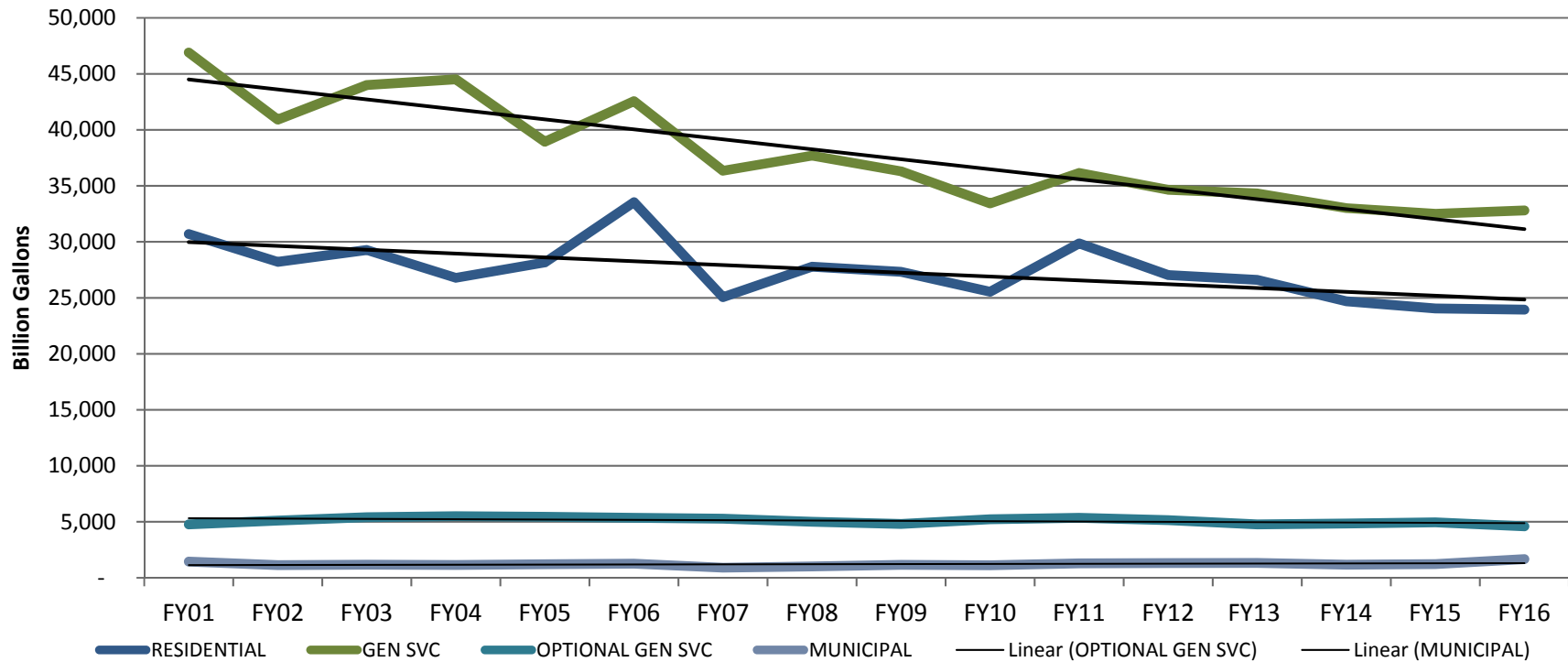
Background

Retail Cost of Service and Rate Study



- The last comprehensive retail water and wastewater retail cost of service study was performed in 2002
 - 2012 review of residential rate structure
 - 2014 review of commercial rate structure
- A new initiative for the 2016 Water Conservation Work Plan included an update to the retail cost of service and rate model including:
 - An evaluation of current cost allocations between customer classes
 - An evaluation of additional customer classes
 - An examination of rate structure including additional tiers for some or all customer classes

Historical Water Use By Customer Class



- Since Fiscal Year 2002, Dallas Water Conservation Programs have impacted water consumption patterns and customer demands
- Recognizing the changing usage patterns, DWU has reduced budgeted retail sales by over 20% from 84.5 BG in Fiscal Year 2006 to 66.5 BG in Fiscal Year 2017

Current Retail Rate Structure

Rate Setting Parameters and Objectives

- City Council has exclusive original jurisdiction to adopt rates within City limits that are *fair, just and reasonable* [Texas Water Code 13.042 (a)]
- Rates shall not be unreasonably preferential, prejudicial or discriminatory, but shall be *sufficient, equitable, and consistent in application to each class of customers* [Texas Water Code 13.182]
- Burden of proof is on the City to demonstrate *just and reasonable* [Texas Water Code 13.184(c)]
- Additional objectives include:
 - Measure of affordability
 - Conservation price signal for customers to use less water
 - Tiers based on peak use and price signals
 - Contracts
 - Customer understanding/Complexity of structure

Rate Structure Components

- Typical billing for utilities include:
 - Water and Wastewater Customer Charge
 - Recovers fixed costs based on meter size for:
 - Meter reading, billing and collection
 - Capital costs for meter maintenance and replacement
 - Pricing the same for all customer classes
 - Water Volume Charge
 - Recovers costs for supply, treatment, distribution and fire protection
 - Pricing structures vary by customer class
 - Price signals for conservation purposes
 - Wastewater Volume Charge
 - Recovers costs for wastewater collection, treatment and disposal
 - Pricing structure varies by customer class
 - Residential pricing is based on four month winters' average water use
 - Commercial is based on actual water use per month

Current Retail Customer Classes

- Residential – single family residences
- General Services – commercial and multi-family
- Optional General Services (OGS) – large commercial or industrial customers using more than one million gallons a month
- Municipal – City of Dallas facilities such as parks, libraries, Convention Center, and Aviation

Dallas Water Utilities Monthly Retail Rates

Effective October 1, 2016

Customer Charge		Water	Sewer
5/8	Inch Meter	\$5.25	\$4.70
3/4	Inch Meter	\$7.26	\$6.44
1	Inch Meter	\$10.56	\$9.35
1 1/2	Inch Meter	\$19.66	\$17.99
2	Inch Meter	\$31.98	\$28.35
3	Inch Meter	\$74.90	\$68.52
4	Inch Meter	\$124.44	\$109.56
6	Inch Meter	\$247.11	\$215.64
8	Inch Meter	\$411.31	\$359.97
10	Inch Meter or larger	\$631.58	\$565.59

Usage Charge per 1,000 gallons*

	Water	Sewer
Residential		
Up to 4,000 gallons	\$1.90	\$5.31
4,001 to 10,000 gallons	4.25	5.31
10,001 to 15,000 gallons	6.03	5.31
Above 15,000 gallons	8.55	5.31
General Services		
Up to 10,000 gallons	\$3.65	\$4.08
Above 10,000 gallons	3.91	4.08
Above 10,000 gallons & 1.4 times annual average monthly usage	5.94	4.08
Optional General Services		
1st million gallons or less (minimum)	\$2,192.92	\$3.65
Above 1 million gallons (per 1,000 gallons)	3.03	3.65
Sewer Metered Separately		3.73
Municipal	2.42	2.58

Retail Cost of Service and Rate Study

Retail Cost Study Scope of Work

- Perform a comprehensive water and wastewater retail cost of service study to evaluate the following for appropriateness and provide alternatives:
 - Allocation of fixed and variable costs (customer charge/volume charge)
 - Allocation of costs between retail classes to reflect current system usage
 - Existing rate structures including
 - Number of water rate tiers and current volumetric thresholds
 - Wastewater rate structure including an overall unit rate for all classes
 - Current customer classes to include consolidation or addition of one or more classes

Retail Cost Study Scope of Work

- Calculate the impacts to customers and revenue recovery from alternative rate structures to ensure equitable recovery of costs from different customer classes
- Benchmarking as a basis of comparison of selected metrics
- Develop a cost of service and rate model compatible with DWU's existing wholesale cost of service model
- Implementation of rates into the City's billing system if applicable

COS Study – Proposal Evaluations

- Interviews and formal proposals were conducted on August 31, 2016
- Proposals were evaluated based on the following:
 - Consultant’s pertinent experience 17%
 - Capabilities, resources and responsiveness 20%
 - Consultant’s approach to project 35%
 - Consultant’s current contracts 10%
 - Litigation 3%
 - Business Inclusion and Development Plan 15%
- The highest scorer was recommended to Water Utilities and was accepted unanimously

<u>Vendor</u>	<u>Score:</u>
Raftelis Financial Consulting, Inc.	89.25
Arcadis U.S., Inc.	86.25
HDR, Inc.	80.00

Timeline and Summary

Proposed Timeline

- January 2017 – Award contract and begin study
- June 2017 – Update Council on progress
- Fall 2017 – Brief Council on final recommendations and proposed implementation schedule
- December 2017 – Seek Council support for final report and recommendations

Summary

- A comprehensive water and wastewater retail cost of service study has not been performed since 2002
- The impacts of the City of Dallas Water Conservation Program's success have resulted in changes in water consumption patterns and customer demands
- Seeking Council Committee recommendation to approve December 14, 2016 Agenda Item 43 authorizing a service contract with Raftelis Financial Consultants, Inc. to perform a water and wastewater retail cost of service rate study in an amount not to exceed \$399,320

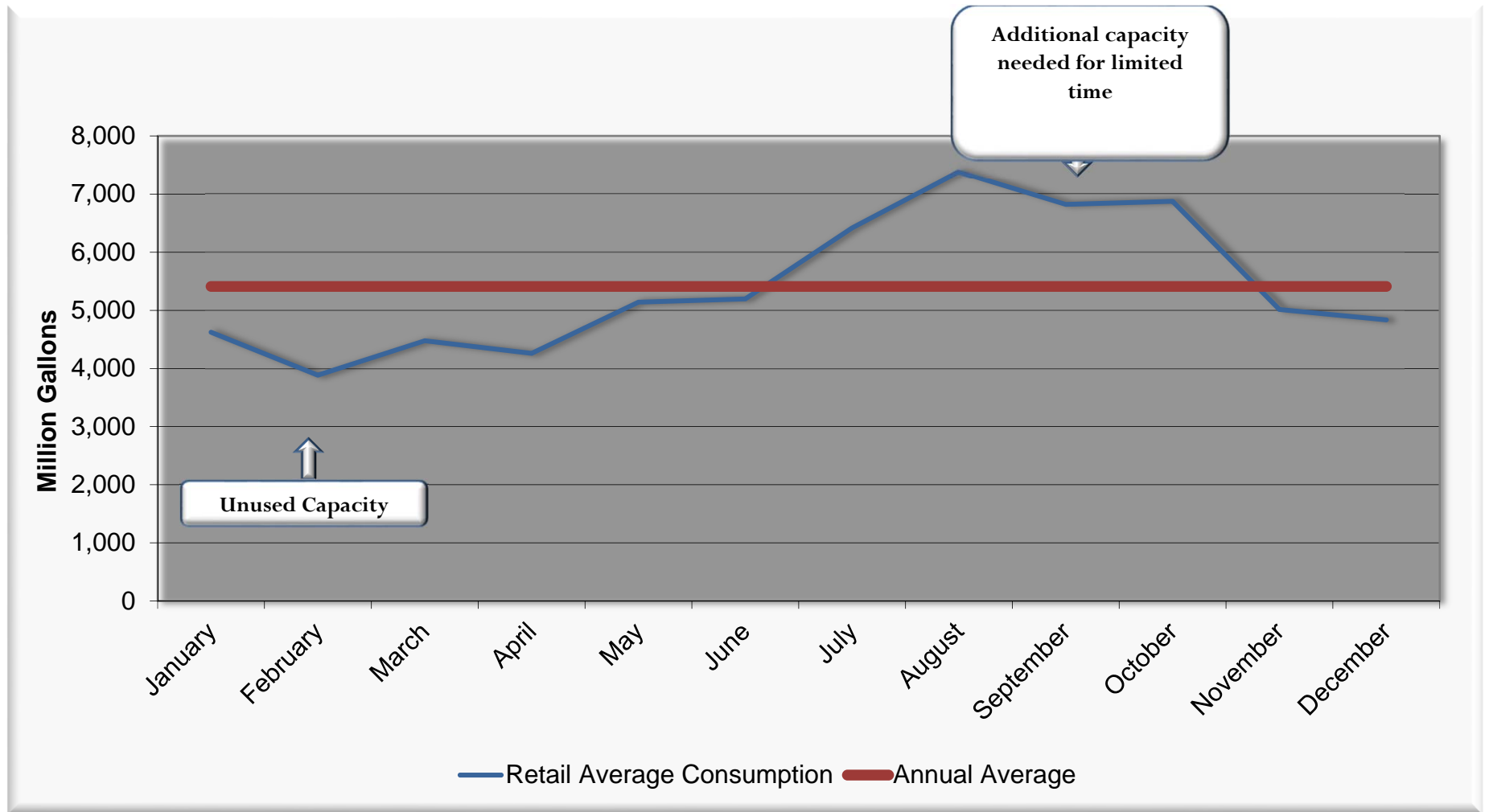
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Retail Cost of Service Study Request for Services

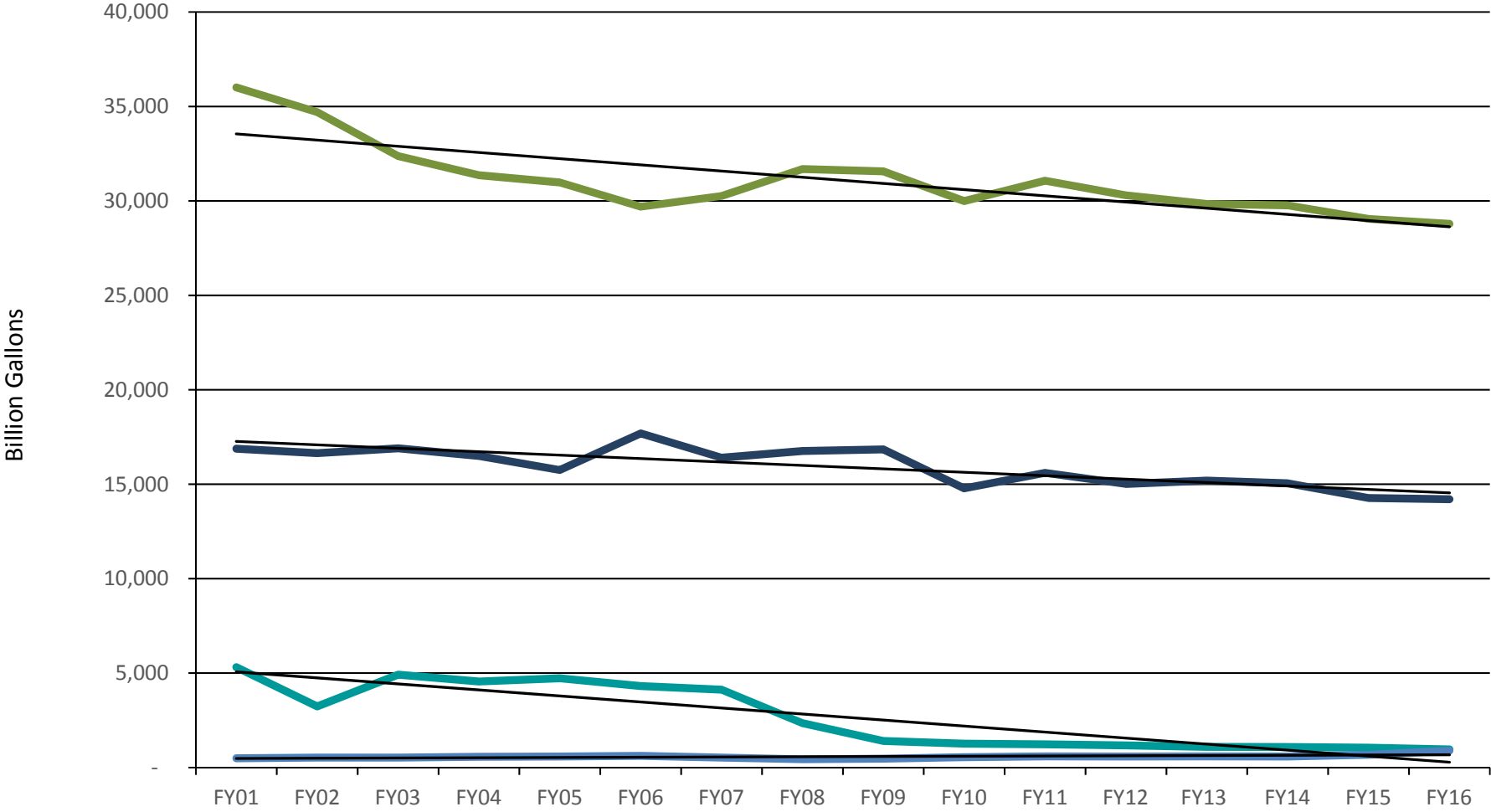
- Dallas Water Utilities solicited a Request for Statement of Qualification (RFQ) for Professional Services in June 2016
- Three firms submitted a proposal:
 - Arcadis, U.S., Inc.
 - HDR Inc.
 - Raftelis Financial Consulting, Inc.
- A rating committee was established consisting of four members and a committee chair (non-voting member)
 - Water Utilities – One voting and one non-voting
 - Communication Information Services - One
 - Dallas Convention Center - One
- Committee members reviewed proposal from each consulting firm
- All firms were determined as qualified based on required criteria set forth in the RFQ

Monthly Retail Water Consumption Profile

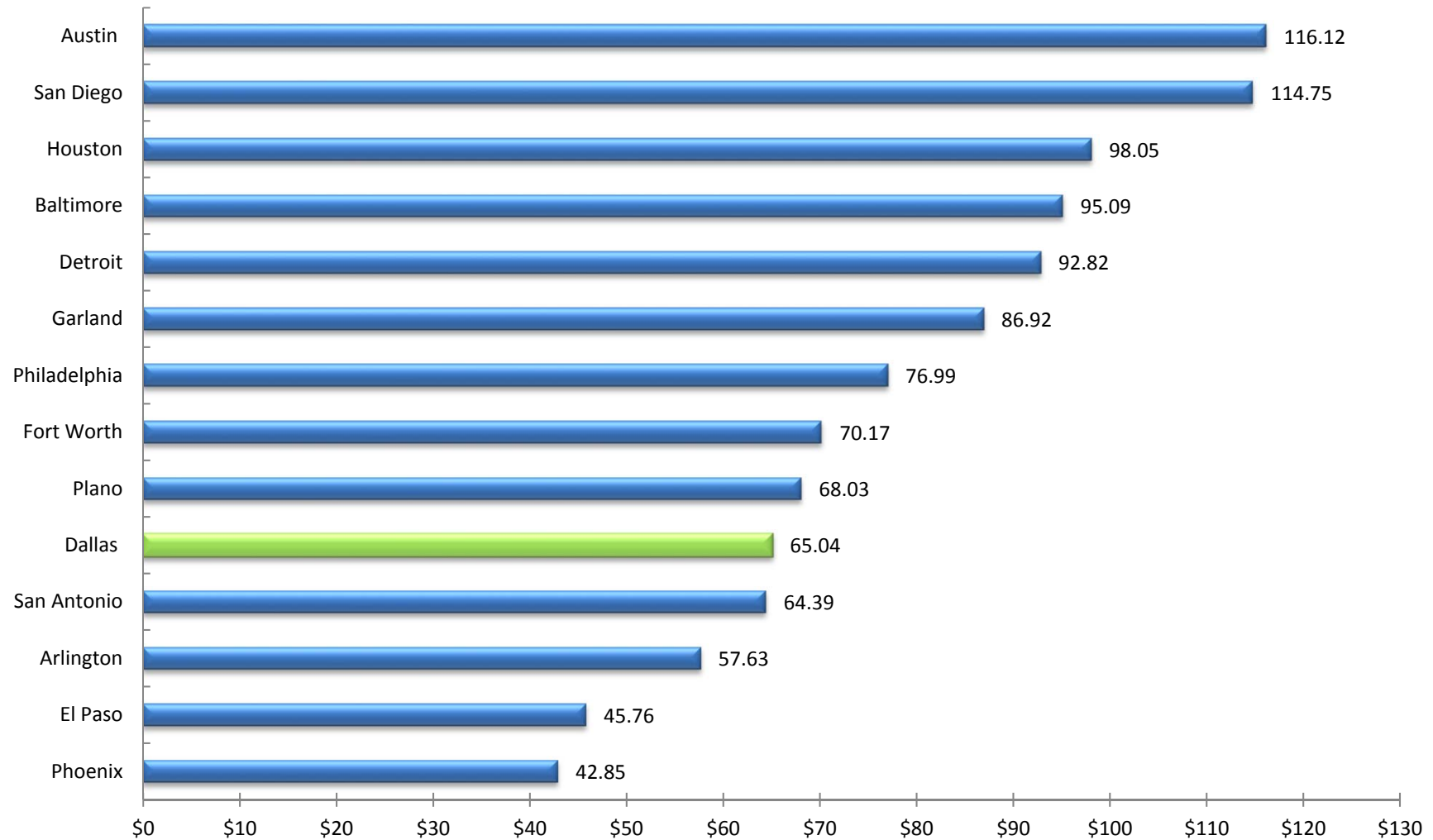
Five Year Average for FY12-16



Historical Wastewater Flows By Customer Class



Index Cities Comparison of Average Monthly Water & Sewer Residential Bills



Note: Bill comparison based on rates effective July 2016; water consumption of 8,300 gallons; and 5,500 gallon Winter Months Average for sewer

Customer Cities Comparison of Average Monthly Water & Sewer Residential Bills

