

BUILDING A WORLD OF DIFFERENCE

SAN ANTONIO WATER SYSTEM (SAWS)

RATE DESIGN STUDY ANALYSIS

RATE ADVISORY COMMITTEE: MEETING 1

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RATE STUDY & FINANCIAL PLANNING

OBJECTIVES

SECTOR OUTLOOK

STUDY APPROACH

UTILITY PRICING AND RATEMAKING

THE ROLE OF THE COMMITTEE

QUESTIONS

PROJECT GOALS & OBJECTIVES

- **Development of a rate structure that**
 - generates sufficient revenues
 - maintains stable revenue streams
 - promotes the efficient use of water resources
 - recovers costs equitably across customer classes
- **Address customer affordability issues as a part of the Rate Design Analysis**
- **Appropriately plan and account for the DSP integration**
- **Incorporation of stakeholders' prioritized issues and concerns as a part of the Rate Design Analysis**

UNDERSTANDING OF KEY ISSUES

- **Achieve Cost of Service based Rates**
- **Implementation of the Water Management Plan, SSO Reduction Initiatives, and Conservation Program**
- **Manage rate aspects of DSP Integration**
- **Enrichment of the existing Affordability Program**
- **Maintain Bond, Loan, and Other Financial Covenants and Requirements**

US WATER INDUSTRY ISSUES SNAPSHOT

- Revenue stability is a pressing and urgent concern
- Infrastructure renewal is a growing concern
- Water supply is a growing concern
- Affordability issues must be addressed
- Business Process issues are increasing
- Sustainability drivers are becoming recognized
 - Financial
 - Economic
 - Environmental
 - Social

FITCH RATINGS FY 2014 OUTLOOK

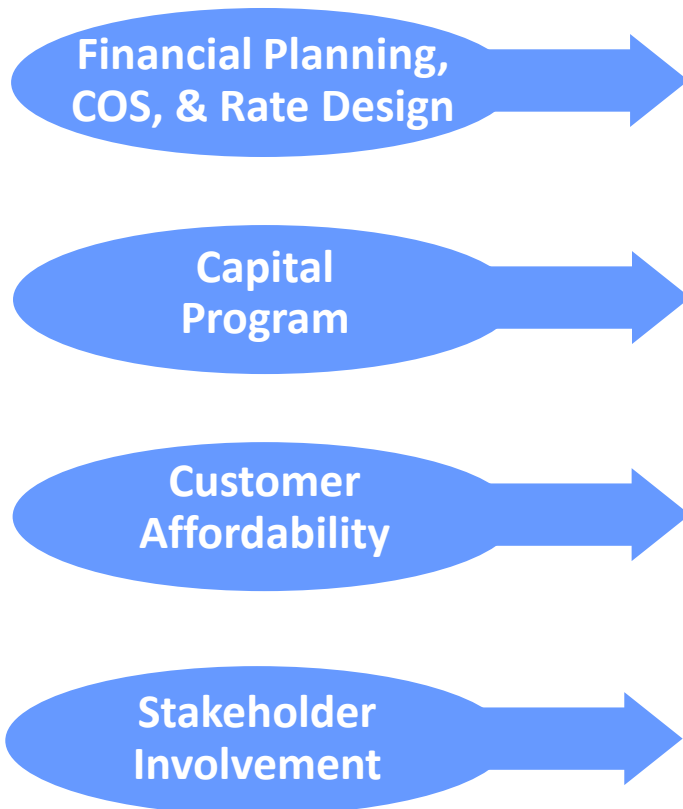
WATER AND SEWER SECTOR

- **Outlook Stable**

- The fundamentals of this sector have tempered the negative effects of global economic weakness in recent years
- For FY 2014, Fitch expects continued financial stability with possibly some additional incremental gain
- Fitch anticipates key debt ratios to rise around 3.0% as utilities continue to focus efforts on asset management
- Fitch expects the financial stress currently facing many utilities to continue into 2014.
 - Economically sensitive revenue streams
 - Increasing labor cost

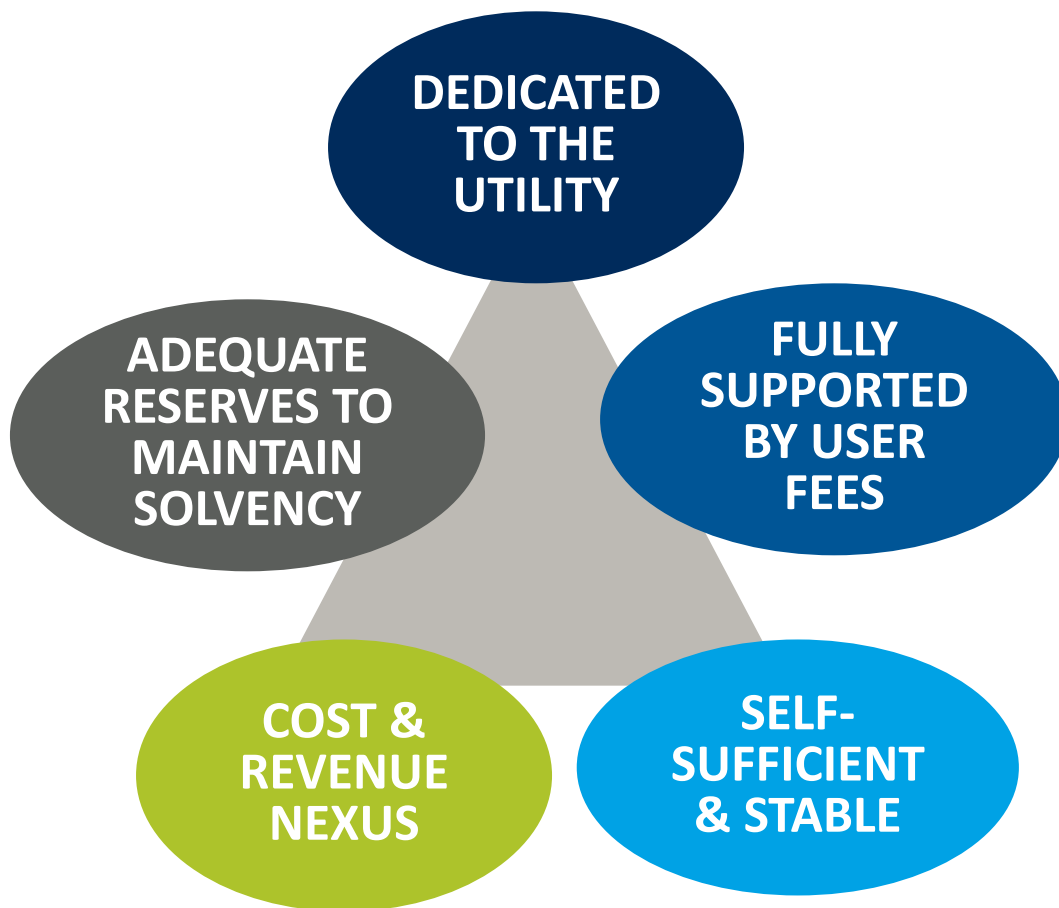
“Fitch believes the sector is stable despite ongoing economic, capital, and political pressures”

STUDY ENVIRONMENT



Sustainable Financial Planning

WHAT IS AN ENTERPRISE FUND?



Should account for all costs, revenues, and reserves

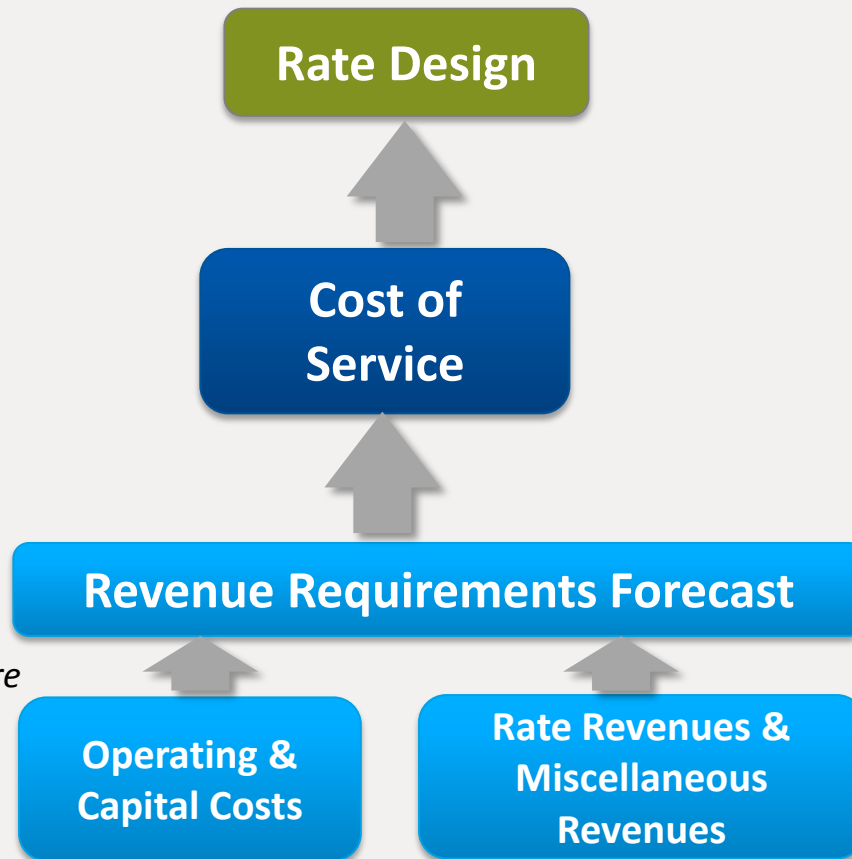
No co-mingling of Funds

RATE STUDY BUILDING BLOCKS

Pricing: *How should the revenue be collected from the customer classes?*

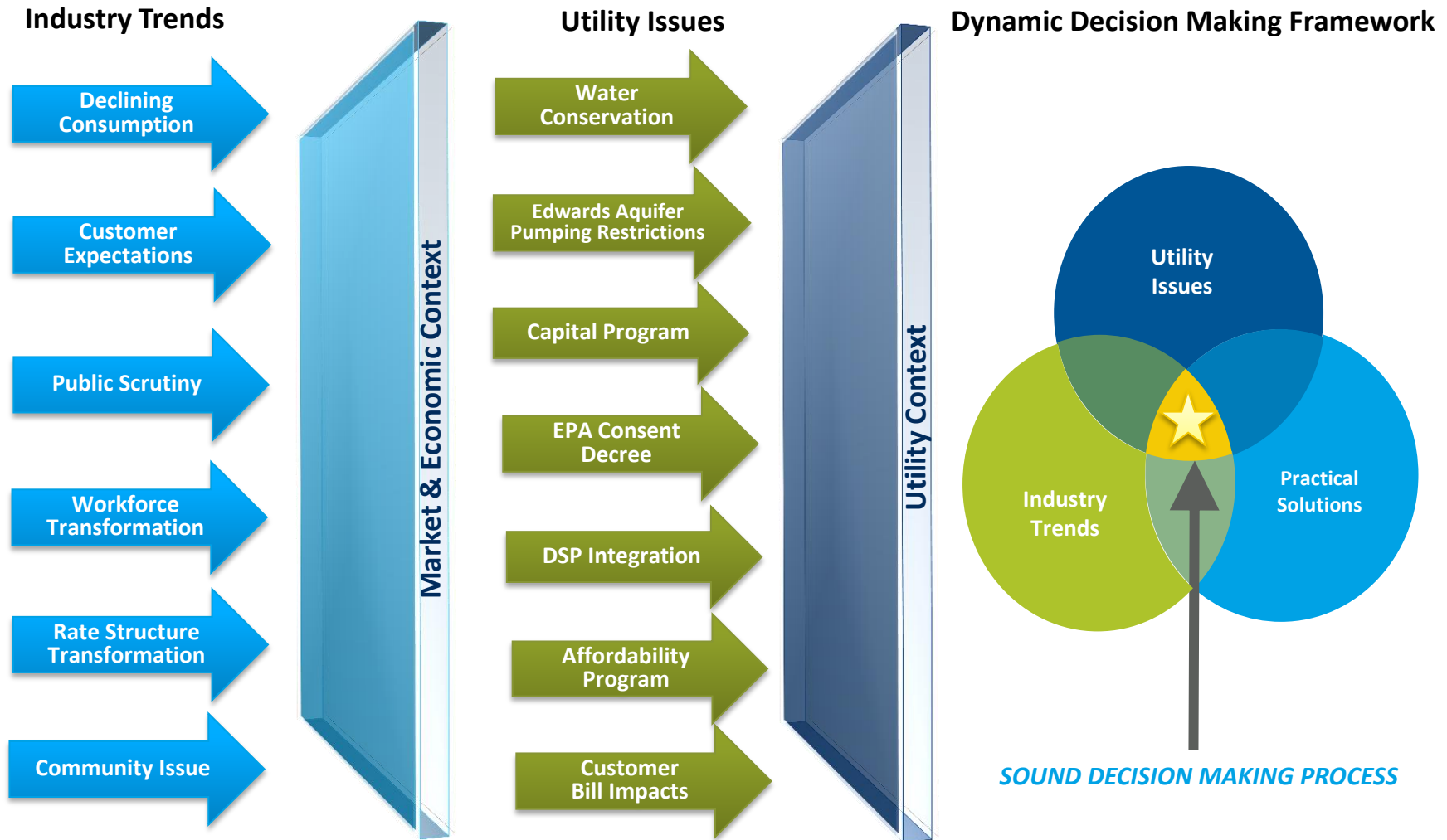
Cost Allocation: *Who should pay and how much should each customer class pay?*

Financial Planning: *What are the annual revenue requirements of the utility?*



DECISION MAKING FRAMEWORK

STUDY APPROACH



THE EVOLUTION OF WATER RATES

- **Water was free**
 - Family, then community service/no rates
- **Investment to provide safety and improve service**
 - Flat/uniform rates
- **Appropriate cost classification began**
 - Meter based charges
 - Uniform volumetric rates
- **Revenue generation became a focus**
 - Meter based charges
 - Declining block volumetric rates
 - Generate sufficient revenues to cover cost

THE EVOLUTION OF WATER RATES

- **Manage water resources**
 - Alter customer water usage patterns
 - Conservation programs
 - Inclining block volumetric rates
- **Maintain Revenue Stability**
 - More emphasis on fixed charges (meter, billing, customer)
 - Development of specific/special rates:
 - Rate Stabilization
 - Fuel/Energy Adjustment
 - Capital Project Surcharge
- **Customer Affordability**
 - Lifeline rates
 - Special discounts and credits (income based)
 - Targeted customer support

WATER UTILITY PRICING IS HIGHLY UNUSUAL

- **Utilities are a unique kind of business**
 - Fundamental
 - Life sustaining
 - Community creating
 - Yet they must fully recover their costs
- **Utilities are not**
 - Typical units of local government
 - Typical businesses
 - Social service agencies



BUT AS MUCH AS BUSINESS PRINCIPLES APPLY...

- **The analogies break down**
 - **Factors operate outside of utilities' control that create challenges to fiscal stability**
 - Rainfall
 - Consumption patterns
 - Water resource availability
 - **Cost management is different from that of a manufacturing environment, as well as from that of a service environment**

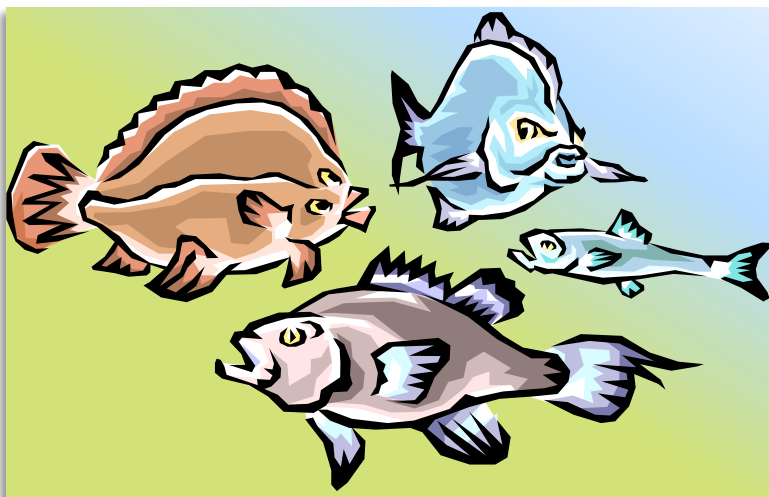
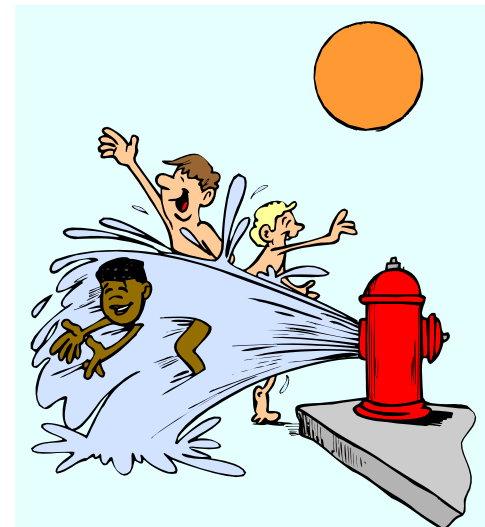
TWO WORLDS



- **The service aspect**
 - Universally needed
 - We don't want true income constraints to limit service
- **The business aspect**
 - This is a function that can carry its own weight
 - Equitable rates and charges fairly apportion system costs
 - Fully sufficient rates and charges encourage efficient behavior, benefitting everyone

YOU'RE TOUCHING A TRULY ESSENTIAL FUNCTION

- SAWS is fundamental to
 - Human health
 - The environment
 - Maintaining prosperity



THE ROLE OF THE COMMITTEE

- Represent community interests
- Provide guidance to staff and consultant concerning factors important in developing utility rates; for example:
 - Increased Conservation
 - Affordability
 - Financial stability
 - Economic development
 - Simplicity of structure

NEXT STEPS

- RAC Rates Workshop – April 1, 2014
- SAWS Board Policy and Planning Meeting – April 21, 2014
- City Council “B” Session – April 30, 2014
- RAC Public Hearing – May 6, 2014
 - Public stakeholders provide input
- RAC Priority Setting Workshop – May 13, 2014
- Following the receipt of priorities, the consultant will develop rate structure proposals to meet RAC priorities for discussion at later meetings
- Refinement of rate structure proposal will be the focus of the RAC’s work through the rest of the year.

QUESTIONS

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Together



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