2019 Rate Study Consulting Services

Mary Bailey
VP – Customer Experience & Strategic Initiatives

Board Meeting
July 2, 2019
Overview

• SAWS periodically undergoes a cost of service rate design study (rate study)
  • Last review was completed in 2015, changes implemented in Jan 2016

• Purpose:
  – Ensure adherence to cost of service principles in accordance with industry standards
  – Develop pricing structures that reflect utility and community objectives
  – Revenue neutral – determines *how* costs are allocated and recovered from different types of customer classes

• SAWS conducts the rate study with the help of a rate consultant and the Rate Advisory Committee (RAC)
Rate Study Process

**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?

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**Objectives, Policies & Rate Setting Principles**
Consulting Services Request for Proposal

Scope of Services

• Provide education and support to SAWS staff, the Board and RAC
  – Understanding rate setting principles
  – Identification of underlying policies and objectives
  – Development of appropriate recommendations for modifications to SAWS existing rate structure

• Calculate cost to provide water delivery, water supply, wastewater and recycled water service
  – appropriate allocation of those costs to various customer classes
Consulting Services Request for Proposal

Scope of Services

- Develop rate models that allow for rates to be analyzed under various scenarios that consider such principles as: conservation, consumption characteristics of various customer classes, cost of service, customer affordability, equity and fairness implications, and financial stability

- Perform an affordability assessment of SAWS rates, analyze current rate assistance offered to low-income customers and propose alternative affordability solutions
Proposals Received

<table>
<thead>
<tr>
<th>NAME OF FIRM</th>
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<tbody>
<tr>
<td>Carollo Engineers, Inc.</td>
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<tr>
<td>ScottMadden, Inc.</td>
</tr>
<tr>
<td>Raftelis Financial Consultants, Inc.</td>
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</tbody>
</table>
Evaluation of Proposals

- Selection Committee consisted of six individuals from the CEO’s Office, Customer Service, Legal, Contracting and Financial Services areas
- Each proposal was scored on firm’s project approach, project team and team member experience, compensation proposal, understanding of San Antonio Socio-Political Environment and SMWVB participation
- Top two highest scoring firms were interviewed by the Selection Committee
Evaluation of Proposals

Interviews

• Firms were asked to:
  – Discuss firm and team member relevant experience
  – Discuss emerging trends in water and wastewater rate setting
  – Discuss experience with educating and building consensus with community advisory groups such as SAWS RAC
  – Discuss experience with evaluating rate affordability and developing low income rate assistance solutions
  – Demonstrate rate models developed for previous rate study engagements
Recommendation

• Approve consulting agreement with Raftelis Financial Consultants, Inc.

• Approve funds in an amount not to exceed $462,430.00
WHO IS Raftelis?

Established in 1993

- National Experience
- Local Knowledge
- Depth of Resources
- Excellent Communication Skills
- Municipal Program Focus
Focused on Utilities

**FINANCE**
- Affordability analysis and program development
- Capital improvements planning/prioritization
- Debt issuance support
- Economic and financial evaluations
- Financial planning
- Rate, charge, and fee studies
- Stormwater utility development and support

**ORGANIZATION**
- Organizational, governance, and operations optimization
- Performance measurement and benchmarking
- Program planning & support
- Stakeholder engagement and communications
- Strategic planning

**TECHNOLOGY**
- Billing, permitting, & customer information audits
- Business process development
- Data management, analytics, and visualization
- Software solutions
With over 80+ utility financial consultants, Raftelis has the largest practice in the nation.
Serves 100,000+ accounts
We wrote the BOOKs
Affordability
Affordability Leaders in the Industry

- Affordability Symposium
- National Water Affordability Project looking at new measures and indicators
- Design and evaluation of Customer Assistance Program options
- Integrating demand and rate analysis with the affordability assessment (e.g., price elasticity by income category)
- Large city experience: Philadelphia, Phoenix, El Paso, Baltimore, New York City, Denver, Columbus, Cleveland/North East Ohio, King County/Seattle region, etc.
Develop recommendations for the EPA on a new methodology and guideline for assessing household affordability and community financial capability

Prepared for:

Team Members:

American Water Works Association
NACWA
Water Environment Federation
Galardi Rothstein Group

RAFTELIS
CORONA ENVIRONMENTAL CONSULTING
Proposed Timeline

- Board approval of rate consultant – today
- Board appointment of RAC membership – Sept 2019
- RAC Meetings – Oct 2019 – May 2020
- Final Board and Council approval of changes – Nov 2020
- Implementation of changes – Jan 2021
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## Rate Study Objectives

Establishing objectives is an important first step in the process

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<tr>
<th>OBJECTIVE</th>
<th>CRITERIA</th>
<th>POSSIBLE RESULTS</th>
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<tbody>
<tr>
<td>Affordability</td>
<td>• Is bill affordable for economically disadvantaged customer?</td>
<td>• Discounts or separate rate structures depending on income</td>
</tr>
<tr>
<td></td>
<td>• Is cost of essential service necessary for basic health and safety affordable for all customers?</td>
<td>• Allocation of least expensive water supplies to basic/essential usage</td>
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<tr>
<td></td>
<td></td>
<td>• Lifeline rates</td>
</tr>
<tr>
<td>Conservation</td>
<td>• Do pricing structures encourage permanent reductions in water usage through more efficient use of water?</td>
<td>• Emphasis on variable rate components</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Increasing tiered rates</td>
</tr>
<tr>
<td>Cost of Service</td>
<td>• Are costs are recovered from customers and customer classes in proportion to the cost of providing service?</td>
<td>• Different rates by class</td>
</tr>
<tr>
<td></td>
<td>• Are allocation of costs fair and defensible?</td>
<td>• Tiered rate structures</td>
</tr>
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# Rate Study Objectives

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<td>Customer Impact</td>
<td>• Do we want to avoid large changes in customers’ bills?</td>
<td>• Limited or phased rate structure changes</td>
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| Drought Management            | • Should price signals be sent to encourage demand reductions during drought stages? | • Emphasis on variable rate components  
                                 |                                                                             | • Increasing tiered rates with adjustments or surcharge at certain drought stages |
| Financial Sufficiency/Stability| • Do rates recover the full cost of operations and provide for capital projects?  
                                 | • Do we want to limit the negative impact of weather/usage restrictions on revenue? | • Modify ratio of fixed vs variable charges                                        |
| Simplicity                    | • Should rate structure be simple for customers to understand             | • Less complex rate structure  
                                 |                                                                             | • Emphasis on fixed rate components                                               |
Issues to be Evaluated

• Separate vs combined water rate structure (water supply & water delivery)
• ICL/OCL rate differentials
• Basis for residential wastewater charges (winter average vs water consumption)
• Affordability considerations
• Evolving industry practices
Rate Advisory Committee (RAC)

Purpose

- The RAC is a special purpose advisory group that provides input to the Board of Trustees and SAWS staff on the cost of service and rate design study

- RAC Objectives:
  - Assist staff in establishment and prioritization of pricing objectives
  - Review and analyze results of the cost of service study performed by rate consultant
  - Provide input regarding potential changes to the existing rate and fee structure
Rate Advisory Committee (RAC)

15-20 Members

• Eligibility - any resident, property owner, Business Association, or business operator served by SAWS
• SAWS will request nominations from each City Council member
• Additional at-large members will be nominated by SAWS staff to ensure representation from all facets of SAWS customer base (e.g. Outside City Limits, Multi-family, Commercial, Recycle, Affordability)
• Term: RAC will disband at conclusion of Rate Study