AWWU Proposed Rate Changes

Anchorage Assembly Enterprise and Utility Oversight Committee of the Whole Meeting

November 19, 2020

Clearly

Topics for Discussion

- Re-Summarize AWWU's Proposed Across the Board Rate Increases for 2021
- Review AWWU Rate Setting Methodology
- Review Water Utility Cost of Service Study Results
- Review Sewer Utility Cost of Service Study Preliminary Results

Re-Summarize AWWU's Proposed Across the Board Rate Increases for 2021

- AO No. 2020-107

- Assembly approved AWWU's 2021 Operating Budget on 11/17, which included AWWU's proposed 2021 combined across the board rate increase of 4.8%
- 2% Water, 8% Sewer, delayed and effective on an interim and refundable bases on 4/1/2021
- Requested rates lower than RRS calculated rates of 3.5% Water and 11.5% Sewer

- AO No. 2020-124

- Per AMC 26.10.035 the Assembly must approve by ordinance the submission of the proposed tariff rate changes to the RCA
- AO introduced at 11/17 Assembly and up for comment and approval at 12/8 Assembly
- Tariff changes must be file with RCA in 2020 to use 2019 test year data, constraint free

Impacts on Common Monthly Rates

Wastewater			
Customer Class	Current Rate	Proposed Rate	$ Change
(a)	(b)	(c)	(d)
Unmetered Single Family Residential	$ 48.11	$ 51.96	$ 3.85
Metered:			
Customer Charge (per Account)	$ 9.19	$ 9.93	$ 0.74
Low Strength Charge (per 1,000 Gallons)	$ 5.35	$ 5.78	$ 0.43
Septage Hauler:			
Customer Charge (per Account)	$ 9.19	$ 9.93	$ 0.74
Estimated Usage (per 1,000 Gallons)	$ 26.70	$ 28.84	$ 2.14

Water			
Customer Class	Current Rate	Proposed Rate	$ Change
(a)	(b)	(c)	(d)
Unmetered Single Family Residential	$ 54.53	$ 55.62	$ 1.09
Metered Residential and Commercial:			
Customer Charge (per Account)	$ 14.42	$ 14.71	$ 0.29
Volume Rate (per 1,000 Gallons)	$ 5.57	$ 5.68	$ 0.11
Anchorage Fire Department	$ 435,553.44	$ 444,264.51	$ 8,711.07

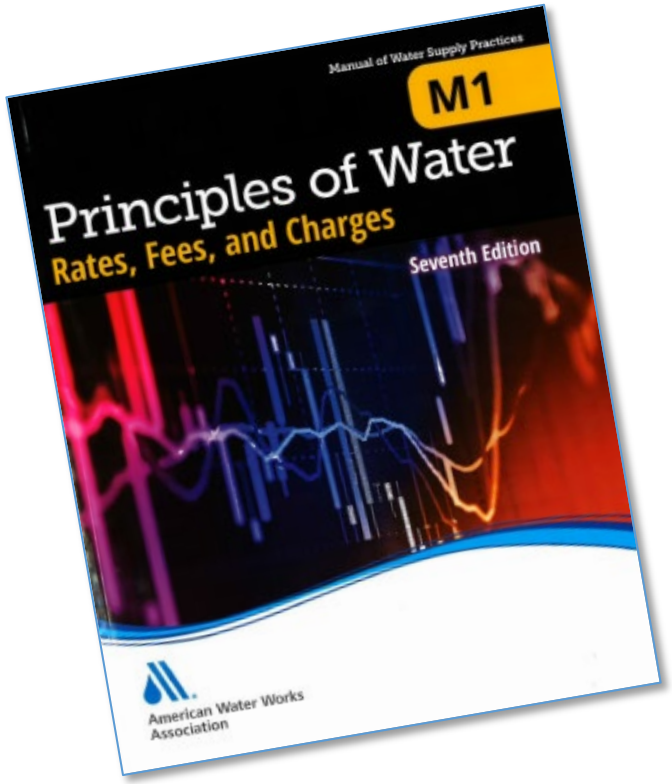
$5.226M to $5.331M
Annual AFD Charge

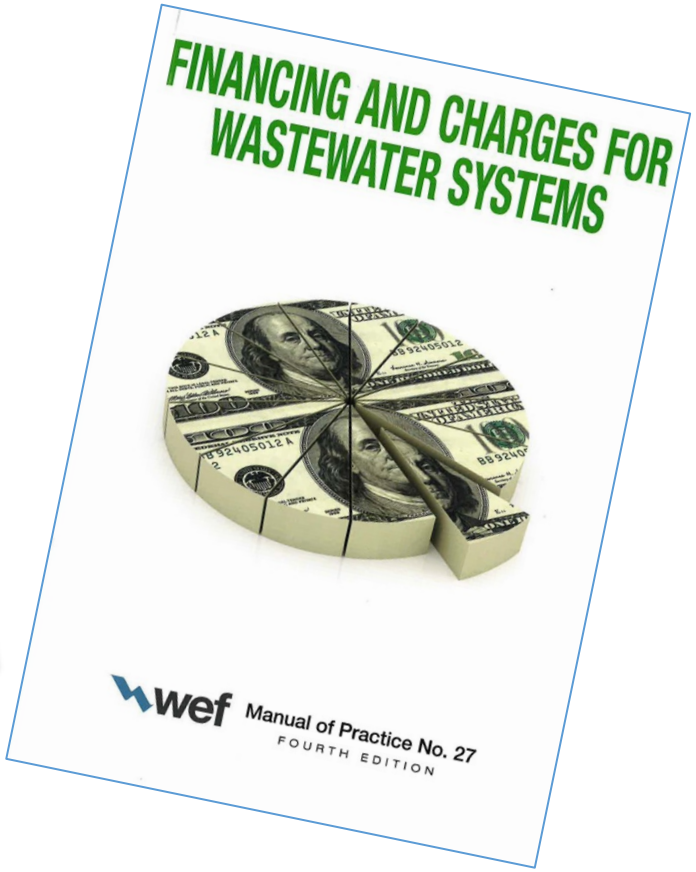
AWWU Rate Setting Methodology

Purpose of a Rate Study:

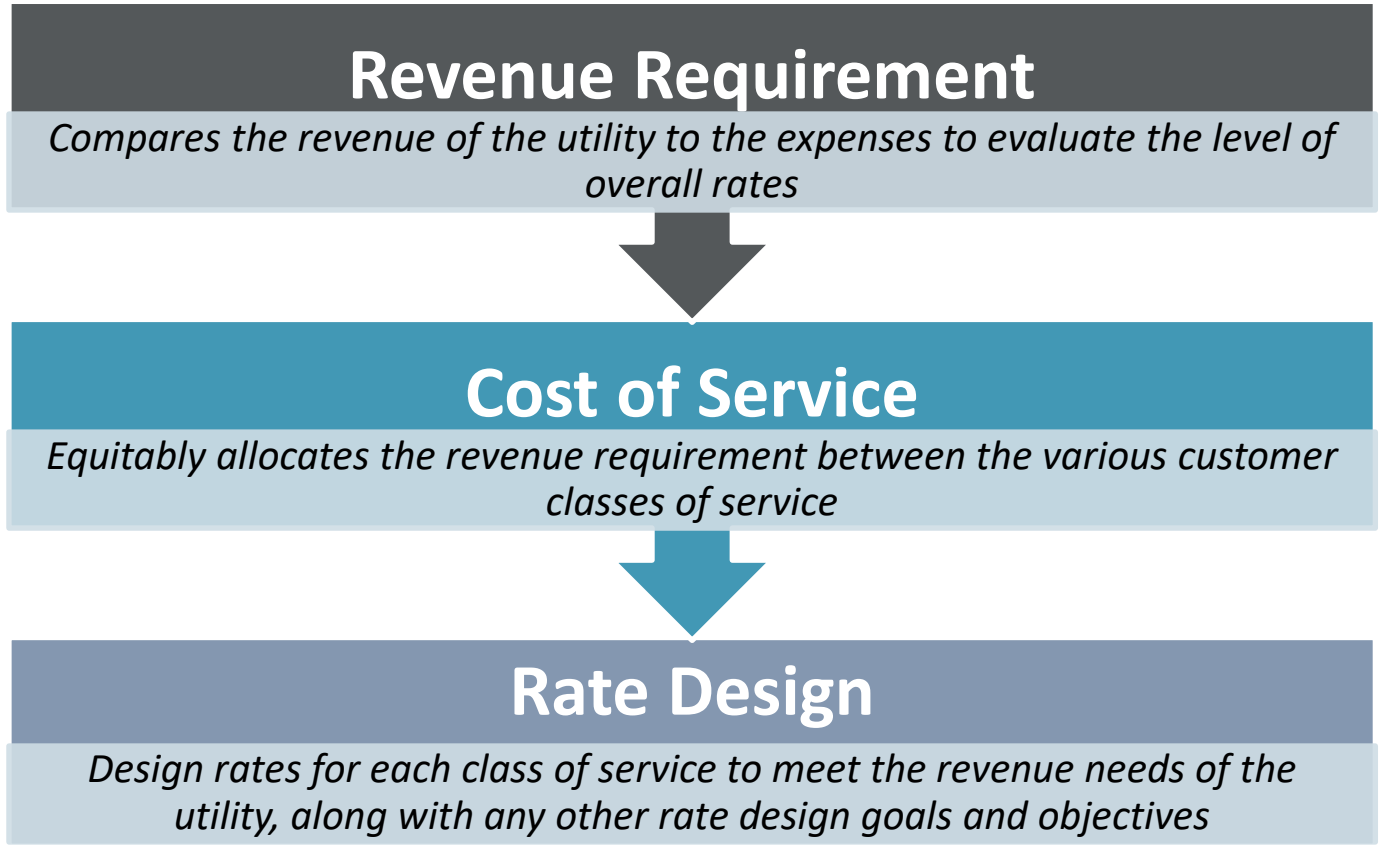
- Provide sufficient revenue to operate and maintain the water and wastewater infrastructure
- Reflect prudent financial planning criteria
  - Maintain target debt service coverage ratio
  - Level of rate funded capital (equity contributions)
  - Meet lending institution financial covenants and requirements
- Meet rate structure goals and objectives
- Develop equitable, cost-based, and legally defendable rates

What is “Generally Accepted”?





Methodology of Setting Cost-Based Rates



Overview of the Revenue Requirement

Compares the revenues to the expenses to determine the overall adequacy of rates	• Determines the level of rate adjustment necessary
Reviews a specific time period	• Typically a one-year period • Required with rate increase requests
Utility is analyzed on a "stand alone basis"	• No transfer of funds from other City funds • Rates need to support operations
Utilizes generally accepted methodologies	• Utility basis approach

Overview of Cost of Service

What is cost of service?

- Analysis to equitably allocate the revenue requirement to the various customer classes of service

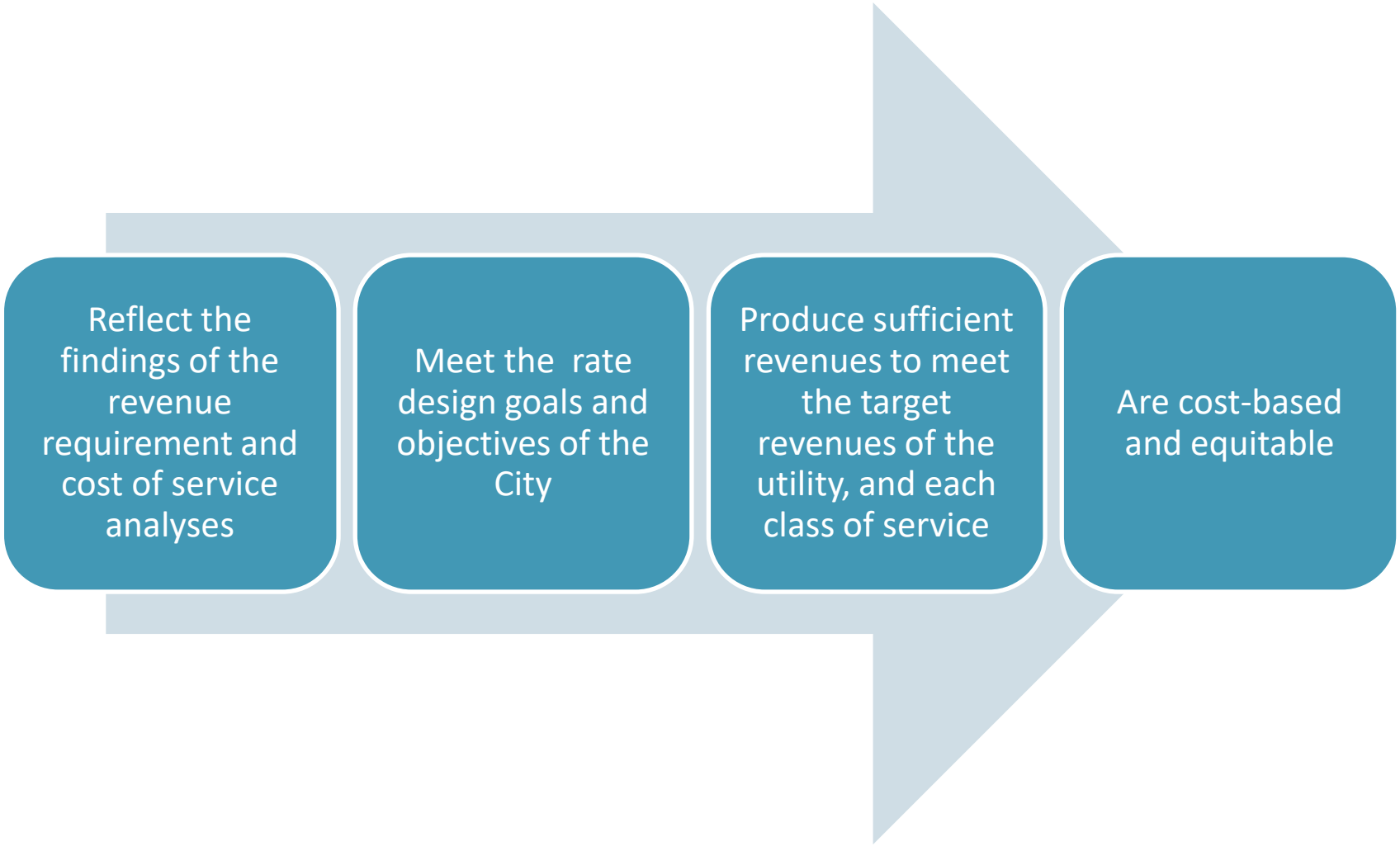
Why cost of service

- Generally accepted as “fair and equitable”
- Avoids subsidies
- Revenues track costs

Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

Overview of the Rate Design



COSS Highlights

- Changes from both COSS will:
  - Allocate more costs to metered usage versus fixed charges
  - Align Cost Causer Cost Payer for all customers
  - Promote conservation by shifting costs from fixed to variable rates
  - Create a revenue deficiency for the Utility if current commercial consumption trends persist

- AWU - Changes to the Fire Protection Rate Design will:
  - Better Align Cost Causer Cost Payer
  - Result in tax exempt organizations paying a portion of fire protection
  - Result in larger water bill for AWWU ratepayers

- ASU - Risk in not submitting the Water and Sewer COSS together

Water Utility Cost of Service Study Results

- Review Proposed Rate Changes for Water Utility Customers in 2022, including Fire Protection Charge change
- Re-allocate rates based on updated usage patterns and updated capital investments
- Time Sensitive Schedule:
  - Need AO to submit proposed tariff changes to RCA this year to be constraint free (waiver free)

AWU - Impacts on Monthly Bills from Implementing COSS

TABLE 1 – Impact to Unmetered Residential Accounts

	Preliminary COSS Results					2019 Test Year RRS					
Customer Class	Usage Charge (per Unit)	# of Units	Customer Charge (per Account)	Fire Charge (per Account)	Total Charges	Usage Charge (per Unit)	# of Units	Customer Charge (per Account)	Total Charges	Change	% Change
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Single-Family	$47.82	1	$9.81	$1.33	$58.96	$40.91	1	$14.71	$55.62	$3.34	6.01%
Duplex	$29.37	2	$9.81	$1.99	$70.54	$40.91	2	$14.71	$96.53	($25.99)	-26.92%

TABLE 2 – Impact to Metered Accounts

	Preliminary COSS Results					2019 Test Year RRS					
Example Customers	Usage Charge per tgal	Meter Charge (per Account)	Customer Charge (per Account)	Fire Charge (per Account)	Total Charges	Usage Charge per tgal	Meter Charge (per Account)	Customer Charge (per Account)	Total Charges	Change	% Change
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Residential Triplex 1-inch meter, 15 t/gals	$5.59	$10.15	$9.81	$5.98	$109.79	$5.68	$12.42	$14.71	$112.33	($2.54)	-2.26%
Commercial:											
1-inch meter, 15 t/gals	$6.49	$10.15	$9.81	$10.63	$127.94	$5.68	$12.42	$14.71	$112.33	$15.61	13.90%
2-inch meter, 100 t/gals	$6.49	$32.47	$9.81	$10.63	$701.91	$5.68	$38.60	$14.71	$621.31	$80.60	12.97%
4-inch meter, 600 t/gals	$6.49	$64.95	$9.81	$10.63	$3,979.39	$5.68	$121.47	$14.71	$3,544.18	$435.21	12.28%

AWU COSS - Calculation of a Blended Rate for Fire Protection

TABLE 3 – Fire Protection Cost Allocation

Fire Protection Charges	Cost of Service Annual Charges	Allocation	
		AFD	AWU Ratepayers
(a)	(b)	(c)	(d)
Direct – Hydrants	$2,089,710	$2,089,710	-
Indirect – Upsizing for Standby Service	$3,790,665	$2,226,007	$1,564,659
Total Fire Protection Charges	$5,880,375	$4,315,717	$1,564,659
		59%	41%

* Allocation of Indirect charges are based upon line size assuming 6-inch line for public hydrants.

TABLE 4 – Fire Protection Cost Allocation to Ratepayers

Customer Class	# of Accounts	Gallons Per Minute (GPM)	Duration in Minutes	% of Total	Indirect Fire Cost Allocation	Ratepayer Annual Impact
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Single-Family	43,939	1,000	120	45%	$700,700	$15.95
Duplex	4,379	1,500	120	7%	$104,749	$23.92
Triplex	675	1,500	120	1%	$16,146	$23.92
Multi-Family	3,833	3,000	180	18%	$275,064	$71.76
Mobile Home Parks	22	3,000	180	0%	$1,579	$71.76
Commercial	3,656	4,000	240	30%	$466,421	$127.58
Total	56,504			100%	$1,564,659	

* GPM required by building type from the AWWU 2012 Water Master Plan

Sewer Utility Cost of Service Study Results

- Re-allocate rates based on updated sewer waste strength patterns and updated capital investments
- JBER special contract renegotiation and anticipated septage improvements warrant delaying this COSS

ASU - Impacts on Monthly Bills from Implementing COSS

TABLE 5 – Impact to Unmetered Residential Accounts

	Preliminary COSS Results				2019 Test Year RRS					
Customer Class	Usage Charge (per Unit)	# of Units	Customer Charge (per Account)	Total Charges	Usage Charge (per Unit)	# of Units	Customer Charge (per Account)	Total Charges	Change	% Change
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
Single-Family	$43.71	1	$6.62	$50.33	$42.03	1	$9.93	$51.96	($1.63)	-3.14%

TABLE 6 – Impact to Metered Accounts

	Preliminary COSS Results			2019 Test Year RRS				
Example Customers	Usage Charge per tgal	Customer Charge (per Account)	Total Charges	Usage Charge per tgal	Customer Charge (per Account)	Total Charges	Change	% Change
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Commercial Low Strength, 15 t/gals	$7.39	$6.62	$117.47	$5.78	$9.93	$96.63	$20.84	21.57%
Septage Hauler (3,500-gallon tank)	$45.73	$6.62	$139,254.47	$28.84	$9.93	$87,827.73	$51,426.74	58.55%

ASU COSS - Impacts of Preliminary Cost of Service on Sewer Rates

TABLE 7a – Elmendorf AFB Annual Revenue Impacts – COSS Results

	Comparison of COSS Results to Revenue Requirement			
EAFB Annual Revenue	2019 TY COSS Proposed Rate	2019 TY RRS Proposed Rate	Change $	Change %
(a)	(b)	(c)	(d)	(e)
Customer Charge	$80.64	$119.16	($38.52)	-32%
Usage Charge (68,100 t/gal)	$3,163,171.51	$1,713,621.38	$1,449,550.13	85%
Total	$3,163,252.15	$1,713,740.54	$1,449,511.61	85%

TABLE 7b – Elmendorf AFB Annual Revenue Impacts – Special Contract Rate Results

	Comparison of Special Contract to COSS Results			
EAFB Annual Revenue	2019 TY Special Contract Rate	2019 TY COSS Proposed Rate	Change $	Change %
(a)	(b)	(c)	(d)	(e)
Usage Charge (68,100 t/gal)	$2,202,145.92	$3,163,171.51	($961,025.59)	-30%

The Customer Charge is included in the Usage Charge for display purposes, as the Special Contract rate design includes usage and customer charges in one rate.

Recommend Delay in Submitting a Sewer COSS

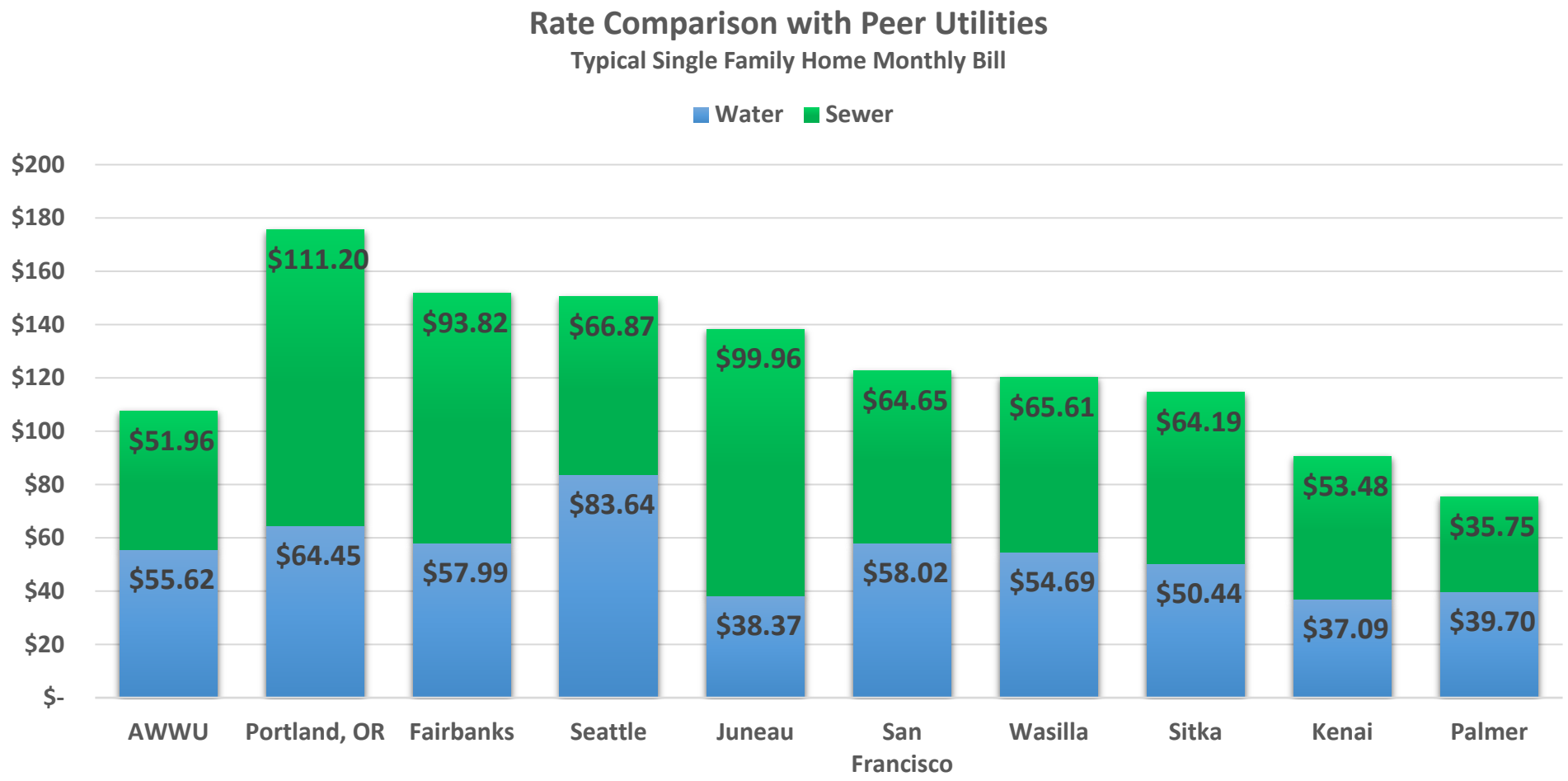
- Military - Including versus Excluding
  - Elmendorf AFB and Fort Richardson have special contracts with ASU
    - Elmendorf contract states they will pay the lesser of ASU tariff rate versus Contract methodology rate
    - Fort Richardson contract states they will pay ASU tariff rate
  - Including may require contract negotiations, which will be a lengthy process
  - Excluding will result in ASU experiencing revenue shortfall.
    - RCA will most likely not approve other ASU customers subsidizing the revenue shortfall
- Septage Receiving Station Upgrades of $1.5 million will be excluded
  - Improvements are planned for 2021
  - Project costs directly assignable to the Septage Hauler customer class will not be included in 2019 Test Year COSS rates

Cost of Service Next Steps

- AWWU Board Approval
  - Will be Presented at public meeting on December 2nd
- Approval Required by the Assembly
  - Per AMC, rates must be approved by ordinance
  - Target Date for Introduction of Water COSS is December 2020 (contingent upon Assembly input today)
  - If submitted after December 31, 2020 using a 2019 test year for the cost of service studies will require a waiver of Alaska Administrative Code which could be rejected by the RCA although we have good arguments in favor of a waiver
- Approval Required by the Regulatory Commission of Alaska (RCA)
  - Pending approval of Assembly, COSS submitted to RCA prior to 3/31/2021
  - RCA filings require a 30-day public comment period
  - 45 days after the initial filing, the RCA will either approve, reject, or suspend the matter for further investigation
  - February 2022 or later – Hearing at RCA
  - Statutory timeline for decision is 450 days – June 2022 or later
  - Cost of service rates go into effect at the end of the statutory timeline, no interim and refundable

Questions and Comments

Rate Comparison Peer Utilities



AWWU Financial Metrics for Long-term Sustainability
Board Resolution 2018-2

Policies for long term financial sustainability:

- Maintain bond ratings of at least “AA” from Fitch Ratings and/or S&P Global
- Review rates on an annual basis and adjust as necessary to ensure that revenue levels adequately fund AWU’s and ASU’s financial, capital and operational goals, objectives, and requirements
- Manage AWU to achieve a target capital structure of 67% debt and 33% equity over the planning horizon
- Manage the ASU to achieve a target capital structure of 67% debt and 33% equity over the planning horizon
- Maintain a minimum of 180 days of operating cash
- Target a total debt service coverage of 1.3x or greater per utility over the planning horizon
- Maintain a minimum total debt service coverage of 1.15x, or as necessary to satisfy bond covenants
- Target a level at or above 30% for equity funding for the capital programs of AWU and ASU to mitigate AWWU’s reliance on debt
- Maintain debt service as a percentage of revenue at or below 35% of gross operating revenues to ensure sufficiency of revenues above debt requirements
- Strengthen the debt profile of both Utilities by gradually reducing debt per customer account over the planning horizon.