

Memorandum

TO: Commission
Tom Sigmund

FROM: Brian Vander Loop

DATE: April 11, 2018

SUBJECT: Approval of the Alternative Fixed Charge Methodology

Background

In 2013, staff received Commission approval to implement a new Cost of Service Rate Methodology consisting of a fixed charge element beginning with the 2014 Adopted Budget. The fixed charge began at 15 percent of the total budget and remained at 15 percent for a period of three years. In 2017, the fixed charge was adjusted to 45 percent and switched from total budget to only capital. This switch from total budget to only capital was a request made by NEW Water customers during the 2013 Cost of Service Rate Methodology project. In 2018, the fixed charge portion of capital was increased to 65 percent. The following is a summary of the fixed charge percentages and amounts:

Year	NEW Water Adopted Budgets		Fixed Charge Amount	
	Fixed Charge Percentage			
2014	15%	Total Budget	\$	4,945,612
2015	15%	Total Budget	\$	5,324,796
2016	15%	Total Budget	\$	5,710,160
2017	45%	Total Capital	\$	8,288,574
2018	65%	Total Capital	\$	11,871,886

Note: Regardless of the % chosen, this is not a new or incremental charge, rather these efforts seek to recover the same total dollar amount overall when combined with the variable flow and strength based charges.

At the March 28, 2018 Commission meeting, Arcadis US presented its Fixed Charge Methodology work which analyzed two Fixed Charge options: Status Quo and an Alternative Fixed Charge Methodology. The following is a summary of each option.

The Status Quo Methodology distributes the total budgeted fixed charge based on a simple average of each customer's flow and strength contribution. This methodology results in an equal distribution of the fixed charge amount among the five billing parameters (Flow, BOD, TSS, P, and TKN). Essentially, the Status Quo Methodology treats the wastewater discharged from NEW Water customers as if they all discharge similar strength wastewater. It does not recognize the uniqueness of wastewater discharged from each customer's sewer service area.

The Alternative Fixed Charge Methodology allocates the total fixed charge amount to each billing parameter based on the investment of the fixed assets or the designed purpose of the fixed assets. Each unit parameter dollar amount is then distributed to each customer based on their budgeted flow and strength contribution. This methodology is consistent with NEW Water’s fixed assets as currently allocated to treatment processes to develop annual parameter unit rates. The method also recognizes the uniqueness of each customer’s sewer service area; therefore, providing a more equitable customer cost sharing compared to their wastewater characteristics discharged.

The following summary table shows the two options distribution of the fixed charge (\$11.872M) to the five billing parameters:

Methods Studied	Flow	BOD	TSS	P	TKN
Status Quo Current Fixed Charge Allocation (implied)	20.00%	20.00%	20.00%	20.00%	20.00%
Alternative Fixed Charge Allocation	16.00%	38.74%	38.44%	0.80%	6.03%

NEW Water staff realizes the Alternative Fixed Charge Methodology option generates a financial impact for some NEW Water customers. See attached 2018 Total Customer Bill Comparison. In general, customers with BOD and TSS proportions higher than their simple average of all parameters will pay more under the Alternative Fixed Charge Methodology. Whereas, customers with BOD and TSS proportions lower than their simple average of all parameters will pay less. As such, over the past months, staff has worked closely with NEW Water customers through two customer workshops and separate meetings to communicate the differences between the two studied options.

To conclude, the Alternative Fixed Charge Methodology:

- Is consistent with how other NEW Water capital costs are assigned to the fixed assets and currently recovered
- Is more related to how treatment costs are incurred through NEW Water’s treatment system
- Provides for a more equitable customer cost sharing compared to their wastewater characteristics discharged

Recommendation

NEW Water staff recommends Commission approval of the Alternative Fixed Charge Methodology at 65% of the capital budget to be implemented with the 2019 budget.

Commission Action

Request Commission approval of the Alternative Fixed Charge Methodology developed at 65% of capital budget beginning with the 2019 budget.

Attachment