

KIRKWOOD MEADOWS PUBLIC UTILITY DISTRICT RATE STUDY 2016

Introduction

The Kirkwood Meadows Public Utility District (District) has been investigating the possibility of modifying the way Electric and Propane Base Rates are calculated. Currently, each Electric and Propane customer pays one Base Rate, which amounts to \$21.25 for Electric and \$5.32 for Propane. Several inequities have been noted with this system, namely that each account pays the same Base Rate, no matter how much usage is associated with that account, or how many units are tied in. As an example, a large user pays the same Base Rate as a single family unit, even though it has a much greater impact on operations. Additionally, some accounts have several units connected to their meter, but still only pay one Base Rate.

Water and Wastewater Base Rates are based on usage, so that large users and accounts with multiple units pay Base Rates commensurate with their impact on the operation.

The District is considering utilizing a similar methodology to calculate Electric and Propane Base Rates. Customers would be charged a Base Rate correlating to their average usage over the last three years. If your usage is at or below the average, you would continue to pay for one Base Rate. About 90% of our customers fit into this category. If your usage falls above the average, you would pay for increased Base Rates, calculated to the one decimal point (i.e. 1.1). The following chart indicates current and proposed Base Rate charges based on one unit

	Current Base Rate Number	Current Base Rate Amount	Proposed Base Rate Amount
Electric	1	\$21.25	\$13.55
Propane	1	\$5.32	\$5.37

The District is also considering lowering Propane Usage rates to account for the reduced fuel prices we have all been experiencing. Propane Usage rates would be reduced from their current \$.0761 per cubic foot to \$.0645 per cubic foot which allows for the fuel cost savings. It should be noted that this is not an overall rate reduction, as the District already adjusts the Propane Usage monthly rate by the actual fuel cost. This just trues up the rate to be more in line with current pricing.

The District is also considering lowering the Electric Usage Rate from the current \$.683 per kilowatt hour to \$.67 per kilowatt hour. The proposed District Budget for the period of 2017-2021 has the Electric Usage Charge lowering by \$.01 per kilowatt hour each year for the next five years.

If the District's Board elects to institute any change, it would become effective no earlier than July 1, 2016.

Narrative

Following is a recap of the investigation and major assumptions related to the Rate Study the District completed over the last six months.

General Manager Objectives

As a management tool, the District annually sets objectives for the General Manager. These objectives are originally drafted by the General Manager and then circulated to the various District Committees and Board for input. Once finalized, these objectives are approved by the Board of Directors by motion. The 2015/2016 General Manager Objectives are attached for reference. Quarterly, the General Manager updates the Personnel Committee on progress to complete the objectives. The success of completing objectives is part of the annual performance evaluation process of the General Manager.

Under Finance, the General Manager Objectives for 2015/2016 state:

Comprehensively evaluate and potentially revise rates for all Enterprise Services for all commercial and residential customers including:

- **Standard methodology across Enterprise Services;**
- **Base Rates;**
- **Electrical connection fees; and**
- **Reducing electricity rates in Fiscal Year 2017.**

November 2015

At the November Finance Committee and Board meetings, the District discussed the objective to develop a standard method to calculate Base Rates across the Electric, Propane, Water and Wastewater departments. Per Regulation 610.01, each year the District collects usage data in order to establish Water and Wastewater Base Rates. Base rates for commercial accounts are determined by taking the account's average monthly water consumption over a three-year period, and dividing it by the average monthly water consumption for a residential unit (640 gallons or 85.6 cubic feet). This sum, multiplied by the Residential Base Rate, equals the Commercial Base Rate. An annual review and adjustment keeps the rates up to date with usage changes that occur, whether changing a commercial operation such as the cafeteria at Red Cliffs Lodge, increased conservation efforts or changes in business volume.

For Electric and Propane, Base Rates are charged by the meter so that large users with only one meter, such as Chair 10 and the Mountain Club, pay the same Base Rate as a residential unit. The District is calculating fixed expenses to set a potential level for Base Rates by enterprise fund. A case can be made that Base Rates should cover a portion of the District's fixed expenses such as G&A (General & Administration), while Variable expenses should be covered through usage charges. District staff will be working with Director Bob Epstein to pull annual usage data to establish appropriate Equivalent Dwelling Units (EDU's). The District will also be updating our knowledge of how other utilities charge to establish a basis. The goal is to establish a solidified approach across all of the Enterprise Departments in the treatment of Base Rates.

December 2015

At the December Board meeting discussions continued:

1. Looking at usage over the last three years to determine what a Base Rate unit should be for each of the four Enterprise Departments. The plan is to look for a usage cutoff that keeps the majority of customers (80-90%) at one Base Rate and then compare this with the existing rates.
2. Costs: What costs should be covered by Base Rates and what should be covered by Variable (Usage) charges? The District is looking at costs broken out by Fixed and Variable categories. Goal is to determine which costs the District wants to charge for each.
3. Survey sister utilities to determine their practices to insure we have a firm basis.

At the Finance Committee meeting a suggestion of having a Special Meeting to work on this subject was discussed. Currently the idea would be to have a Special Board Meeting on December 28th to discuss the Rate Study.

Rate Study Workshop

On December 28th the District held a Rate Study Workshop with the following objectives:

1. Standardize methodology of calculating Base Rates for four major departments – Electric, Propane, Water and Wastewater. Currently Electric and Propane use a flat base rate across all users while Water and Wastewater use EDU (Equivalent Dwelling Unit) to scale base rate based on system usage.
2. Determine what an Equivalent Dwelling Unit should be for each Department.
3. Should EDU's be calculated based on a Commercial unit or a Residential unit, or simply be based on usage?
4. Confirm that any change to EDU calculations would result in the same revenue as currently collected but re-apportioned based on EDU allocations. (The alternative would be to keep the current base rate and any increase in total EDUs would result in increased revenue. This primarily applies to Propane and Electricity.)
5. Determine what fixed expenses should be covered by Base Rates. Specific expense categories? Percentage of total? If this differs from the sum of money currently collected through base rates the base rate would be modified by taking the total annual amount needed divided by 12 and then divided by the total number of EDUs for that service.

Staff presented the attached Rate Study Power Point to the Board and discussed many issues, including:

- The differences between the departments in the amount of Base Rate Revenue collected compared to Usage Revenue;
- The percentage of total costs associated with fixed and variable costs; and
- The amount of Base Rate Revenue per unit.

The Board directed staff to use the following assumptions:

- Calculate Base Rates for Electric with the same net revenue generated;
- Calculate Base Rates for Propane with the same rate per customer, utilizing the additional annual revenue of \$14,000 generated towards anticipated Capital needs.
- Calculate a single Base Rate as the average usage of all customers for the period of July 1, 2012 to June 30, 2015, without any distinction between Residential and Commercial customers.
- Utilize a customer's usage over the period of July 1, 2012 to June 30, 2015 for the determination of their usage.
- For a new customer, one Base Rate to be used for the first year. After the first year, the customer's usage should be used for each subsequent period.
- Each subsequent year on June 30th the three-year average of the customer's usage and the average of all customers will be updated and new Base Rates applied.
- The minimum charge will be one Base Rate. After that Base Rates to be calculated to the one decimal point (i.e. 1.1).

March 2016

Based on these assumptions, District staff calculated what the new Base Rates would be for each customer as compared to their current rate. This information was presented to each customer along with an explanation on March 22nd (see example, Attachment #3).

April 2016

The District held an informational Public Hearing on April 9th and received public comment from those attending, from those viewing the meeting over the internet, from those participating by telephone and from written comments received. The Board also considered public comments received verbally prior to the meeting.

The Board decided to call a second Public Hearing on May 14th and directed staff to prepare the necessary documents should the Board decide to adopt this change.

List of Attachments

- General Manager Objectives 2015-2016
- 2016 Rate Study, Power Point Presentation
- Fixed/Variable Rate Analysis
- March 22nd Letter to Customers
- Base Rate Charge Comparison
- Notice of Public Hearing, April 9th;
- Notice of Public Hearing, May 14th;
- Notice of Public Hearing published in the Tahoe Tribune
- Ordinance 16-01

