

Citizens Rates and Governance Advisor Committee

# KVID Rate Analysis Results

## Rate Models

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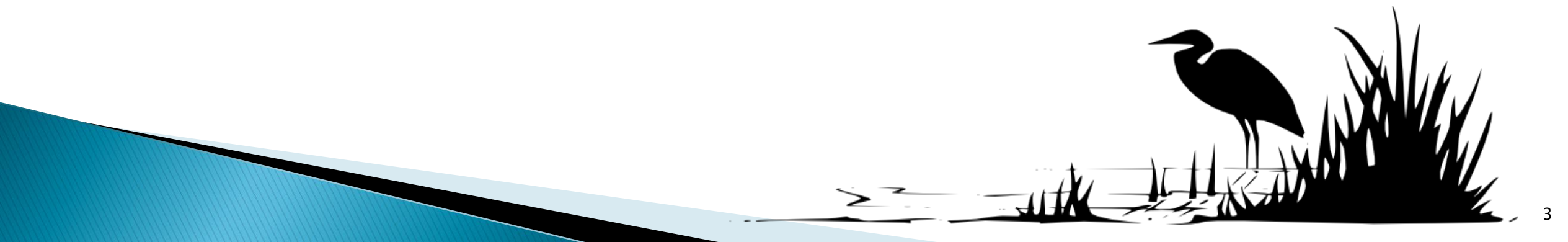


# Today's Presentation

- ▶ A look at KVID's current rates and ratepayers
- ▶ The proposed Rate Models that came out of the rate analysis process
- ▶ KVID's staff recommendation to the Board of Directors



# KVID – Rate Model



# KVID – Rate Model – Current State

With an understanding of our new Revenue Requirements, the next focus is on the Rate Models, the method we will be using to capture the needed revenue.

Evaluation of potential Rate Models required an analysis of how our current rate structure is working and who our customers are.



# KVID – Rate Model – Current State

## Current Rate Structure

- Six Block Inverted Tier Structure to promote conservation
- Few customers ever reach the higher Tiers of our current rate structure
- 73% of revenue captured from the fixed charge of the base rate (combined water and sewer)
- 97% of revenue captured by Tiers one and two
- Only 3% of revenue captured by tiers three through six



# KVID – Rate Model – Current State

## ▶ Current Rate Structure (continued)

- 98.6% of our customers are Single Family Residential (SFR) with average monthly usage of around 2,800 gallons.
- The current water and sewer bill for KVID's average SFR customer at 2,800 gallons is about \$60 per month.
- The 2,800 gallon a month SFR customer pays about \$46 on the base rates and \$14 on usage.





# KVID – Rate Model – Current State

## Customer Base

- Most billings (60%) are for less than 3,000 gallons (Tier 1).
- More than 90% of billings are less than 6,000 gallons (Tier 2).
- 69% of all water sold is within the Tier 1, with 92% of all water sold by the Tier 2 (by gallons).
- SFR connections make up 98.6% of customers.
- SFR customers average monthly usage is about 2,800 gallons, about half of the national average.



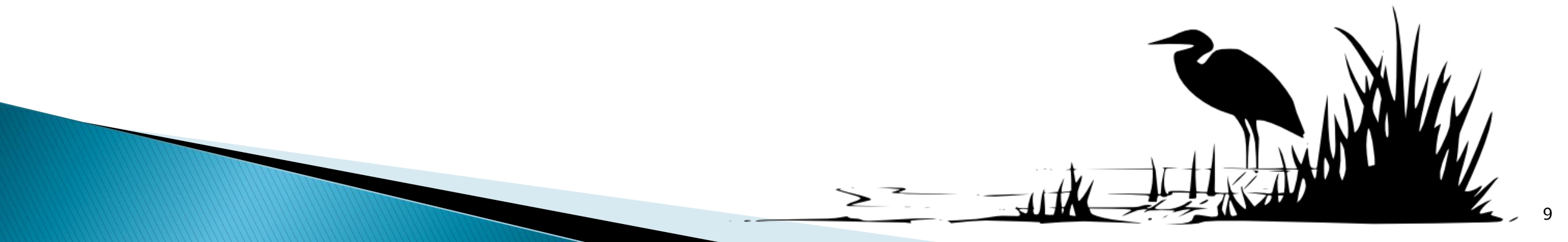
# KVID – Rate Model – Current State

Conclusion – Kachina Village residents are conserving water and most have little discretionary usage.





# Potential Rate Models



# Potential Rate Models

With the increased cost of operations and pursuit of the identified Capital Improvements necessitating an increase in revenue, the next step has been to develop Rate Models that will capture the needed revenue.



# Potential Rate Models

## Model 1 – Increases Across the Board

- Retains Inverted Tier Structure to promote continued conservation
- Existing Tier Structure remains unchanged
- All water rates (fixed and commodity) increase by about 93.2% for Scenario 1 and about 85.8% for Scenario 2.
- All wastewater rates (fixed and commodity) increased by about 39.1% for Scenario 1 and about 29.9% for Scenario 2.
- Overall increase of about 53% at the average usage on all utility bills for SFR customers.

# Potential Rate Models

## Model 1 – Increases Across the Board – Impacts

- Maintains the same structure as our current rates
- 73% of revenue captured from the fixed charge of the base rate (water and sewer combined)
- Approximately 97% of revenue captured by the 2<sup>nd</sup> Block
- All customers, regardless of classification, will see the same percentage of an increase to their bills (assuming their usage remains unchanged).



# Potential Rate Models

## Model 1 – Increases Across the Board

- The Single Family Residential user's monthly bill (combined water and sewer) will see the following approximate increases:

- 2,800 Gallons Monthly
- \$60 per month currently
- \$72 per month in 2018
- \$81 per month in 2019
- \$91 per month in 2020

- 5,000 Gallons Monthly
- \$78 per month currently
- \$94 per month in 2018
- \$106 per month in 2019
- \$118 per month in 2020

# Potential Rate Models

## Model 2 – Mitigating Increases for Average Single Family Residential Customers

- Retains Inverted Tiers to promote continued conservation
- Existing Tier Structure reduced to only 5 Tiers (additional higher Tiers proved unnecessary as few customers used enough water)
- Base rates for water were raised less than the commodity rates (as a percentage).
- The 1<sup>st</sup> Tier Commodity Rate is increased less (as a percentage) than other Tier commodity rates to help mitigate the impact on the average customer



# Potential Rate Models

## Model 2 – Mitigating Increases for Average Single Family Residential Customers

- Maintains a similar structure as our current rates, the Tiers remain unchanged for most customers
- Reduction to only 65% of revenue captured from the fixed charge of the base rate for both water and sewer
- Approximately 95% of revenue captured by the 2<sup>nd</sup> Block





# Potential Rate Models

## Model 2 – Mitigating Increases for Average Single Family Residential Customers

- The Single Family Residential user's monthly bill (combined water and sewer) will see the following approximate increases:

- 2,800 Gallons Monthly
- \$60 per month currently
- \$70 per month in 2018
- \$78 per month in 2019
- \$86 per month in 2020

- 5,000 Gallons Monthly
- \$78 per month currently
- \$97 per month in 2018
- \$111 per month in 2019
- \$125 per month in 2020

# Potential Rate Models

## Model 3 – Targeted Increases

- Retains Inverted Tier Structure to promote continued conservation
- Existing Tier Structure reduced to only 5 Tiers (additional higher Tiers proved unnecessary as few customers used enough water)
- Base rates for water and wastewater were raised less than the commodity rates (as a percentage). Commodity rate for 1<sup>st</sup> Tier increased by same percentage as other tiered commodity rates.



# Potential Rate Models

## Model 3 – Targeted Increases – Impacts

- Maintains a similar structure as our current rates, the Tiers remain unchanged for most customers
- Reduction to only 65% of revenue captured from the fixed charge of the base rate for both water and sewer combined
- Approximately 96% of revenue captured by the 2<sup>nd</sup> Block for both water and sewer



# Potential Rate Models

## Model 3 – Targeted Increases

- The Single Family Residential user's monthly bill (combined water and sewer) will see the following approximate increases:

- 2,800 Gallons Monthly
- \$60 per month currently
- \$71 per month in 2018
- \$80 per month in 2019
- \$88 per month in 2020

- 5,000 Gallons Monthly
- \$78 per month currently
- \$96 per month in 2018
- \$110 per month in 2019
- \$124 per month in 2020

# Recommendation:

- Staff recommends bringing current Revenue Requirement Scenarios and Rate Models forward to the Citizens Advisory Committee
- Staff considers Revenue Requirement Scenario 2 – Financing and Rate Model 3 – Targeted Increases to be the frontrunners of this process, as they mitigate the impact of the rate increase and protect the utility's financial future.
- This recommendation supports investment in KVID's critical infrastructure needs, operational costs, and the potential of a governance transition.



# Staff Recommendation:

- Staff considers Revenue Model 3 – Targeted Increases to be the frontrunner of this process. It helps mitigate the impact to our average user and reduces potential financial risk to the utility.
- This recommendation supports investment in KVID's critical infrastructure needs, operational costs, and the potential of a governance transition.



# Questions and Discussion

