

# Staff Report

## Sanitary Sewer Utility Rates

April 8, 2008

### Background

Funding the five-year Capital Improvements Plan (CIP) approved by the City Council and the adopted FY 2008/09 Budget will require rate increases for all City utilities over the term of the CIP. In addition to rate increases, we have proposed a new rate structure for the water utility for FY 2008/09 and will likely be implementing a new rate structure for the electric utility within the five year CIP planning horizon. The impact of changes in rate structure will vary between customers, but will result in increased utility costs for some of our customers.

The amount and timing of rate increases will depend on decisions made after review of studies related to future improvements for both the Electric Plant and the Water Plant. Currently, we expect that rate increases or changes to rate structure will be required as provided in the table below.

	<b>Water</b>	<b>Sanitary Sewer</b>	<b>Electric</b>	<b>Storm Sewer</b>
FY 08/09	X		X	
FY 09/10	X	X	X	X
FY 10/11	X		X	
FY 11/12	X	X		
FY 12/13	X			

### Sanitary Sewer Rates

The timing of the rate changes can also vary based on the scheduling of CIP projects and implementation dates of rate increases. Implementing a rate increase prior to additional utility funding need can result in slightly lower percentage increases in the rates. In the case of sanitary sewer rates, the 10% increase that is currently anticipated for FY 09/10 could be implemented as an 8% increase in FY 08/09.

There are some unknowns that could impact sanitary sewer rates and that would tend to favor waiting until FY 09/10 to implement a sanitary sewer rate increase.

The new water rate structure will impact sanitary sewer revenues. If the new water rate structure is successful in reducing peak demand for water, sanitary sewer revenue will be reduced because it is based primarily on metered water sales. After the new water rate structure has been in place for a peak season, we will have a better idea of the impact on metered sales and rate change requirements needed to fund sewer improvements. The new water rate structure is also expected to mitigate future water rate increases to fund plant improvements, reducing the collective impact of rate increases for multiple utilities in a single year.

The sanitary sewer rate increases will be driven primarily by the cost of disinfection capital improvement and operations. As of late March, the Iowa DNR has taken no action on the City's NPDES permit application, and the possible regulatory requirements for this project have not been fully determined. The rate increases for the sanitary sewer utility will be highly dependent upon requirements for disinfection.

### **Conclusion**

With the extensive capital improvement requirements for the City of Ames utilities over the next five years, rate increases for multiple utilities in a single year will be unavoidable. Due to rate increases in electric, the expected increase in the energy cost adjustment, and changes in the water rate structure, some of our customers will experience increases in their City utility bills of over 10% for FY 08/09. Implementing a sanitary sewer rate increase in FY 08/09 will add an additional one to two percent to total utility bills. Utility samples for various classes of customers are attached.

The initial reason for considering an acceleration of the sewer rate adjustment was because a major water rate adjustment was anticipated in the summer of 2009. With the planned water rate structure change taking place in 2008, the magnitude of the water rate adjustment needed in 2009 will be reduced. With a lower water rate adjustment necessary next year, the combined water/sewer rate adjustments will not have as large of an impact on customers as initially anticipated.

City staff would like direction from Council on implementing an 8% increase in sanitary sewer rates in FY 08/09, or wait until the FY 09/10 budget process for further review of all utilities rates. The FY 08/09 budget does not include an increase in sanitary sewer rates, and capital and operations will continue as planned during the budget process with or without an FY 08/09 increase.

City of Ames Utilities Rate Samples  
 FY 08/09 Proposed Rates

Reflects ECA of \$0.0091/kWh and New Water Rate Structure

Reflects ECA of \$0.0091/kWh, New Water Rate Structure, and an 8% increase in Sewer

<b>MINIMUM USE CUSTOMERS</b>					
<b>Electric / Water Use</b>	<b>Electric Summer</b>	<b>Storm Water</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
100 kWh and 100 cf	\$ 13.33	\$ 2.60	\$ 8.69	\$ 7.60	\$ 32.22
FY 08/09 Rate Increase	\$ 1.39	\$ -			\$ 1.39
Totals	\$ 14.72	\$ 2.60	\$ 8.69	\$ 7.60	\$ 33.61
<b>% Impact on Total Bill</b>	<b>4.31%</b>				

<b>MINIMUM USE CUSTOMERS</b>					
<b>Electric / Water Use</b>	<b>Electric Summer</b>	<b>Storm Water</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
100 kWh and 100 cf	\$ 13.33	\$ 2.60	\$ 8.69	\$ 7.60	\$ 32.22
FY 08/09 Rate Increase	\$ 1.39	\$ -		\$ 0.65	\$ 2.04
Totals	\$ 14.72	\$ 2.60	\$ 8.69	\$ 8.25	\$ 34.26
<b>% Impact on Total Bill</b>	<b>6.33%</b>				

<b>MEDIAN USE CUSTOMERS</b>					
<b>Electric / Water Use</b>	<b>Electric Summer</b>	<b>Storm Water</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
600 kWh and 600 cf	\$ 60.91	\$ 2.60	\$ 15.64	\$ 15.35	\$ 94.50
FY 08/09 Rate Increase	\$ 6.51				\$ 6.51
Totals	\$ 67.42	\$ 2.60	\$ 15.64	\$ 15.35	\$ 101.01
<b>% Impact on Total Bill</b>	<b>6.89%</b>				

<b>MEDIAN USE CUSTOMERS</b>					
<b>Electric / Water Use</b>	<b>Electric Summer</b>	<b>Storm Water</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
600 kWh and 600 cf	\$ 60.91	\$ 2.60	\$ 15.64	\$ 15.35	\$ 94.50
FY 08/09 Rate Increase	\$ 6.51			\$ 1.25	\$ 7.76
Totals	\$ 67.42	\$ 2.60	\$ 15.64	\$ 16.60	\$ 102.26
<b>% Impact on Total Bill</b>	<b>8.21%</b>				

<b>LARGE RESIDENTIAL CUSTOMERS</b>					
<b>Electric / Water Use</b>	<b>Electric Summer</b>	<b>Storm Water</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
1,000 kWh and 1,000 cf	\$ 97.99	\$ 2.60	\$ 21.20	\$ 21.55	\$ 143.34
FY 08/09 Rate Increase	\$ 10.51				\$ 10.51
Totals	\$ 108.50	\$ 2.60	\$ 21.20	\$ 21.55	\$ 153.85
<b>% Impact on Total Bill</b>	<b>7.33%</b>				

<b>LARGE RESIDENTIAL CUSTOMERS</b>					
<b>Electric / Water Use</b>	<b>Electric Summer</b>	<b>Storm Water</b>	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
1,000 kWh and 1,000 cf	\$ 97.99	\$ 2.60	\$ 21.20	\$ 21.55	\$ 143.34
FY 08/09 Rate Increase	\$ 10.51			\$ 1.75	\$ 12.26
Totals	\$ 108.50	\$ 2.60	\$ 21.20	\$ 23.30	\$ 155.60
<b>% Impact on Total Bill</b>	<b>8.55%</b>				

**City of Ames Utilities Rate Samples  
FY 08/09 Proposed Rates**

Reflects ECA of \$0.0091/kWh and New Water Rate Structure

Reflects ECA of \$0.0091/kWh, New Water Rate Structure, and an 8% increase in Sewer

<u>SMALL COMMERCIAL (GP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
2,000 kWh and 600 cf	\$ 209.20	\$ 2.60	\$ 15.64	\$ 15.35	\$ 242.79
FY 08/09 Rate Increase	\$ 22.40	\$ -	\$ 2.94		\$ 25.34
Totals	\$ 231.60	\$ 2.60	\$ 18.58	\$ 15.35	\$ 268.13
<b>% Impact on Total Bill</b>	<b>10.44%</b>				

<u>SMALL COMMERCIAL (GP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
2,000 kWh and 600 cf	\$ 209.20	\$ 2.60	\$ 15.64	\$ 15.35	\$ 242.79
FY 08/09 Rate Increase	\$ 22.40	\$ -	\$ 2.94	\$ 1.25	\$ 26.59
Totals	\$ 231.60	\$ 2.60	\$ 18.58	\$ 16.60	\$ 269.38
<b>% Impact on Total Bill</b>	<b>10.95%</b>				

<u>SMALL COMMERCIAL (GP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
5,000 kWh and 1,000 cf	\$ 478.00	\$ 2.60	\$ 21.20	\$ 21.55	\$ 523.35
FY 08/09 Rate Increase	\$ 51.80	\$ -	\$ 4.90		\$ 56.70
Totals	\$ 529.80	\$ 2.60	\$ 26.10	\$ 21.55	\$ 580.05
<b>% Impact on Total Bill</b>	<b>10.83%</b>				

<u>SMALL COMMERCIAL (GP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
5,000 kWh and 1,000 cf	\$ 478.00	\$ 2.60	\$ 21.20	\$ 21.55	\$ 523.35
FY 08/09 Rate Increase	\$ 51.80	\$ -	\$ 4.90	\$ 1.75	\$ 58.45
Totals	\$ 529.80	\$ 2.60	\$ 26.10	\$ 23.30	\$ 581.80
<b>% Impact on Total Bill</b>	<b>11.17%</b>				

<u>SMALL COMMERCIAL (GP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
10,000 kWh and 3,000 cf	\$ 919.70	\$ 2.60	\$ 49.00	\$ 52.55	\$ 1,023.85
FY 08/09 Rate Increase	\$ 100.30		\$ 14.70		\$ 115.00
Totals	\$ 1,020.00	\$ 2.60	\$ 63.70	\$ 52.55	\$ 1,138.85
<b>% Impact on Total Bill</b>	<b>11.23%</b>				

<u>SMALL COMMERCIAL (GP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
10,000 kWh and 3,000 cf	\$ 919.70	\$ 2.60	\$ 49.00	\$ 52.55	\$ 1,023.85
FY 08/09 Rate Increase	\$ 100.30		\$ 14.70	\$ 4.20	\$ 119.20
Totals	\$ 1,020.00	\$ 2.60	\$ 63.70	\$ 56.75	\$ 1,143.05
<b>% Impact on Total Bill</b>	<b>11.64%</b>				

City of Ames Utilities Rate Samples  
FY 08/09 Proposed Rates

Reflects ECA of \$0.0091/kWh and New Water Rate Structure

<u>COMMERCIAL (LP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
20,000 kWh and 5,000 cf	\$ 1,602.88	\$ 2.60	\$ 84.10	\$ 83.55	\$ 1,773.13
FY 08/09 Rate Increase	\$ 182.19	\$ -	\$ 24.50		\$ 206.69
Totals	\$ 1,785.07	\$ 2.60	\$ 108.60	\$ 83.55	\$ 1,979.82
<b>% Impact on Total Bill</b>	<b>11.66%</b>				

<u>COMMERCIAL (LP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
60,000 kWh and 15,000 cf	\$ 4,396.95	\$ 2.60	\$ 237.70	\$ 238.55	\$ 4,875.80
FY 08/09 Rate Increase	\$ 512.72	\$ -	\$ 73.50		\$ 586.22
Totals	\$ 4,909.67	\$ 2.60	\$ 311.20	\$ 238.55	\$ 5,462.02
<b>% Impact on Total Bill</b>	<b>12.02%</b>				

<u>COMMERCIAL (LP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
100,000 kWh and 20,000 cf	\$ 7,203.71	\$ 2.60	\$ 336.40	\$ 316.05	\$ 7,858.76
FY 08/09 Rate Increase	\$ 844.26		\$ 98.00		\$ 942.26
Totals	\$ 8,047.97	\$ 2.60	\$ 434.40	\$ 316.05	\$ 8,801.02
<b>% Impact on Total Bill</b>	<b>11.99%</b>				

Reflects ECA of \$0.0091/kWh, New Water Rate Structure, and an 8% increase in Sewer

<u>COMMERCIAL (LP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
20,000 kWh and 5,000 cf	\$ 1,602.88	\$ 2.60	\$ 84.10	\$ 83.55	\$ 1,773.13
FY 08/09 Rate Increase	\$ 182.19	\$ -	\$ 24.50	\$ 6.70	\$ 213.39
Totals	\$ 1,785.07	\$ 2.60	\$ 108.60	\$ 90.25	\$ 1,986.52
<b>% Impact on Total Bill</b>	<b>12.03%</b>				

<u>COMMERCIAL (LP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
60,000 kWh and 15,000 cf	\$ 4,396.95	\$ 2.60	\$ 237.70	\$ 238.55	\$ 4,875.80
FY 08/09 Rate Increase	\$ 512.72	\$ -	\$ 73.50	\$ 19.10	\$ 605.32
Totals	\$ 4,909.67	\$ 2.60	\$ 311.20	\$ 257.65	\$ 5,481.12
<b>% Impact on Total Bill</b>	<b>12.41%</b>				

<u>COMMERCIAL (LP)</u>					
<u>Electric / Water Use</u>	<u>Electric Summer</u>	<u>Storm Water</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
100,000 kWh and 20,000 cf	\$ 7,203.71	\$ 2.60	\$ 336.40	\$ 316.05	\$ 7,858.76
FY 08/09 Rate Increase	\$ 844.26		\$ 98.00	\$ 25.30	\$ 967.56
Totals	\$ 8,047.97	\$ 2.60	\$ 434.40	\$ 341.35	\$ 8,826.32
<b>% Impact on Total Bill</b>	<b>12.31%</b>				