

2023 Water & Sewer Rate Study Kickoff Meeting

September 28, 2022

Rate Fairness Board



Agenda

1. Background
2. Project Team
3. Project Goals
4. Rate Study Process
5. Key Rate Study Topics
6. Timeline
7. Contacts

Background

- Article 8B of the San Francisco Charter requires:
 - *“In setting retail rates, fees and charges the Commission shall retain an independent rate consultant to conduct rate and cost of service studies for each utility at least every five years.”*
- Last rate study in FY 2017-18 set rates for four years through FY 2021-22
- Rates were not adjusted in FY 2022-23
- This study will set rates for one or more years beginning FY 2023-24
- The policies and models developed as part of this study will be used for financial planning for the entire five-year rate period



Project Team



Services of the San Francisco Public Utilities Commission

Consulting Team

McGovern McDonald
Engineering

Financial consultant

Raftelis Financial
Consultants

Communications Support

Their Group

SFPUC Project Team

Finance
Water & Wastewater
Accounting & Reporting
Communications
Customer Service & IT
City Attorney

Goals: Ratepayer Assurance Policy

Revenue Sufficiency

The Commission will aim to establish rates sufficient to cover the full cost of all SFPUC activities.

Customer Equity

The Commission will establish rates based on cost of service in compliance with the San Francisco Charter and California Proposition 218.

Environmental Sustainability

The Commission will aim to establish rates in a manner that values environmental sustainability and preserves the natural resources entrusted to the SFPUC's care.

Goals: Ratepayer Assurance Policy

Affordability

The Commission will consider SFPUC service affordability for all its customers.

Predictability

The Commission will aim to establish rates designed to minimize bill fluctuations, enabling ratepayers to plan ahead for their personal finances.

Simplicity

The Commission will aim to establish rates that are easy for ratepayers to understand

Proposition 218

The Right to Vote on Taxes Act

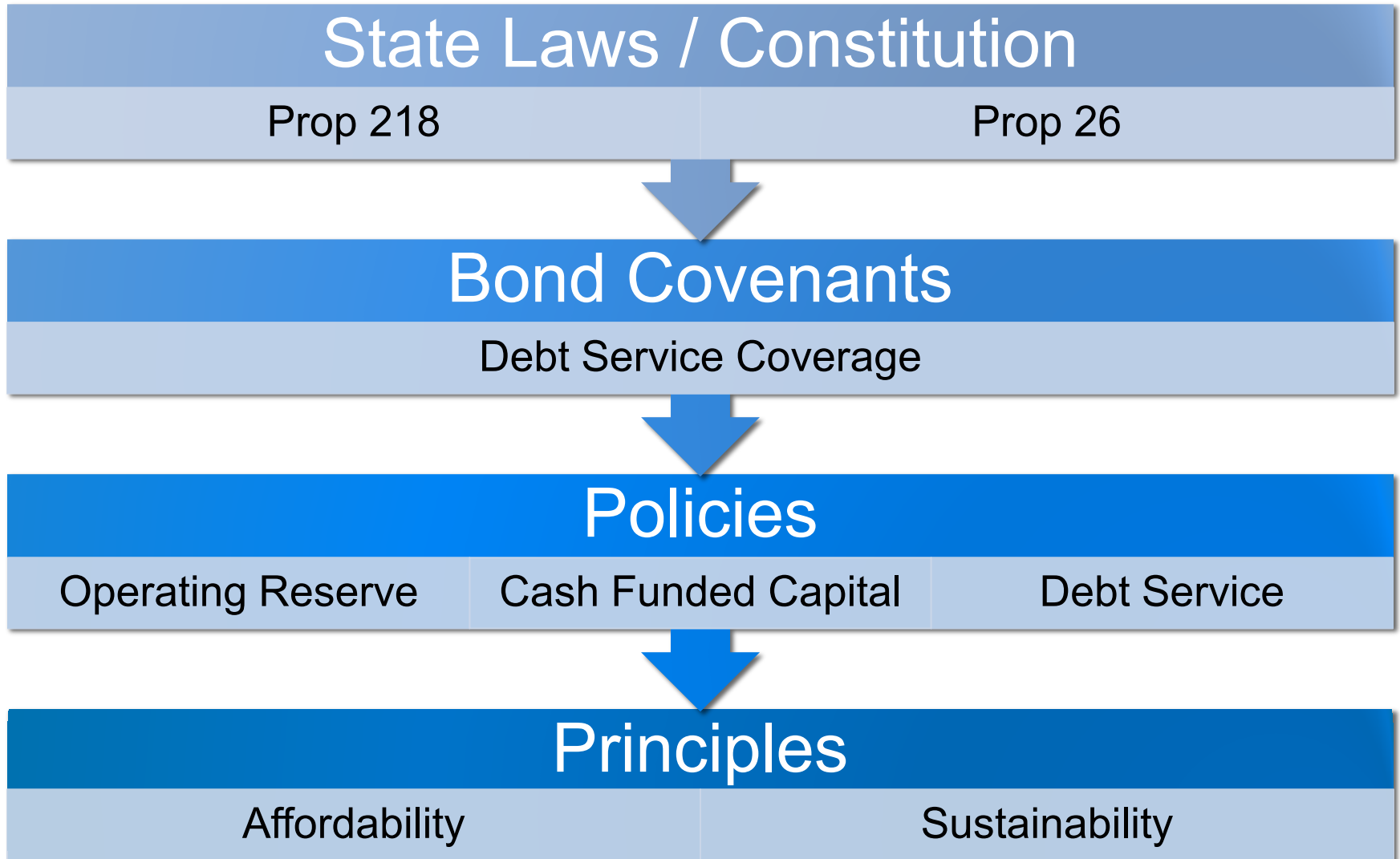
Procedural

- All property related taxes, fees, or charges are subject to a ballot initiative
- Exemption for Water, Sewer, and Solid Waste Services
- All rates are subject to public protest

Substantive

- All rates must demonstrate Cost of Service Basis
- Revenue requirements for customer classes must have a cost basis
- Rate structures must tie to drivers of cost

Rate Setting Decision Hierarchy



Rate Study Process



Policy & Rate Structure Review

- Financial Policies
- Sources of revenues
- Uses of Funds
- Long-term investments



Revenue Requirement Analysis

Compares the revenues of the enterprise to expenses to determine the level of rate adjustments needed.



Cost of Service Analysis

Equitably allocates the revenue requirements between customer classes



Rate-Design Analysis

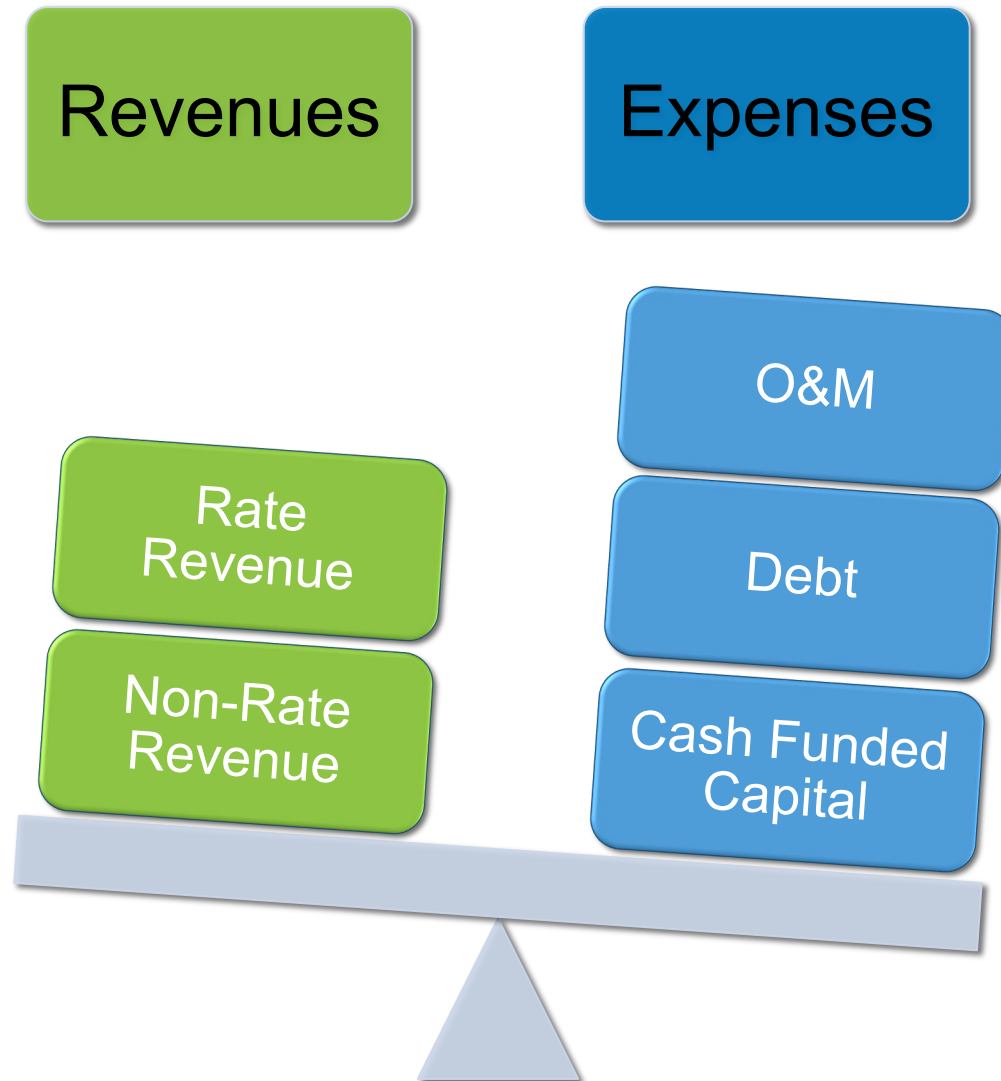
Design rates for each customer class to meet the revenue needs of the utility along with other rate design goals



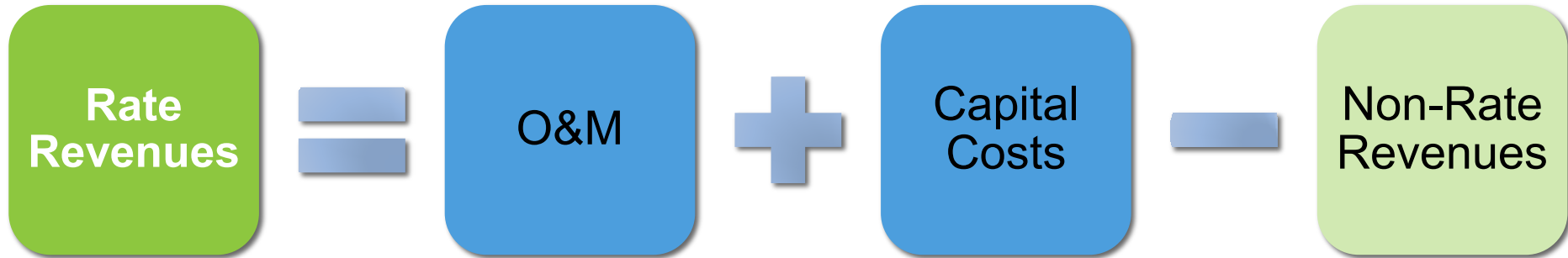
Integrated Public Outreach & Messaging

Develop a cohesive messaging and outreach program that harmonizes technical cost of service requirements and community values

Revenue Sufficiency Analysis



Revenue Sufficiency Analysis



Additional Considerations

Maintaining Financial Obligations

Long-term Rate Predictability

Meeting Financial Policies

Managing Risk

Achieving Other Guiding Principles

Considering Rate Payer and Elected Tolerance for Recommendations

Cost of Service Overview

Bring in Costs from RSA

Operating Expenses

Debt Costs

Cash Funded Capital

Step 1 Functionalize Costs

Source of Supply

Treatment

Distribution

Storage

Customer Service

Meters & Services

Conservation

General & Admin

Step 2 Assign Functions to System Parameters

Base Capacity (Avg. Day)

Extra Capacity (Max Day)

Extra Capacity (Max Hr.)

Meter Size

Conservation

Customers

Step 3 Use Metrics to Develop Unit Costs

Accounts/Units

Total Flow

Peak Day Demands

Peak Hour Demands

Equivalent Meters

Step 4 Allocate Costs to Customer Classes

Single Family Residential

Multi-family Residential

Irrigation

Commercial / Industrial

Municipal

Construction

Design rates by class to recover revenue requirements determined by cost-of-service analysis

Key Considerations

Legal Defensibility

Financial Predictability: Fixed vs. Variable Revenue Recovery

Affordability / Bill Control / Conservation Signal vs. Revenue Stability

Number of Tiers and Tier Design

Simplicity: Ease of Administration & Understanding

Drought Considerations

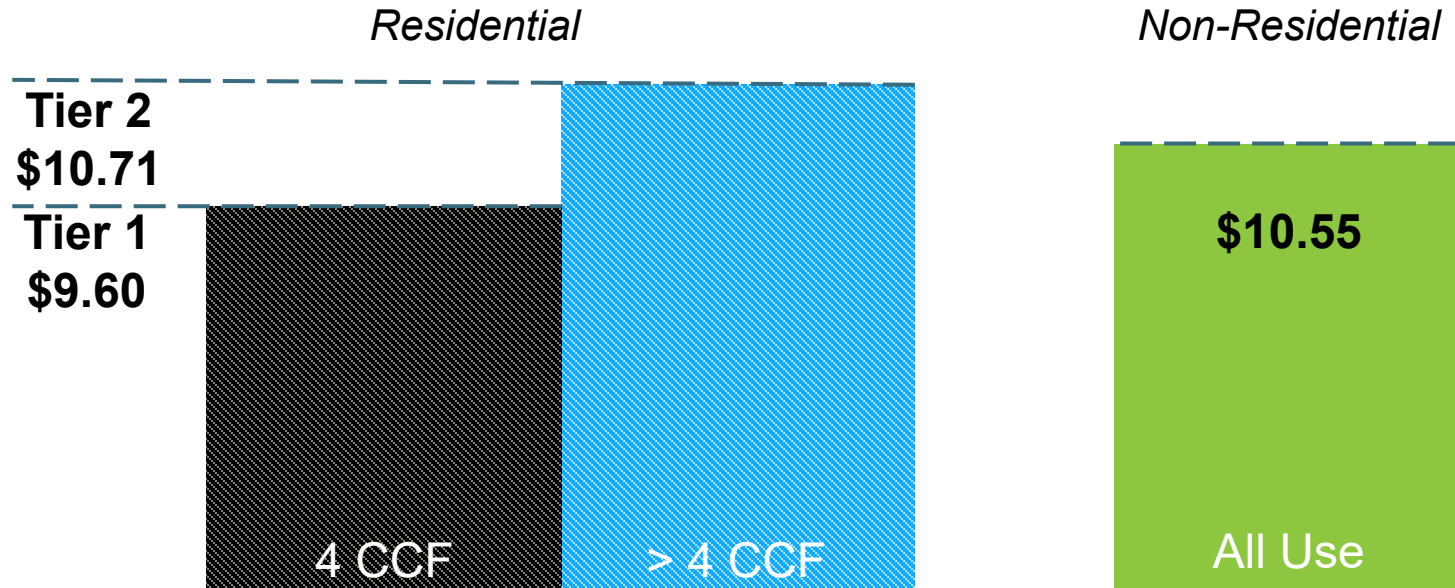
Rate Design: Existing Water

Monthly Service Charge:

5/8" Residential Meter - \$15.17 billed monthly

Higher water use = larger water meter = higher monthly service charge

Volumetric Charge:



CCF: Hundred Cubic Feet (748 Gallons)

Rate Design: Existing Sewer

Monthly Service Charge: \$5.21/account

Residential
Usage:
\$15.97/CCF

Non-Residential Usage:
\$9.46/CCF

Chemical
Oxygen Demand:
\$0.647/lb

Suspended
Solids:
\$1.647/lb

Oil and Grease:
\$1.661/lb

- Estimate sewer discharge volume “down the drain” by multiplying metered water usage by “flow factor”
- Nonresidential rates include three measure of the “dirtiness” or “strength” of sewage
 - Pounds of each strength factor per ccf of sewage assessed based on type of business (SIC code)

Communications

Customer Survey

- Socioeconomic Data
- Opinion of the SFPUC
- Affordability Concerns

Survey of Comparable Agencies

- Review of Rate Structures
- Drivers of Rates
- How SFPUC compares to peers

Customer Engagement

- Development of advertisements
- Facilitation of customer workshops
- Development of mailers

Legally Required Documents

- Proposition 218 Mailer
- Detailed final report

Key Rate Study Topics

Financial
Policy
Review

Demand
Projections

Sewer
Strength
Charges

Stormwater
Runoff
Charge

Affordability
/ Customer
Assistance

Drought
Rates

Role of the Rate Fairness Board

- Responsibilities outlined in SF Charter Section 8B.125
- Staff's perspective on the goals of this body:
 - Provide opportunity for public involvement in rate development
 - Provide oversight of fairness and accuracy of staff and consultant's cost allocation methodology
 - Raise policy questions regarding rates' impacts on financial sustainability
- Board members can set their own priorities and direction for meetings



Timeline & Major Deliverables

Activity	Duration	Deliverables
Data Collection and Review	9/2022 – 10/2022	<ul style="list-style-type: none"> Data gaps review
Revenue Sufficiency Analysis	9/2022 – 11/2022	<ul style="list-style-type: none"> Updated 10-year plan of rate revenue adjustments
Cost of Service Analysis	10/2022 – 12/2022	<ul style="list-style-type: none"> Overhead Cost Allocation Allocation of costs to customer classes
Rate Design	12/2022 – 2/2023	<ul style="list-style-type: none"> Updated schedule of rates Final Report Presentations to key stakeholders
Communications Plan	10/2022 – 6/2023	<ul style="list-style-type: none"> Development and implementation of communications plan Public and elected rate workshops
Commission Presentations	3/2023, 5/2023	<ul style="list-style-type: none"> Preliminary Commissioner Workshop Prop 218 Hearing

Presentations to the RFB will be held as we near completion of each major task to allow for feedback and consideration.

Discussion & Questions

