



RIVERSIDE PUBLIC UTILITIES

Customer Relations/Finance Committee

CUSTOMER RELATIONS/FINANCE COMMITTEE

DATE: JUNE 20, 2022

SUBJECT: RIVERSIDE PUBLIC UTILITIES WATER RATE TRENDS STUDY

ISSUE:

Consider the update and providing feedback on Riverside Public Utilities' Water Rate Trends Study.

RECOMMENDATION:

That the Customer Relations/Finance Committee receive an update and provide feedback on Riverside Public Utilities' Water Rate Trends Study.

BACKGROUND:

On March 14, 2022, the Board of Public Utilities approved the agreement with Carollo Engineers, Inc. (Carollo) to complete a cost of service analysis and rate design project for financial planning purposes as well as to design future rate adjustments beyond the current water utility five-year rate plan with the final year rate adjustment effective July 1, 2022. Since then, Carollo and Riverside Public Utilities' (RPU) staff have begun the Cost of Service Analysis and Water Rate Trends Study phases of the project.

DISCUSSION:

The purpose of the Water Rate Trends Study (Study) phase within the Water Cost of Service Analysis (COSA) and Rate Design Project is to evaluate and analyze different rate structures in the water utility industry and how they could influence, impact, or apply to RPU currently and in the future. The different rate structures and industry concepts researched include emerging technologies and their future implications, water pricing, customer classification, and new customer choices, among others. The Study includes a review of current rate offerings from neighboring water utilities.

The goal of this Study is to help RPU develop rates that are both cost of service based, a reflection of industry best practices and meets the City's Strategic Goals and Cross Cutting Threads. With the cost of service results and the knowledge gained from this Study, RPU will be in the best position to design water rates with the future of the utility and industry in mind.

The Study includes the following chapters:

- Chapter 1: Introduction - Includes recent trends in water demands and revenue recovery, RPU customer data and trends, and revenue stability and sufficiency.
- Chapter 2: Ratemaking Principles - An overview of general ratemaking principles including RPU's ratemaking principles and alignment with the City Council's Envision Riverside 2025 Strategic Plan Cross-Cutting Thread themes.
- Chapter 3: Existing Rate Structures - Discusses RPU's current water rate structures.
- Chapter 4: Emerging and Alternative Rate Structures - Discusses various water rate alternatives based on recent and emerging trends in the Water utility industry.
- Chapter 5: Promising Technological Trends - Discusses emerging technological trends and how RPU can benefit and improve communication with customers.
- Chapter 6: Rate Structure Evaluation Matrix - The chapter highlights various summary rate matrices showing RPU's current rate structures; emerging and alternative rate structures; their advantages and disadvantages for RPU and customers; short-, mid-, and long-term implementation considerations; and a comparison of each rate structure including customer acceptance, behavior changes, and technology costs.
- Chapter 7: Conclusions and Recommendations - Summary of general recommendations.

Recommended potential refinements and focus areas from the Study for the short term include:

1. Customer Rate Classes: While the need for changes is not likely, RPU should evaluate the customer classes during the upcoming COSA study and determine whether refinements to class assignments or additional classes are necessary.
2. Fixed Cost Recovery: RPU should continue to track and evaluate fixed and variable costs and set fixed cost recovery levels to balance the need to minimize potential revenue shortfalls with customer affordability. During the upcoming COSA study, fixed costs, fixed revenues, and variable revenues associated with minimal, hardened demand should be evaluated to assess the sufficiency of fixed revenues, with potential increases to the proportion of fixed revenues if necessary.
3. Volumetric Rate Structures: RPU should evaluate the variable rates applied to each customer class during the upcoming COSA Study and make any necessary refinements. Refinements may include modifications to tier break points to align with current demand patterns, changes to seasonal rate assumptions, and other refinements.
4. Drought and Demand Management Rates: RPU should consider implementing drought and demand management rates to provide a means to adequately recover costs during times of high conservation or otherwise decreased demands. The rates could include a full drought and demand management rate structure with updated rates for all rate components for varied levels of conservation or cutbacks or could be structured as fixed or volumetric surcharges applied equally to all customer classes.

5. **Water Budget-Based Rates:** RPU should evaluate whether water budget-based rates could be beneficial for RPU and its customers along with the level of effort that would be needed to implement budget-based rates. This evaluation is planned for the upcoming COSA Study.
6. **Other Rate Structure Elements:** The upcoming COSA Study should evaluate the potential for other rate structure elements such as Supply/Infrastructure charges and Regulatory pass-throughs.
7. **Recycled Water Rates:** As the recycled water system is expanded and additional customers are connected, RPU should work to refine the recycled water rates and potentially adopt a recycled water specific rate rather than grouping recycled water with interruptible service once sufficient data is available to do so.

Recommended potential refinements and focus areas from the Study for the long-term include:

8. **AMI Implementation, Time of Use Rates, and Demand Charges:** With the eventual implementation of AMI and additional customer usage information available, RPU should explore whether time of use rates and demand charges would be beneficial for RPU and its customers.

The Water Cost of Service and Rate Design Project includes five overall phases. Carollo was first tasked with beginning the Phase I Cost of Service Analysis and Phase II Water Rate Trends Study. The results of the Water Rate Trends Study will guide the Phase III Rate Design Recommendation and supporting Phase IV Customer Impact Rate Design Model which will begin after the completion of the Phase I Cost of Service Analysis.

Water Cost of Service and Rate Design Project	Status
Phase I - Cost of Service Analysis	Underway
Phase II - Water Rate Trends Study	Draft
Phase III - Rate Design Recommendation	Following Phase I and II
Phase IV - Recycled Water Rate Design	Following Phase III
Phase V - Budget-Based Rate Design and Implementation Plan	Following Phase III

STRATEGIC PLAN ALIGNMENT:

This is a phase of the Water Cost of Service Analysis and Rate Design Project and contributes to **Strategic Priority 6 - Infrastructure, Mobility & Connectivity**, and **Goal 6.2** to maintain, protect and improve assets and infrastructure within the City's built environment to ensure and enhance reliability, resiliency, sustainability, and facilitate connectivity.

The item also aligns with each of the five Cross-Cutting Threads as follows:

1. **Community Trust** – The Water Cost of Service Analysis and Rate Design Project is transparent and developed with our customers' and the community's wellbeing as a top priority.
2. **Equity** – The Water Cost of Service Analysis and Rate Design Project includes an equitable allocation of costs among customer classes which is incorporated into the

resulting rate design recommendation.

3. **Fiscal Responsibility** – The Water Cost of Service Analysis and Rate Design Project incorporates a forecasted revenue requirement that includes operating and capital expenditures funded by the prudent use of rate revenue, bond proceeds, and reserves.
4. **Innovation** – The Water Cost of Service Analysis and Rate Design Project includes the Water Utility Rate Trend Study that evaluates emerging rate structures, technologies, and trends and how they may apply or be implemented by RPU.
5. **Sustainability & Resiliency** – The Water Cost of Service Analysis and Rate Design Project will design future rates for a five-year period to equitably recover costs while maintaining the financial health of RPU.

FISCAL IMPACT:

There is no fiscal impact associated with this report.

Prepared by: Carlie Myers, Utilities Assistant General Manager/Business and Customer Services

Approved by: Todd M. Corbin, Utilities General Manager

Approved by: Kris Martinez, Assistant City Manager

Approved as to form: Phaedra A. Norton, City Attorney

Certifies availability

of funds: Edward Enriquez, Interim Assistant City Manager/Chief Financial Officer/City Treasurer

Attachments:

1. Carollo Engineers, Inc. Draft Water Rate Trends Study
2. Presentation