

Co-Trustee Water Rate Study

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3M PFC Settlement, Work Group Meetings

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Overview:

- Background on the rate study purpose and limitations
- Rate study and summary of results
- Questions and discussion
- Refer to community fact sheets throughout discussion
- Steps to finalize and disseminate

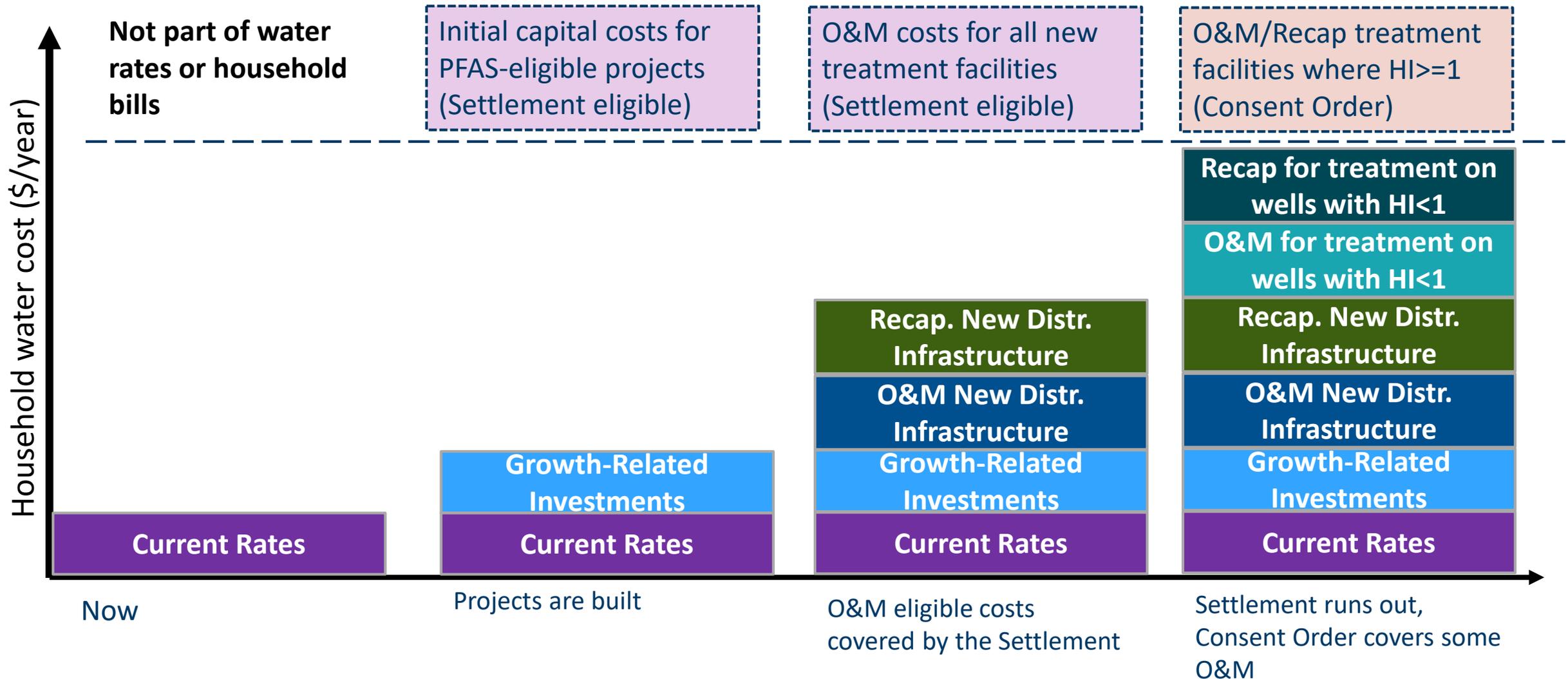
Background on the water rate study

- The Settlement fund is limited but O&M and recapitalization costs for water treatment and water system will occur indefinitely
- Communities will bear some O&M costs early in Conceptual Plan implementation
- Work groups, local government representatives and members of the public have expressed concern about long-term community costs
- The rate study aims to estimate how the projects in the Conceptual Plan might affect community costs, water rates and typical household water bills in the future

How household costs increase over time

- The Settlement will cover treatment O&M costs for a set duration (approximately 21, 35, or 40 years in the Recommended Options)
- The Consent Order will cover treatment O&M costs for wells with an advisory ($HI \geq 1$), after the Settlement is depleted
- Costs not covered by either the Settlement or the Consent Order are assumed to be covered by communities by increasing their water rates, passing the cost on to customers (residents and businesses)
- Costs that are covered by the Settlement and/or the Consent Order will not affect rates or household costs for water

Conceptual Plan implementation and household cost increases



Organization of results

- **Current** – household expenses using existing rates
 - Exception for Newport – their own rate study projects rate increases regardless of the Settlement. Instead of current rates, we use their estimate future 2029 rates but with inflation factored out
- **Growth-related investments** – rate increases to cover capital investments that are needed for community growth, not eligible for funding in the Draft Conceptual Plan
- **Ineligible costs** – rate increases to cover O&M of distribution infrastructure, which is not eligible for funding under the Draft Conceptual Plan
- **Post-Settlement** – not included because most communities will see no change
 - Exceptions for Woodbury and Cottage Grove – likely slight increase under Option 2 due to wells with HI<1 receiving treatment, costs not covered by Consent Order

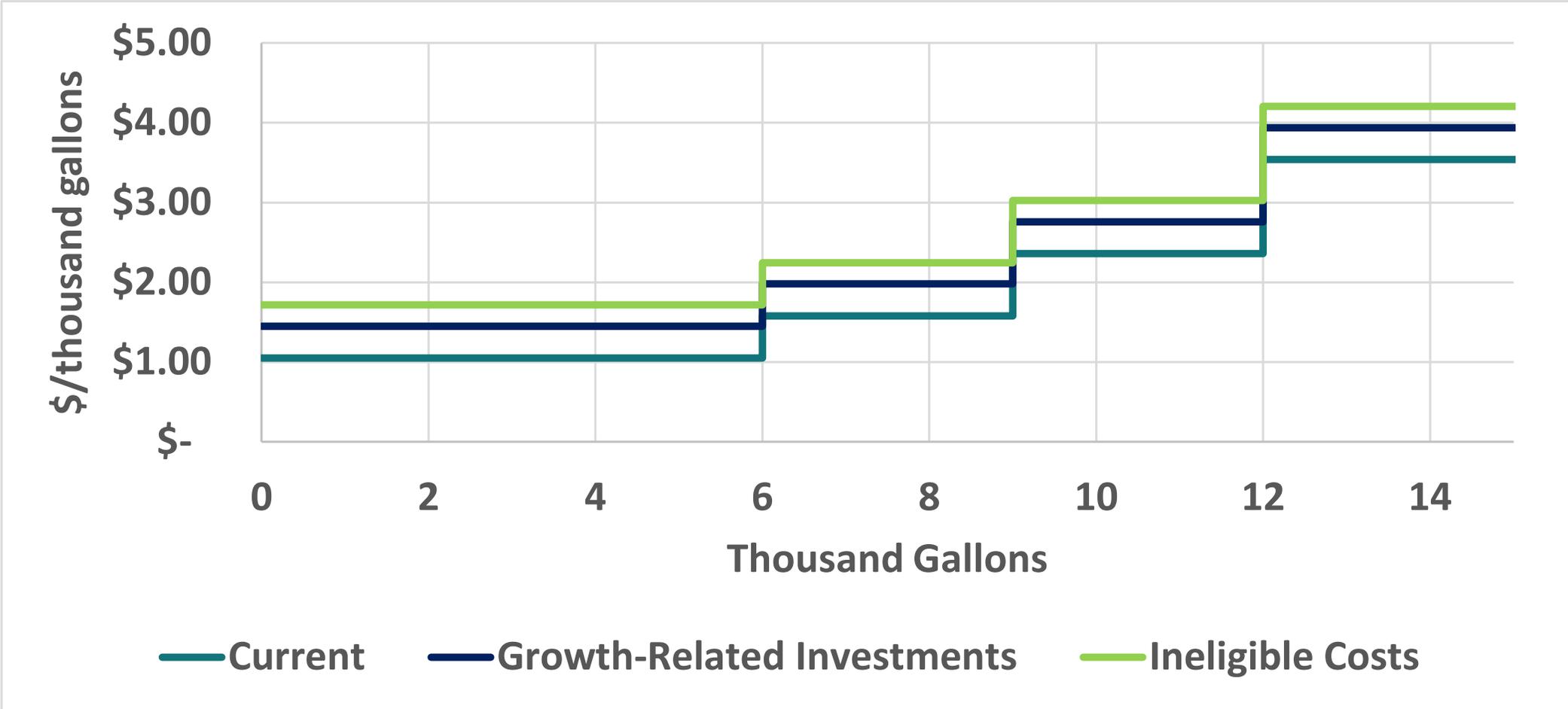
Summary of approach

- Start with existing rates and rate structures, gathered from community websites and other sources
 - For West Lakeland we use average annualized well maintenance cost (\$540) as baseline household water cost and we assume a uniform water rate for the future
 - Communities that will stay on private wells are not included in the rate study
- Meetings with each community to go over inputs and assumptions, including:
 - Whether new rates have already been adopted (but not yet published on websites)
 - Current and projected future water use and connections
 - Interest rate and term on financed capital expenses

Summary of approach (cont.)

- Estimate the additional costs that would be covered by rates in the future (Growth-Related and Ineligible O&M)
- Convert to a unit cost based on future consumption (i.e., \$ per 1000 gallons)
- Add incremental unit cost to existing rates to estimate future rates
- Calculate mean annual household water bill using seasonal water use profile and revised rates
- Compare future annual water bill to median household income for each community

Illustration of study results: rate increase



Caveats about water rate study

- The approach provides a reasonable estimate of how much rates would need to increase to offset the future costs of projects in the Conceptual Plan
- The method is not as detailed as typical financial rate-setting studies conducted by most communities
- The study does not contemplate changes to rate structures, which many communities might consider as costs and customers change
- The analysis focuses on snapshots in time and does not include gradual transitions between necessary rate changes

A few additional caveats for private wells

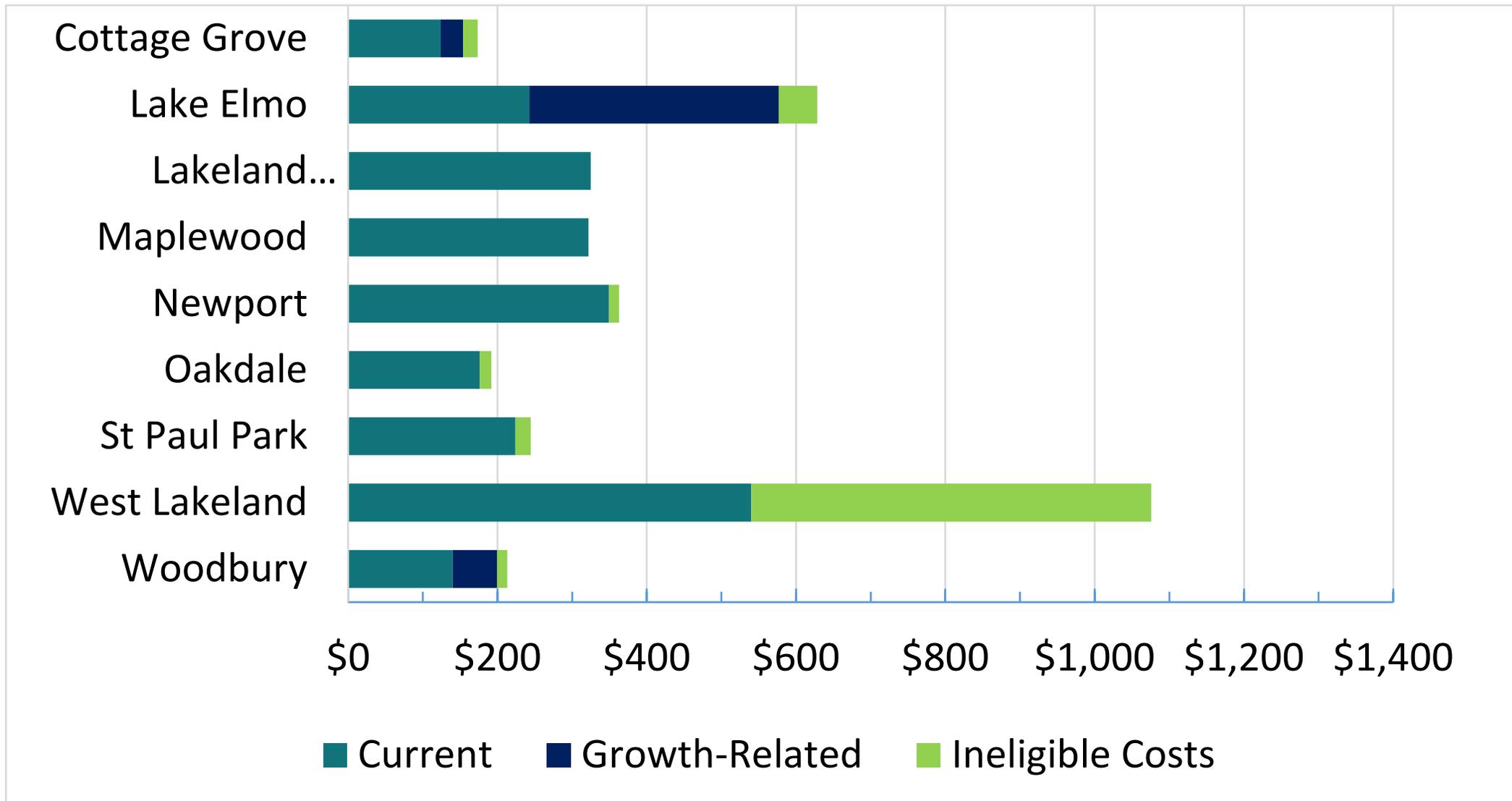
- All three recommended options involve connecting homes that are currently on private wells and a new public water system for West Lakeland
- For homes on private wells, the estimate of average annualized cost to maintain and recapitalize the well (\$540) represents their baseline household cost for water
- All of West Lakeland is currently on private wells – as a result there are no current or baseline water rates to use
- The study assumes a uniform water rate would be implemented for West Lakeland and assume private wells would be retired and sealed
- The rate is calculated based on future revenue requirement for O&M

Questions

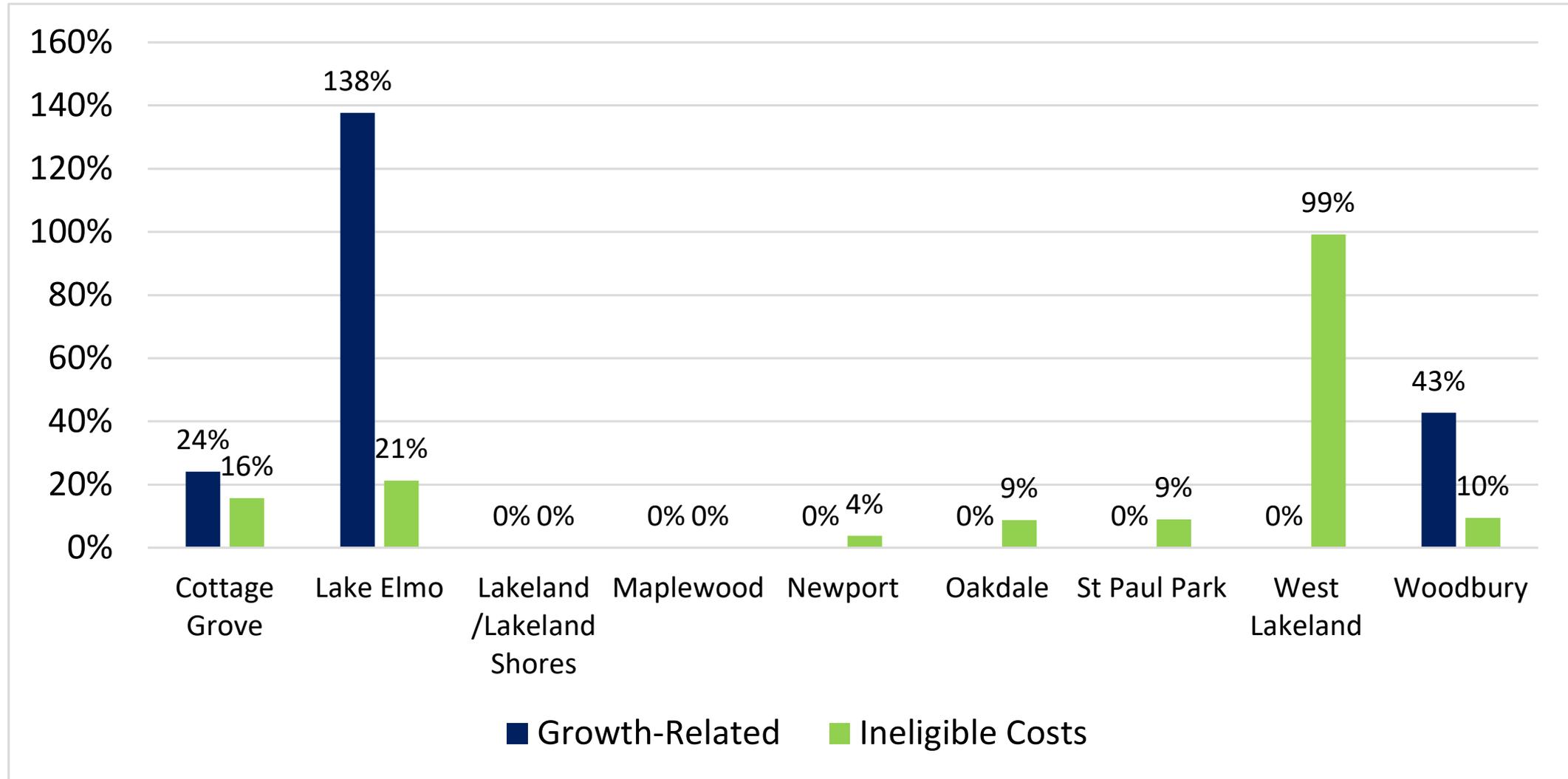
- Community fact sheets on the rate study inputs and results were shared before the meeting. Are there any questions or concerns on the inputs/assumptions you see for your community?

- Remaining slides show summary results for each option
- Community fact sheets show results for each individual community
- Q&A

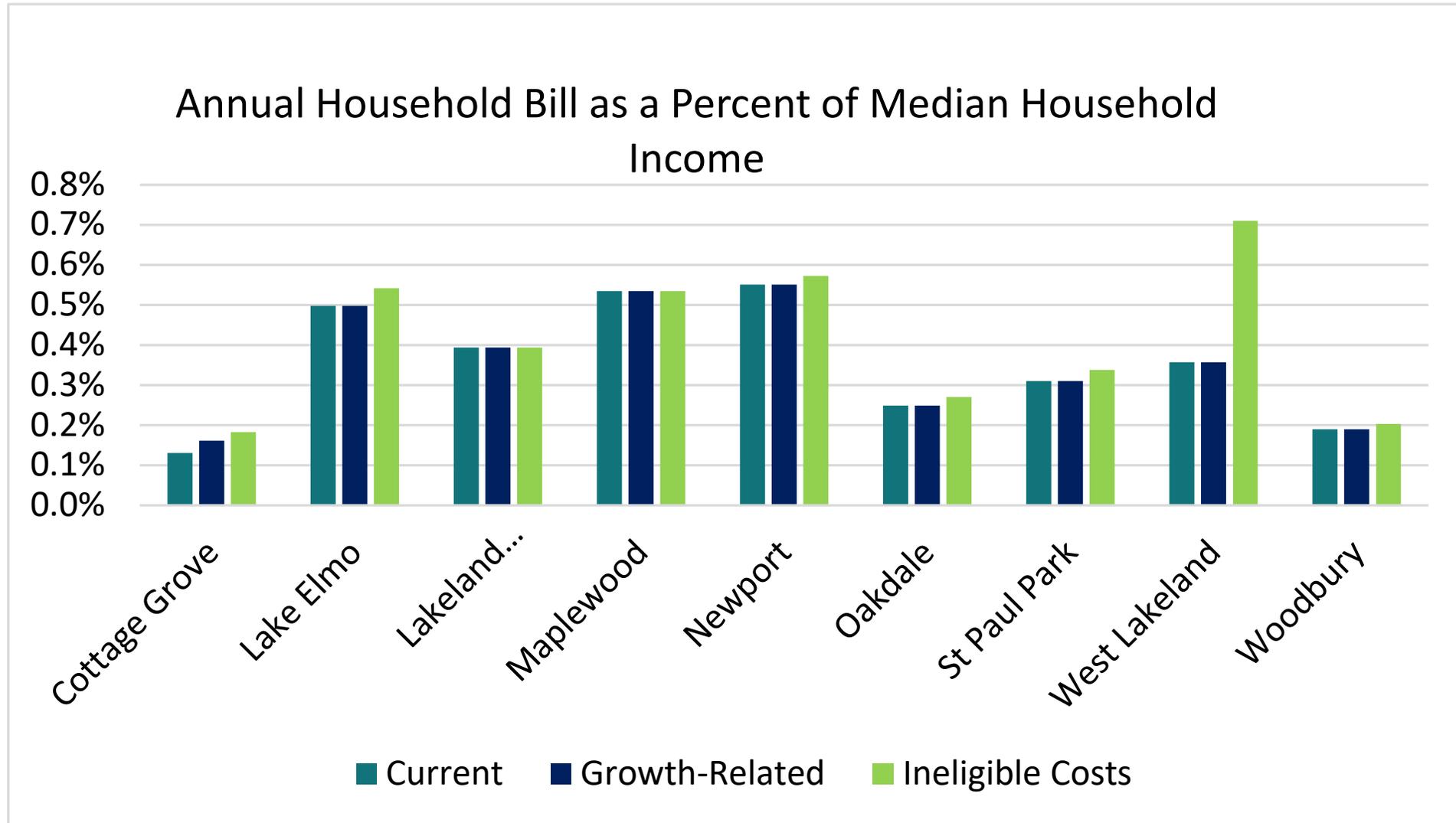
OPTION 1 - household water bills



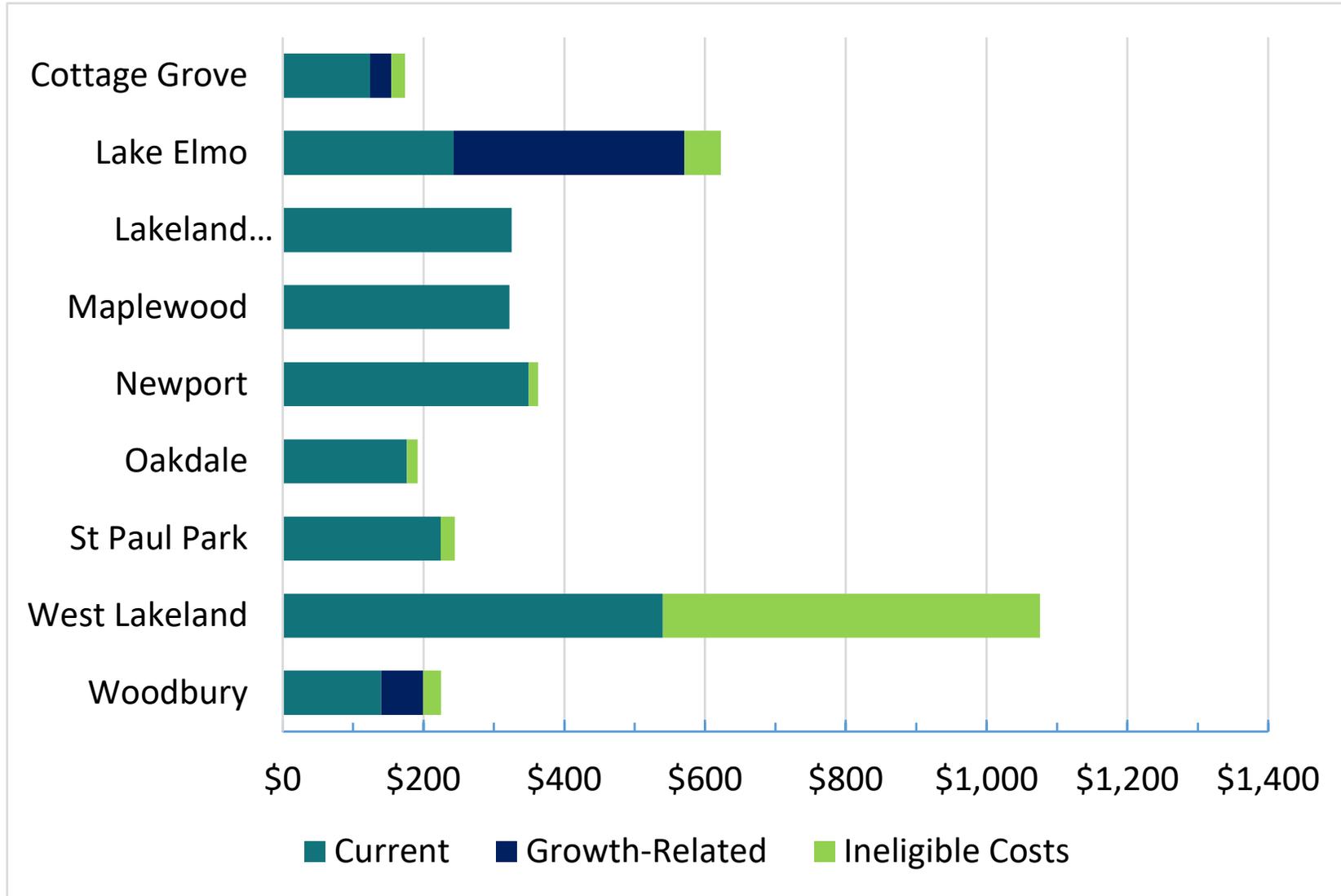
OPTION 1 - percent change in household bills



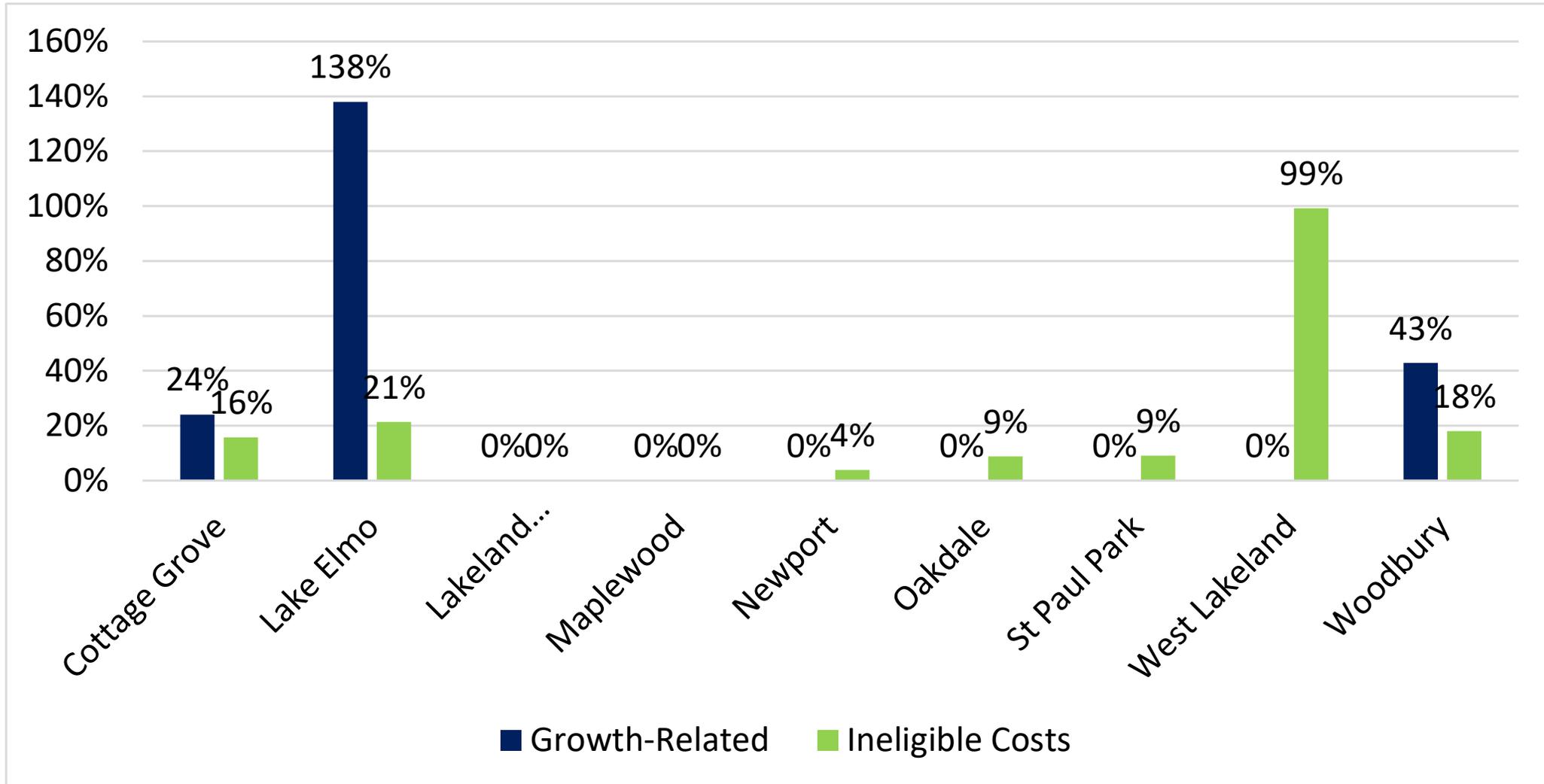
OPTION 1 - household water bills compared to income



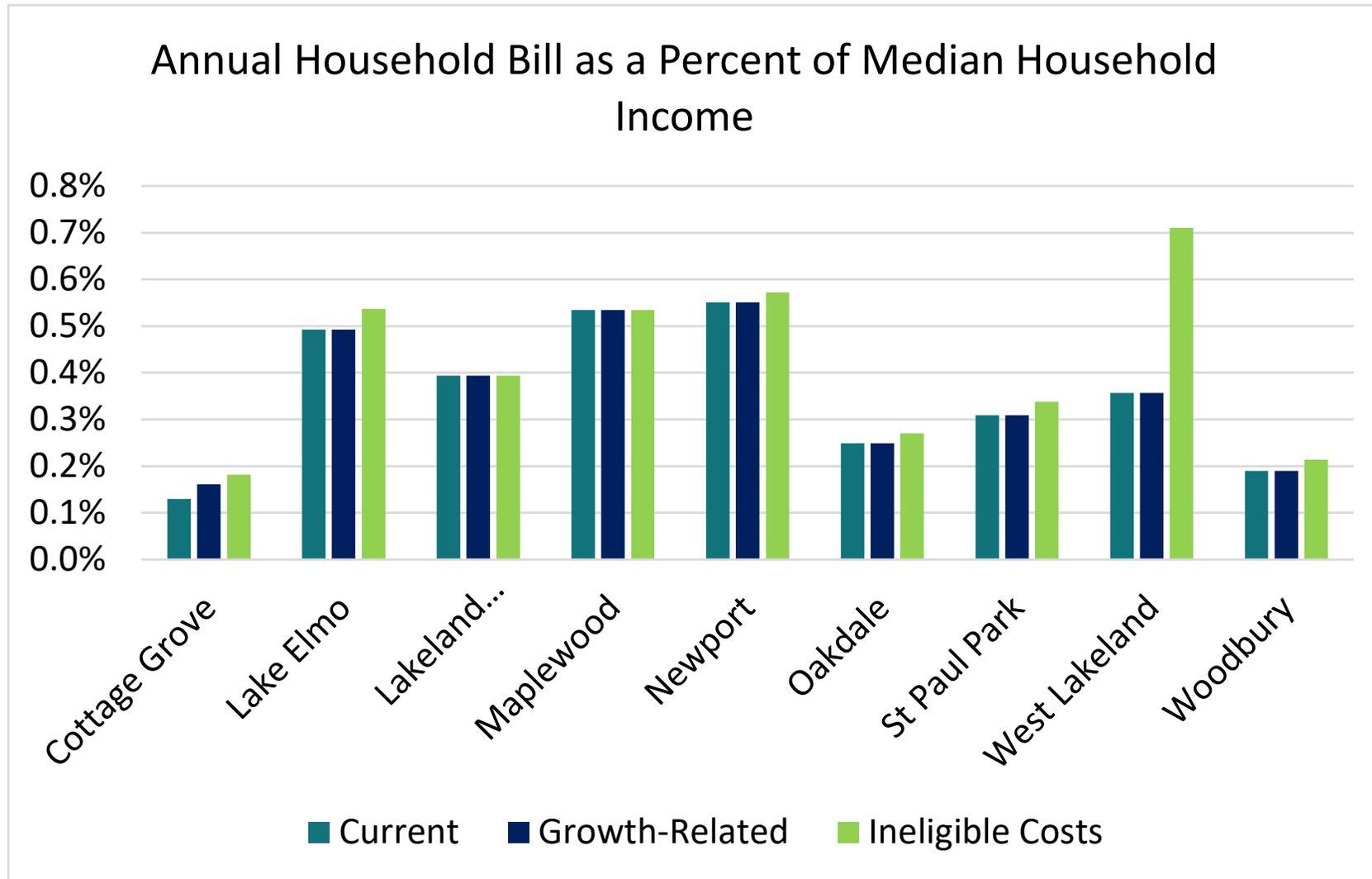
OPTION 2 - household water bills



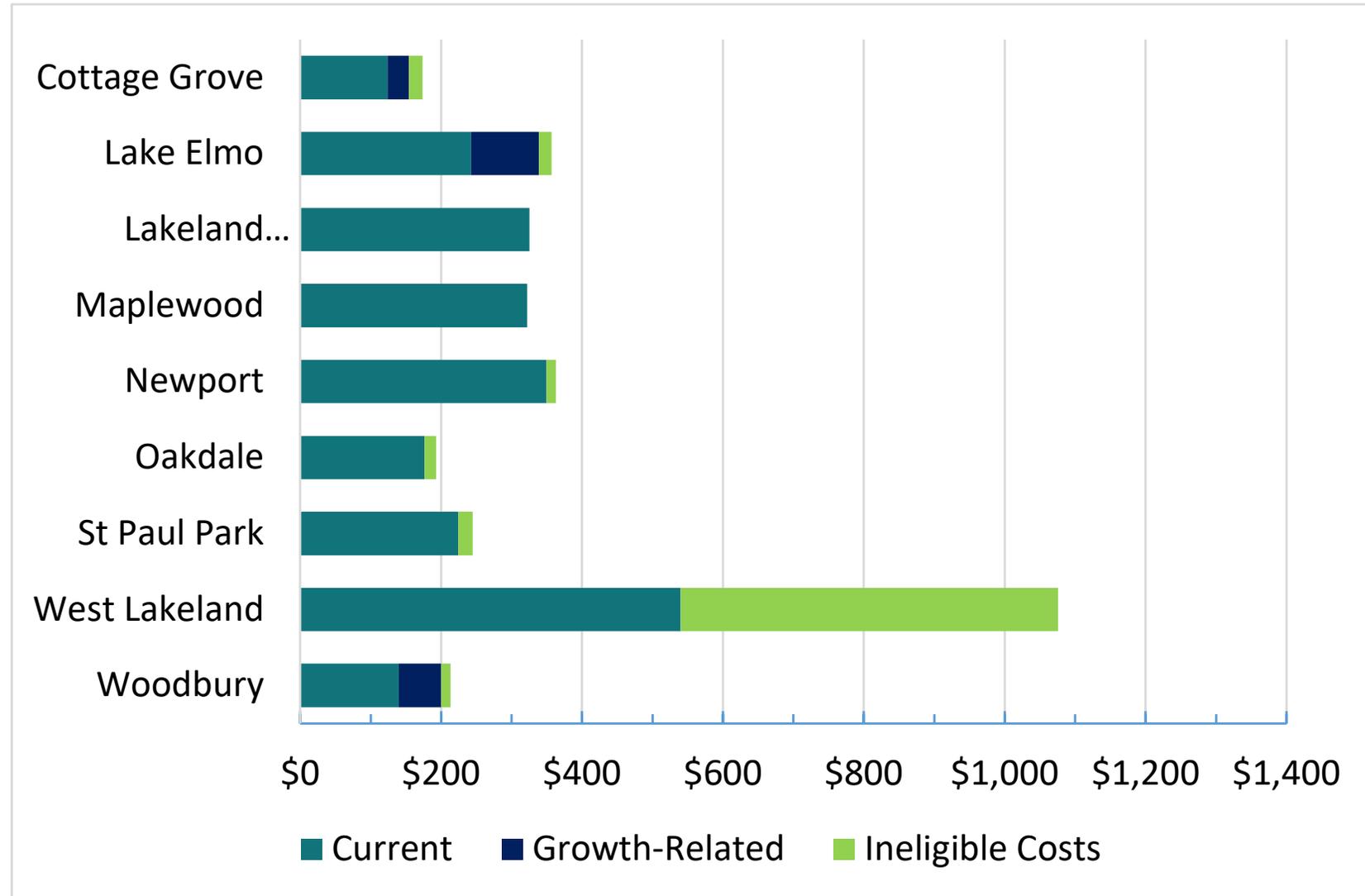
OPTION 2 - percent change in household bills



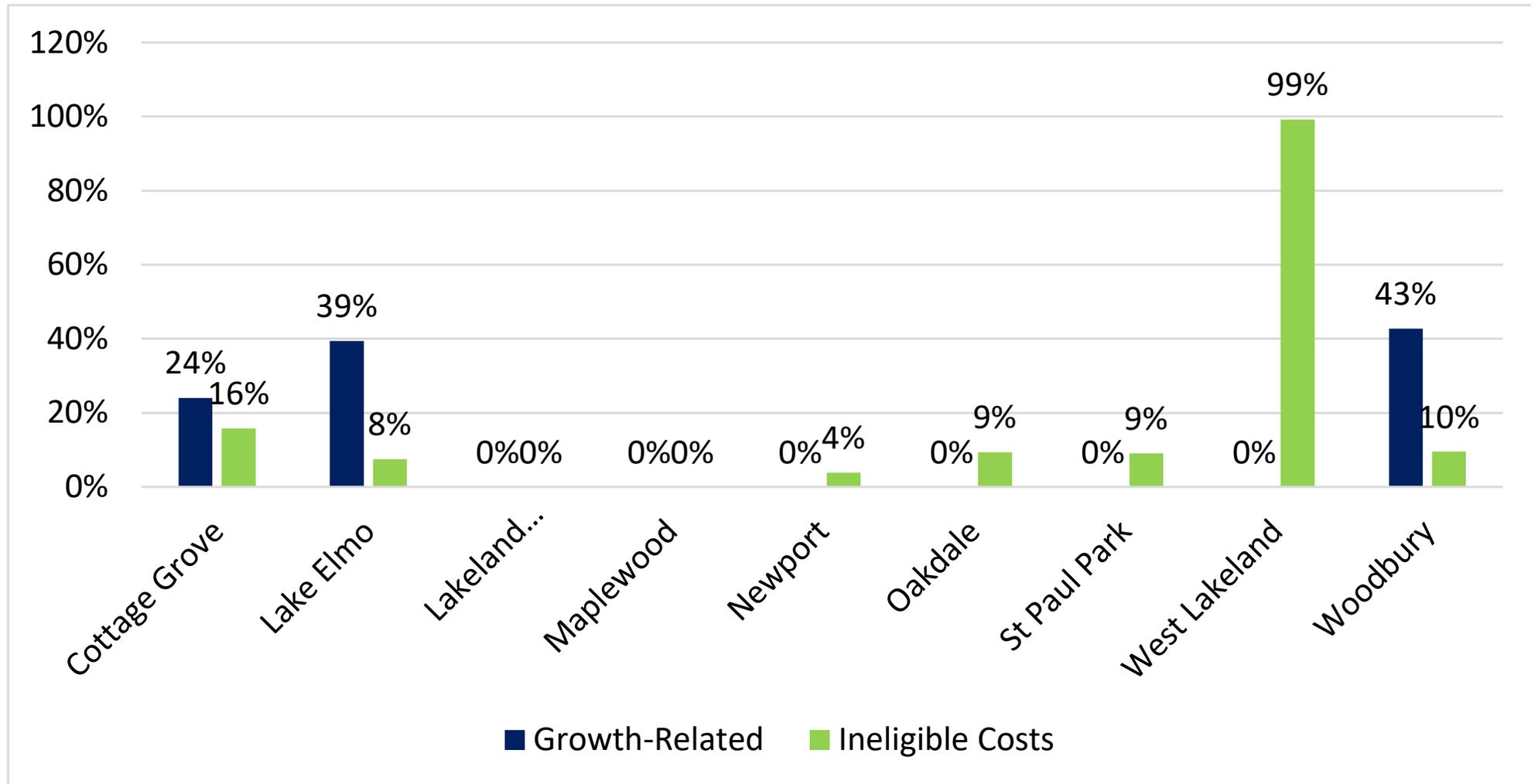
OPTION 2 - household water bills compared to income



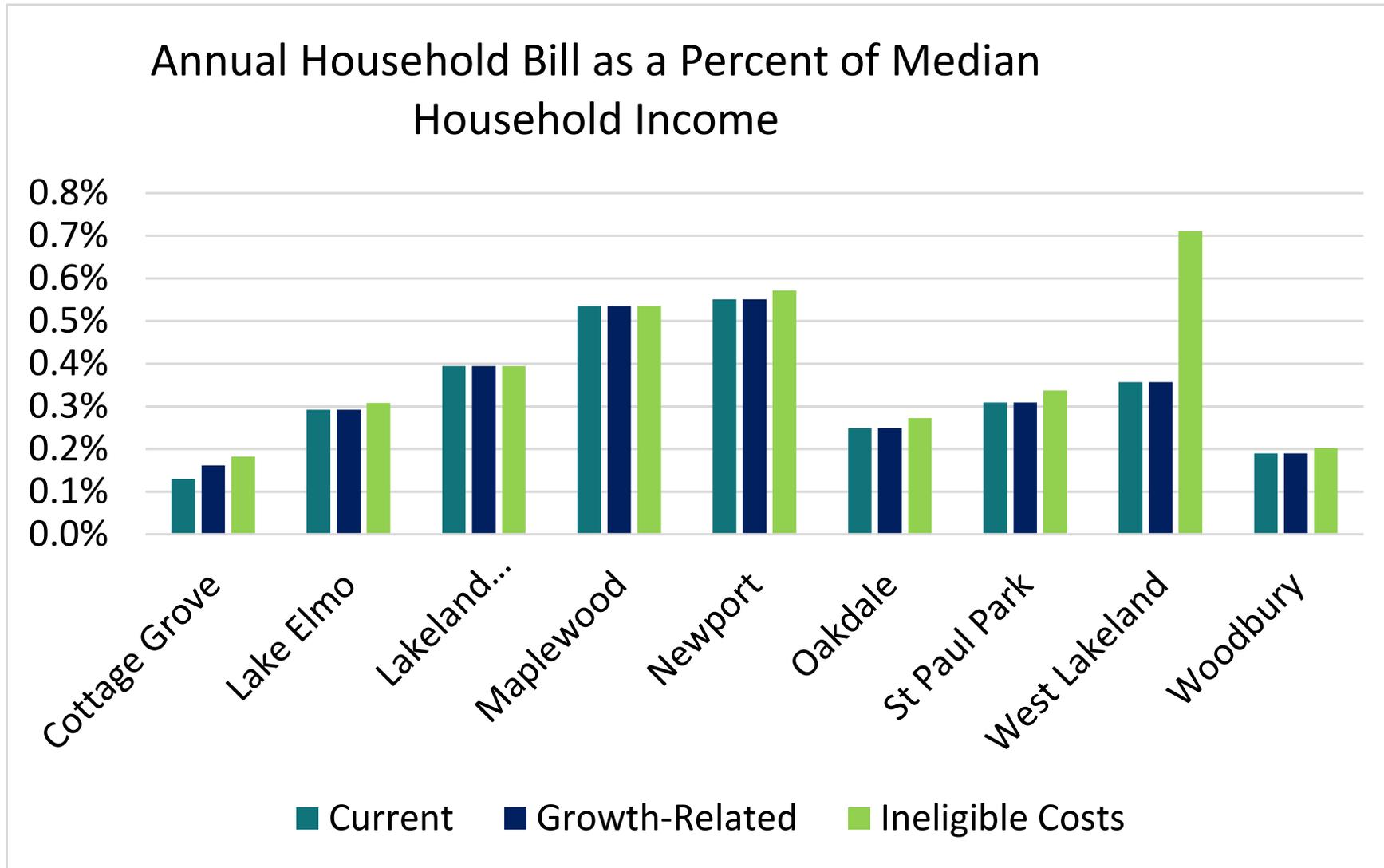
OPTION 3 - household water bills



OPTION 3 - percent change in household bills



OPTION 3 - household water bills compared to income



Summary of results

- The recommended options in the draft Conceptual Plan would result in modest increases in household water bills in most communities
- Mean household bills generally stay under about 0.6% of median income
- Assumption about future coverage of Consent Order is very important
- West Lakeland is unique
 - Large water system and the costs are spread across relatively few households
 - Future water bills would be much higher than typical costs with a private well and would approach 1% of median household income
 - Maintaining private wells for irrigation is unlikely to change this

Finalizing the water rate study

- Finalize draft report (early December)
- Final report (by March 2021)