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
• 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
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 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

Revenues
- Rate Revenue
- Non-Rate Revenue

Expenses
- O&M
- Debt
- Cash Funded Capital
Revenue Sufficiency Analysis

Rate Revenues = O&M + Capital Costs - Non-Rate Revenues

### Additional Considerations
- Maintaining Financial Obligations
- Long-term Rate Predictability
- Meeting Financial Policies
- Managing Risk
- Achieving Other Guiding Principals
- Considering Rate Payer and Elected Tolerance for Recommendations
**Cost of Service Overview**

**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:**

<table>
<thead>
<tr>
<th>Tier</th>
<th>Residential</th>
<th>Non-Residential</th>
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<tbody>
<tr>
<td>Tier 2</td>
<td>$10.71</td>
<td>$10.55</td>
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<tr>
<td>Tier 1</td>
<td>$9.60</td>
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4 CCF > 4 CCF

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

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<thead>
<tr>
<th>Activity</th>
<th>Duration</th>
<th>Deliverables</th>
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<tr>
<td>Data Collection and Review</td>
<td>9/2022 – 10/2022</td>
<td>• Data gaps review</td>
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<tr>
<td>Revenue Sufficiency Analysis</td>
<td>9/2022 – 11/2022</td>
<td>• Updated 10-year plan of rate revenue adjustments</td>
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<tr>
<td>Cost of Service Analysis</td>
<td>10/2022 – 12/2022</td>
<td>• Overhead Cost Allocation</td>
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<td>• Allocation of costs to customer classes</td>
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<tr>
<td>Rate Design</td>
<td>12/2022 – 2/2023</td>
<td>• Updated schedule of rates</td>
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<td>• Final Report</td>
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<td>• Presentations to key stakeholders</td>
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<tr>
<td>Communications Plan</td>
<td>10/2022 – 6/2023</td>
<td>• Development and implementation of communications plan</td>
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<td>• Public and elected rate workshops</td>
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<td>Commission Presentations</td>
<td>3/2023, 5/2023</td>
<td>• Preliminary Commissioner Workshop</td>
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<td>• Prop 218 Hearing</td>
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Presentations to the RFB will be held as we near completion of each major task to allow for feedback and consideration.
Discussion & Questions