

BUSINESS ITEM 2012-172: AUTHORIZATION TO HOLD PUBLIC MEETINGS ON PRELIMINARY 2013 RATES & CHARGES

Environment Committee, May 22, 2012



2013 Rate Setting Schedule

- April 10: Env. Comm.: Budget & Rate Concepts
- May 22: Env. Comm.: Authorization for Public Meetings on 2013 Rates and Charges
- May 24: Industrial Customer Forum
- June 6: Municipal Customer Forum (Golden Valley)
- June 8: Municipal Customer Forum (League of MN Cities)
- June 26: E.C. 2013 Rate Adoption Recommendation
- July 11: Council Rate Adoption
-
- Aug. 15: Council Preliminary Operating Budget Adoption

Preliminary Budget

(\$ in millions)	<u>2012</u>	<u>2013</u>	Change	
			<u>\$</u>	<u>%</u>
Revenues	\$216.8	\$226.2	\$9.4	4.3%
Expenses	\$216.8*	\$228.2	\$11.4	5.3%
Surplus (deficit)	0	(\$2.0)	(\$2.0)	--

* Excludes budget amendment.

Preliminary Budget: Labor

	<u>2012B</u>	<u>2013B</u>	<u>Change</u>
Labor	\$61.9M	\$62.7M	\$.8M

- Post Employment Benefits Reserve Funding at \$2M
- Health Care premium increase of 7%
- Risk Factor: bargaining agreements not resolved

Preliminary Budget: Non-Labor

	<u>2012B</u>	<u>2013B</u>	<u>Change</u>
Non-labor	\$47.0M	\$52.1M	\$5.1M (10.9%)

- Energy conservation at Metro Plant sufficient to offset Xcel Energy rate increase
- Risk Factors: Oil-related costs include gas, electricity, and chemicals

Preliminary Budget: Interdivisional Charges

	<u>2012B</u>	<u>2013B</u>	<u>Change</u>
RA Operations	\$10.0M	\$10.8M*	\$.8M (8.0%)

* Detail:

Information Systems	\$4.5	\$5.2
Human Resources	.9	1.1
Legal	.5	.9
RA Finance	1.1	.8
Purchasing/Contracts	1.1	.8
Other Central Services	1.9	2.0

Preliminary Budget: Debt Service

Debt Service Transfer:

<u>2012B</u>	<u>2013B</u>	<u>Change</u>
\$96.9M	\$101.0M	\$4.1M (4.2%)

PAYGO: \$1M in 2012, \$1.5M in 2013

Risk Factors:

- Capital spending increases which increases debt service, or
- Increase in interest rates for anticipated 2012 and 2013 borrowings
- 2012 refinancings in process

Revenue/Sources

(\$ in millions)	Budget		%
	<u>2012</u>	<u>2013</u>	<u>Change</u>
MWC*	\$173.6	\$178.8	3.0
SAC Transfer	27.4	30.2	10.4
SAC shift	(4.3)	(0)	
Reserve transfer(for SAC)	4.3	---	
Industry-specific	12.8	14.0	9.4
Other	<u>3.0</u>	<u>3.2</u>	<u>6.6</u>
TOTAL Revenue	\$216.8	\$226.2	4.3

* Metropolitan Wastewater Charge

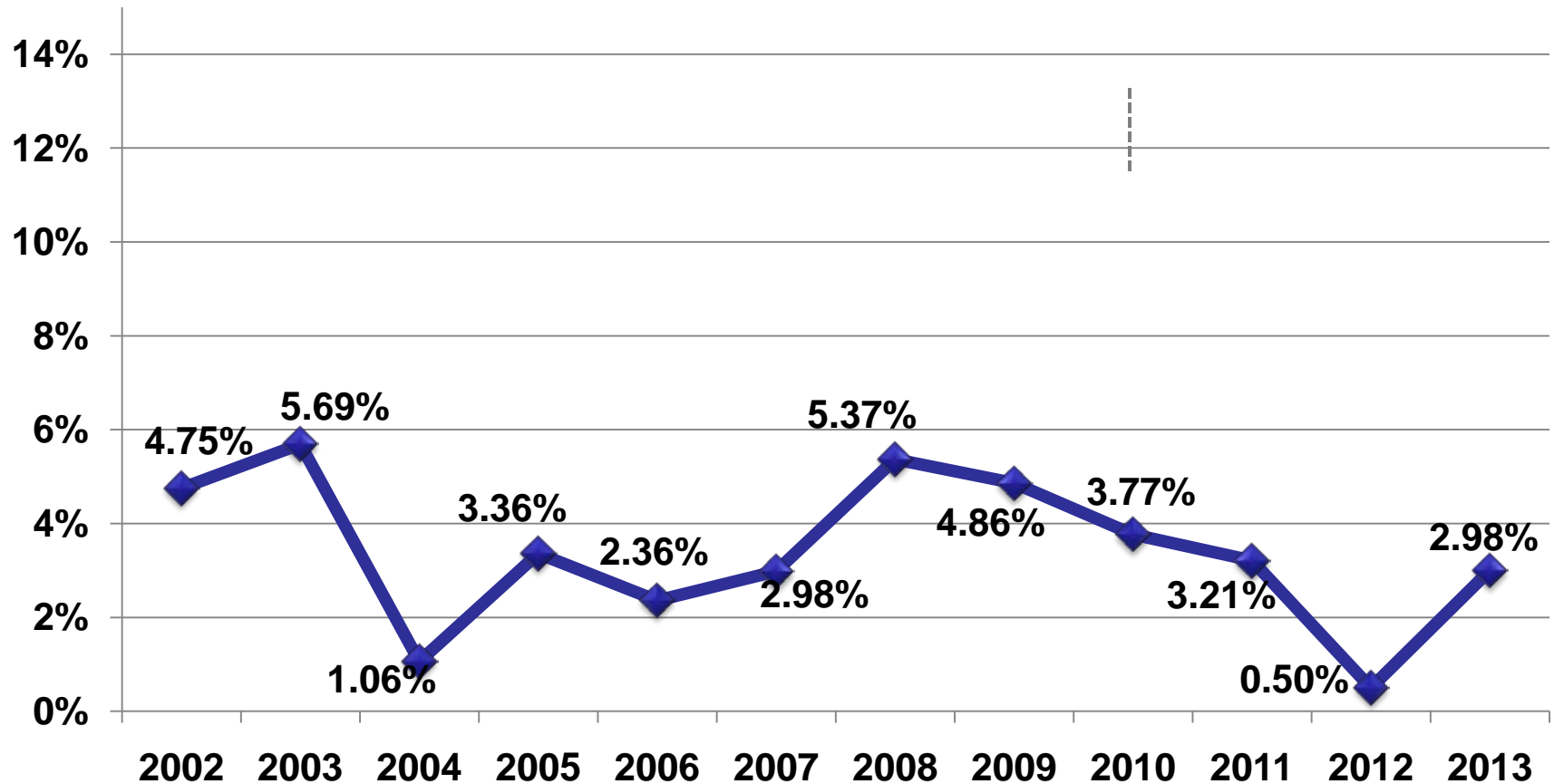
Rates and Charges: MWC

MCES charges communities a wholesale fee for annual volume:

- “Firm Flow” allocation method
 - 2013 billings based on flow percent for period of July 1, 2011 through June 30, 2012
 - Communities pay portion of MWC corresponding to their percent of total flow

Communities charge businesses and residents a retail fee for sewer volume

Historical MWC Increases (%)

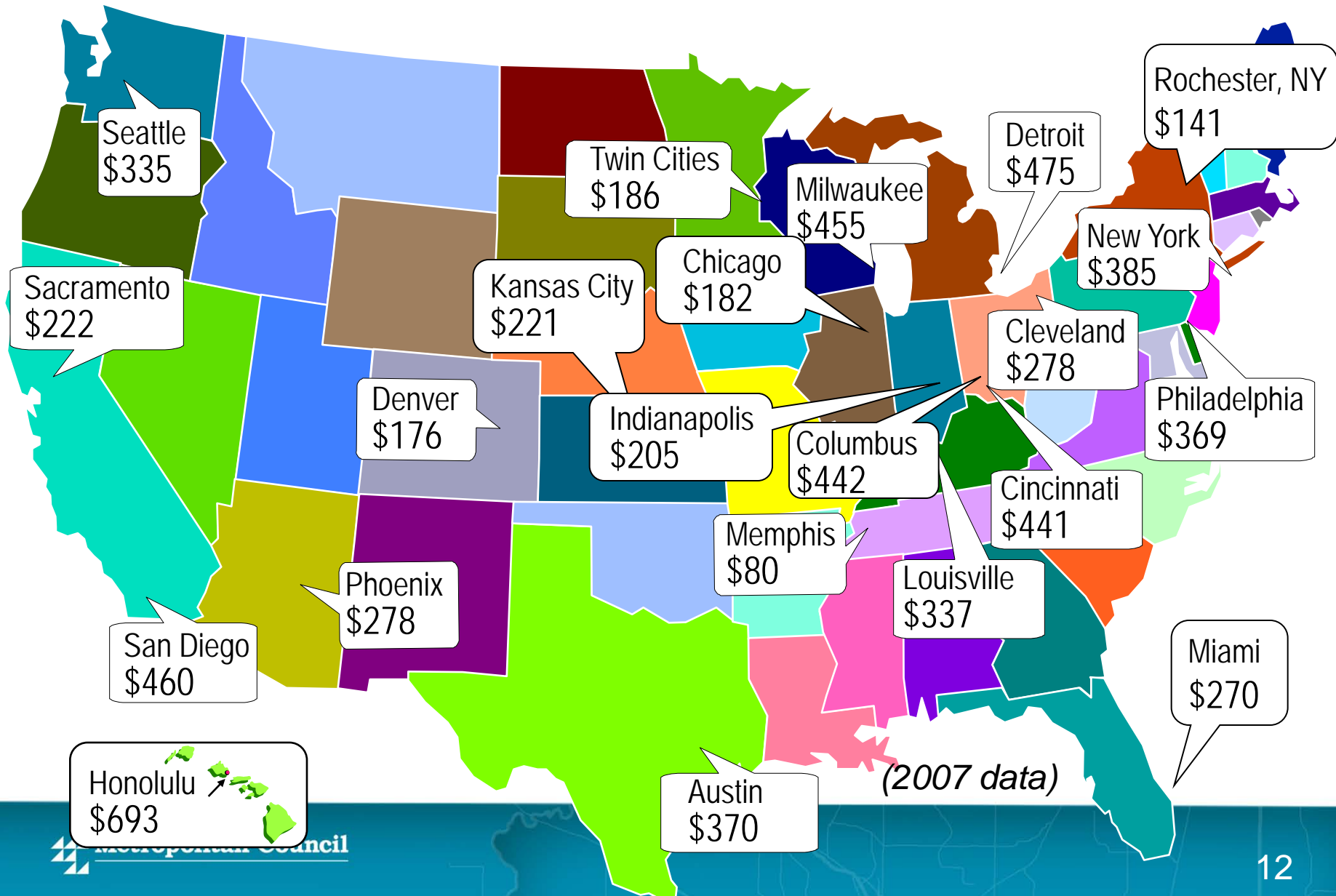


MWC City Variance

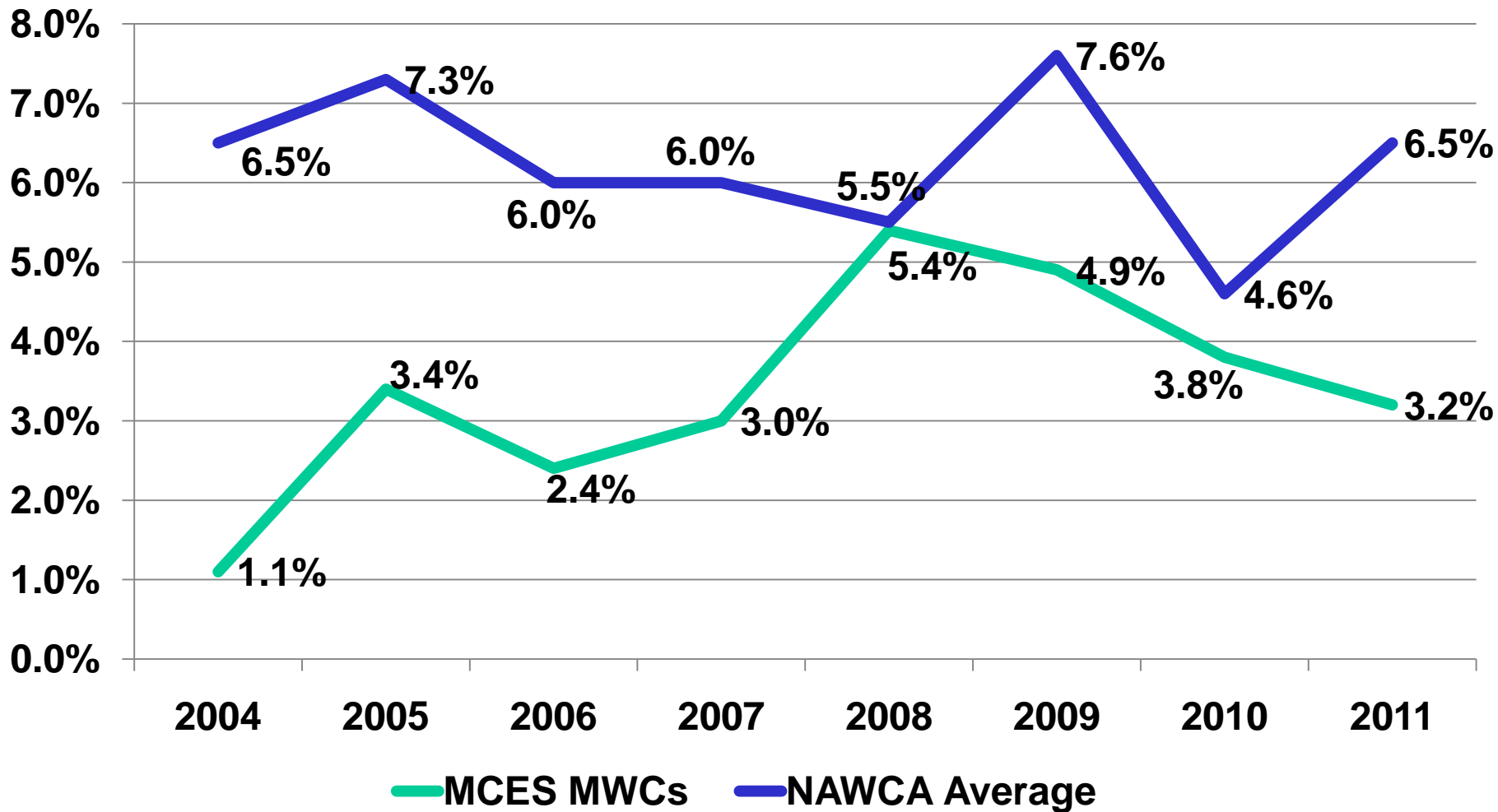
2012	flow (mg)	% of system flow	MWC
City ABC	10,000	10.67	18,536,400
City XYZ	500	.53	926,800
All others	83,180	88.80	154,185,800
System Flow	93,680		\$173,649,000

2013	flow (mg)	% of system flow	MWC	% Increase
City ABC	10,000	11.56	20,678,300	11.6
City XYZ	530	.61	1,095,900	18.2
All others	75,970	87.83	157,049,800	1.9
System Flow	86,500		\$178,824,000	3.0

Competitiveness



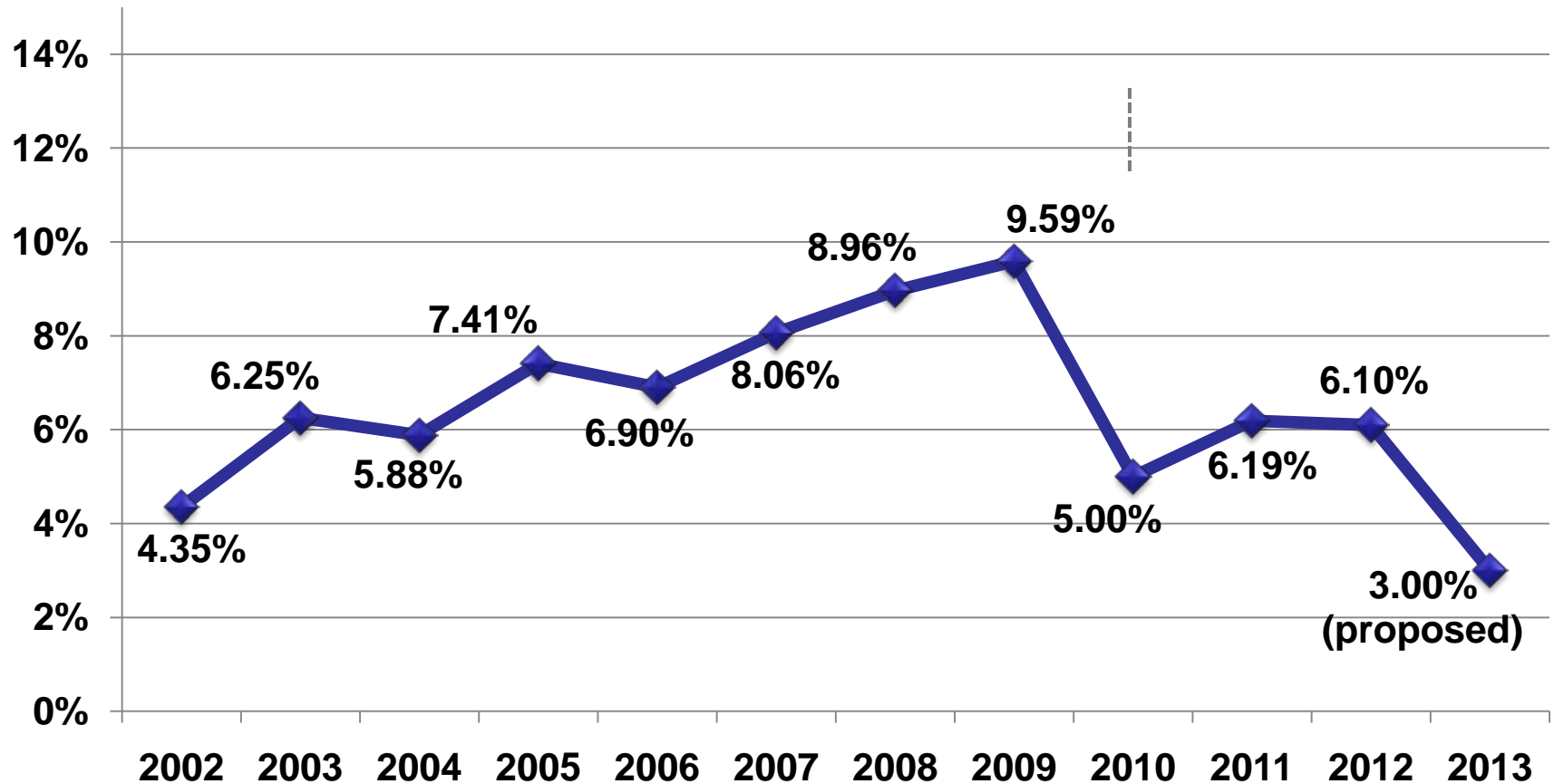
MWC Increases Compared to NACWA Average



SAC: Source of Funds

- Charged to municipalities (wholesale)
 - Revenue reduces volume charge to cities
- For new connections or increased demand (available capacity)
- 1 SAC unit charged per 274 gallons of maximum daily wastewater flow availability
- Availability ≠ Treatment Service
= “Capacity we stand ready to serve”

Historical SAC Increases (%)



SAC: 'Shift'

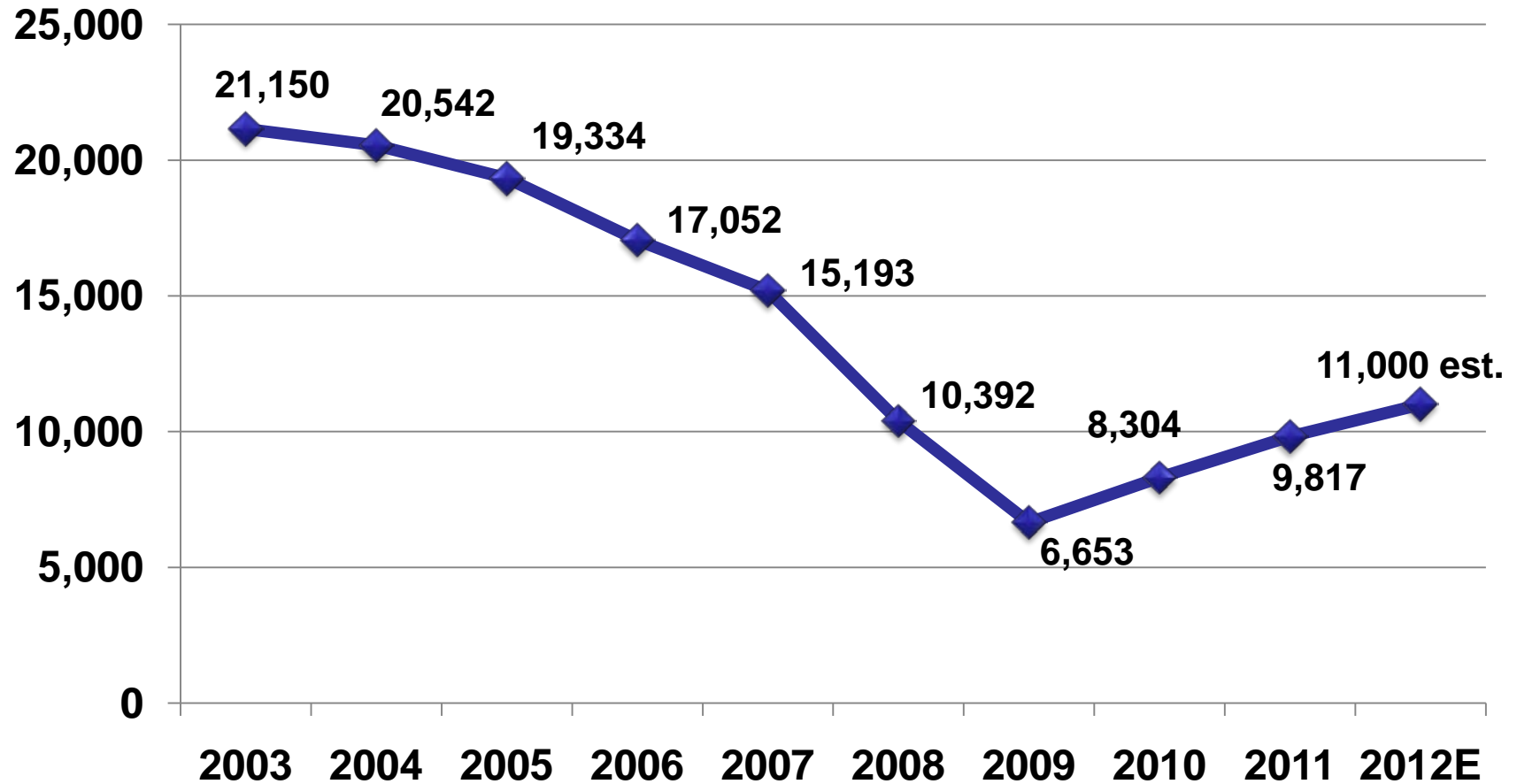
- Allows Council flexibility to temporarily reduce SAC transfer and shift amount to Metropolitan Wastewater Charge (MWC)

- Limited to when financially necessary
- Requires annual study and public hearing
- Balanced by mandatory minimum SAC rate increase (usually 6%)
- Sunset in 2015
- Requires shift back when fund balance recovers

**M.S. 473.517 subd. 3.*

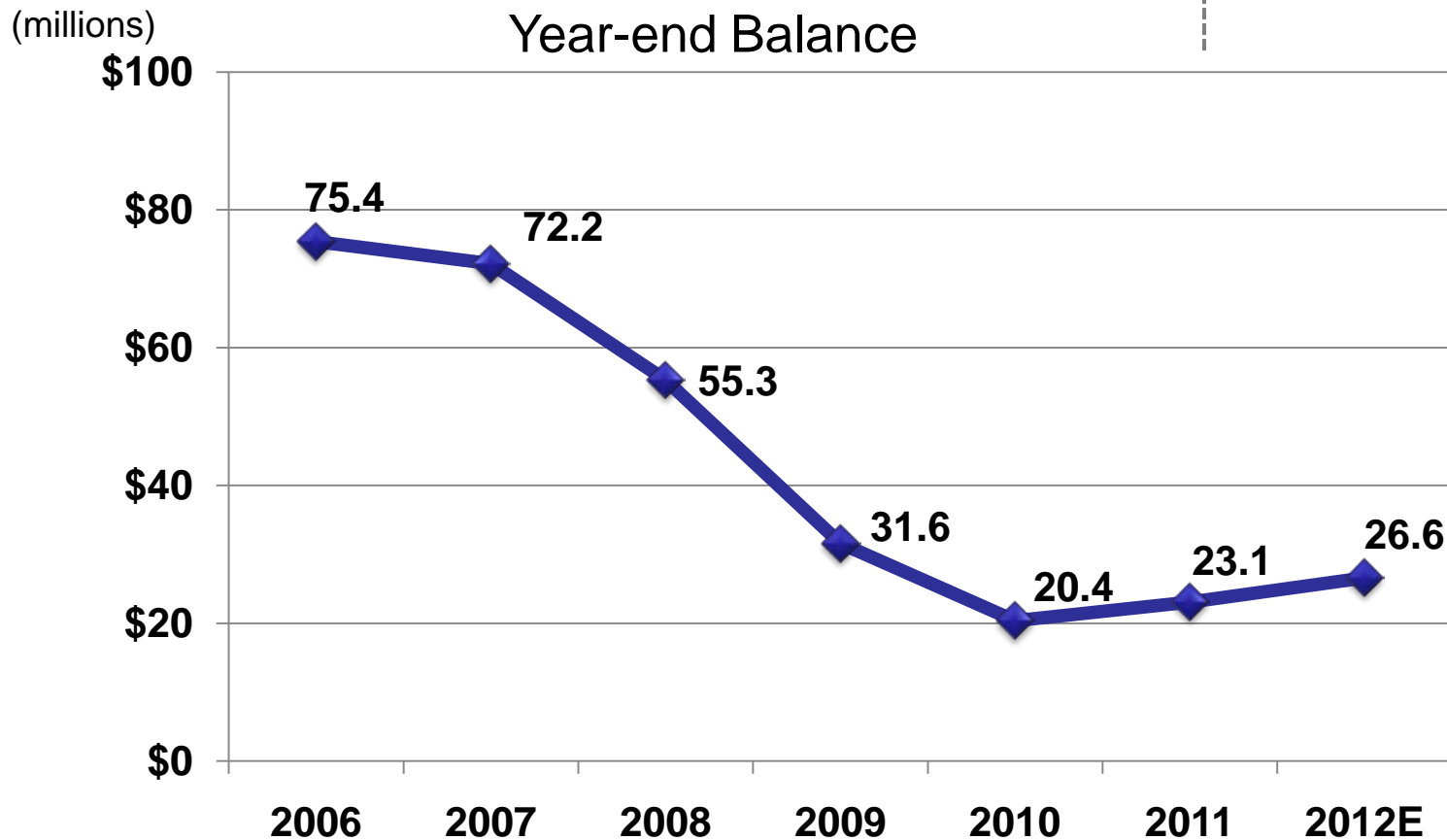
SAC Units

Decreasing SAC units causing pressure on SAC reserve fund balance



SAC: Reserve Fund

	Actual			Projected
	2009	2010	2011	2012
Year-End Balance	\$31.6	\$20.4	\$23.1	\$26.6



SAC Analysis

- Assumes 3% rate increase in 2013 and 6% thereafter
- No shift for 2013
- A SAC shift would be needed in 2013 if SAC units for 2012 are assumed to be below 9,500 units
- No “shift back” until approximately 2023

SAC Reserve Balance (Base Case)

(\$ in millions)

	SAC	Units	SAC Shift*	Year-End SAC Reserve Balance
	2007	15,193		\$72.1
	2008	10,392		\$55.3
	2009	6,653		\$31.6
	2010	8,304		\$20.4
	2011	9,817	\$4.5	\$23.1
Est.	2012	11,000	\$4.3	\$26.6
	2013	11,500	\$0.0	\$25.0
	2014	12,000	\$0.0	\$23.7
	2015	13,000	\$0.0	\$24.7
			
	2020	17,000	\$0.0	\$57.4

* \$15.3M from operating reserve designated for SAC shifts.

SAC Scenarios

		Scenario Description	2012	2013	2014	2015	2016
SAC Units	Slower Recovery		10,000	10,500	11,000	12,000	13,000
	Base Case		11,000	11,500	12,000	13,000	14,000
	Faster Recovery		12,000	12,500	13,000	14,000	15,000
Reserve Balance \$M	Slower Recovery		\$24.2	\$20	\$16	\$14	\$15
	Base Case		\$26.6	\$25	\$24	\$25	\$28
	Faster Recovery		\$28.9	\$30	\$31	\$35	\$42
SAC rate Increase for all scenarios			6%	3%	3%	6%	6%

Note:

- For Base Case, 2013 SAC rate needed to meet established minimum balance by year end 2013: \$3,505 (48.2% increase).
- Lowest number of SAC units needed in 2012 to avoid a SAC shift: 9,500.

Strength Charges

(\$ per lb. of excess strength)

- Fees to connected industries for additional treatment costs caused by industrial wastewater that has more pollutants than typical residential wastewater

	<u>Preliminary 2013</u>	<u>Increase</u>
TSS: Total Suspended Solids Rate	\$0.172	7.5%
COD: Chemical Oxygen Demand Rate	\$0.086	7.5%

Load Charges

(per 1,000 gallons)

- Paid by liquid waste haulers for septage, leachate and other hauled wastes discharged to MCES system

	Preliminary 2013	% Increase
Standard Load Charge	\$53.31	6.7
Holding Tank Rate	\$8.81*	30.0
Portable Toilet Waste Rate	\$67.95	6.6
Collar County Load Charge	\$68.31	5.1
Industrial Load Charge		
<i>(\$ per lb of excess strength)</i>		
TSS: Total Suspended Solids	\$0.3510	6.4
COD: Chemical Oxygen Demand	\$0.1755	6.4


* Not full cost

Permit Fees

- Industrial users issued a permit are subject to annual permit fees
 - Goal is to recover direct program costs
 - 2013 recommendation is increase permit fees by 8%
 - = \$725-\$6,850 for existing types (except general)

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 = *public input*

Customer Forum Topics

Municipal Customer Forums (June 6, 8)

- Management Comments
 - Strategic Issues
 - Regulatory Challenges
 - Energy Initiatives
 - Waste Discharge Rules
 - Inflow & Infiltration
- Preliminary 2013 Budget & Rates

Industrial Customer Forum (May 24)

- Regulatory Issues
- Hauled Waste Program
- Inflow & Infiltration Program
- Preliminary 2013 Budget & Rates

Questions

