

## DESCRIPTION OF COMPLIANCE RATE DESIGN AND ADDITIONAL INFORMATION REQUESTED BY OCA

**Development of Volumetric Rates:** After the customer charge is determined, the proposed volumetric rates for each block are calculated in an iterative process in order to produce revenues (from both the customer charge and the volumetric charges) that approach the level of revenues indicated by the Board's authorized cost of service. There are no underlying calculations. The proposed rates in the "rates.xlsx" file are inputted and there is no link to another file. Only the present rates are linked to the "IA 2013 - Bill Analysis.xlsx" file.

**Volumetric Rates Attributable to Public and Private Fire:** We have done an analysis, which is attached, that shows the amount of volumetric rates that are attributed to the allocation of public and private fire per the Board's Order. To perform this analysis, we first determined the customer charges and volumetric rates that would have been developed (based on the Board's authorized cost of service) if 100% of the Public Fire and none of the Private Fire costs were allocated to the customer charge (allocated based on meter equivalents). This is labeled the Baseline. See column 1 of page 1 in the attached Comparison of Proposed Rates per Order. However, the Board Order mandates that 50% of the Public Fire costs and 12.5% of Private Fire costs be allocated to the volumetric charge which resulted in the calculation of the Compliance rates as filed on 2/28/2014. In order to determine the volumetric rate change due to the allocation of a portion of the Public and Private Fire costs to the volumetric rates, we compared the first rate structure in column 1 to the rates proposed in the Compliance Filing in column 2. Column 3 shows the decrease in customer charges and the increase in volumetric rates as a result of the change in allocation of Public and Private Fire costs. The effect of allocating 50% of Public Fire and 12.5% of Private Fire to the volumetric rate is to increase the first block by \$0.3545 and the second block by \$0.0703. The third and fourth blocks remain the same as the Company is recommending. The Company recommends no increase to the third and fourth blocks because the increases for each block are determined based on the results of the revised Cost of Service Study.

**The OCA had further questions regarding the percentage difference in increases to the first and second blocks versus what was presented in the original filing:** The change in the relative percentage increases in the first and second blocks is due to a change in Cost of Service. Due to the results of the Board's Order, costs were allocated differently to different classes resulting in a percentage increase of costs being allocated to the Residential class. Since 97% of the Residential consumption is in the first block, the first block gets a larger increase than the other blocks. See the following reasons for the change in the Cost of Service:

1. The Board disallowed the adjustment for the change in usage for weather normalization and reduction in usage. This adjustment increases the consumption mainly for the Residential class and thus increases the percentage of costs allocated to the Residential class. The first block must be increased commensurately as 97% of the Residential usage is in the first block.
2. Of the 25% of Private Fire costs that are reallocated to other customer classes, 50% of this cost is recovered in volumetric rates (12.5%) and 77% of these costs are allocated to the Residential class as the cost is allocated on meter equivalents. The first block must be increased commensurately as 97% of the Residential usage is in the first block.
3. 50% of Public Fire costs are also being recovered by volumetric rates and, again, 77% of the costs are allocated to the Residential Class. The first block must be increased commensurately as 97% of the Residential usage is in the first block.

These changes have the effect of increasing the Residential share of the cost of service from 62.9% to 64.9%, and since the customer charge is set as noted above, the balance of the costs must be generated through an increase to the first block of the volumetric rates.

**Volumetric Rates if Fire Costs are recovered based on Meter Equivalents:** Page 2, column 2 of the Comparison of Proposed Rates Per Order shows the Alternative rate structure for the customer charge and the resulting volumetric charges, if the Public and Private Fire costs allocated to the customer charge are recovered based on meter equivalents. The rates filed in the Compliance tariff are shown in column 1 with the difference in column 3. The 5/8-inch customer charge in the Compliance Tariff was developed by dividing the Public and Private Fire costs to be recovered by the customer charge by the total number of customers X 12. The Alternative 5/8-inch customer charge is based on dividing the Public and Private Fire costs by meter equivalents and would be \$13.36. The effect of recovering fire costs based on meter equivalents is to increase the volumetric rate in the first block by \$0.1327 and the second block by \$0.0202. The third and fourth blocks remain the same as the Company is recommending no increase to these blocks due to Cost of Service indications.

**Allocation of Public and Private Fire costs based on number of Bills:** To calculate the customer charge for the Compliance tariff, the Company recommends recovering the costs for 50% of the Public Fire Costs and 12.5% of the Private Fire costs based on number of bills (number of customers X 12).

In the original filing, the Company calculated customer costs per 5/8-Inch meter per month using meter equivalents to recover all the costs related to Public Fire (which was included in the Costs Related to Meters). Customers benefit from Public Fire service commensurate with the size of their property. By recovering the cost based on meter equivalents, the Company was able to allocate costs to customers based on the relative size of the customer.

However, the Board has recommended allocating only 50% of the Public Fire costs and 12.5% of Private Fire costs to the customer charges and the remaining 50% of Public Fire costs and 12.5% of Private Fire costs to the volumetric charges. By allocating half of the recoverable costs to the volumetric charge, the Board is effectively charging the larger customers more as these larger customers will typically consume more water. Therefore, the balance of the costs should be allocated based on the number of bills as more costs have already been allocated to the larger customers through the volumetric rates. Recovering these costs based on meter equivalents would effectively be charging the larger customers twice based on their size. For example, a Commercial Customer with a 2-inch meter will be paying 8X the fire contribution to the customer charge due to customer charges being based on meter equivalents.