



2016 Cost of Service Study

Des Moines
Water Works

Water You Can Trust for Life

Cost of Service Study (COS)

More than just a bunch of numbers...

COS is an analysis of the cost to provide water service to different service areas and customer classes.



Cost of Service Study (COS)

We do it because:

- Different service areas have different costs
- We provide different levels of service: full service vs. wholesale
- To ensure we are collecting capital funds in our rates



2016 Cost of Service Study (COS)

- Costs increased
- Consumption also increased
- Costs per 1,000 gallons decreased

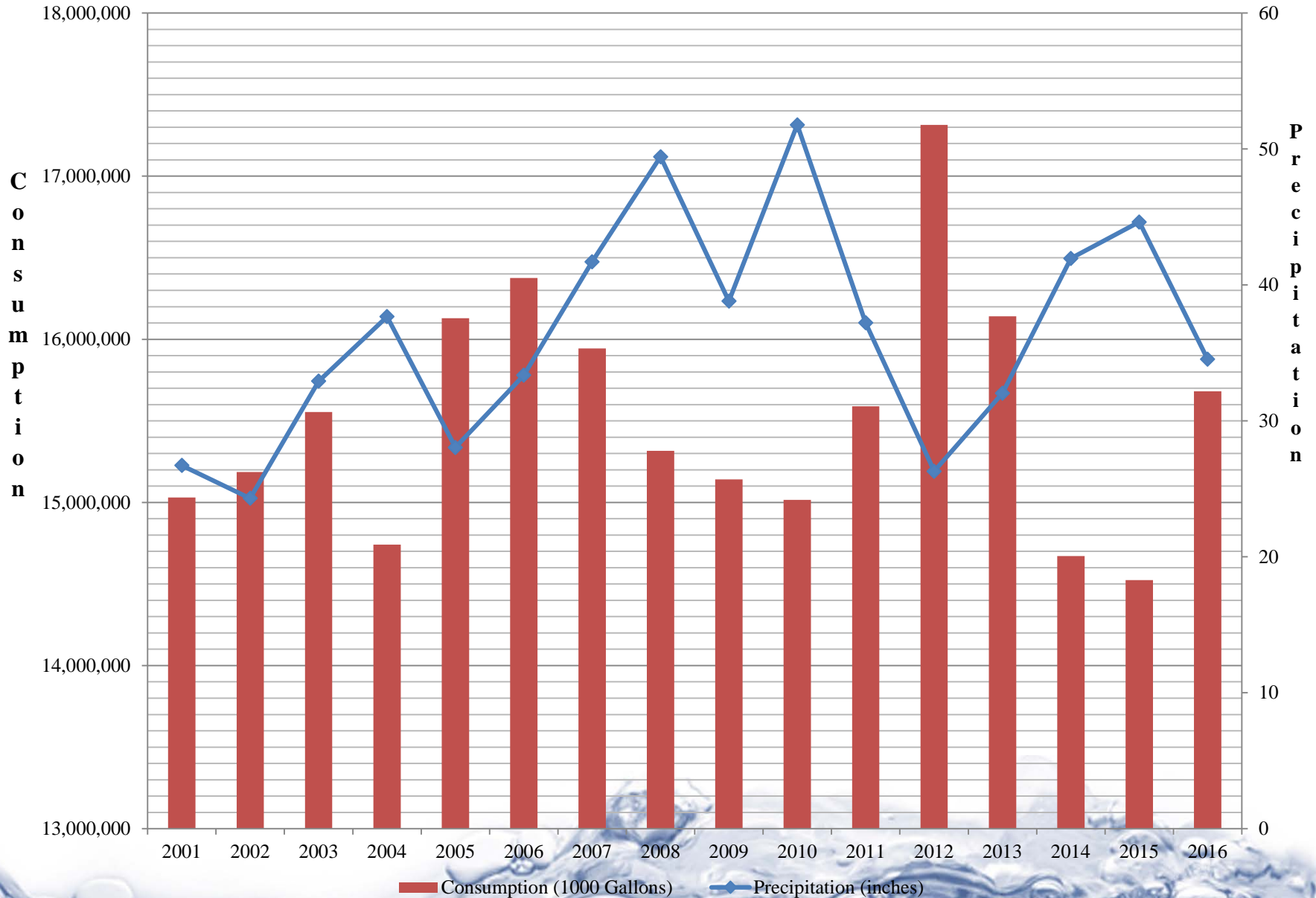


Consumption

- 15.4 billion gallons sold
- Increase of 7.4% over 2015
- Precipitation directly impacts consumption



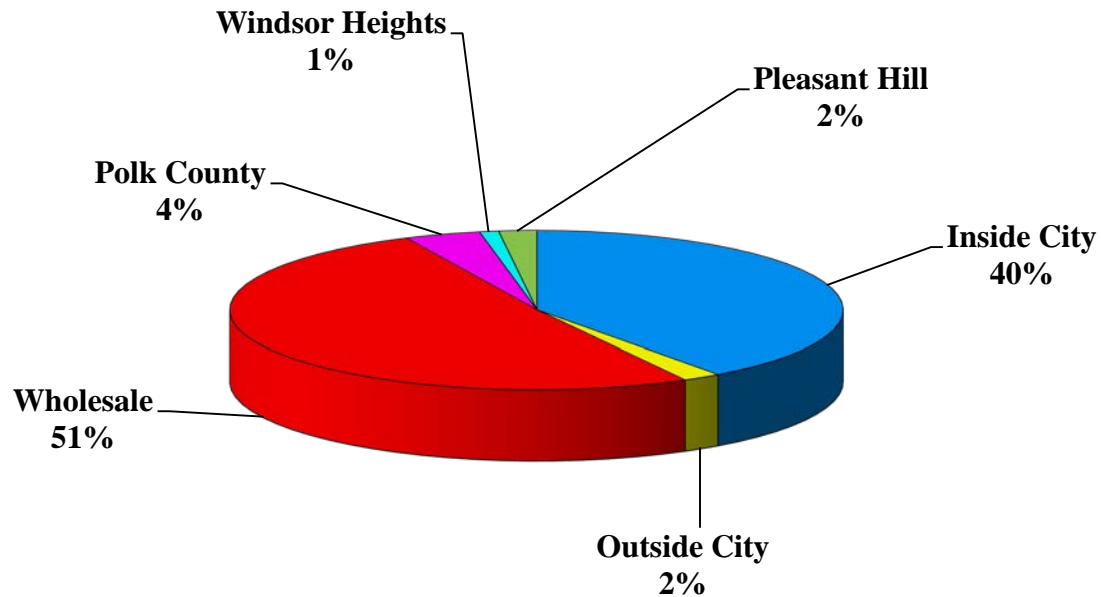
Historical Consumption vs. Precipitation



Consumption (1000 Gallons) Precipitation (inches)

Consumption – Who?

2016 Consumption



O & M Costs

- Total O & M Costs were 0.22% higher in 2016
 - Water Production costs increased 4.5%
 - Increase in residual hauling - \$1M
 - Also of note:
 - NRF costs were - \$630k (down from 2015)
 - Legal Fees – Nitrate lawsuit - \$400K (same as 2015)
 - Pipelines costs increased 4.7%
 - Increase in Main breaks from 205 in 2015 to 223 in 2016



O & M Costs

- Customer Related costs decreased 4.7%
- Administrative costs decreased 6.4%
 - Work comp decreased by \$220K
 - Flooding costs decreased \$367K



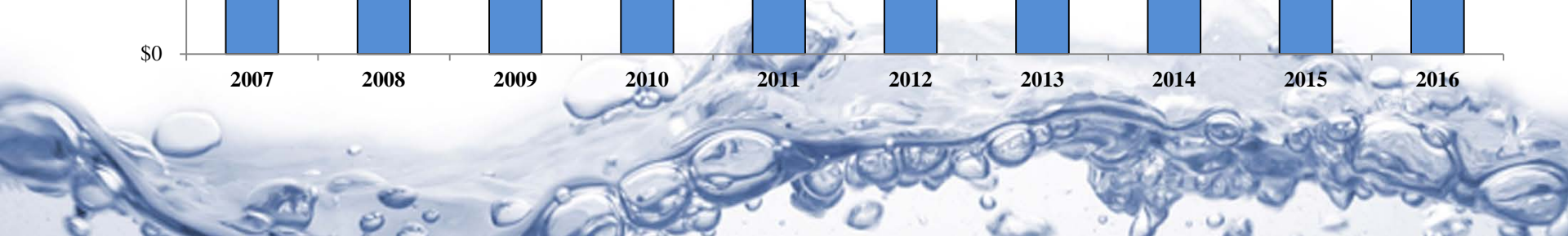
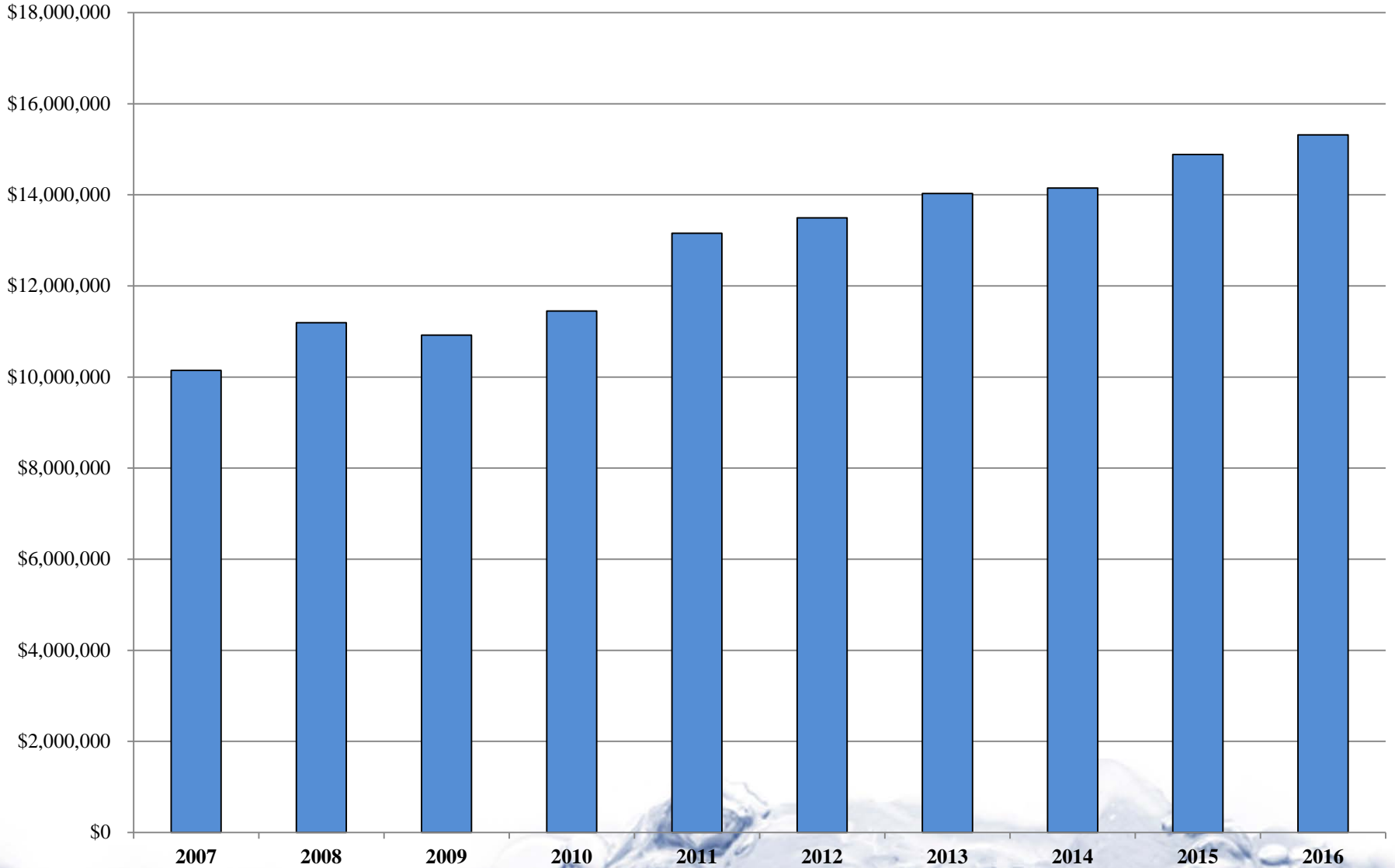
Replacement Cost Depreciation

- Replacement Cost Depreciation increased 2.9% to \$15.3 million
- RCD is 31% of total costs
- For DM Inside City, RCD is 34% of the total cost per 1,000 gallons
- For Wholesale, RCD is 25% of the total cost per 1,000 gallons

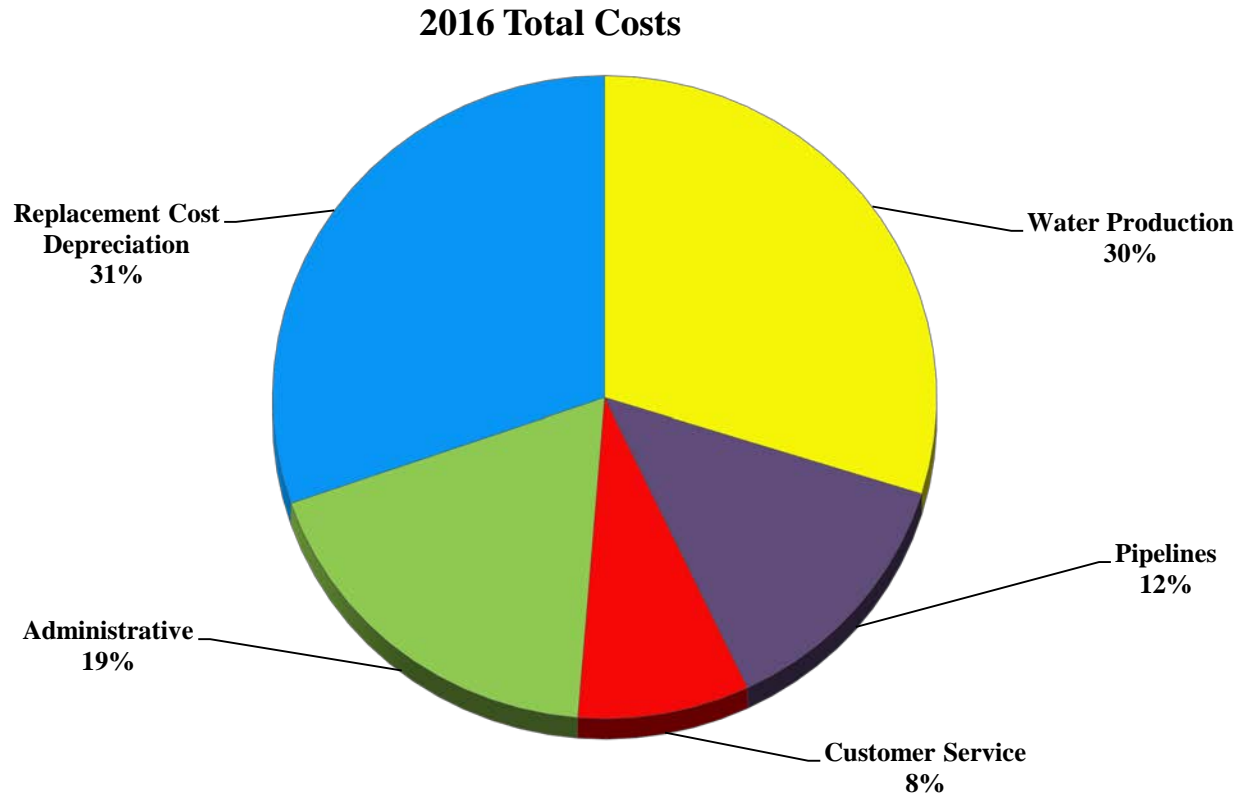


Replacement Cost Depreciation

2007 Through 2016

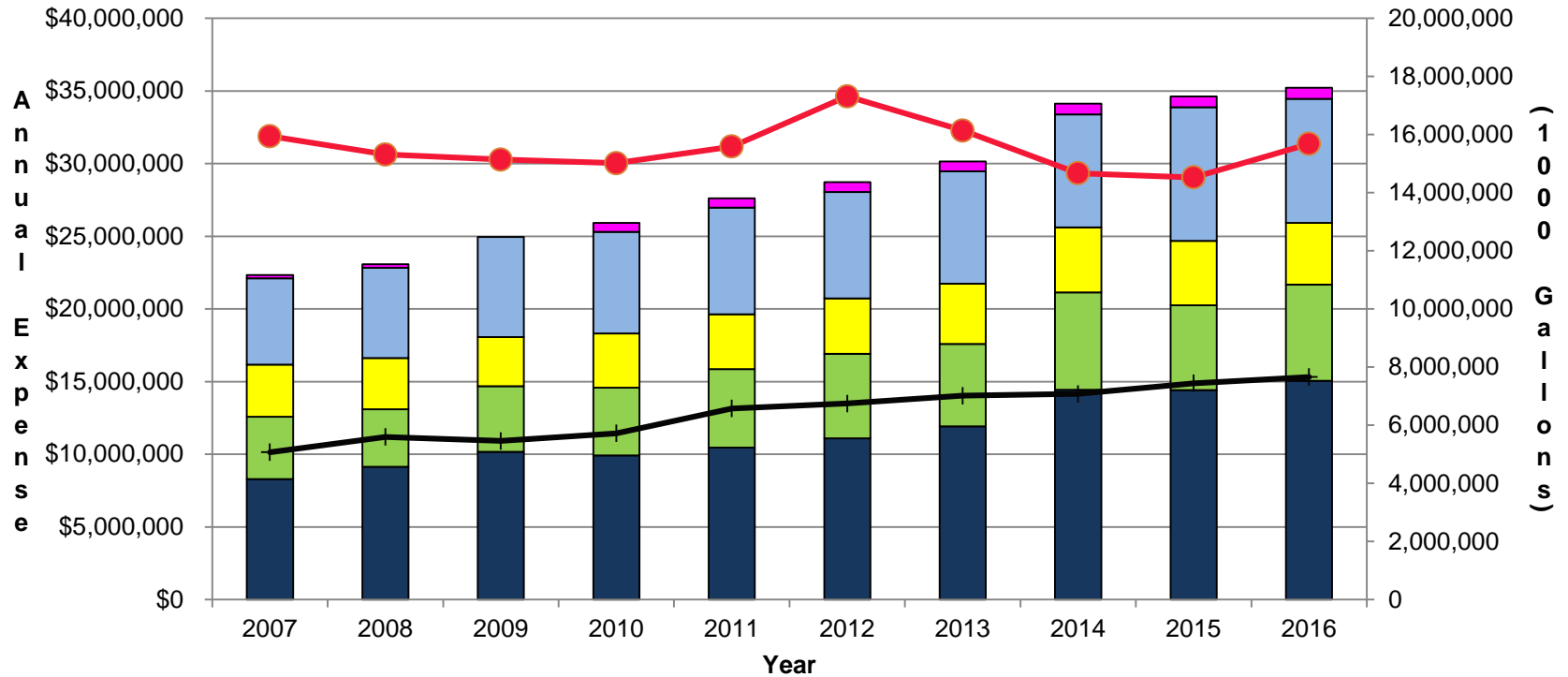


Total Costs

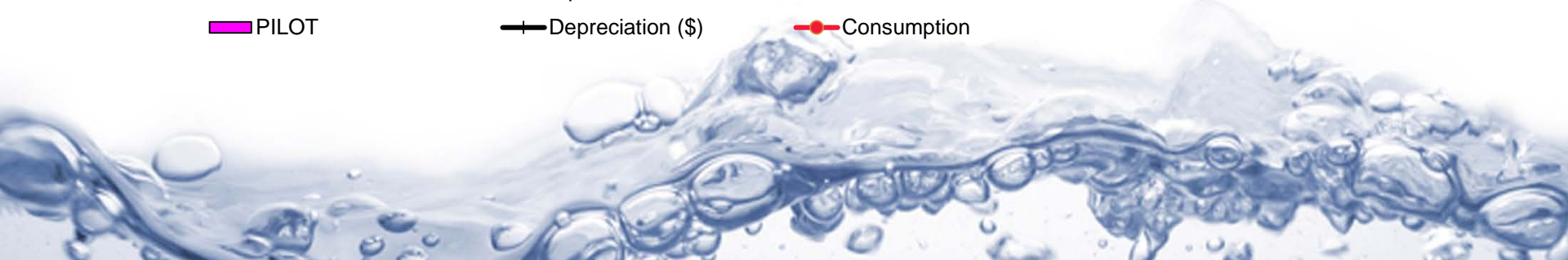


Total Costs

Historical Expenses vs. Consumption



- Water Production
- Pipelines
- Customer Service
- General & Administrative
- PILOT
- Depreciation (\$)
- Consumption



COSTS PER 1,000 GALLONS
Base-Extra Capacity Method

	Number of Accounts	2012	2013	2014	2015	2016	% Inc/(Dec) 15 to 16	Average Annual Increase	2016 Rate
Des Moines Inside	67,303								
Residential (Step 1)		3.01	3.32	3.82	4.04	3.90	-3.47%	7.39%	3.74
Commercial (Step 2)		1.92	2.18	2.58	2.71	2.58	-4.80%	8.59%	2.51
Industrial (Step 3)		1.45	1.63	1.99	2.06	1.98	-3.88%	9.14%	1.93
Des Moines Outside	1,185								
Residential (Step 1)		3.16	3.53	4.12	4.34	4.37	0.69%	9.57%	4.06
Commercial (Step 2)		2.22	2.50	3.00	3.09	2.92	-5.50%	7.88%	3.05
Industrial (Step 3)		1.57	1.79	2.21	2.27	2.08	-8.37%	8.12%	2.18
Wholesale	47								
Purchased Capacity		1.27	1.43	1.75	1.81	1.72	-4.97%	8.86%	1.68
With Storage		2.82	3.03	3.48	3.56	3.49	-1.97%	5.94%	3.66
Polk County	6,999								
Residential (Step 1)		5.11	5.85	6.58	6.64	6.00	-9.64%	4.35%	7.36
Commercial (Step 2)		2.92	3.03	3.52	3.64	3.34	-8.24%	3.60%	4.51
Industrial (Step 3)		2.35	2.59	3.08	3.15	3.04	-3.49%	7.34%	3.52
Pleasant Hill	3,080								
Residential (Step 1)		4.66	5.40	6.33	6.61	6.09	-7.87%	7.67%	6.85
Commercial (Step 2)		4.31	4.82	5.74	5.83	5.57	-4.46%	7.31%	5.78
Windsor Heights	2,081	2.88	3.38	4.26	3.84	3.80	-1.04%	7.99%	3.81
PCRWD#1	464		3.33	3.69	4.54	3.29	-27.53%	-0.40%	4.00
Berwick	220			5.20	3.74	4.02	7.49%	-11.35%	4.00
Runnells	182								
Water		4.25	5.21	4.66	5.66	5.15	-9.01%	5.29%	6.50
Sewer		3.84	5.22	4.28	6.71	8.23	22.65%	28.58%	7.05
Alleman	156	4.35	6.95	8.81	9.18	8.23	-10.35%	22.30%	7.25
Cumming	141	2.04	3.12	5.40	5.58	4.06	-27.24%	24.75%	6.39
Warren County	79								
Residential (Step 1)		10.96	11.07	12.80	12.21	12.52	2.54%	3.56%	13.79
Commercial (Step 2)		9.32	9.42	10.94	10.32	10.42	0.97%	2.95%	10.13

Proposed 2017 Rate Increases

- Rates implemented April 1, 2017 are generally in line with projected 2017 costs per 1,000 gallons
- Projecting forward – we expect continued increases in O & M costs



Proposed 2017 Rate Increases

- Rate recommendation discussed with F&A Committee in Sept: 7% for most service areas
- Board will act on recommendations in October



Next Steps

- Cost of Service Review
 - Engaged Raftelis Financial Consultants to review our current study and methodology
 - RFC has completed an initial review
 - Staff is working with RFC to determine next steps



Questions?

