

Utility Advisory Board

2018 Minority Report



Background

CBJ Resolution 2686 codifies CBJ Advisory Boards Rules of Procedures; Rule 6 calls for advisory board members that are not in agreement with an annual report submitted by the majority to submit a minority report to accompany the annual report.

Accordingly, a minority of Utility Advisory Board (UAB) members respectfully submit this document for the Assembly's review and consideration. This document affords the Assembly alternative viewpoints and recommendations to consider that are not contained in the majority report.

Context and Overview

The majority's primary recommendation to the Assembly is to approve annual 2.5% wastewater rate increases beginning July 2019 that would run through June 2024.

On the surface the rates may appear relatively modest. But in the context of previous increases and upcoming increases already approved by the Assembly,¹ the situation is not so benign. Upon conclusion of the majority's recommended increases, adoption without revision would impose a more than 22% cumulative increase upon CBJ ratepayers (January 2018 - June 2024). With only a slightly longer look back, majority-recommended increases would constitute increases exceeding 66% (January 2015 - June 2024).

We firmly believe adoption of multi-year rate increases is ill advised - dampening the exigency and impetus to revisit the decision and akin to kicking the rate reform can down the same road we've been travelling on for 15 years since the 2003 rate study. There's no better time than the present to begin doing something different than the way we've always done it.

Rather, we recommend the CBJ Assembly refrain from approving multi-year increases this year and until serious, longstanding structural deficiencies in our rates and rate-setting methodologies are properly addressed.

In recent years, Juneau ratepayers have largely acquiesced to the repeated across-the-board one-size-fits-all rate increases that they've been experiencing. Adopting multi-year rate increases constitutes a rinse-and-repeat approach. CBJ ratepayers are overdue for relief from CBJ's current outmoded rate structure.

Declining to adopt multi-year rate increases at this time will afford the UAB and CBJ Public Works time to properly evaluate CBJ's existing rate structure as well as policies with regard to system financing and other issues that materially affect rates. Issues that need to be addressed include:

- Rate Equity and Rate Structures based upon Cost of Service Allocations

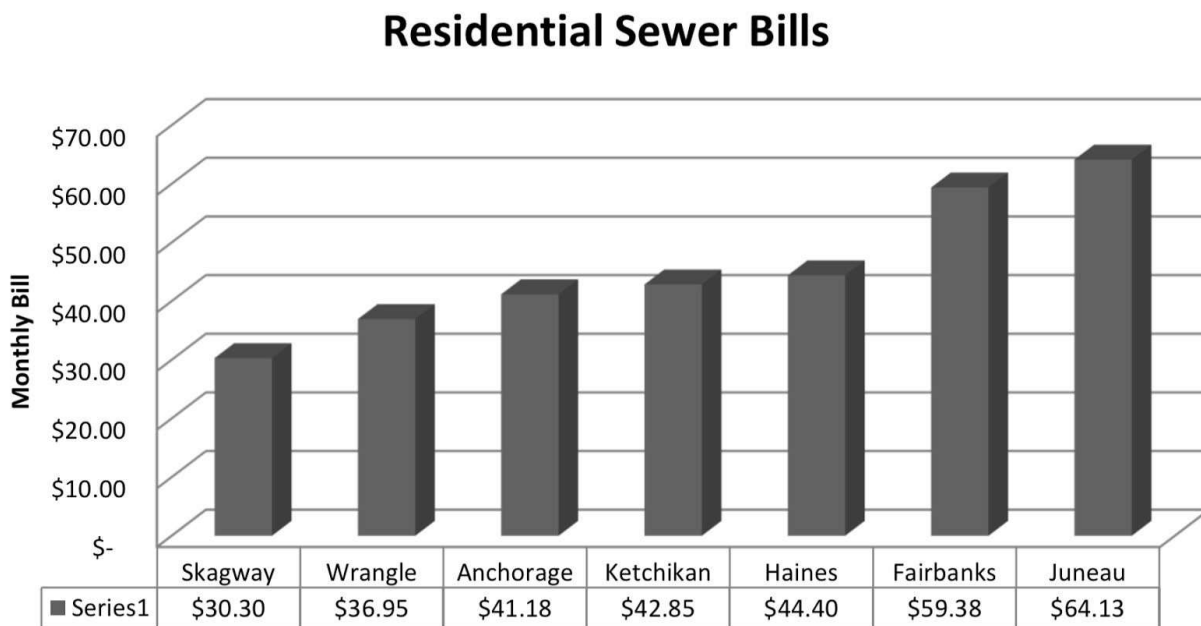
¹ The 2014 Assembly approved Ordinance 2014-36(b)(am) which will increase wastewater rates 8% effective July 1, 2018.

- Financing Capital Structure
- Capital Improvement and Replacement Program Levels
- System Replacement Funding

Once the UAB has properly examined areas of concern, we are hopeful to be able to make sound recommendations for the CBJ Assembly that will protect and significantly enhance the interest of CBJ ratepayers while still ensuring for a healthy utility system.

Rate Increases & Rate Comparisons

Unmetered CBJ residential sewer rates are the highest in the region:



Source: FCS Group Memorandum to Kirk Duncan, Public Works Director, November 11, 2014. ²

It is important to note that CBJ wastewater flat residential are now \$87.25 per month and increasing to \$94.23 per month effective July 2018, likely causing the regional disparity to increase.

After a long period of static rates, consultants to the CBJ Public Works Department recommended one-time across the board rate increases for the 2003 rate cycle, followed by a transitioning to cost of service-based rates.

² <https://tinyurl.com/FCS-Duncan-Memo>

In the 15 years since that time, no observable progress has been made towards this end. Rather, the UAB has only recommended across-the-board rate increases applied to all users, with absolutely no regard to relative system burden that our diverse ratepayer groups constitute and has not adopted a work plan or timeline to transition to cost of service-based rates. The end result is that low burden commercial ratepayers subsidize high burden users.

Potential areas of concern that warrant further analysis are not limited to commercial users, however.

Residential Disparity

An informal random sampling of metered residential homeowner association (HOA) utility bills indicate the average HOA unit pays significantly less for water and sewer while unmetered households shoulder a significantly larger burden.

	Typical HOA unit		Flat Residential ³	<i>Flat Residential \$ Premium</i>
Water	\$6.82	x 4.98 =	\$33.96	\$27.14
Sewer	\$25.34	x 3.44 =	\$87.25	\$61.91
Household Waste	\$4.00	x 1.00 =	\$4.00	\$0.00
Sales Tax	<u>\$1.61</u>	x 3.89 =	<u>\$6.26</u>	<u>\$4.65</u>
Monthly Bill	\$37.77		\$131.47	\$93.70

Commercial Inequity & Relative Competitiveness

Metered CBJ commercial users are charged the same rate regardless of the content of their wastewater. CBJ commercial metered rates have become uncompetitive with Anchorage, whose wastewater tariff utilizes a sliding rate relative to customers' estimated discharge strength as a proxy for charging relative to the system load that disparate ratepayers impose onto the system.

³ CBJ Unmetered Residential Rates as of July, 2017

Estimated Discharge Strength ⁴	Anchorage Usage Charge ⁵ per 1000 gal	Juneau Volume Charge ⁶ per 1000 gal
Low	\$5.08	\$12.53
Medium	\$6.75	\$12.53
High	\$7.88	\$12.53

Geography and unique operating challenges of Juneau aside, the Assembly should be provided with periodic regional comparisons when contemplating rate increases and consider whether CBJ rates have become a deterrent for business investment within CBJ.

Not enjoying the captive customers that CBJ's utilities have, water-intensive businesses with a high sensitivity to rates do not have the luxury to simply pass along the Assembly's annual rate increases without facing a significant risk of losing business. Repetitive increases result in deteriorating operating margins for businesses with rate sensitivity — and at some point investing capital in Anchorage — or any other city besides Juneau — eventually becomes preferable.

Conclusion

CBJ Water and Sewer Utilities are valuable and essential infrastructure that must be protected, safeguarded, and properly managed. As with any such monopoly, those who oversee delivery of essential services have a duty to ensure services are delivered to ratepayers in a responsible manner.

⁴ The Anchorage Wastewater Utility charges differentiated rates based on the following monitored or estimated wastewater loadings: Low (wastewater loadings \leq 275 mg/liter), Medium (wastewater loadings $>$ 275 mg/liter but \leq 450 mg/liter) and High (wastewater loadings $>$ 450 mg/liter).

⁵ Anchorage rates (as of January, 2018); excludes \$13.54 customer charge. Anchorage rates have been approved on an interim basis by the Regulatory Commission of Alaska (RCA) and are refundable should the RCA rule the rates are not justified. Juneau's water and wastewater utility rates are not subject to RCA review or approval as it has a provisional certificate of public convenience and necessity. CBJ is not subject to RCA jurisdiction as there are no competing water or wastewater cooperatives operating with CBJ.

⁶ Juneau volume charges effective July 2018. Does not include additional base cost of \$94.23; unadjusted for 4,000 gallon monthly allowance.

Year-after-year of across-the-board, one-size-fits-all rate increases has culminated in ratepayers suffering harmful unintended consequences and exasperated the inequity said rates cause to the various classes of ratepayers.

We recommend the CBJ Assembly refrain from approving multi-year rate increases for this year and revisit the issue next year after receiving the 2019 recommendations of the UAB.