

IBA Review of UCAN Proposal for an Independent Water Rate Consultant

IBA Report 17-06

Environment Committee, Item 4
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Independent Budget Analyst



Background

- Environment Committee heard a proposal in October, 2016 from UCAN to authorize the IBA to hire an independent water rate consultant to review PUD Reviews of Funds.
- UCAN Proposal was in response to the multi-year schedule of water rate increases approved by City Council in 2015.

January 1, 2016	July 1, 2016	July 1, 2017	July 1, 2018	July 1, 2019
9.8%	6.4%	6.4%	5.0%	7.0%

UCAN Proposal

- The UCAN Proposal has 6 parts:
 1. The IBA be authorized to hire as a consultant a rate design expert, with the mission of seeking the lowest possible water rates consistent with safe and reliable service.
 2. The consultant have access to all relevant PUD information.
 3. The IBA be given sufficient resources to consult any necessary independent subject matter expert to provide additional information and advice to Council and IROC regarding Cost of Service Studies and rate design issues.
 4. The consultant be able to interact with PUD officials when they appear before IROC and the City Council.
 5. The consultant be able to present its findings to IROC and the City Council.
 6. The scope of work for a consultant should include review of the two Reviews of Funds PUD committed to during its last rate case.

Discussion of UCAN Proposal – Scope of Work

- Scope of Work for a consultant to evaluate Cost of Service Studies (COSS) and/or Reviews of Funds both would include analysis of PUD information, interactions with PUD staff, IROC, Council, and presentations to IROC and the City Council.
- Review of a full COSS would include analysis of PUD's programmatic and capital needs and goals, and assumptions regarding water costs and water demand.
- Analysis of a Review of Funds would be more limited. Reviews of Funds will consist of a review of actual revenues, costs, and expenditures, and evaluate those against projections from the last COSS.

Discussion of UCAN Proposal - Costs

- Based on experience of other jurisdictions, costs of a consulting firm to review a full rate case or Cost of Service Study range between \$200,000 and \$400,000.
- Costs associated with an analysis of a Review of Funds would be slightly less - \$150,000 to \$300,000.
- An individual consultant may be more affordable than a larger firm; a cost range of \$50,000 to \$150,000 for analyses of the reviews of funds could be expected.

Discussion of UCAN Proposal – IBA Comments

- Additional review and expert analysis of future COSS information and recommendations could be helpful for Council in making rate-setting decisions.
- Consultant review of Reviews of Funds would provide limited benefits.
 - Reviews of Funds are smaller in scope, and do not include an analysis of PUD's programmatic and capital needs, or cost and demand assumptions and projections.
 - Less expertise is necessary to analyze the Reviews of Funds, as the Reviews are largely comparisons of actual revenues and expenses against projections from the last COSS.
- IBA therefore does not recommend hiring a consultant to analyze the Reviews of Funds.

Additional Considerations

- Regardless of decisions regarding a consultant, Council, IROC, and public oversight of utility rate setting could be enhanced in additional ways.
 - Future PUD COSS consultant contracts could require the consultant to meet with Council, IROC, and stakeholders more proactively, and to receive input from those entities.
 - Council could adopt a Council Policy that requires PUD to provide requested information and/or forecasting models upon request, and to include Council input during all phases of the rate-setting process.
 - Council should continue to be informed of progress in examining rate-design issues.

Recommendations

1. Consider authorizing the IBA to engage a consultant to review the COSS anticipated in advance of FY 2021, with funding to be provided or reimbursed from the Water Utility Operating Fund.
2. Request PUD include additional Council and IROC outreach as part of the scope-of-work for future COSS consultant contracts.
3. Request PUD and the IBA work with appropriate City staff and stakeholders to develop a Council Policy or Ordinance that requires increased transparency and access to information during future rate cases.
4. Request PUD provide an update on its evaluation of the existing tiered rate structure.