



# Kansas City Board of Public Utilities

Water Cost of Service Rate Study  
June 15, 2022

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# Black & Veatch Corporation

 <p><b>120+</b> Offices</p>	<p><b>\$3.3B</b> 2021 Revenue</p> <hr/> <p>Founded <b>1915</b></p>	<p>Projects on</p>  <p><b>6</b> Continents</p>
<p><b>&amp;</b></p>  <p><b>8,000+</b> Professionals</p>	<p>One of the largest employee-owned companies in the U.S.</p> <p><b>with</b></p> <p>The size and experience to achieve your goals</p>	<p><b>7,000</b></p>  <p>Active Projects Worldwide</p>

# Black & Veatch Management Consulting

BVMC brings a diverse offering of consulting services including:

- Financial
- Process and Technology Solutions
- Asset Management
- Cost of Service / Rate Design
- Business Process / Workflow Analysis
- Utility Implementation



# Agenda

- Project Understanding
- Rate Study Best Practices
- Rate Study Process & Results

# Project Understanding

Perform water rate study that will accomplish the following:



Establish operating and capital financing plans that fully fund activities



Perform a cost of service analysis to determine if cost allocations are fair and equitable among customer classes



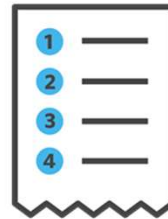
Review the existing rate structure and design proposed rates that provide adequate revenues

# Rate Study Best Practices

# Industry Financial Planning / Rate Setting Best Practices



What are the Industry's  
Rate Setting Best  
Practices?



Define **financial performance standards** that support financial resiliency



Develop annually a 5 to 10 year **financial plan** to achieve financial performance



Perform a **cost of service** study review every 3 to 5 years



Establish rates to ensure **self-sufficiency** to meet all revenue requirements

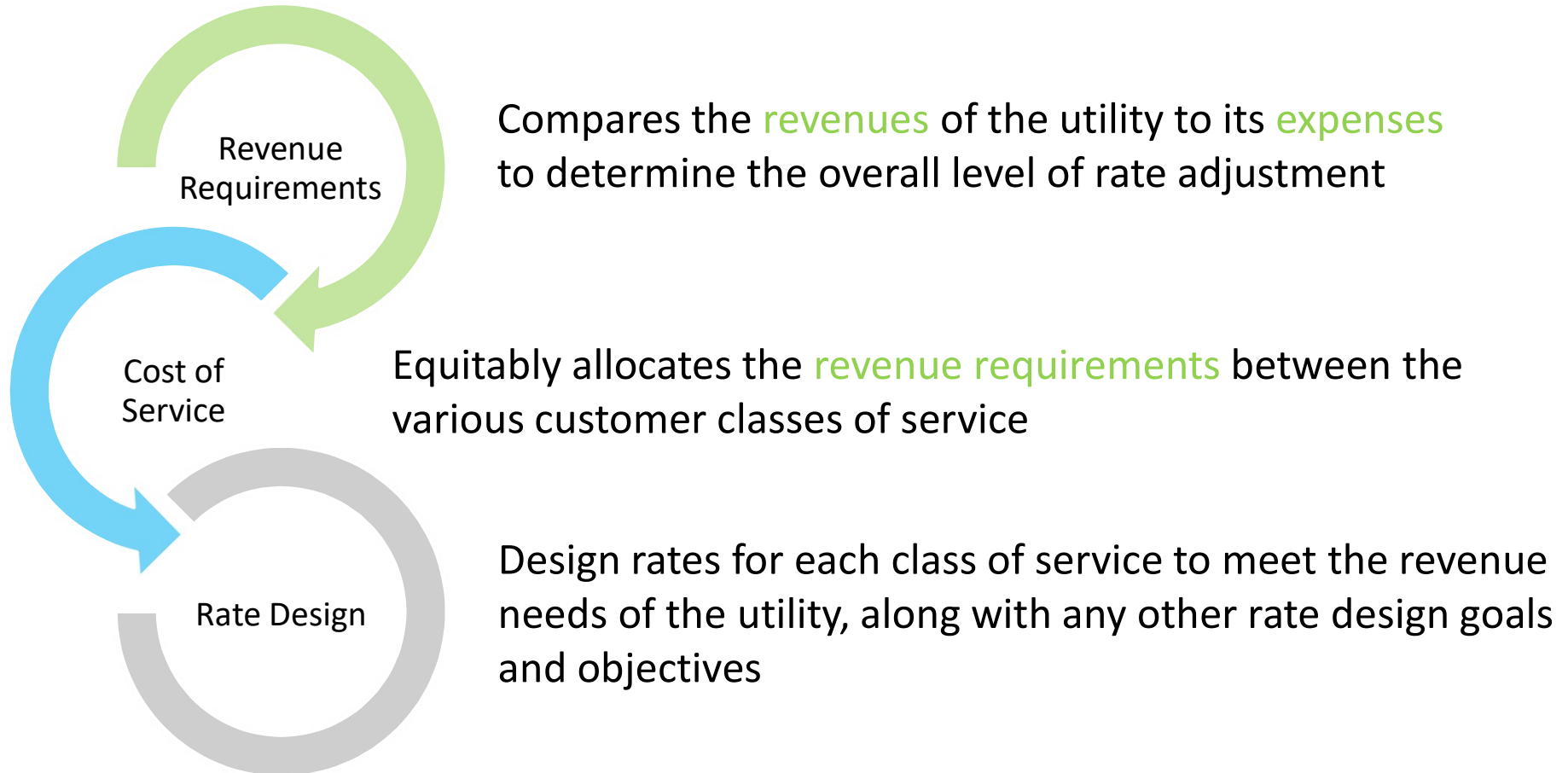
# Rate Study Process & Results



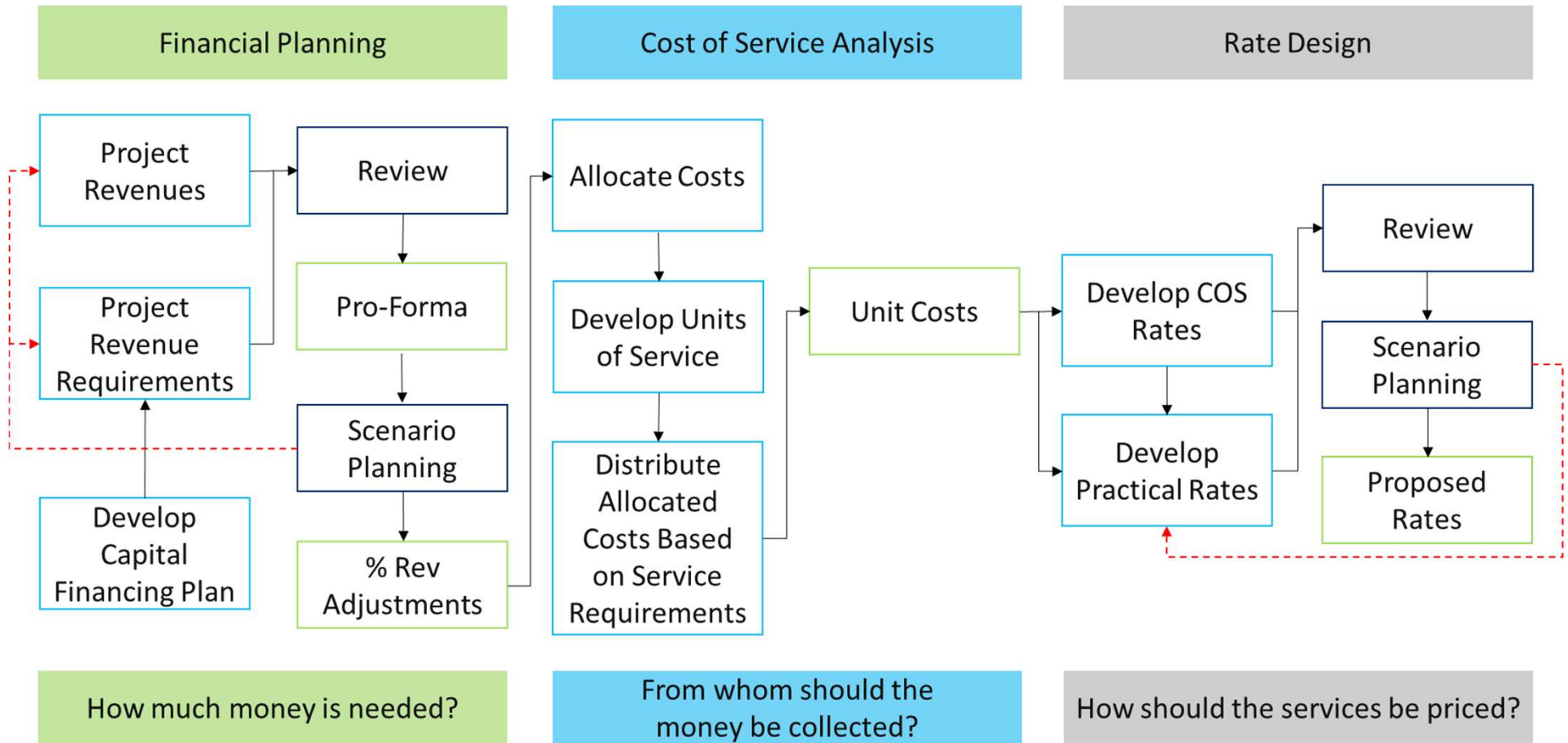
# Cost of Service Focus

To **match**  
the costs of providing service  
to individual customer classes  
and  
to **design**  
rates to equitably recover costs

# Building Blocks of Rate Setting



# Rate Making Process



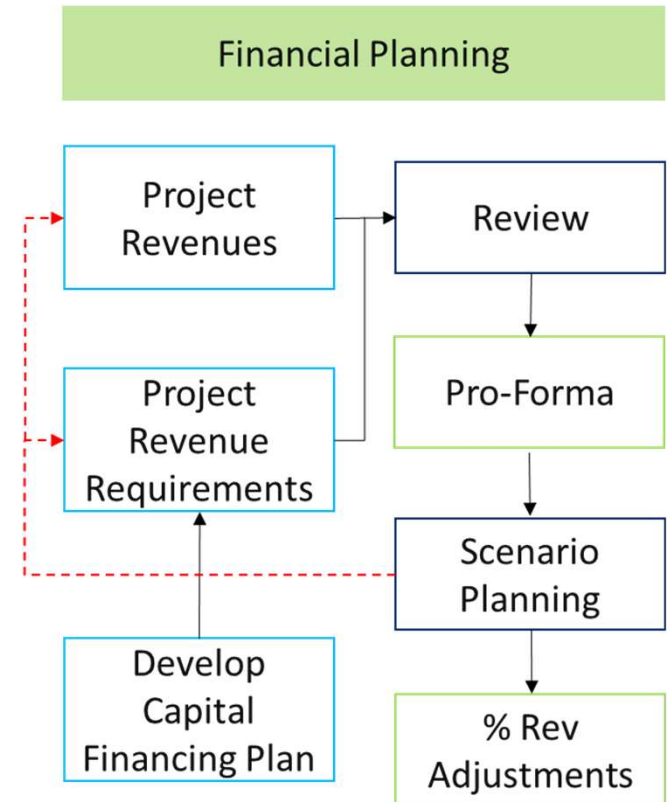
# Financial Planning

- **Objective:**

- Provide adequate funding for future utility operating and capital program needs
- Set a path for timely revenue adjustments

- **Considerations:**

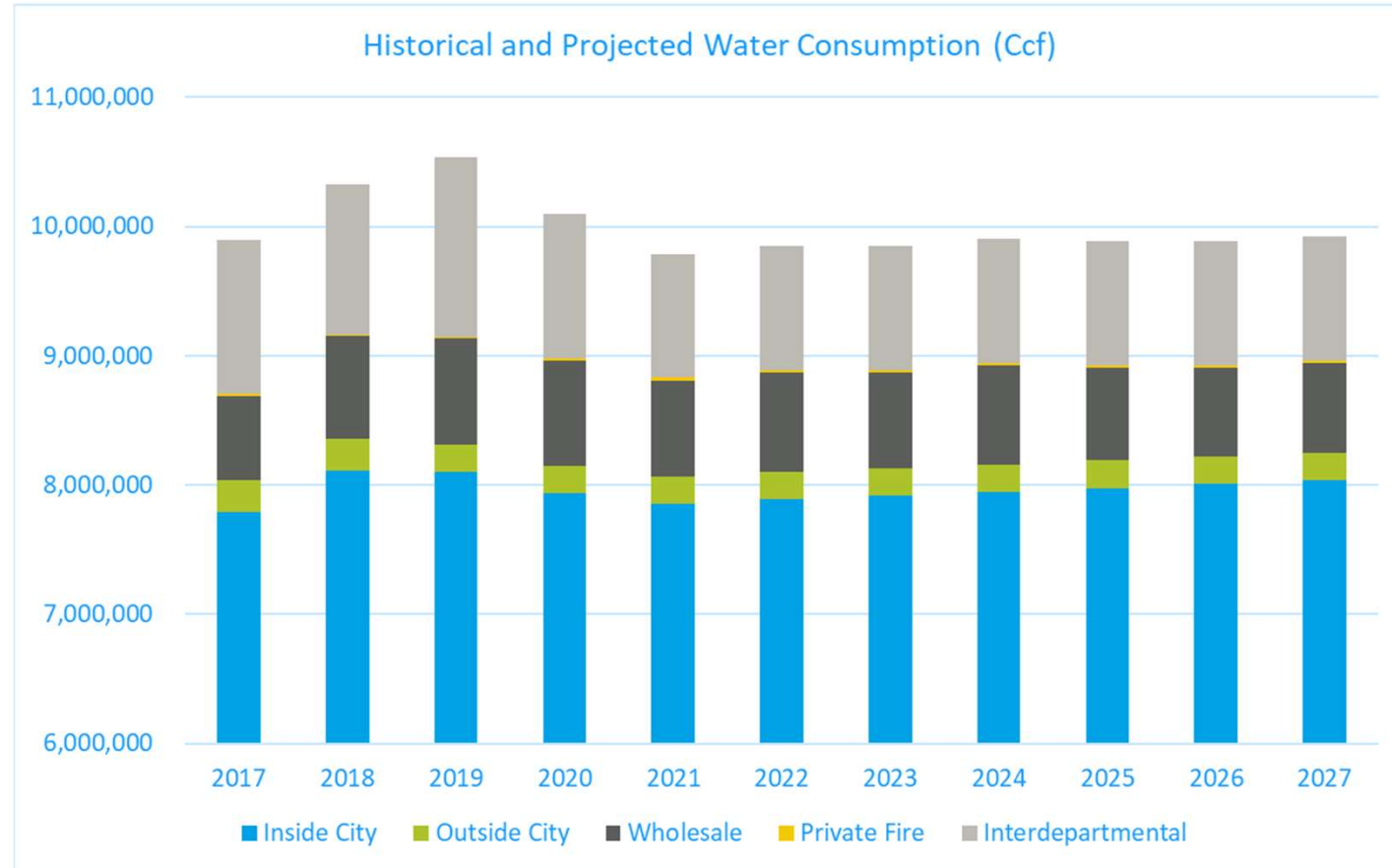
- Factors that impact revenue generation
- Factors that impact revenue requirements
- Appropriateness of operating and capital reserves
- Financial performance targets to be achieved



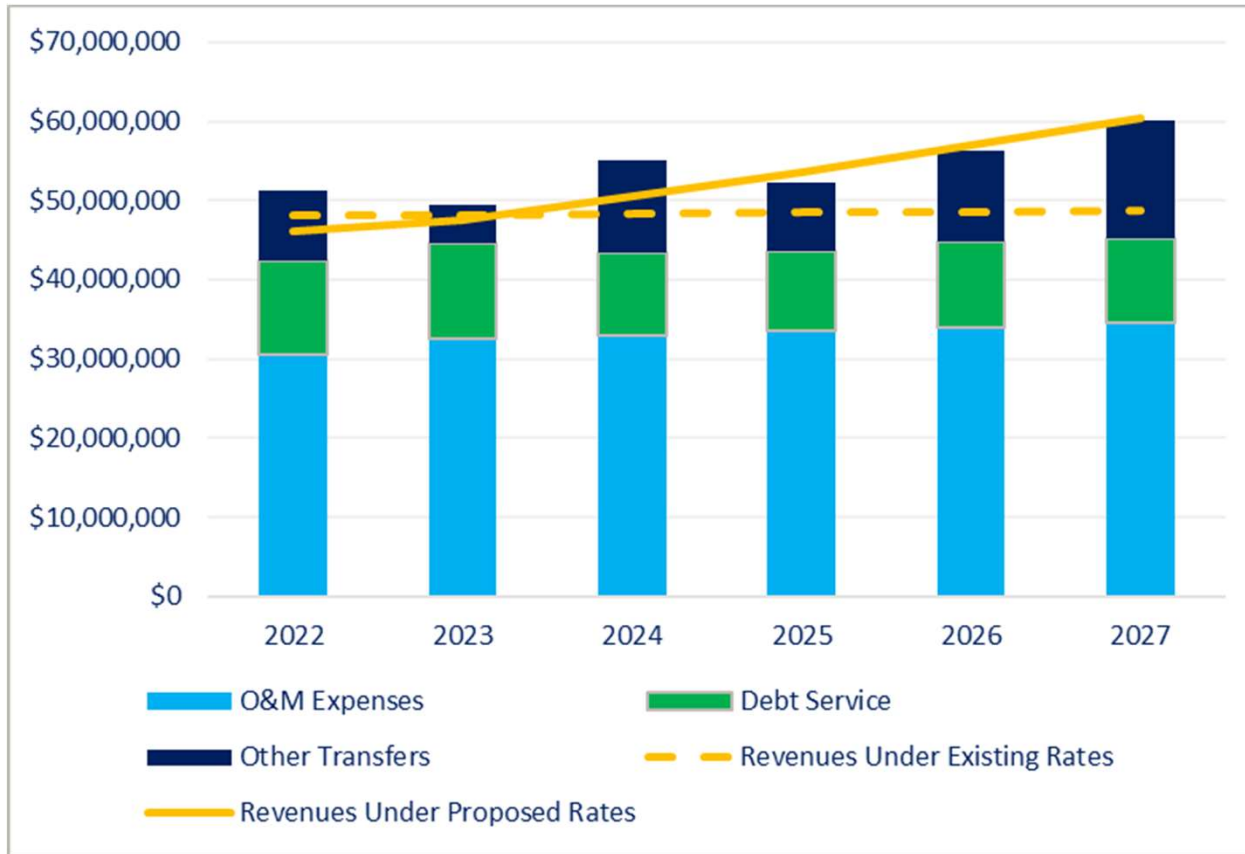
**Benefit to You:** An optimized Financial Plan that allows you to understand the impacts of Operating and Capital Requirements on Existing Rates

# Projection of Water Consumption

- Water consumption declined starting in 2020 due to COVID-19
- Future consumption is projected based on patterns consistent with 2019 - 2022 history
- Projected Wholesale customer consumption reflects known future changes with Bonner Springs, Suburban Water, and Tonganoxie.



# Water Revenue and Revenue Requirements

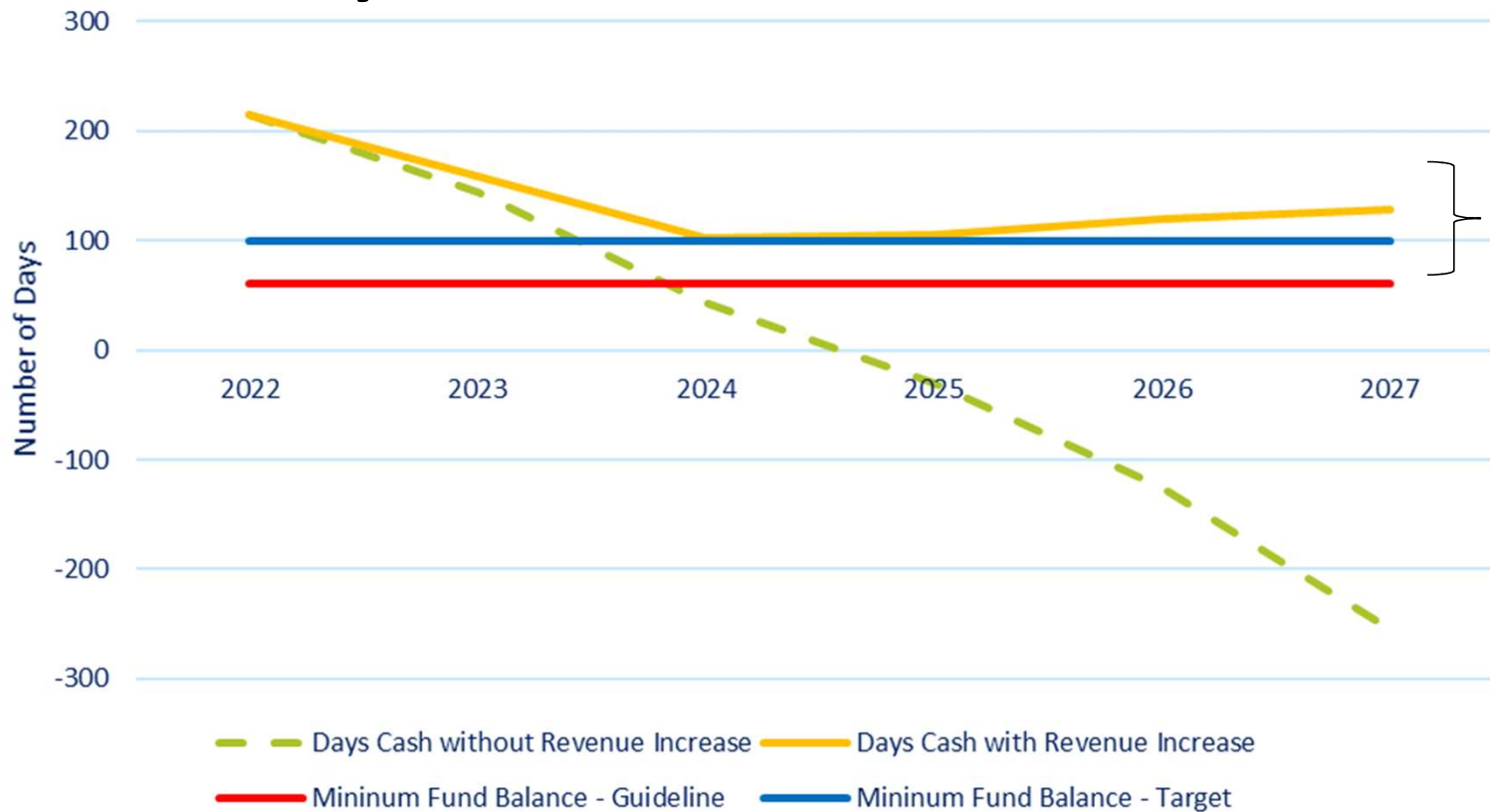


Indicated Revenue  
Increases:

- 7/1/2023 – 6.0%
- 7/1/2024 – 6.0%
- 7/1/2025 – 6.0%
- 7/1/2026 – 6.0%
- 7/1/2027 – 6.0%

Annual increases will allow the utility to fully fund the proposed revenue requirements.

# Water Utility Fund Balance



Drawdown of funds on hand from 2022 – 2024 allows for small, annual increases to maintain target fund balance

# Cost of Service Methodology

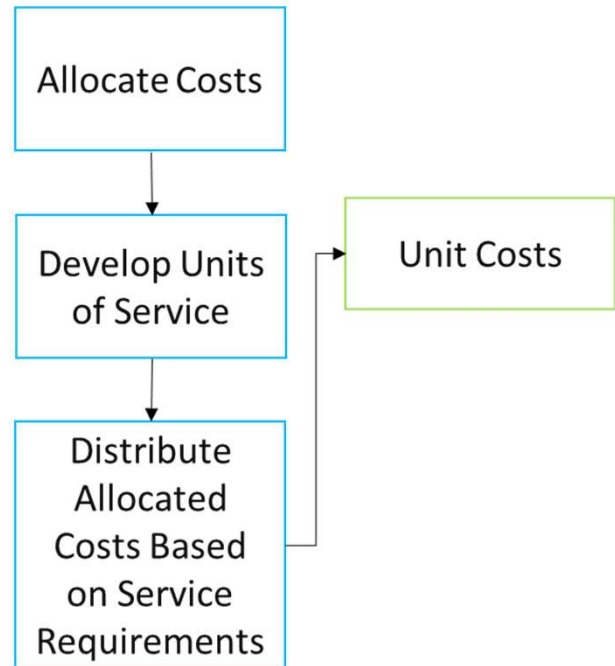
- **Objective:**

- Recognize the cost-of-service responsibility for each customer class

- **Industry Accepted Methodologies:**

- American Water Works Association, Principles of Water Rates, Fee and Charges
- Water Environment Federation, Financing and Charges for Wastewater Systems

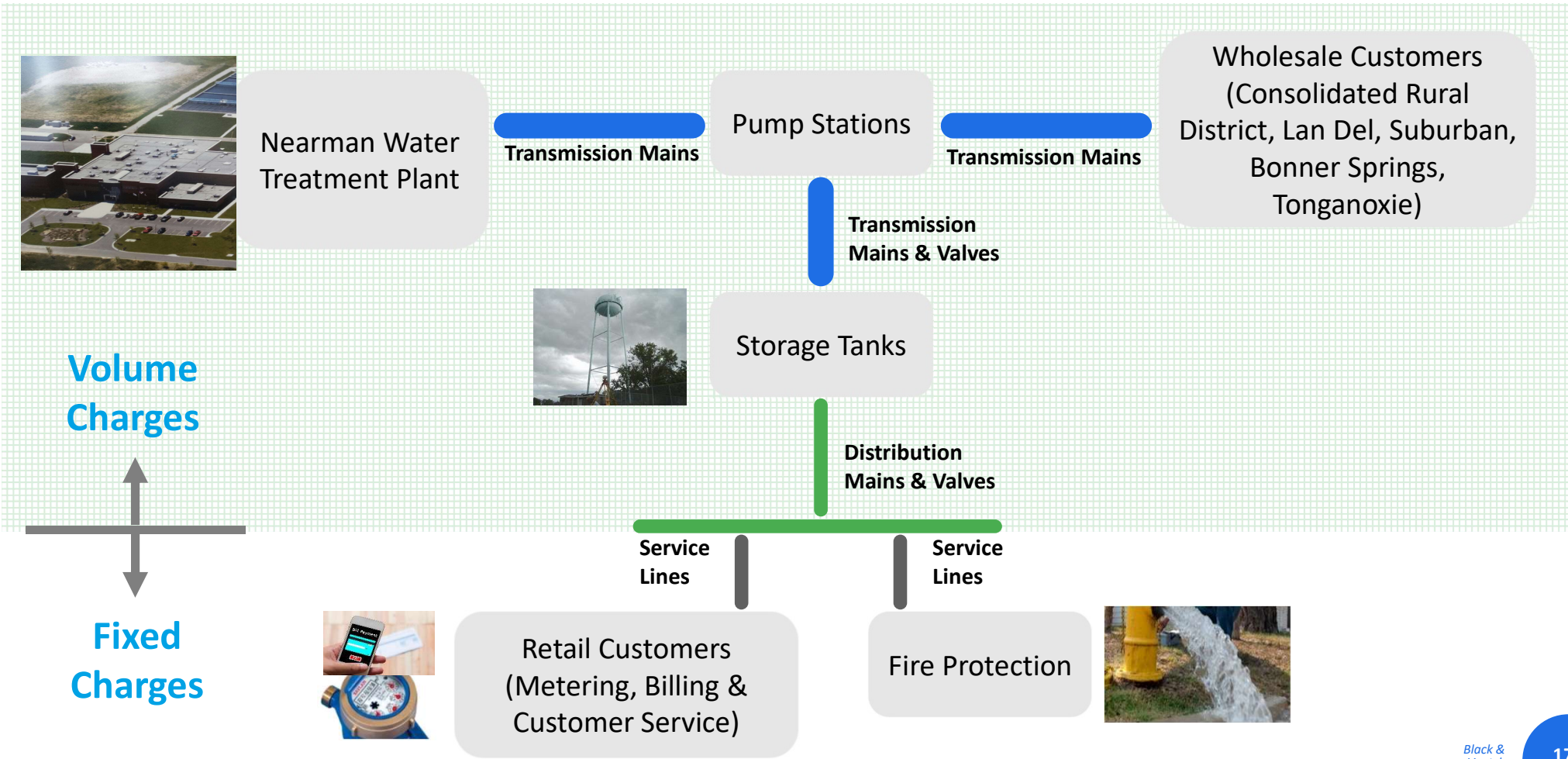
## Cost of Service Analysis



**Benefit to You:** An equitable and defensible approach to allocate costs amongst all customer groups served by you



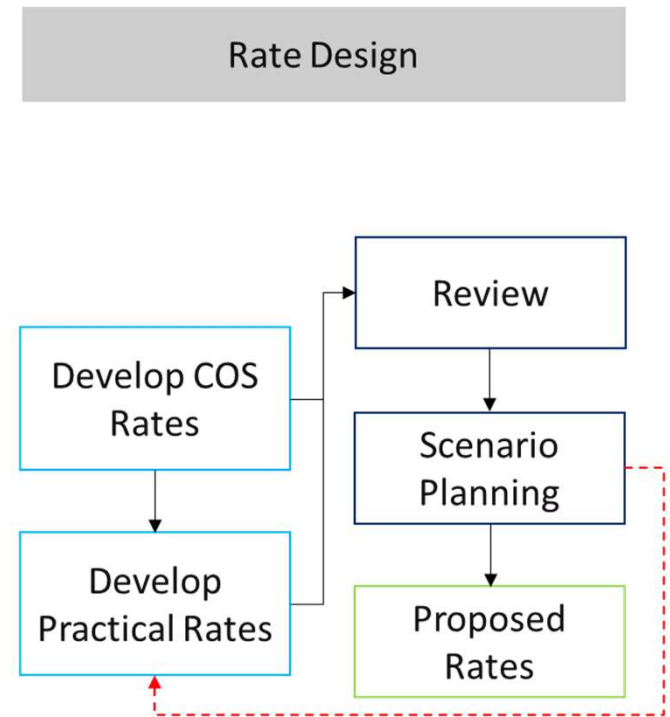
# BPU's Water System



# Rate Design

## • Rate Setting Principles:

- Equitability
- Revenue Stability
- Provides Appropriate Price Signals
- Recognizes Customer Usage Patterns & Demands
- Easy to Understand and Administer
- Customer Acceptance
- Consistent with City Policies
- Legally Acceptable / Defensible



**Benefit to You:** A schedule of proposed rates that are defensible, appropriately recover costs, and easy to understand by stakeholders

# Proposed Monthly Customer Charges – July 1, 2023 – July 1, 2025

- **Retail Customers**

- 94% of retail customers have a 5/8" meter
- Cost of Service indicates no increase in the 5/8" monthly customer charge
- Approximately 0.2% annual increase in the 5/8" minimum monthly bill (includes 10 cubic feet)

- **Fire Protection**

- Cost of Service indicates no increase in the monthly customer charge

- **Wholesale Customers**

- Cost of Service indicates no increase in the monthly customer charge

# Proposed Volume Charges – July 1, 2023 – July 1, 2025

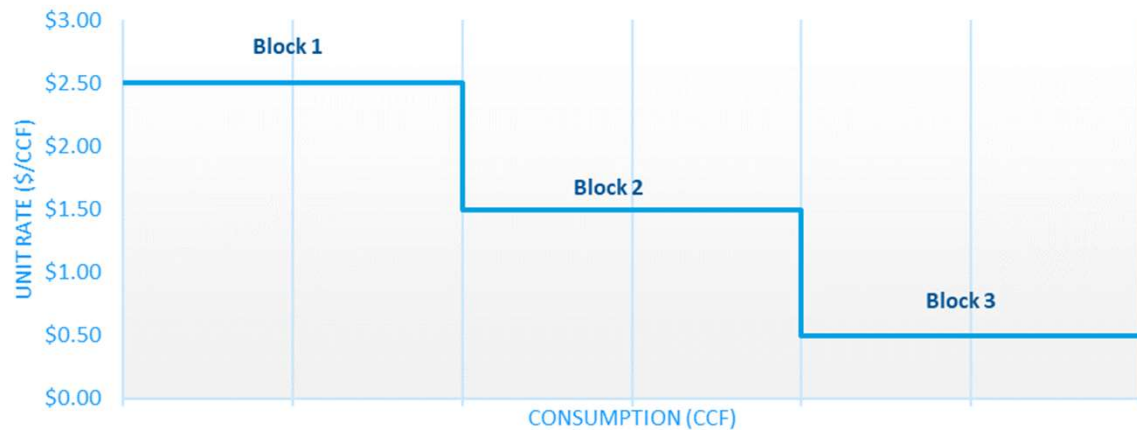
- **Retail Customers**

- Approximately 8.2% annual increase in the volume charge
- No change in rate structure

- **Wholesale Customers**

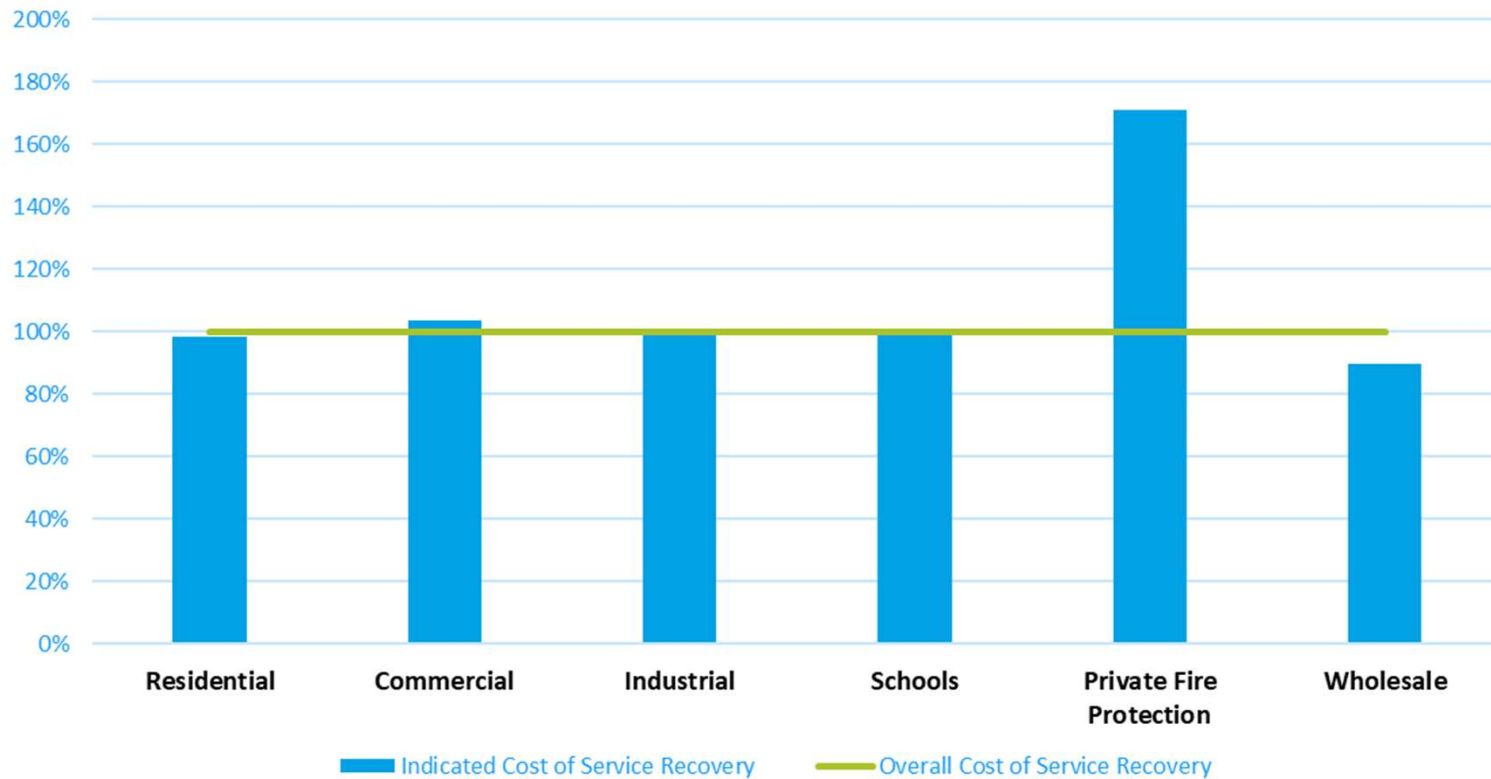
- 6.0% annual increase in the volume charge

Declining Block  
Example

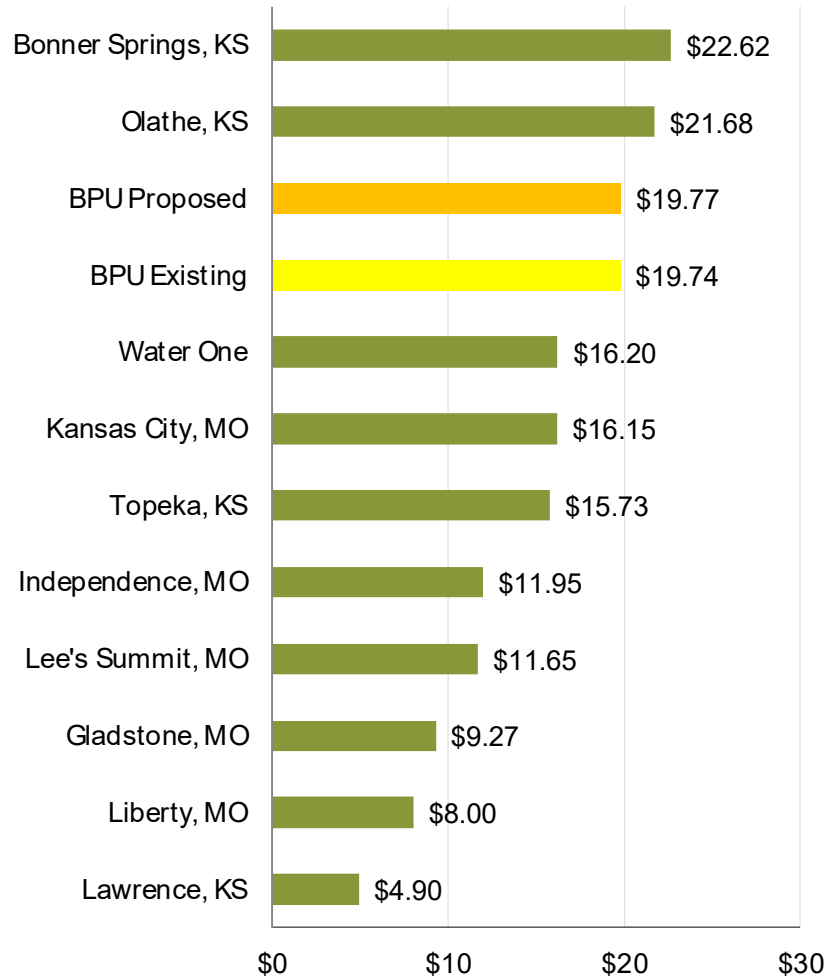


# Impact of Rates on Customers for Test Year 2023

Revenue as Percentage of Cost of Service

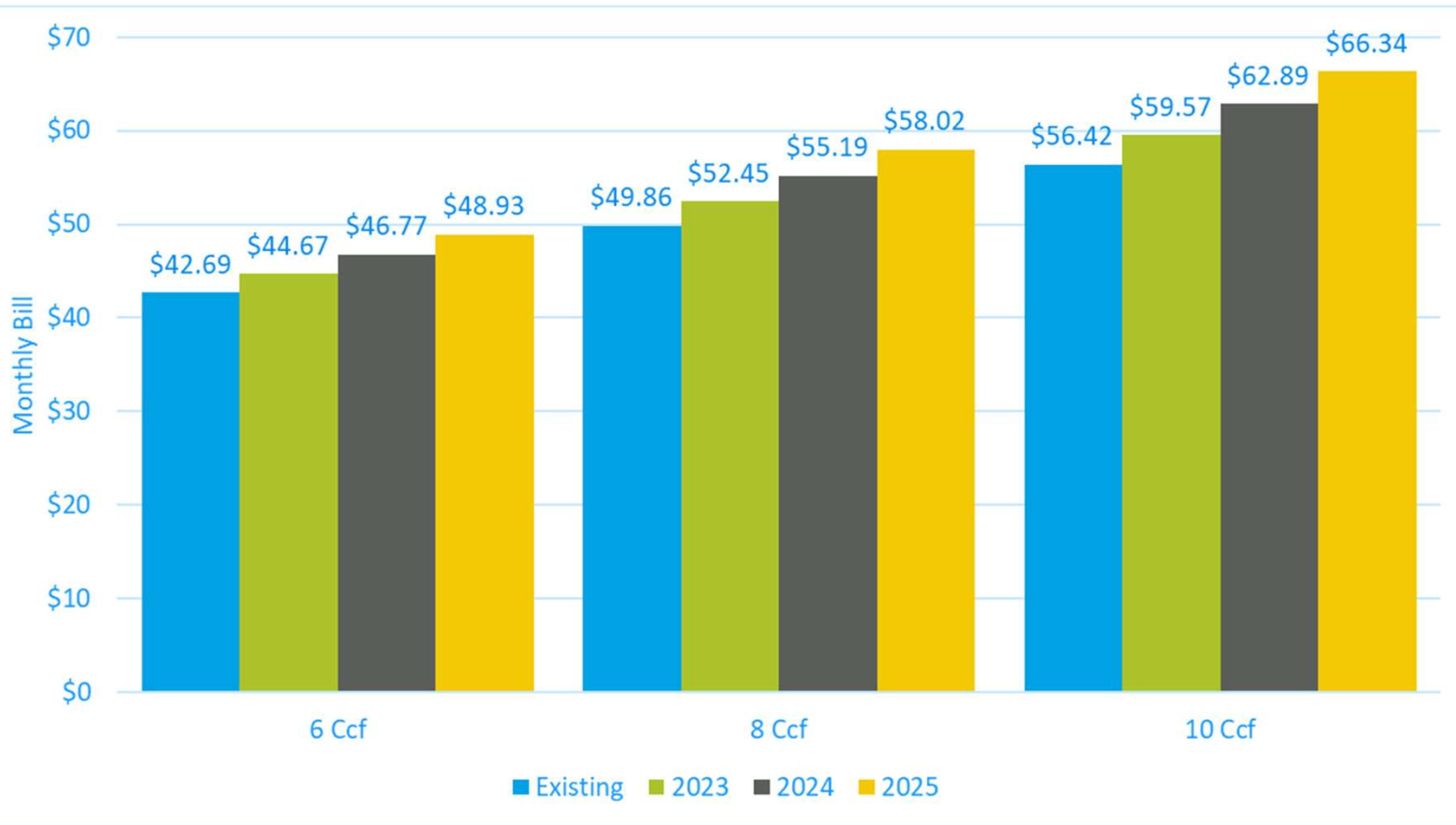


# July 1, 2023 Typical Bill Comparison – No Water Usage



- Assumes 5/8" Meter Size and minimum usage requirement, if applicable
- Does not reflect potential future increases in 2023 for comparison communities
- Monthly bills exclude PILOT/taxes

# FY 2023 Typical Bill Comparison – Retail Customers



- 66% of residential outside the City use 7 Ccf or less
- 74% of residential inside the City use 7 Ccf or less
- Monthly bills exclude PILOT/taxes

# Summary and Conclusions

## Why are these rate increases recommended?

- Water consumption decreased in 2020 and 2021, with only a slight increase in 2022
- Operation & Maintenance expenses have increased from 2021 to 2023
- The CIP needs to be completed to maintain the safety and reliability of the water system
- Multi-year increases are needed to maintain the target cash reserves

The existing rates that have been in place since 2013 have not kept up with decreasing water usage and increasing operating and capital costs





# Contact Us

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