



Executive Outline – 2005 Draft Rate Study
June 21, 2005

1. The methodology used in this study for development of cost of service and recommended rates is based on the Commodity-Demand Method, Uniform Rates, as described in *American Water Works Association Manual M1, Principles of Water Rates, Fees, and Charges, Fifth Edition*. The professional judgments of the rate study author and water system management are used throughout the process to develop a final recommendation that is relevant for this specific water system.
2. In the Shelby County system, there are currently two classes of customer—Retail (customers served directly, primarily single-family residential and some small commercial) and Wholesale (customers that sell our water to others). There are currently 6 wholesale contract customers, not including the emergency service connections with Leeds and B’ham Water Works and currently 5,421 county retail customers. Our wholesale contract customers have currently 32,827 accounts.
3. We currently have in place a yearly adjustment in water rates that increases the rates each fiscal year according to the Consumer Price Index (CPI), All Urban Consumers, and South Region. The draft rate study assumes a rate increase now to take effect on October 1, 2005 and waiver of the applicable CPI rate increase until the new plant is on line and producing water. The rationale for this approach is that the rate study projects the associated categorical expense increases between today and the “target year” of 2008 in direct relationship with our current operational and historical expenses.
4. In this draft rate study, the water plant project is shown to be financed by State Revolving Fund loans and in-house funds.
5. Major assumptions made in the draft rate study:
 - a. The new rates become effective October 1, 2005.
 - b. Residential (Retail) growth rate of 44 new taps per month = 528 new taps per year.
 - c. Wholesale water sales growth rates of 6% for Pelham and Westover Water Authority, 4% for Sterrett-Vandiver Water Authority, and 0% for Alabaster; Calera constant usage at the contract minimum.
 - d. 2% earnings on reserves. If interest rates go up in the near future, income from reserves will increase and assist with debt service retirement.
 - e. Consumer Price Index increases are waived until the end of FYE 2008, and are estimated to begin in FYE 2009 at 2.1% per year.
 - f. Capital Recovery Fee is increased to \$1,500.00 per tap.
 - g. The Sanitary Sewer System will be sold in FYE 2005 for \$8.5 million. Combined with approximately \$12 million reserves on hand that have been generated by the sanitary sewer system, a total of approximately \$20.5 million will be used to pay the cost of the new water plant and transmission lines. **This represents \$20.5 million that the water customers will not have to pay through water rates.**

6. The recommended rates developed in the draft rate study are:
 - a. Retail minimum bill, 3,000 gallons, \$17.07 per month, and all usage over 3,000 gallons @ \$3.86 per 1,000 gallons.
 - b. Wholesale bill of \$1.84 per 1,000 gallons.
7. The staff recommends that the rate increase be phased in with equal annual steps over a four-year period as shown below:

| | Minimum Gallons | Minimum Charge, \$ | Usage Charge per 1,000 gal. | Wholesale Charge per 1,000 gal. |
|-----------|-----------------|--------------------|-----------------------------|---------------------------------|
| Existing | 3,000 | \$ 11.43 | \$ 2.66 | \$ 1.28 |
| 10/1/2005 | 3,000 | \$ 12.84 | \$ 2.96 | \$ 1.42 |
| 10/1/2006 | 3,000 | \$ 14.25 | \$ 3.26 | \$ 1.56 |
| 10/1/2007 | 3,000 | \$ 15.66 | \$ 3.56 | \$ 1.70 |
| 10/1/2008 | 3,000 | \$ 17.07 | \$ 3.86 | \$ 1.84 |

Dudchock/Lay/Burbage 6/21/05 SCC Mtg