

Utility Cost of Service and Rate Study

RFP # 2016-540

Addendum #1

April 22, 2016



NOTICE TO RESPONDENTS

The following corrections, revisions, additions, and/or information for the above referenced project and shall be incorporated into the Plans, Specifications, and/or Contract Documents for the project as described below. The corrections, revisions, additions, and/or information shall henceforth be regarded as an integral part of the project, carrying the same weight and force as original sections of the plans, specifications, and/or contract documents.

Ensure that you indicate receipt of this Addendum on your Proposal.

Due date for proposals has been extended to May 5, 2016, 3:00PM

Phase III: Feasibility Study for City to provide sanitation services. The study will include options (but not limited to): curbside single stream recycling, landfill options, and waste to energy opportunities.

Total pages not to exceed 40.

Response to Questions Received as of April 18, 2016, 10:00 AM

1. When were rates for each respective Utility last updated (water, wastewater, electric and sanitation)?

Electric: July 2010
Water: July 2010
Wastewater: July 2013
Sanitation: October 2008

2. What year did the City last retain a consultant to evaluate revenue requirements and/or develop rates for each respective Utility (water, wastewater, electric and sanitation)? What is the name of the consulting firm(s) that completed the most recent updates? Were the rate recommendations last implemented?

Water & Wastewater Utilities: May 2001, Wilson & Company, completed an evaluation of the water and wastewater utility systems. The study recommended a comprehensive rate study should be completed but the City

did not complete. Many of the operational recommendations have been implemented.

Electric Utility: March, 2001, ESC, completed an evaluation of the electric system and assisted with rate structure modification. The rate structure was implemented in March 2001.

Sanitation: None in recent history

3. What is driving the need for this study?

The new PPA, effective 7/1/16, is a reduction in the cost of purchased power to the City. The citizens and governing body expect a reduction in the electric rate due to lower costs.

Construction of the sanitary sewer line, currently out to bid, has required the City to obtain a loan to finance the project. The project is anticipated to complete in the spring of 2017 and the first P&I payment on the loan will be due the spring of 2018. The new debt will require additional wastewater revenues to meet the requirements of the loan.

A second electric substation is anticipated to be constructed in 2019 with an estimated cost of six million dollars. Currently, the City has earmarked utility reserves for this project which will finance 70% of the estimated costs. The City prefers not to incur additional debt for this project and will need to increase available reserves in the next two years to avoid the debt or delay portions of the project until reserves are replenished.

The City has numerous electric, water and wastewater infrastructure projects which are financed from current revenues or reserves in addition to the two listed above. In addition, as solar power installations reduce in cost and become cost effective for commercial and residential customers, the City will need to prepare a rate structure that addresses the customer expectations of lower utility costs and also allow the City to maintain/improve the electric infrastructure for all customers.

The driving force for this study is identify and then communicate effectively the needs of the utility systems to the governing body and citizens and to provide the citizens with efficient and responsive utility services at a reasonable rate.

4. Will the new PPA effective 7/1/16 with Guzman LLC result in reductions in operating costs? Is the power supplied by Guzman anticipated to be 100% solar (e.g., 0.9 MW Solar plant being constructed) or are there other sources?

The PPA with Guzman LLC will result in lower operating costs through a combination of factors:

1. Lower purchased power cost direct through Guzman, of which, the solar component is minor. Guzman LLC is responsible for securing the necessary power for transmission to the City.
2. The City will negotiate a separate agreement with City of Farmington for transmission from the delivery point with Guzman LLC to Aztec. This agreement has not yet been finalized.
3. The PPA with Guzman LLC allows the City the flexibility to take advantage of WAPA WRP which will reduce the total purchase power cost from Guzman LLC.

5. Was the source water from the Animas River affected by the Gold King Mine spill last year? If so, is it anticipated to influence operating costs, CIP and/or other water utility revenue requirements?

Yes, the City was impacted by the Gold King Mine spill last year and there may be additional costs, both operational and capital improvements. Operational costs may be limited to increased testing for heavy metals during periods when the river flow is disturbed (snow pack run off, storm water, or manmade). The City is in the process of replacing the headgate on the Animas River diversion channel to reduce seepage to the river pump station which is partially funded by the EPA/NMED. Future operational and capital improvements may be required but are not yet identified and may be contingent on recommendations from the EPA/NMED for the future monitoring of the river.

5. Will the Southside Water Users Association and the Flora Vista Water Users Association water rates and review of the cost of service be part of the water rate study scope?

The City has separate agreements with each of the associations for the purchase of water. We anticipate the cost of service to identify if restructure of those agreements is recommended.

6. Does the City sell water to intermittent (e.g., Oil and gas and/or fracking operations) users that represent a material source for water sales volume and/or revenues? Has the City seen fluctuations (increase or decrease) in demands from these intermittent users?

The reduction in the regional oil and gas exploration has reduced the revenues from commercial bulk water sales. Commercial bulk water sales for FY2000

were \$217k; FY2008 - \$175k and FY2015 was \$51k, FY2016 sales, as of March 2016, are \$33k.

7. What percent of wastewater end users have installed separate water meters to measure outdoor water use?

The City has 11 residential/commercial and 36 city parks which are metered separately for outside watering. The residential/commercial meters represent less than 1% of the wastewater end users.

8. Please confirm the scope of work anticipated for the Sanitation Utility. Should we assume that Phase I and Phase II scope of work on pages 8 and 9 apply to all four utilities?

This is a very minor piece of the study as the majority of the sanitation service is provided through contractual services. The rate spreadsheet, phase II, should be adaptable to include the sanitation utility. Phase III will address the feasibility of City providing sanitation services.

9. One-time capital recovery fees (e.g., impact fees) do not appear to be included in the Phase I or Phase II scope of work. Please confirm.

The City does have an impact fee ordinance which did include fees for electric, water and wastewater. Due to the time restrictions placed on the impact fees by state statute, those fees were eliminated and the utility rate structure currently includes connection fees. It is expected the service and rate study will consider a fee structure which would provide a revenue stream to build reserves for repair, replacement and expansion of the utility systems.

10. Will rate changes effective January 1, 2017 influence revenues available in FY 2016-17 and alter the adopted budget for this year (ending June 30, 2017)? Did the City budget for the utilities in FY 2016-17 anticipate a rate revenue increase for any utility effective January 1, 2017? If so, please provide the anticipated rate revenue increase for each of the four utilities if any.

The current electric rate structure provides for a purchase power adjustment which is calculated monthly on the actual power costs. The base was established in 2007 at 7.55 cents per kwh and the projected cost for power for FY2017 is 5.6 cents per kwh. For FY2017, this will result in an estimated

decrease in electric revenues of \$900,000 if the rate ordinance is not amended during the course of FY2017.

No rate change is included in the FY2017 budget for water or wastewater.

Based on the negotiated contract for sanitation services, currently in the proposal process, it is possible the FY2017 budget will be amended specific to the contract and rate revenues.

11. Due to page limit restrictions, can we include more than one section on the same page and under a joint tab?

No. Each section should be under a separate tab.

12. Do resumes count toward the overall page limit?

No

13. What engineering company does the City use for their utilities - identify if different by utility

ESC provides the majority of the electric engineering when required. Substation #2 is a cooperative effort with the City of Farmington who retained T&D Services for the design.

Water and Wastewater - City engineer may provide in-house engineering on any size of project or may retain outside engineering. Projects exceeding \$60k are required to go through a competitive proposal process.

Sanitation - N/A

14. Does each utility have a capital plan available (for what duration 5, 10, 20 years)

The City prepares an ICIP annually for a 5 year period. The plan is posted to the City's website: <http://www.aztecmn.gov/plans/projects.html> The City also prepares a three year budget which includes capital projects.

15. Does the City have a budget amount for this effort

Yes but will not be disclosed so that proposals are not influenced based on that amount.

16. Does the City currently have a rate model in use today to set rates.

No.

17. Is the City able to easily access customer statistics data from their billing/other software such as historical monthly use, by class, for : kWh, kW (if applicable), monthly water use, billed winter water average, trips and tons for solid waste.

For electric, water and wastewater - yes.
Sanitation is contracted and information is available through the provider.

18. What billing software is in use by the City

ADG, a proprietary software which integrates fully with the Fund Management Accounting System.

19. Does each utility have a system plan completed

None known

20. Are monthly detailed power bills, by rate component, available from your power provider.

Yes

21. Is the City interested in unbundled power rates to inform the distributed generation cost of service (e.g. traditional COSA splits cost to demand, energy, customer - unbundled provides a greater level of detail by Supply-energy/demand/customer; transmission - energy, demand, customer; distribution - energy/demand/customer, etc.).

Yes

22. Please clarify when Phase I of the study needs to be completed and when Phase II is to be completed.

Our goal is to provide information to the governing body which would allow implementation of new rates effective January 2017, if the commission chooses that action. The ordinance process is approximately a six week process

depending on meeting dates and should begin in November 2016. Prior to the ordinance(s) being introduced, workshops with the governing body and public meetings will be conducted and the number would vary depending on the complexity of the rates and the impact to consumers. The governing body and the public are aware of necessary wastewater rate changes due to the debt incurred on sanitary sewer line project.

Staff's goal is to award a contract for the study in June 2016.

End of Addendum #1

Issued by:

Kathy Lamb
Finance Director
City of Aztec
April 22, 2016