

STAFF REPORT

AGENDA ITEM #: 17-10
COUNCIL MTG OF: February 7, 2017
FROM: David Caron, Town Administrator
OFFERED BY: Michael Fowler, Public Works Director
PREPARED BY: T. Carrier, Public Works Deputy Director
SUBJECT: Water User Rate Adjustment

PURPOSE

The purpose of this document is to provide information to the Town Council to support the increase of the water user rates to offset wholesale purchased water rate increases by Manchester Water Works.

TOWN ADMINISTRATOR COMMENTS

It is recommended that the Town Council adopt the revised water user rates as recommended by staff in order to ensure the equitable distribution of rates among all customer classifications and to remain in compliance with the Town's wholesale water supply contract with Manchester Water Works.

BACKGROUND

Since 1983, The Town of Derry water system has been supplied with its drinking water by Manchester Water Works. The sale of water to Derry by MWW is governed by a wholesale water supply contract. The most recent renewal of this contract was approved by the Council in March 2013 with a term of 25 years. Over the term of the contract, Derry has purchased 2.9 million gallons per day (MGD) of water supply capacity. Our peak water demand in 2016 was 2.16 MGD. Section 302.3 of the contract states that "the rate charged...shall be increased by the same percentage as the metered water rates to customers residing outside the city of Manchester". Further, Section 309 states that "Derry shall pay for any capital expenditures made by MWW which ... are necessary ... to provide or continue services to Derry".

Over the last several years MWW has made significant upgrades to its infrastructure including its water treatment plant and storage reservoirs. Since June 2013 MWW has raised rates 10% from \$0.988 to \$1.088 per 100 cubic feet to recover these costs. In contrast, Derry has only increased its rates 1%.

DISCUSSION

It is becoming increasingly necessary for Derry to adjust its retail rates commensurate with MWW's increases. This will allow Derry to maintain its water system at a level that will keep up with its depreciation. The cumulative impact of the MWW increases on the water division budget is projected to be approximately \$77,000 in FY17. The staff recommendation is to adjust water rates to recover the \$77,000 shortfall. This adjustment will have 3 components:

1. Adopt a scaled base minimum charge for non-residential customers based on meter size. Base minimum charges for residential customers are based on the number of living units serviced by the account. Conversely, nonresidential accounts are only charged as a single unit regardless of the number of units serviced. This will align the nonresidential with the residential base charges. New nonresidential base charges would increase from \$23.03 for any meter size to:
 - a. \$23.28 per quarter for ¾ inch metered services
 - b. \$34.55 per quarter for 1 inch metered services
 - c. \$57.58 per quarter for 1 ½ inch metered services
 - d. \$115.15 per quarter for 2 inch metered services
 - e. \$230.30 per quarter for 3 inch and larger metered services

2. Increase the residential minimum quarterly base charge from \$23.03 to \$23.28 per living unit
3. Increase the usage rate for all customers from \$2.50 to \$2.55 per 100 cubic feet.

FISCAL IMPACT

Adoption of the rate structure proposed above would result in an estimated increase in annual revenue of \$79,000. The impact to each customer class would vary depending on their water consumption. The following is an estimate based on average usage by class:

| WATER RATE IMPACTS: | Annual Cost | | Quarterly Bill \$ | |
|--|--|------------------------------|----------------------|-------|
| | Current 2016 \$23.03/qtr/unit \$2.50/ccf | Proposed \$ 23.28 2.55 | Impact this Increase | |
| Single Family Residential Customer (3/4" meter) | \$ 342.75 | \$ 348.77 | \$ 1.50 | 1.8% |
| Commercial Unit/Single Occupant Residential-min. user (3/4" meter) | \$ 92.12 | \$ 93.12 | \$ 0.25 | 1.1% |
| Duplex (1" meter) | \$ 434.24 | \$ 441.24 | \$ 1.75 | 1.6% |
| Retail Building - Medium User (1" meter) | \$ 342.12 | \$ 394.68 | \$ 13.14 | 15.4% |
| 6 Unit Condo Building (1 1/2 " meter) | \$ 1,252.72 | \$ 1,272.72 | \$ 5.00 | 1.6% |
| Restaurant - Large User (1 1/2" meter) | \$ 4,542.12 | \$ 4,771.80 | \$ 57.42 | 5.1% |
| 30 Unit Apartment Building (2" meter) | \$ 5,763.60 | \$ 5,853.60 | \$ 22.50 | 1.6% |
| Industrial Building - Very Large User (2" meter) | \$ 6,142.12 | \$ 6,636.60 | \$ 123.62 | 8.1% |
| | | AVERAGE | | 4.5% |

While this increase impacts the nonresidential class in greater proportion, it should be noted that prior rate increase had a greater impact to residential multifamily properties.

With the adoption of this increase, Derry's average water bill of \$349 remains well below the average bill of \$474 for other area communities.

RECOMMENDED ACTION BY COUNCIL

It is recommended that the Council adopt the new water rate structure as proposed.

RECOMMENDED MOTION

The Derry Town Council, acting as the Water Commissioners, moves to amend the Derry Water Use Ordinance by:

Increasing the Municipal Retail Water Rate from \$2.50 to \$2.55 per 100 cubic feet and, Increase the residential quarterly base minimum base charge of \$23.03 to \$23.28 and, Increase the nonresidential quarterly base minimum charge from \$23.03 to:

- \$23.28 per quarter for ¾ inch metered services,
- \$34.55 per quarter for 1 inch metered services,
- \$57.58 per quarter for 1 ½ inch metered services,
- \$115.15 per quarter for 2 inch metered services,
- \$230.30 per quarter for 3 inch and larger metered services.

The new rates to become effective on all water usage billed on or after September 1, 2017.

Town of Derry, NH Water and Sewer Rate Comparison

| MUNICIPAL WATER & SEWER RATE COMPARISON | AVERAGE ANNUAL WATER COST* | AVERAGE ANNUAL SEWER COST* | AVERAGE ANNUAL WATER & SEWER COST |
|--|----------------------------|----------------------------|-----------------------------------|
| Aquarion (Hampton, North Hampton, Rye) | \$ 731.52 | N/A | N/A |
| Bedford (Manchester Water Works/Manchester Sewer) | \$ 308.84 | \$ 397.37 | \$ 706.21 |
| Bedford (Pennichuck Water Works) | \$ 640.08 | \$ 397.37 | \$ 1,037.45 |
| Claremont | \$ 462.00 | \$ 727.59 | \$ 1,189.59 |
| Concord | \$ 503.60 | \$ 245.36 | \$ 748.96 |
| Dover | \$ 584.40 | \$ 723.81 | \$ 1,308.21 |
| Exeter | \$ 727.75 | \$ 411.26 | \$ 1,139.01 |
| Hooksett (Hooksett Village District) | \$ 305.18 | \$ 545.10 | \$ 850.28 |
| Hooksett (Manchester Water Works) | \$ 308.84 | \$ 586.60 | \$ 895.44 |
| Hudson | \$ 524.28 | \$ 209.59 | \$ 733.87 |
| Keene | \$ 465.52 | \$ 733.27 | \$ 1,198.79 |
| Laconia | \$ 302.00 | \$ 563.98 | \$ 865.98 |
| Londonderry, North (Manchester Water Works) | \$ 308.84 | \$ 384.00 | \$ 692.84 |
| Londonderry, South (Pennichuck East Utility) | \$ 955.08 | \$ 384.00 | \$ 1,339.08 |
| Manchester (Manchester Water Works/Manchester Sewer) | \$ 268.68 | \$ 397.37 | \$ 666.05 |
| Merrimack (Merrimack Village District) | \$ 288.00 | \$ 226.00 | \$ 514.00 |
| Merrimack (Pennichuck Water Works) | \$ 640.08 | \$ 226.00 | \$ 866.08 |
| Nashua (Pennichuck Water Works) | \$ 640.08 | \$ 303.60 | \$ 943.68 |
| Portsmouth | \$ 498.00 | \$ 1,102.80 | \$ 1,600.80 |
| Rochester (GLWA) | \$ 649.28 | \$ 406.37 | \$ 1,055.65 |
| Rochester (Well Water) | \$ 130.88 | \$ 406.37 | \$ 537.25 |
| Salem | \$ 368.20 | \$ 316.03 | \$ 684.23 |
| Somersworth | \$ 493.20 | \$ 495.55 | \$ 988.75 |
| AVERAGE ALL COMMUNITIES ABOVE | \$ 474.10 | \$ 470.88 | \$ 933.28 |
| AVERAGE "PEER" COMMUNITIES | \$ 507.75 | \$ 466.11 | \$ 973.86 |
| DERRY - USING PROPOSED NEW WATER RATE | \$ 348.77 | \$ 369.09 | \$ 717.86 |

* Water usage based on 12000 cft per year. Sewer usage based on 9010 cft per year (NHDES survey assumption).