

City of Salem Water / Wastewater Task Force

2022 Rate Proposal Summary for 2023 and 2024

The revenue slope is the targeted increase in rate revenue for the utility overall as defined in the financial plan; the sample customer bills reflect the adjustments to individual system and customer class rates that are needed to achieve the revenue slope under the COSA framework.

While the revenue slope is applied uniformly to each system, shifts in the composition of revenue requirements (i.e., changes to the cost structure of each system) and different customer service requirements result in the rates for individual customer classes increasing at different percentages.

All Rates Reflect:

1. **Revised revenue slope** (e.g., 5 percent / 3.5 percent) applied uniformly to water, sewer, stormwater systems.
2. **Overall operations and maintenance (O&M) cost increases** related to wages, materials, and capital outlay (see the Assumptions document for detail).
3. **Shift in the composition of revenue requirements:**
 - a. O&M costs represent an increasing portion of total costs.
 - b. Capital costs represent a decreasing portion of total costs because existing debt service drops off by \$2 M-\$14.5 M per year, while pay-as-you-go (PAYG) capital investments increase only \$2 M-\$11 M in the first five years of the plan.
 - c. Under the COSA framework, O&M and capital costs are allocated differently to system functions and service characteristics.
 - i. O&M costs are allocated based on staff time and materials specific to each division / cost center.
 - ii. Capital construction costs are allocated in proportion to the value of system facilities.
 - iii. Value is based on depreciated value of existing facilities and improvements identified in the Capital Improvement Plan (CIP).
4. **Varying levels of service:**
 - a. Retail vs. wholesale – While many costs are “common to all” service areas and customers, some utility functions are specific to one or more groups. For example, City of Turner water rates do not include lower transmission costs, and neither Turner nor Suburban East Salem Water District water rates include costs for reservoirs or distribution system facilities inside Salem.
 - b. Customer class service characteristics – Costs incurred by utilities vary in proportion to service requirements, which vary by customer class. For example, residential and irrigation customers use more water during the peak irrigation season compared to commercial and multifamily customers. For sewer, commercial and industrial customers have higher wastewater pollutant loads than residential. Nonresidential customers also generally have greater impervious area (an indicator of stormwater runoff) compared to residential.

Additional system-specific rate factors are summarized in the following table (next page).

Summary of System-Specific COSA Factors and Impacts

System	Factors	Bill Impacts*
Water	<ul style="list-style-type: none"> • End of revenue from sale of water rights (inside-city only revenue) • Increases in Geren Island treatment costs (allocated in part based on peak water demands) • Last two years of wholesale rate increases from 2018 COSA were deferred during pandemic 	<ul style="list-style-type: none"> • Greater increase for inside-city customers relative to outside city retail customers • Greater increases for irrigation customers who use water only during system peak demand periods • Greater increases for wholesale customers
Wastewater	<ul style="list-style-type: none"> • Increased wastewater treatment operating costs and capital investments related to solids handling and primary and secondary treatment • Increased pumping and other wet weather flow-related investments 	<ul style="list-style-type: none"> • Greater increases for higher strength customers (commercial, industrial, and institutional) • Greater increases in small volume customer bills due to increases in fixed charge which recovers 75 percent of wet weather flow costs reflecting a foundational COSA policy decision
Stormwater	<ul style="list-style-type: none"> • Increased capital and O&M costs related to water quality and quantity 	<ul style="list-style-type: none"> • Greater increases for commercial and industrial customers with larger impervious area compared to residential • Greater increase for Tier 3 residential customers than Tiers 1 and 2

*Bill impacts are “revenue neutral” for a given revenue slope (i.e., some bills increase more than the average revenue slope, while others increase less); the projected increase in rate revenue overall is equal to the revenue slope.