

**Irvine Ranch Water District
Request for Proposal
Cost of Service and Rate Design Study
August 14, 2014**

Proposal Due Date: September 15, 2014 at 3:00 pm

Proposal Format: 5 printed copies, with 1 electronic copy



**IRVINE RANCH WATER DISTRICT
REQUEST FOR PROPOSAL**

**REQUEST FOR PROPOSALS
COST OF SERVICE AND RATE DESIGN STUDY**

INTRODUCTION

The Irvine Ranch Water District (District or IRWD) is soliciting proposals from qualified firms to conduct a water and sewer cost of service and rate design study for the District.

GENERAL INFORMATION

General Description; Service Area

Irvine Ranch Water District was established in 1961 as a California Water District under the provisions of the California Water Code. The District provides high quality drinking water, reliable sewage collection and treatment, ground-breaking recycled water programs and environmentally sound urban runoff treatment. IRWD's service area encompasses approximately 181 square miles and includes all of the Cities of Irvine, portions of the Cities of Lake Forest, Tustin, Costa Mesa, Newport Beach, and Orange and portions of unincorporated Orange County. Extending from the Pacific Coast to the foothills, the District's region is semi-arid with a mild climate and an average annual rainfall of approximately 12 inches.

Over the past several years, the District has completed several consolidations with other water districts. In 1997, IRWD consolidated with neighboring Santa Ana Heights Mutual Water Company with approximately 2,800 connections. In 2001, IRWD merged on the east boundary with the Los Alisos Water District with approximately 12,400 connections. In 2006, IRWD merged with Santiago Water District with 740 connections. In 2008, IRWD merged with Orange Park Acres Mutual Water Company with 530 connections. In Fiscal Year 2013-14, IRWD had approximately 108,000 water connections, over 93,000 sewer connections and delivered approximately 82,800 acre-feet of water to customers.

The District provides its core services with efficiency and responsiveness to its customers by focusing on the following areas:

- *Organizational Strength* – having professional staff work in close collaboration with the Board of Directors to exceed the expectations of our customers
- *Operational Reliability* – having multiple sources of water supply and various sewage treatment alternatives to ensure reliable services
- *Long-Term Financial Planning* – ensuring sufficient funds are available to construct, operate, and replace facilities, while maintaining competitive rates now and in the future

IRWD is an independent public agency governed by a five-member, publicly elected Board of Directors. The District has consistently been on the leading edge of new initiatives in resource management such as water recycling, urban runoff management and water conservation, and in financial management by implementing practices such as variable rate debt financing and long-term infrastructure replacement program development and funding. The District employs approximately 330 professional staff members who are responsible for daily operations and implementing short and long-term strategic objectives set forth by the Board.

You can learn more about IRWD by visiting www.irwd.com.

For a copy of the District's most recent Comprehensive Annual Financial Report (CAFR), visit http://www.irwd.com/images/pdf/about-us/cafr/IRWD_CAFR_2013.pdf.

BACKGROUND

IRWD understands the importance of preserving California's water supplies, especially in times of drought, and has taken many steps over many years to encourage water use efficiency and the wise use of water including the implementation of innovative conservation measures. IRWD set an aggressive tone to promote the efficient use of all water resources beginning in the late 1980's and into the drought of the early 1990's. This effort culminated in the adoption of an allocation-based tiered rate structure by the IRWD Board in 1991.

The allocation-based rate structure discourages overuse while providing for significantly reduced outdoor water use through meaningful tiered pricing for any inefficient water use. Individual customers are assigned water budgets or allocations based on reasonable, efficient use specific to their property and water use needs. Customers using water within allocation enjoy the benefit of low rates. This is accomplished by setting a customized "allocation" for each customer account that is based upon a variety of factors such as: irrigated area, daily weather characteristics, number of residents, industrial or commercial business type, and other more unique characteristics such as the presence of a pool, livestock or specialized industrial equipment. Water is then sold to customers under a five tier structure based upon their monthly allocation which varies for landscape use relative to weather patterns. Customers using water within their allocation purchase water in the lower two tiers (including a below cost first tier) and are rewarded with very low water bills. Customers using in excess of their allocation also purchase water in one to three steeply ascending upper tiers, resulting in high water bills and a strong pricing signal for excessive use.

IRWD also assesses a monthly fixed charge based upon meter size. This fixed charge provides adequate funding for all operating costs other than the water commodity itself and the district's water use efficiency and related programs. As such, IRWD enjoys revenue stability regardless of the amount of water sold or the degree of conservation experienced from customers' water use efficiency practices.

Revenue from higher tier, over-allocation water use is "reinvested" to fund tailored programs and rebates for long-term improvements in water use efficiency and to support IRWD's urban runoff source control and treatment programs. The rate structure is designed to derive sufficient revenues from the over-allocation use tiers to completely fund these programs.

When the rate structure was first adopted in 1991, allocations were set to reflect reasonable use. The rate structure was modified in 2009 to reflect the drought, as well as changes to the plumbing code and ongoing conservation efforts that resulted in a certain level of demand hardening. Allocations were further reduced effective July 1, 2014 in response to the statewide drought.

In March 2014, the District completed an internal cost of service and rate study. During this process, the District's current rate setting practices were reviewed and changes were made to ensure continued consistency with cost of service rate setting principles. The Proposition 218 notices for this most recent rate change are included as Appendix A.

During the process, other potential opportunities were identified. These include using allocated expenses to:

- Review and recommend a recycled water rate structure;
- Establish a uniform pumping surcharge rate structure;
- Consider and recommend alternatives to the meter charge for recycled water; and
- Consider alternatives on setting a separate untreated water rate that utilizes Irvine Lake.

The District's chart of accounts provides for an accurate separation of costs among the major services – providing potable water, collecting and treating sewage, producing and distributing recycled and other non-potable water, and implementing urban runoff source control and treatment programs.

The internal rate study and all associated analysis will be available for the selected consultant team's review and use as appropriate. Existing rates and charges can be found on the District's website, www.irwd.com. The District's FY 2012-13, Comprehensive Annual Financial Report is attached as Appendix B. The District anticipates that a budget based tiered water rate structure will continue to be utilized.

PURPOSE OF THIS REQUEST FOR PROPOSAL

The purpose of the requested services is to provide the District with recommended rate framework for its system services that are consistent with industry accepted cost-of-service principles, satisfy future revenue requirements, and meet all State law requirements (including Propositions 218 and 26).

Overall, the rate structure developed by the consultant shall:

- Be cost-based to ensure rates can be set at a level that provides funding to meet the District's revenue requirements;
- Be equitable, reasonable and not discriminatory or preferential, and must proportionately allocate the costs of providing service among the customer classes;
- Promote water use efficiency through a budget based tiered structure or similar allocation structure;
- Be easy to understand and administer;
- Be consistent with applicable law; and
- Appropriately utilize fixed charges (e.g., meter charges) to recover fixed costs.

SCOPE OF WORK

The following scope of work is an outline of the minimum services to be provided. Your proposal should include all services that can be reasonably expected for developing a rate structure for providing potable water, collecting and treating sewage, producing and distributing recycled and other non-potable water, and implementing urban runoff source control and treatment programs, engaging stakeholders, preparing and participating in Proposition 218 protest hearings, and presenting the findings to the District's Board of Directors.

Rate Objectives

The objectives of the study are:

- Provide input to the model which determines the revenue increases needed to provide funds necessary to meet the District's current/future requirements;
- Provide input to the model which forecasts the effects of the District's estimates of growth and conservation on its revenues, as well as any impact that the proposed rates may have on sales;
- Calculate and document the functionalization, classification, and allocation of costs, including capital reserves among appropriate customer classes consistent with industry standards and State law requirements;
- Provide a rate design framework that aligns revenues and costs associated with the operations of the District;
- Assess the ability and need to unbundle the rate framework based on certain costs, including appropriate ways to differentiate the allocation of purchased water costs from the District's distribution and other operating costs;
- Evaluate and recommend appropriate retail and wholesale framework for recycled water; and
- Evaluate and recommend rate framework in other areas such as a uniform pumping surcharge, an alternative to the meter charge and a separate framework for untreated water.

TASK 1: Project Management and Meetings

This task includes all project management activities required to ensure adherence to the schedule and budget. It will include monthly invoicing, progress reports, progress meetings and meeting notes. It will include a kick-off meeting to review project objectives and introduce key members of the project team to be conducted at IRWD's office.

TASK 2: Propose Modifications to the Revenue Requirements

The consultant shall review the methodology and development of the revenue requirements to be used in the Study and make recommendations for improvement as needed.

Review of the structure for development of the revenue requirements:

1. Revenue sources including, but not limited to, service charges and commodity rates;
2. Appropriate allocation of operating and overhead costs among the services for expense components such as supply, pumping, treatment, transmission and distribution, Operation

and Maintenance (O&M), General and Administrative (G&A), renewal and replacements.

This task will include a review of existing reports and financial models. A data request will be prepared and readily available information will be collected in order to prepare the Cost of Service and Rate Design Study.

TASK 3: Conduct Cost of Service Analyses

The consultant shall perform an overall analysis of the functionalization, classification and allocation of costs. The consultant shall make recommendations as appropriate for improvements consistent with industry standards, best practices, and State law. The consultant shall prepare a cost of service study that provides a clear, written analysis of the methodology used and the basis for allocating the costs of providing potable water, collecting and treating sewage, producing and distributing recycled and other non-potable water, and implementing urban runoff source control and treatment programs among the various customer classes. The analyses shall:

1. Identify various direct costs included in the District's budget and make recommendations for any changes necessary to ensure direct operational costs are properly aligned with the appropriate service;
2. Evaluate existing overhead distribution formulas and/or propose different formulas, develop recommendations that will support/improve equity in the application of overhead costs;
3. Prepare a standardized cost of service study that demonstrates the costs of providing the different services utilizing industry accepted practices for the functionalization, classification and allocation of costs to customer classes, along with any recommended changes; and
4. Ensure that all costs have been allocated among property owners and customers served in a fair and equitable manner, and that the methodology used is documented and justified consistent with State law.
5. Ensure that a methodology is incorporated in the cost of service study for the determination of cost responsibility (which may be identified by reference to appropriate industry ratemaking principles, including guidance associated with designing and developing water rates and charges issued by the American Water Works Association or guidance associated with other comparable industry principles recognized by public agencies providing public utility service) in order to establish that each fee, including a rate, charge, or surcharge, for any product, commodity, or service to recover the cost of providing public utility service to public schools is determined on the basis of the same objective criteria and methodology applicable to comparable nonpublic users, based on customer classes established in consideration of service characteristics, demand patterns, and other relevant factors.

The results of this task will provide a cost of service report providing a clear, written analysis of the methodology and basis used for allocating the costs of service, and any associated spreadsheet models used in Microsoft Excel, with instructions and training on their use.

TASK 4: Propose Changes to Current Rates

The consultant shall prepare a rate design study that provides a clear, written analysis of the basis upon which the rates were calculated, including an analysis of rate classes to eliminate and/or add classes as appropriate. The consultant shall:

1. Review composition and construction of all customer classes, and recommend any changes.
2. Ensure that the recommended rate structures comply with all laws, regulations and policies, are documented, and are developed in compliance with Propositions 218 and 26.
3. Evaluate the District's current budget based tiered water rate structure, including such factors that determine a customer's water budget and factors that determine the tier widths and prices, and recommend any appropriate changes. Include in this analysis, a proposal for the urban runoff source control program and treatment programs which are currently attributable to "above allocation" use.
4. Evaluate the District's current untreated rate structure for agricultural customers and consider rate setting alternatives.
5. Review the District's current pumping rate structure and consider alternatives that fairly allocate costs and provide a more uniform pumping rate structure.
6. For sewer rates, evaluate other rate structures, including a base and volumetric charge, as an alternative to the District's current structure for residential customers. Provide the pros and cons of making a change, and make a recommendation to the District as to the best approach based upon your analysis.
7. Review the cost of service for providing recycled water on a wholesale basis to other water purveyors, as well as the cost of recycled water service for retail customers. The study should evaluate whether the District should continue its existing pricing approach for retail service, including the risks and benefits of any change to that approach.
8. Demonstrate any alternative rate structure is easy to understand and administer, promotes conservation and revenue stability and can be accommodated with the existing District billing system.
9. Prepare and provide the District rate models in Microsoft Excel for the associated rates and fees necessary to provide potable water, collect and treat sewage, produce and distribute recycled and other non-potable water, and implement urban runoff source control and treatment programs that may be used by District staff on a going forward basis and train District staff in the use of these models.

TASK 5: Drought Pricing

Evaluate and recommend alternatives for IRWD to consider on how to adjust its water pricing structure in the event of a drought, water shortage or governmental action to encourage demand reductions. These potential modifications may include adjustments to the allocation formulas and/or to the tiers. The consultant will prepare a report and written analysis, as well as provide excel based spreadsheet models that can be used to evaluate and estimate the impacts of such changes on water demands and revenues by customer class.

TASK 6: Sensitivity Analysis / Rate Workshop(s)

Once the rate models have been developed, the consultant shall conduct a sensitivity analysis within the models. This step will examine different scenarios that may occur within the next five years. The Consultant shall conduct a workshop with senior staff to identify which rate scenarios are financially sustainable and legally justifiable for the District. During the workshop(s), water conservation based rates, sewer, and recycled rate structures, the legal options associated with Proposition 218, and the drought pricing program shall be examined.

TASK 7: Reports

The Study will include preparation of draft and final reports, and presentations to the Finance and Personnel Committee and Board of Director Meeting(s).

PROJECT SCHEDULE

Below is a timetable of the proposed schedule. The Consultant will prepare a detailed schedule for each task and update the schedule as necessary during the project to keep IRWD adequately informed of the progress. The District reserves the right to adjust the schedule at any point in the process.

Event	Date
District Issues RFP	August 14, 2014
Optional Pre-bid Meeting	August 28, 2014
Additional Questions Due	September 4, 2014
RFP Submission Deadline	September 15, 2014
Award of Contract	October 14, 2014
Kick-Off Meeting	October 2014
Revenue Requirement/Rate Model	October-November 2014
Cost of Service	October-November 2014
Rate Design	November 2014
Staff Workshops	October-November 2014
Preliminary Draft	December 2014
Committee/Board Consideration of Recommendations	January 2015

In addition to the Committee and Board of Director’s meetings, Consultant shall plan on regular meetings with District staff to discuss project progress and schedule. Depending on the award of the contract following the October 2014 Board meeting, Consultant should plan on leading three workshops as well as attending appropriate Committee and Board meetings to present the analysis and results.

PROPOSAL FORMAT AND CONTENT

Proposals shall be limited to no more than 15 pages (11 point font), plus appendices. In order to be considered responsive to this RFP, five printed copies, and one electronic copy of your proposal must be submitted in accordance with the following format:

1. **Cover Letter** – A signature by a Principal or officer having the authority to negotiate and contractually bind and extend the terms of the written proposal.
2. **Executive Summary** – A description of the understanding, approach, and methodology proposed to meet the District’s objectives.
3. **Experience** – Provide a brief description of the firm’s history, size, and organization. Describe the experience of the firm with projects of a similar nature to the District’s and any specific experience developing and modifying a budget based tiered water rate structure or similar rate structure. Consultant must demonstrate that they have a clear understanding of the Proposition 218 process and capability to prepare all required documentation.
4. **Team** – Provide the specific experience and capabilities, qualifications and resumes of the designated project manager and support staff assigned to perform the work. If using sub-consultants, provide the company profile and define the responsibilities and services to be performed by the sub-consultants. Include the primary point of contact, person responsible for overall corporate commitment (Principal) and project manager. Describe the responsibilities of the individuals who will be working on the project and extent of involvement with the project. Include a schedule showing the percentage of time each member will contribute to the project. Key personnel assigned to the project shall not be reassigned without prior written approval from IRWD.
5. **Project Approach and Timeline** – Provide a work plan, including major activities and schedule for the project, deliverables and milestone dates. Provide a detailed scope of work and the methodology. Describe how you will approach each of the tasks outlined in the scope of work, including data requirements, modeling efforts, and interaction with District staff. The description shall comprehensively define and describe the individual tasks for the work effort.
6. **Schedule** – Assurance of the firm's ability to complete all work considering the firm's current and planned workload based on the proposed schedule.
7. **References** – A description of the project team's past record of performance on similar projects for which your firm has provided services. Include a discussion of such factors as control of costs, quality of work and ability to meet schedules. Include three references from agencies with similar projects that may be contacted by IRWD. Each reference must include:
 - Client name and contact information
 - Project description
 - Role of key project team members
8. **Cost Proposal** – Provide a detailed breakdown of labor hours by task and position, including sub-consultants. A listing of billing rates by employee, and a maximum not-to-exceed project fee, inclusive of all direct and indirect costs associated with the project. Complete the attached Cost Matrix (Appendix C).
9. **Joint Venture** – A descriptive disclosure of any joint venture and/or proposed subcontract arrangements that would be utilized during the course of the project.
10. **Conflict of Interest** – Documentation that personal or organizational conflicts of interest prohibited by law do not exist.
11. **Insurance** – Confirm your firm can comply with IRWD insurance requirements, which are as follows: IRWD requires professional liability coverage to be a minimum of \$1,000,000, general liability and property damage to be a minimum of \$1,000,000. Any

additional premium that is required by the insurance carrier for such coverage shall be included in your proposed fee. IRWD will not pay a separate insurance surcharge for the required coverage.

PROPOSAL SUBMISSION

Five printed copies, and one electronic version of the proposal shall be submitted to the following address no later than 3:00 p.m. on Monday September 15, 2014.

**Irvine Ranch Water District
Attn: Christopher Smithson
15600 Sand Canyon
Irvine, CA 92618
Smithson@irwd.com**

ADDITIONAL INFORMATION

Interested parties may submit written questions regarding this RFP to Christopher Smithson at smithson@irwd.com. The District plans to hold an optional pre-bid meeting on Thursday **August 28th, 2014 at 3:00 pm** in the Multi- Purpose room at its Sand Canyon Office. Additional questions must be received no later than 3:00 p.m. PST on Thursday September 4, 2014. The District's responses to any questions will be shared with all other proposers via e-mail.

EVALUATION OF PROPOSALS

A contract will be awarded at the District's sole discretion to the most qualified and responsive firm whose proposal best conforms to the District's needs. The District reserves the right to reject any and all proposals and to negotiate terms, conditions, and rates with any responsible, responsive proposer.

Proposals will be evaluated based upon the following factors:

- 20% Experience, expertise, qualifications, and references with similar projects.
- 40% Qualifications of the firm and individuals assigned to perform the work; familiarity and experience with cost of service and rate design in California, particularly all elements of Propositions 218 and 26; understanding and expertise with budget based and other allocation rate structures; availability and level of commitment of the proposed project team and key personnel.
- 40% Understanding of project scope, approach to accomplish the work, and project timeline; consultant's ability to present a detailed, comprehensive scope of work; technical approach and methodology to provide the requested services; ability to provide the requested services within the proposed schedule.

The District may request additional information or clarification from any or all proposers after initial evaluation. The District may conduct personal or phone interviews with each candidate firm's proposed team and may contact recent clients. The firm, and in particular the project manager, must be fully capable in all areas outlined under the scope of work above. The selected

firm must be able to begin work immediately upon award of contract and must be able to maintain the required level of effort to meet the proposed schedule.

PAYMENT SCHEDULE TO THE CONSULTANT

The Consulting firm shall be paid a specific fixed fee for services completed over the term of the Project. Monthly invoices are due to IRWD no later than the 15th of every month. The Consultant is required to submit a summary progress report with the monthly invoice. The one page report shall have a table identifying each task, subtask, budget, billed to date, amount remaining and percent complete.

AGREEMENT FOR CONSULTING SERVICES

The District’s standard Professional Services Agreement (PSA) is attached as Appendix D to the RFP for your review. When submitted, the proposal must contain any and all requests for revisions to the PSA. District staff will review all requests for revision; however, the District retains the authority to make the final determination as to acceptability of the requested revisions.

ADDITIONAL INFORMATION

This request does not commit IRWD to retain any Consultant, to pay costs incurred in the preparation of proposals, or to proceed with the project. IRWD reserves the right to reject any or all proposals, to negotiate with any qualified applicant, and to appoint more than one firm to provide services on given portions of the project. Proposals (including accompanying materials) will become the property of IRWD. Proposals will be held in confidence to the extent permitted by law. After award of a contract or after rejection of all proposals, the proposals will be public records subject to disclosure under the California Public Records Act (Government Code Section 6250 et seq.). IRWD reserves the right to request additional information from prospective Consultants prior to final selection and to consider information about a firm other than that submitted in the proposal or interview. IRWD will select for contract negotiations the firm that, in IRWD’s judgment, best meets IRWD’s needs, irrespective of the comparison of fees and costs estimated by the Consultants.

Appendix A
Proposition 218 Notices

Appendix B
FY 2012-13 Comprehensive Annual Financial Report

Appendix C

Cost Matrix

Note: Hours and Tasks should be broken out by detailed sub-tasks

Task	Estimated Hours by Classification (e.g., Analyst, Senior Analyst, etc.)	Cost by Classification	Total Cost by Task
Task 1 - Project Management and Meetings			
Task 2- Propose Modifications to the Revenue Requirements			
Task 3- Conduct Cost of Service Analyses			
Task 4- Propose Changes to Current Rates			
Task 5- Drought Pricing			
Task 6- Sensitivity Analysis / Rate Workshop(s)			
Task 7-Reports			

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Total estimated cost of the project: _____

Appendix D
Professional Services Agreement