The Cost of Water

I don’t have to tell you that the high cost of water is an ongoing issue in our community. The City of Rowlett has been a wholesale customer of the North Texas Municipal Water District (NTMWD) for 54 years, and in fact we are their largest Customer City. With a current population of over 66,000 residents, Rowlett serves over 20,000 water accounts. Over this 54 year period, the NTMWD’s budget and rates have grown exponentially with little to no regulatory oversight or checks and balances. Over the last 10 years, they have raised water rates by 239%, and under the compulsory NTMWD take-or-pay structure, Rowlett has paid nearly $20 million for over 10 billion gallons of water that was not received or used by Rowlett citizens or customers. Based on the current cost structure in place by the District, we will continue to be charged every year for hundreds of millions of gallons of water that we do not use.

And we’re not alone. Many of the NTMWD’s Member and Customer cities are in the same boat and it is time to review and revise this outdated structure. In February, I wrote to the Public Utilities Commission on behalf of the City expressing our support for the position asserted by the Member Cities of Garland, Mesquite, Plano and Richardson, and urged the Commission to initiate the cost-of-service hearing sought by those cities. After speaking at a PUC Hearing last week, I’m happy to report our request was successful! The Commission concluded the rates are adverse to the public interest and has therefore ordered a cost of service review.

Please read on for more detailed information and our next steps as we continue vigorously advocating to ensure the interests of our citizens are appropriately represented.

Mayor Tammy Dana-Bashian

March, 2020

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Thanks GISD and Principal Coleman Bruman for a great day acting as Principal for a Day at Gilbreath-Reed Career and Technology Center. What an incredible facility with 21st century workforce programs for our exceptional GISD students.
What are the Water District’s Member Cities?

The North Texas Municipal Water District is a wholesale water provider serving more than 1.8 million people in nearly 90 communities across 10 North Texas counties. This water is purchased by the City of Rowlett and then passed on to Rowlett customers. There are 13 Member Cities and over 30 Customer Cities (including Rowlett), and Special Utility Districts. The City of Rowlett became a customer city of the NTMWD in July 1965. The current contract began May 1994 and is a 30-year agreement that expires in May 2024.

What is the difference between Member and Customer cities?

NTMWD Member cities are the only guarantors for the District’s debt and are responsible for a proportional share of the debt issued while they are a member. Member cities also appoint two representatives each to the Water District Board of Directors, while Customer entities have no board representation and therefore no voice on important matters such as the District’s budget, rate setting or on policy changes such as permanent water conservation.

What is Take-or-Pay?

Take-or-pay is the commonly used phrase for a NTMWD contract provision requiring a city to pay annually for the amount of water which is the greater of:

a) its highest historic annual usage or
b) its current annual usage.

The intent of this contract provision is to ensure a guaranteed revenue stream to the district to provide financial stability. In effect, once a city establishes its highest historic annual usage, it continues to pay at that rate irrespective of lower usage in subsequent years. In other words, if the city does not “take” or use the water, it must still “pay” for that amount of water represented by its highest historic annual usage.

For Rowlett, this amount is 3.2 billion gallons, which was set after the drought of 2006. Under the compulsory NTMWD take-or-pay structure, Rowlett has paid nearly $20 million for over 10 billion gallons of water that was not received or used by Rowlett citizens or customers. Rowlett understands the need for adequate rates and an appropriate rate structure to maintain this essential regional water commodity, but Rowlett residents are carrying an unjust burden of the cost of water for the area serviced by the NTMWD. Our citizens understand how unfair it is that they must pay more than residents of certain neighboring communities that currently benefit from this take-or-pay methodology.

What is the Public Utilities Commission?

The Public Utility Commission (PUC) of Texas is a state agency that regulates the state’s electric, telecommunication and water and sewer utilities, implements respective legislation, and offers customer assistance in resolving consumer complaints.
What are our concerns?

In the past 18-years, Rowlett has paid nearly $20 million for over 10 billion gallons of water that was not received or used by Rowlett citizens or customers. Based on the current take-or-pay wholesale water pricing methodology in place by the NTMWD, Rowlett will continue to be charged every year for hundreds of millions of gallons of water that we do not use. The high cost of water is the most common complaint we address with our citizens and it correlates directly with the NTMWD’s take-or-pay pricing structure. Due to limited resources, smaller communities such as Rowlett have no ability to mitigate the negative impact of the take-or-pay structure and we have no choice but to purchase water from the NTMWD as there is no feasible alternative. The take-or-pay rate methodology is fundamentally flawed. It does not ensure that users pay cost-based rates, as the rates never reset over the term of the contract to reflect the current actual usage of the NTMWD’s customer base.

In 2015, the NTMWD adopted a permanent water conservation policy that recommended their customer base implement an increasing-tiered retail water rate to spur even higher levels of water conservation. As a result, Rowlett achieved significant water conservation, even though the take-or-pay provision financially disincentivizes this approach. In fact, the take-or-pay rate methodology actually rewards overconsumption – the more you use the cheaper the water. Permanent water conservation, as a policy, put communities in direct conflict to sell the water needed to support their utility systems due to the take-or-pay provision. Of course we believe conservation is needed, but we did not sign up for policies adopted unilaterally by the NTMWD that change the rules of the game without allowing water providers the ability to reset their projected water use under the new rules.

Although the take-or-pay rate methodology is the number one contributor to an unfair pricing structure, we have other areas of concern. Non-member customer entities such as Rowlett pay an additional 5 cents per thousand-gallon upcharge over member cities for the same water. This cost the 34 customer cities and special utility districts nearly one million dollars in fiscal year 2019. And, the NTMWD Board has discussed significantly increasing this upcharge for customer entities.

Customer entities have no representation on the NTMWD Board and, based on barriers in place, Rowlett has no ability to become a member city with representation. This customer group utilizes over 15% of the water the District produces, which is expected to increase to 25% by 2030, yet has no voice on important decisions such as the District’s budget, rate setting or on policy changes such as permanent water conservation.

Probably most disturbing is the requirement to have 100 percent agreement by the member cities to revise critical contract terms, such as take-or-pay pricing methodology, since some member cities are benefiting from the take-or-pay structure at the expense of other member and customer entities.

Who represents the voice of the nearly two million customers served by the North Texas Municipal Water District?

The Public Utilities Commission, who has agreed to initiate a cost-of-service hearing. A favorable outcome would include just and reasonable rates set for all of the wholesale customers of the district and a determination of the best mechanism to promote conservation while ensuring the district remains financially strong.

This is not just a “Rowlett” or “Customer City” issue!

Under the take-or-pay rate methodology, Rowlett has paid nearly $20 million for over 10 billion gallons of water that was not received or used by Rowlett citizens or customers.

The NTMWD Member Cities of Garland, Mesquite, Plano and Richardson have also been severely impacted by this outdated pricing structure. In 2016, they filed the action with the PUC seeking water rate relief. Although these four cities are voting members, any change in the take-or-pay provision requires all 13 member cities to agree.

The nature of any change would create winners and losers, meaning some cities would pay more than they currently pay while others would pay less. Since every city represents a different customer base, this is a sensitive issue. The critical legal argument raised by the member cities who filed this action is that the NTMWD rates are “against the public interest and inconsistent with conservation.”

The Costs of Water

<table>
<thead>
<tr>
<th>City</th>
<th>Greatest Single Year Usage</th>
<th>Dollars Paid for Water Not Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>Garland</td>
<td>2006</td>
<td>$35.5 Million</td>
</tr>
<tr>
<td>Mesquite</td>
<td>2001/2008</td>
<td>$41.4 Million</td>
</tr>
<tr>
<td>Plano</td>
<td>2001</td>
<td>$88.4 Million</td>
</tr>
<tr>
<td>Richardson</td>
<td>2001</td>
<td>$43 Million</td>
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</tbody>
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Why Request a PUC Cost of Service Review Now?

Over the years that Rowlett has been a customer city, the NTMWD’s budget and rates have grown exponentially with little to no regulatory oversight or checks and balances. Over the last 10 years, they have raised water rates by 239%. No independent regulatory authority has ever reviewed those rates, the NTMWD’s annual costs, or its cost structure across the customer base.

It is time.
Annual NTMWD Chlorine Maintenance March 2-30

The North Texas Municipal Water District has temporarily changed the disinfectant in its water treatment process. This annual, routine change is necessary to maintain the regional system and year-round water quality.

Disinfection is a critical part of the water treatment process that keeps drinking water free of harmful microorganisms, such as parasites and viruses. Disinfection involves a two-step process that first treats the water at the treatment plant and then chloramine disinfectant (chlorine + ammonia) is added to maintain water quality on its journey through the miles of pipes to homes and businesses. This common system maintenance practice does not increase the amount of chlorine, and the water remains safe to drink.

Visit ntmwd.com/temporary-change-in-disinfectant for more information.

A Customer Coalition

As I’ve mentioned, this is not just a Rowlett issue and in order to affect permanent change, we need to work together with other NTMWD customer cities and entities. In November 2019, Rowlett spearheaded this effort and hosted an initial meeting of these cities to discuss issues shared by us all and to determine if there was support for a coalition. The consensus of the group was that forming a coalition of the non-member customer cities would be beneficial and to invite the 20 special utility districts (SUD) to join as well.

On Friday, February 28, the City of Rowlett again took the lead by hosting the first coalition meeting of the “non-member” customer entities of the NTMWD. The meeting was well attended and included representatives of the ten cities and four utility districts that formally approved a proposed resolution expressing interest in creating a coalition. Other entities that did not approve the resolution were represented as well and potentially are interested in the coalition.

What’s Next?

Based on a recommendation from the State Office of Administrative Hearings (SOAH), a state agency that uses administrative law judges to conduct evidentiary hearings in administrative proceedings, the Public Utility Commission has granted a Cost of Service Review.

The PUC will remand the case back to SOAH to facilitate this review, which will include the rates set by the NTMWD as well as the take-or-pay rate structure.

Rowlett will closely monitor all actions and will intervene as necessary to represent our interests and will continue to vigorously advocate for our citizens.

Please stay tuned to Rowlett.com, the City’s Facebook page, and RTN16 for updates.

Maintaining Water Safety and Quality is our Commitment to YOU!

We care about the water you drink. We extensively test the water to assure that the City of Rowlett’s drinking water system maintains a “Superior” rating. This is the highest rating for water quality issued by the State of Texas.

During the change, Rowlett Public Works may help move the chlorine-disinfected water through the system by flushing water from fire hydrants. To help avoid a noticeable drop in water pressure, this flushing will occur during off-peak hours or overnight due to the volume of water that needs to move through the system at a high rate of speed. In other words, we all appreciate a nice level of water pressure during our morning shower and your City water crews try to perform the higher volume flushing while we sleep!

I understand how it may look to you as a citizen, seeing a fire hydrant wide open as the system is being flushed for hours, but please know that flushing does not affect customer consumption or cost as this water does not go through customer’s meters.

Learn more about the safety and quality of YOUR drinking water by reading the City of Rowlett Annual Drinking Water Quality Report.