Presentation Overview

- Key Decision Points
- BWA’s Recommendation
- Uniform or Inclining Tier for Single Family Residents
- Scenario Comparisons
- 5-Year Rate Increase Example
- Next Steps

WAC Meeting Objective: Consider rate structure alternatives. Identify preferred rate structure.
VOLUMETRIC RATES

- Uniform OR inclining tiers for single family residential (SFR)
- BWA recommended rates from last meeting

OR

Combine customer classes as suggested by several WAC members at last meeting: (SFR = Commercial, SFR Tier 3 = Irrigation Rate)

OR

Single uniform tier for all customer classes

FIXED CHARGES

- BWA recommended or Consumption-based fixed
BWA’s Recommendation

BWA is Recommending an Inclining and Uniform Tiered Rate Structure for Davis.

- It’s easy to understand
- It’s similar to the current structure (gradualism important in rate setting)
- It has a solid cost of service basis (AWWA Commodity Demand Method)
- It lends itself to implementing a multi-year rate increase to allow debt financing
- It can be easily transitioned to a water budget rate structure
- Additional conservation is projected to be about 20% by 2018 - Meets NRC goal
- Meets requirements of CA Urban Water Conservation Council
- Provides strong conservation incentive
- Will not weaken City’s credit quality
Fixed rates include three components: Readiness-to-serve charge, Meter replacement charge & Admin/Customer Billing charge

Volumetric rates for single-family residential have three inclining tiers:
- SFR Tier 1: 0 – 10 ccf/month, indoor use
- SFR Tier 2: 11 – 29 ccf/month, basic outdoor use
- SFR Tier 3: Over 29 ccf/month, high use

Volumetric rates for ALL OTHER classes of customers have a uniform (single) tier

Fixed/Volumetric rate revenues are estimated at 47%/53% based on cost allocation

Customer classes simplified to four (SFR, MFR, Commercial, Irrigation)

Uses AWWA meter ratios for proportioning Readiness-to-serve charge

Rate increases effective May 1, 2013 and January 1, thereafter through January 1, 2018

Cash flow scenarios include 30mgd WDCWA (12mgd Davis)
Monthly Fixed Charges

Monthly Fixed Charge =
Meter Replacement + Admin/Billing + Readiness to Serve

WDCWA Option A, WAC Alt 4b - DRAFT

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## Volumetric Charges

### WDCWA Option A, WAC Alt 4b – BWA RECOMMENDED

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### WDCWA Option A, WAC Alt 4b – WAC SUGGESTED ALTERNATIVE

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Inclining or Uniform Tier for SFR

Some considerations about uniform block rates:

- Less consistent with the intent of Article X of the Calif. Constitution because:
  - Reduces conservation message to large water users
  - Reduces the ongoing positive economic reward for those users who have taken steps to conserve water by reducing their consumption
  - Does not send clear conservation price signals to consumers

- Less affordable for demographic groups that are challenged in all economic times ($400,000/yr estimated swing in 2019/20):
  - Senior citizens on fixed incomes
  - Unemployed
  - Low-income households

Both uniform block and inclining tier rate structures are compatible with CUWCC BMP 1.4 (won’t hinder efforts to secure low-cost funding)
Do inclining tiers produce more conservation than uniform block tiers?—It depends

- Conservation is influenced by many factors including:
  - Weather
  - Conservation Outreach Programs
  - Economic Conditions
  - Combined Bills (water/sewer/garbage)
  - Bill Design/Customer Understanding
  - Changing Ethics and Values
  - Magnitude of Water Costs
  - Billing Frequency

- EPA considers uniform block rate structures as “less effective in encouraging conservation” (than inclining tiers)
  [http://water.epa.gov/infrastructure/sustain/pricing_structures.cfm](http://water.epa.gov/infrastructure/sustain/pricing_structures.cfm)

- 2012 review of Portland, Oregon’s water rates found little evidence that the difference in rate structures (uniform block or inclining rate) materially affects the conservation incentive.

Both rate structures would produce the same revenues
MONTHLY WATER BILL COMPARISON
Single Family Residential
Low Use: 3/4" meter, 8 ccf/month

WDCWA Option A, WAC Alternative 4b BWA RECOMMENDED
WDCWA Option A, WAC Alternative 4b UNIFORM TIER FOR ALL
WDCWA Option A, WAC Alternative 4b WAC SUGGESTED ALT.
WDCWA Option A, WAC Alternative 4b CURRENT RATE STRUCTURE
MONTHLY WATER BILL COMPARISON
Single Family Residential
High Use: 3/4" meter, 45 ccf/month

- WDCWA Option A, WAC Alternative 4b BWA RECOMMENDED
- WDCWA Option A, WAC Alternative 4b UNIFORM TIER FOR ALL
- WDCWA Option A, WAC Alternative 4b WAC SUGGESTED ALT.
- WDCWA Option A, WAC Alternative 4b CURRENT RATE STRUCTURE
MONTHLY WATER BILL COMPARISON
Commercial Customer
3/4" meter, 8 ccf/month

- **WDCWA Option A, WAC Alternative 4b BWA RECOMMENDED**
- **WDCWA Option A, WAC Alternative 4b UNIFORM TIER FOR ALL**
- **WDCWA Option A, WAC Alternative 4b WAC SUGGESTED ALT.**
- **WDCWA Option A, WAC Alternative 4b CURRENT RATE STRUCTURE**
MONTHLY WATER BILL COMPARISON
Commercial Customer
3" meter, 450 ccf/month

- WDCWA Option A, WAC Alternative 4b BWA RECOMMENDED
- WDCWA Option A, WAC Alternative 4b UNIFORM TIER FOR ALL
- WDCWA Option A, WAC Alternative 4b WAC SUGGESTED ALT.
- WDCWA Option A, WAC Alternative 4b CURRENT RATE STRUCTURE
MONTHLY WATER BILL COMPARISON
Irrigation Customer
3" meter, 450 ccf/month, 0.98 acres

Current
7/1/2013
1/1/2014
1/1/2015
1/1/2016
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WDCWA Option A, WAC Alternative 4b BWA RECOMMENDED
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WDCWA Option A, WAC Alternative 4b CURRENT RATE STRUCTURE
MONTHLY WATER BILL COMPARISON
Multi-Family Customer
3" meter, 500 ccf/month, 100 units

- WDCWA Option A, WAC Alternative 4b BWA RECOMMENDED
- WDCWA Option A, WAC Alternative 4b UNIFORM TIER FOR ALL
- WDCWA Option A, WAC Alternative 4b WAC SUGGESTED ALT.
- WDCWA Option A, WAC Alternative 4b CURRENT RATE STRUCTURE
MONTHLY WATER BILL COMPARISON: ALL SCENARIOS

Inclining Tiers Rate Structure
Average Single Family Residential
3/4" meter, 15 ccf/month

WDCWA Option A, WAC Alternative 4b BWA RECOMMENDED
WDCWA Option A, WAC Alternative 4b DELAYED FINANCING
Baseline Expenses Only (no SWP)
WDCWA Option A, WAC Alternative 4b UNIFORM TIER FOR ALL
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WDCWA Option A, WAC Alternative 4b 0.5% GROWTH
WDCWA Option A, WAC Alternative 4b 1% GROWTH
WDCWA Option A, WAC Alternative 4b 100% FIXED
WDCWA Option A, WAC Alternative 4b 100% VARIABLE
WDCWA Option A, WAC Alternative 4b WAC SUGGESTED
5-Year Rate Increase Example

- Need multi-year rate increase to secure debt for capital projects
- Limited to 5-year phase in (Due to legal issues)

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<th>Single Family Residential ($/ccf/mo)</th>
<th>Tier 1: 0 - 10</th>
<th>Tier 2: 11 - 29</th>
<th>Tier 3: 29+</th>
<th>MFR Rate ($/ccf/mo)</th>
<th>Comm Rate ($/ccf/mo)</th>
<th>Irrig Rate ($/ccf/mo)</th>
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<td>Current</td>
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</table>
1. M. Siegler wants to see what proportion of households fall into each category.
2. M. Siegler also wants to see how sensitive the model is to population. Try 0%, 0.5% and 1% growth.
3. P. Marchand would like a chart that compares the current rate structure compared to the proposed and Matt’s.
4. D. Purkey would also like to see what rates would look like for 100% fixed vs 100% variable.
5. G. Adler would like to see, for comparison, a single tier for residential the same as commercial.
6. B. Kopper would like to see what everyone’s rates would be like if parks and schools were irrigated with their own dedicated well (not our water).
7. E. Musser wants to know when we’ll know if deferring the payments for the first five years is possible.
8. E. Musser wants to know how much water people are using in the peak month.
Next Steps

- Select rate structure  
  Nov 8, 2012
- Finalize rates & charges  
  Nov/Early Dec 2012
- Approve final rates & charges  
  Dec 13, 2012
- Mail Prop 218 notices  
  Jan 2013
- Conduct election for Surface Water Supply  
  March 2013
- Conduct rate hearing  
  March 2013
Questions and Comments