

UTILITY RATE SETTING



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Alternate Topics

How to Watch Grass Grow



Why do some people pay \$13,760 per
Thousand Gallons for Bottled Water?

Who scheduled this conference on the first day of
the Big 12 Basketball Tournament?

How many times can we say “Economic Stimulus
Program”?

What does F.A.C.T. really stand for?

Need for Rate Adjustments

Meet Changing Operational Costs

Fund on-going Capital Projects on a Pay-As-You-Go Basis

Take on additional Debt for Capital Improvements

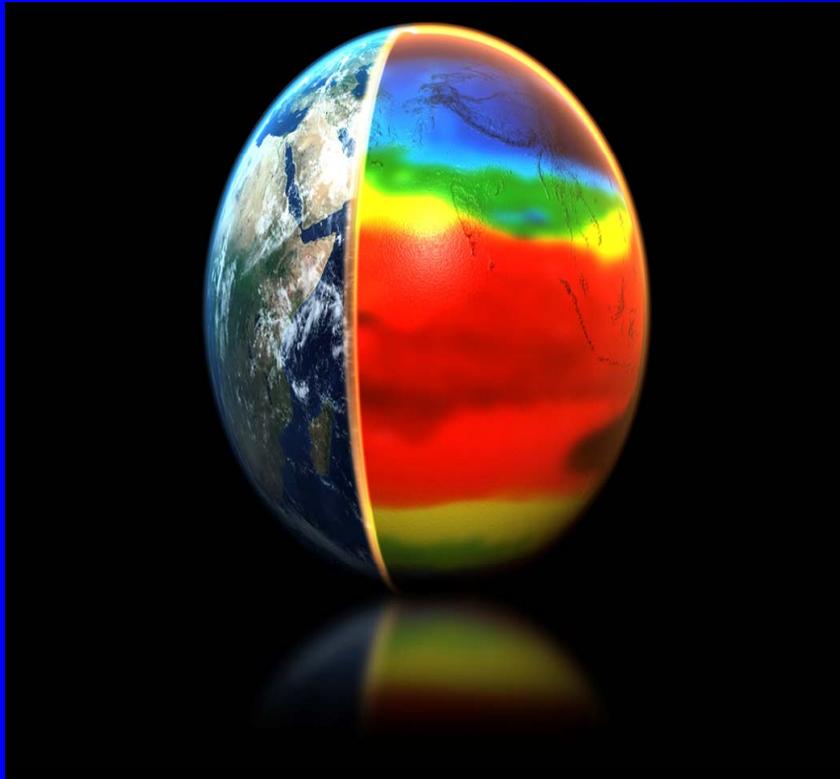
Replenish Reserves drawn down over a period of time

To support non-revenue producing services

To meet Legal Covenants required by Debt Instruments



Need for Rate Adjustments cont...



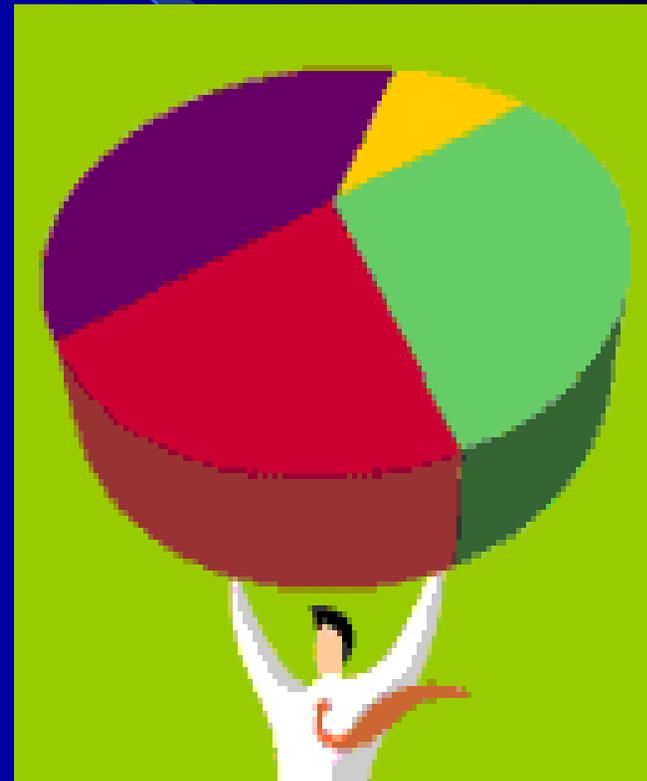
Respond to Local
Demographic Trends

Respond to Unseasonable
Weather Conditions

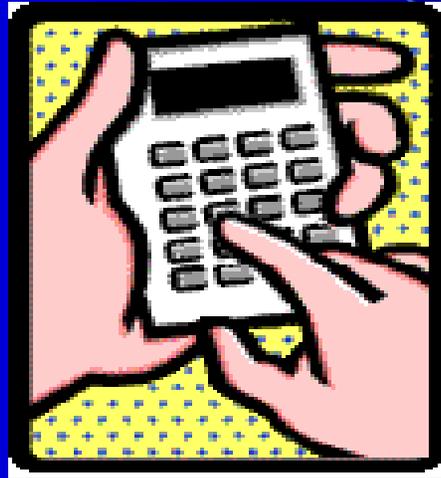
To stir up the community and get
folks interested in running for a
City Council seat

Allocation of Rate Adjustments

- Allocating Cost of Service
 - Base Costs
 - Extra Capacity Costs
 - Customer Costs



Allocation of Rate Adjustments cont...

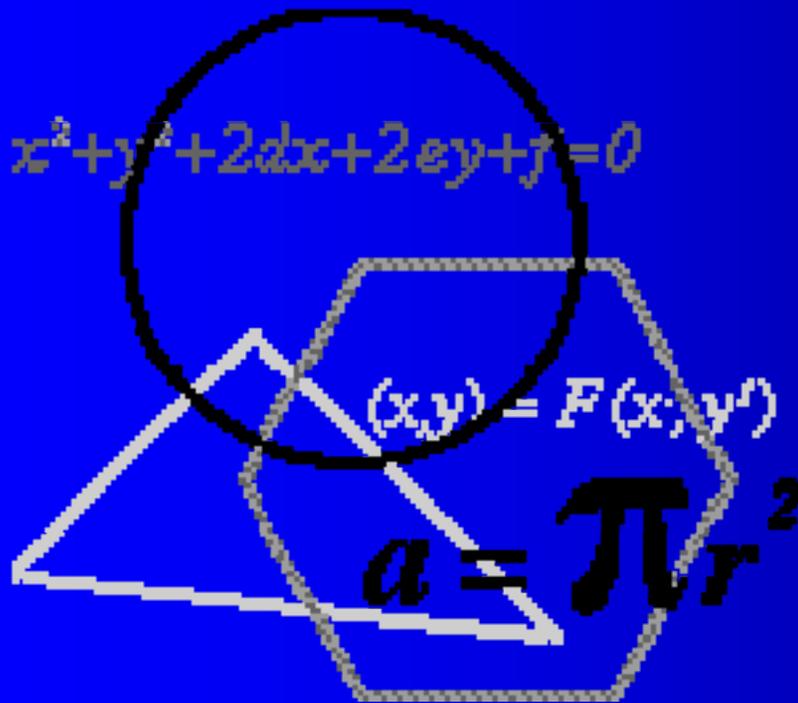


- Allocating Costs to Customer Class
 - General
 - Residential
 - Commercial
 - Industrial
 - Other

Allocation of Rate Adjustments cont...

- Equitable Allocation Methods

$$x^2 + y^2 + 2dx + 2ey + f = 0$$



- Basis of Usage
- Basis of Revenues
- Competitive Awareness
- Revenue Factor

Initial Planning Efforts

Define Goals and Objectives

Variables and Considerations

- Availability and Quality of Data
- Customer Diversity
- Seasonality of Revenues and Costs
- Price Elasticity of Demand
- Weather Risks

Create Public Awareness

In-House or Out-House Analysis

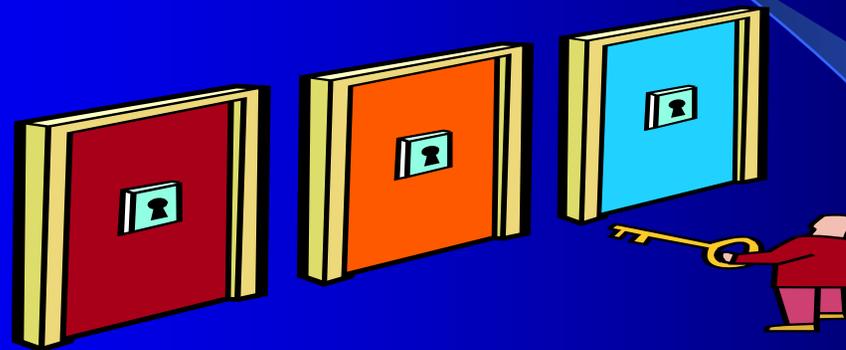


Selecting Rate Structures



- Uniform Rates
 - Establishes constant cost per unit charged
 - Simple & Straightforward
 - Politically Correct
 - Stable Revenue or Cashflow

Selecting Rate Structures cont...



- Declining Block Rates
 - Cost per unit decreases as usage increases
 - Develop block or range size
 - Generally favors Large Users
 - Not conservation oriented
 - Impacts grant eligibility

Selecting Rate Structures cont...

- Increasing Block Rates
 - Cost per unit increases as usage increases
 - Develop block or range size
 - Generally hurts Large Users
 - Promotes conservation
 - Enhances grant eligibility



Selecting Rate Structures cont....

- Seasonal Rates

- Primarily applies to wastewater usage
- Establishes annual charge based on winter water usage
- Politically advantageous
- Generally applied only to Residential Customers
- Reduces revenue potential
- Usually requires higher water rates



Rate Structure Charges



Base Charge

- Minimum monthly bill not tied to usage

Minimum Charge

- Minimum monthly bill covering low usage amount

Consumption Charge

- Charge based on usage above some minimum

Rate Structure Charges cont...

Surcharge

- Flat fee dedicated to some specific purpose or project
- Usually has limited term

Wal-Mart Senior Citizen Discount

- Reduced rate for elderly
- Recognizes economic plight of seniors
- Requires higher rates for other users

Automatic Increases tied to Consumer Price Index



Timing of Rate Adjustments

Budget Process

Implementation in fall or winter

Prior to Debt Incurrence

Phased-In Approach

Right before the City Manager is fired



Legal Mechanisms

Establishing Rates in Minutes

- Difficult to track
- Possibility of errors in Rate Calculation

Adopt in form of Resolution or Ordinance

- Easy Reference
- Historical Tracking
- Memorializes Rate Actions

Deciding How Much is Too Much

- Quantitative Benchmark
- Qualitative Benchmark
- No Benchmark



Summary and Conclusions

You've Heard Some Things Today You Probably Already Knew

Further Reference Material – “Rate Analysis for Dummies”

Line up in Front of Exhibit Hall “A” to Pick up Your Grant Checks



Questions

