

SALT LAKE CITY COUNCIL STAFF REPORT

DATE: March 18, 2003

SUBJECT: **Water Conservation Rate Structure**

AFFECTED COUNCIL DISTRICTS: All Districts

STAFF REPORT BY: Gary Mumford

ADMINISTRATIVE DEPT. Department of Public Utilities

AND CONTACT PERSON: LeRoy Hooton

KEY ELEMENTS:

At the Council's request, the Department of Public Utilities has provided a schedule of potential future water rate increases. The Council has already approved three annual rate increases of 3% relating to a new water treatment facility and other improvements to be constructed by the Metropolitan Water District of Salt Lake and Sandy. In addition to these rate increases, the Department has indicated that additional rate increases may be advisable beginning in July 2004 to accelerate the replacement of City infrastructure and to finance annual assessments to the Metropolitan Water District of Salt Lake and Sandy that will begin incrementally in fiscal year 2004-05. The Department is not suggesting that the Council take any action at this time relating to future rate increases. The Department of Public Utilities provided a nine-year financial projection cash flow schedule as part of the Department's budget presentation package.

Potential Water Rate Increases		
Budget Year	City Council Approved Increases	Potential Additional Rate Increases
2003-2004	3%	
2004-2005	3%	6%
2005-2006	3%	6%
2006-2007		8%
2007-2008		9%
2008-2009		6%
2009-2010		6%
2010-2011		7%
2011-2012		7%
Total	9%	55%

The Council may wish to discuss several other water rate matters including:

- Number of units of water in the first block for residential customers
- Rate differential proposed for County customers
- Abatement program for the needy
- Number of units of water in the second block for residential customers
- Any other questions that Council Members may have regarding the proposed water rates for commercial/industrial, irrigation, or residential customers

- Time line for community meetings including possible date for public hearing
(Note: The Department of Public Utilities proposes that the new rates become effective on June 1st in order to encourage water conservation throughout the entire irrigation season. The Council may wish to hold a public hearing and consider adopting a rate structure in April to allow the Department time for implementation. The Department of Public Utilities has been meeting with community councils about the proposed rate structure.)

MATTERS AT ISSUE:

1. Number of units of water in the first block for residential customers – At the briefing on February 6, some Council Members discussed the option of increasing the number of units of water that would be priced at the first block. (Note: Each unit of water is 100 cubic feet or 748 gallons.) The transmittal discusses the effect of increasing the first rate block for residential customers to include sufficient water for indoor use for a greater percentage of customers. The 9 units of water that are proposed to be priced at the lowest rate are sufficient to provide indoor water use for 58.2% of the customers; 10 units meets 62.2% of customers indoor needs; 11 unit 65.6%; 13 units 70.5%; and 16 units satisfy 75% of customers indoor water consumption. In answer to the Council question the Department has prepared an alternative proposal of 13 units with increase of 1 cent to the second block rate. The Department projects that \$800,000 of revenue would result from the 1 cent increase, which would offset \$800,000 that would be lost from increasing from 9 to 13 units the amount of water priced in the first block. *The Council may wish to provide tentative direction to the Department so that the Department can disseminate impact information prior to the Council's public hearing.*
2. Rate differential proposed for County customers – The consultant's study recommends adjusting the multiplier for customers outside of City limits from 1.5 times the in-City rates to 1.35 times the in-City rates. About 36% of the City's water customers are located outside the City limits (53,854 City accounts; 30,601 County accounts). *The Department of Public Utilities desires to schedule briefings on the proposed rate structure with community councils in the County service area and would like to receive some indication as to whether the Council is generally in agreement in accepting the 1.35 multiplier.*
3. Abatement program for the needy – The Department proposes to continue the abatement program of granting a \$4.33 monthly water abatement to those customers that qualify for and are granted abatements for taxes on their dwellings by the County as allowed by the state code. Individuals that are 65 or older, who own and occupy a residence, and with household income and cash/investments of less than \$24,245 are generally eligible. The Department of Public Utilities is not proposing an increase to the water abatement amount. There are 2,430 customers that currently receive water abatements. This program costs the Water Fund approximately \$126,000 annually. *The Council may wish to discuss whether the dollar amount of the abatement is appropriate.*

4. Number of units of water in the second block for residential customers – The second block of water for residential customers (up to 29 units of water) is intended to represent an allowance for efficient outside irrigation systems and appropriate irrigation practices. According to the Department, an average single-family residential customer uses 32 units of water during the summer months of June through September. This average was calculated by dividing the total water used by all single-family residential customers during the four summer months (June through September) in 2000 by the total number of customers in this class and dividing by four to get an average usage per month. The average doesn't represent the highest or peak usage during the summer, but the average for all four summer months. There are customers with very small lots within certain sections of the City and customers with very large lots within certain sections of the City. In various neighborhoods of the City, it is not unusual to have many customers that have peak month water usage in the summer of close to 100 units. *The Council may wish to discuss whether 29 units are the appropriate allowance for the second block.*
5. Rates for commercial/industrial, irrigation and residential customers – The Council has many if not unlimited options for setting customer rates. *The Council may wish to discuss the proposed rate structures and determine whether the Council would like additional information or briefings regarding any of the proposed rates or block sizes.*

The following information was provided to the Council previously.
It is provided again for your reference.

Residential Customers – A seasonal inclining block approach is proposed for residential customers. The average annual residential water bill will increase approximately \$31 from \$224 to \$254, which is a 13.65% increase.

RESIDENTIAL CUSTOMERS		
	Current Rates (including 3% increase on 7/1/03)	Proposed Rate Structure
Current winter rates	\$0.61 per 100 cubic feet (748 gallons)	
Current summer rates	\$0.93 per 100 cubic feet	
Block 1: Up to 900 cubic feet		\$0.72 per 100 cubic feet
Block 2: From 900 cubic feet to 2900 cubic feet		\$1.10 per 100 cubic feet
Block 3: Excess of 2900 cubic feet		\$1.53 per 100 cubic feet

Industrial and Commercial Customers – The Department of Public Utilities recommends an average winter consumption approach for industrial and commercial accounts (including condominium and apartment complexes).

INDUSTRIAL AND COMMERCIAL WATER RATES		
	Current Rates (including 3% increase for 7/1/03)	Proposed Rate Structure
Current winter rates	\$0.61 per 100 cubic feet	
Current summer rates	\$0.93 per 100 cubic feet	
Block 1: Up to 100% of average winter consumption		\$0.72 per 100 cubic feet
Block 2: 100% to 300% of average winter consumption		\$1.10 per 100 cubic feet
Block 3: Excess of 300% of winter consumption		\$1.53 per 100 cubic feet

Water budget for irrigation accounts – The Department of Public Utilities recommends a target budget approach for irrigation-only accounts. The formula for the target will be based on a the number of factors such as amount of square feet of irrigated area, type of vegetation, historic monthly evapotranspiration index, irrigation system efficiency and other items. Irrigation customers may exceed the target budget unless they have efficient irrigation systems and implement appropriate site management practices. The proposed rates establish a cost incentive to upgrade irrigation systems. Irrigation customers may see an increase to their water costs, but it is difficult to predict the actual increase percentage.

IRRIGATION CUSTOMERS		
	Current Rates (including 3% increase for 7/1/03)	Proposed by Subcommittee and Advisory Committee
Current rates	\$0.93 per 100 cubic feet of water	
Block 2: Up to target budget		\$1.10 per 100 cubic feet of water
Block 3: Excess of target budget		\$1.53 per 100 cubic feet of water

Monthly minimum charge – The City’s current water rates include a monthly service charge that not only recovers costs of reading and maintaining meters, but also includes an allocation of 500 cubic feet of water (3,740 gallons). The proposed water rates eliminate this water allocation so that conservation begins with the very first gallon of water used. This proposal is also more equitable to those households with only one or two occupants that don’t use 3,740 gallons every month. Under the proposal, the monthly service charge for a residential customer would be reduced from \$8.90 to \$5.62. Therefore, under the proposed structure, the combined service charge and cost for the first 500 cubic feet of water will be \$9.22.

Demand charge – The City’s current water rates for industrial and commercial customers includes a demand charge based on the size of the water meter. The consultant concluded that the demand charge could not be justified. This recommendation will reduce the monthly service charge for industrial customers, condominium and apartment complexes, and for most commercial customers. For example, the proposal reduces the monthly service fee for a three-inch meter from \$71.62 to \$13.04 and reduces the fee for a four-inch meter from \$109.99 to \$14.02.

Expanded “summer months” – The three-tiered inclining price structure is proposed for the months of April through October. A flat rate (first-tier rate) is proposed for winter-month consumption (November through March). The current summer rates are in effect during June through September.

cc: Rocky Fluhart, David Nimkin, LeRoy Hooton, Jeff Niermeyer, Jim Lewis, Stephanie Duer, Rick Giardina, DJ Baxter