Cost-of-Service Rate Study 2007

Public Involvement Committee

Workshop 6: Rate Design

Austin Water Utility

March 3, 2008
Tonight’s Agenda

1. Welcome
2. Decisions by Executive Team
3. PIC comments from last meeting
4. Presentation on rate design
5. PIC member comments and discussion
6. Summary of decisions, agreements, and next steps
7. Public comment period
Decisions by Executive Team

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Executive Team Decisions

- **Wastewater Cost Allocations Issue 1**
  – Hybrid Method will be used (O&M allocated by function and capital allocated by design)

- **Wastewater Cost Allocations Issue 2**
  – Flow, BOD, and TSS will be used to allocate wastewater costs

- **Wastewater Cost Allocations Issues 3**
  – deferred (I/I cost allocations)
PIC Comments From Last Meeting

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Comments from PIC Members

- Industrial and multifamily representatives agree with disaggregation of large-volume customer class
- Industrial and multifamily representatives would like large-volume customer class threshold to decrease to 30 MG per year
- Commercial, industrial, and multifamily representatives agree that a separate customer class should not be created for irrigation customers
Requests from Individual PIC Members

- Glossary of terms
- More detail on allocation of extra-capacity costs to customer classes
- Tables from Issue Paper #4 in Excel format
- Summary statement for each table and figure in issue papers
- Less technical language in issue papers
Requests from Last PIC Workshop

- Historical peaking factors (3 years)
- Cost differences if large-volume class is disaggregated
- Water Conservation Task Force report
- Feasibility of disaggregating the commercial customer class
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Rate Structure Components

- Fixed Charge
- Variable or Consumption-based Rate
Types of Fixed Charges

- Service or customer charge
- Meter charge
  - Fire charge
  - Demand charge
- Minimum charge
Common Water Rate Structures

- Uniform
- Declining Block
- Inclining Block
- Seasonal
Uniform Rate Structure (as Illustrated by Class)

Class 1

Class 2

Class 3
Declining Block Rate Structure

$/kgal

Declining Block Rate vs Quantity
Inclining Block Rate Structure
Seasonal Rate Structure

$/kgal

Seasonal Rate

Summer

Months

Pathways to Lasting Solutions
Excess Use Rate Structure

$/k gal

Excess Use Rate

% AWC
Water Budget Rate Structure

$\text{/kgal}$

Budget / Individualized

Quantity

Customer 1

Customer 2
Common Wastewater Rate Structures

- Quantity / Quality Rates
- Extra-strength Surcharges
Policies Reviewed

1. What is the best method for providing a subsidy to low-income customers?
2. How should AWU recover a subsidy to low-income customers?
3. Should AWU introduce a 5th block for single-family residential customers?
4. What conservation incentives should exist for wholesale customers?
5. How should customers with separate irrigation meters be treated?
Issue 1: Low-Income Residential Subsidy

- Discounted rates for Blocks 1 and 2*
- Waive the fixed charge for qualified low-income residential customers

*AWU’s current methodology
Discounted Rates for Blocks 1 and 2

- AWU’s current methodology
- Easily implementable
- Discount applies to all residential customers
- More common within industry
- Increases revenue volatility
Waived Fixed Charge

- Utilize Austin Energy’s low-income criteria
- Potentially greater administrative burden
- Easy to understand
- More affordable for large families
- Reduced likelihood of rate shock and punitive rates in highest blocks
- Increased rate stability
- Recommended by consulting team
Issue 2: Recovery of Low-Income Subsidy

- Recover the subsidy within the single-family residential class*
- Recover the subsidy from all inside-city retail customer classes

*AWU’s current methodology
Recover Subsidy within Residential Class

- AWU’s current methodology
- Easily understood by public
- Increased interclass equity
- Less affordable for residential customers who do not qualify
- Encourages conservation within residential customer class
Subsidized by All Inside-city Retail Customer Classes

- Potentially more acceptable to public
- Less reduction of intraclass equity
- Increased interclass subsidy
- Decreased rate volatility
- Improved revenue sufficiency and stability
- Recommended by consulting team
Issue 3: Fifth Block for Residential

- Current 4-block structure*
- 5-block structure
- Revised 4-block structure

*AWU’s current methodology
Current 4-block Structure

- AWU’s current methodology
- Easy to understand
- Promotes conservation
- Less administrative burden
- Less potential for rate shock
5-block Structure

- Recommended by Water Conservation Task Force
- Intended to enhance conservation
- Increased administrative burden
- May be difficult to understand
- Increased potential for rate shock
- Decreased financial stability
Revised 4-block Structure

- Similar incentive for conservation as 5-block structure
- Easy to understand
- Increased potential for rate shock
- Easy to implement
- Decreased financial stability
- Recommended by consulting team
Issue 4: Conservation Incentives for Wholesale Customers

- Uniform rates by wholesale class*
- Seasonal rates
- Excess-use rates

*AWU’s current methodology
Uniform Rates

- AWU’s current methodology
- Least administrative burden
- Low risk of implementation
- Most common rate structure for wholesale customers
- Less revenue volatility
- Recommended by consulting team
Seasonal Rates

- Low administrative burden
- Moderate risk of implementation
- Increased incentive for conservation
- Increased revenue volatility
- Increased potential for rate shock
- More politically acceptable
**Excess-use Rates**

- Greatest administrative burden
- Highest risk of implementation
- Increased incentive for conservation
- Increased revenue volatility
- Increased potential for rate shock
- More politically acceptable
Issue 5: Irrigation Rates

To be presented in
Irrigation Rates Issue Paper and
at Rate Design Workshop 2
on March 17, 2008
PIC Member Questions, Discussion, and Comments

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Summary Of Decisions, Agreements, And Next Steps

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Next Steps

- Written comments on tonight’s meeting due 3/10 (to Mike Castillo)
- Irrigation Rates issue paper to PIC (3/10)
- Next PIC Workshop (3/17)
Public Comment

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