

Financial and Pricing Objectives Workshop

Rates Advisory Committee

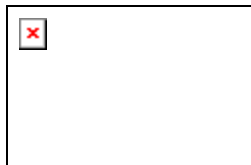
February 19, 2009

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PRO-OPS, INC.
Professional Operations, Inc.

Identify Financial and Pricing Objectives

- Financial Sufficiency
- Cost of Service Based Allocations
- Minimization of Customer Impacts
- Equitable Contributions from New Customers
- Economic Development
- Rate Stability





Identify Financial and Pricing Objectives

- Affordability to Disadvantaged Customers
- Simple to Understand and Update
- Ease of Implementation
- Legality
- Revenue Stability
- Conservation/Demand Management

Financial Sufficiency

- Manage utility like a business
- Rates should be set to recover the “full cost” of utility operations and capital projects

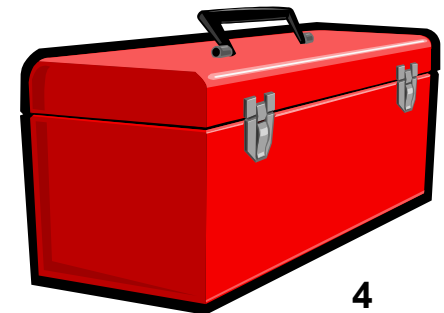
Realistic
Budgeting

Annual
Reviews

Full Cost
Accounting

Regular Rate
Adjustments

Periodic Cost of
Service Analysis





Cost of Service Based Allocations

- Recovery of costs from customers and customers classes in proportion to cost of providing service
- Customers are more willing to accept their fair share of costs
- “Level of Equity” tradeoff

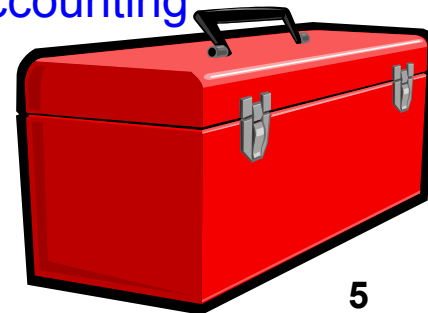
Rates By
Class

Comprehensive
Billing Data

Full Cost
Accounting

Fixed and Variable
Components

Periodic Cost of
Service Analysis



Minimization of Customer Impacts

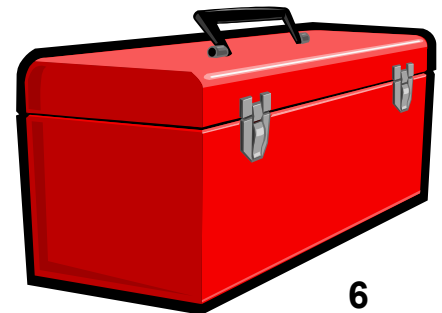
- Avoid large changes in bills
- Minimize differential impacts

Regular Rate
Adjustments

Minimize Rate
Structure
Changes

Phased Rate
Adjustments

Long-term
Capital Planning



Equitable Contributions From New Customers

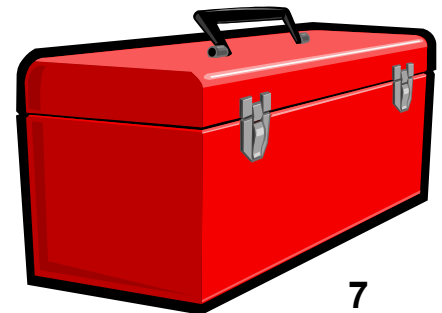
- “Growth pays for growth”
- Intergenerational equity

Proper project
characterization

System Buy In

Capital
Recovery Fees

Marginal Cost



Economic Development

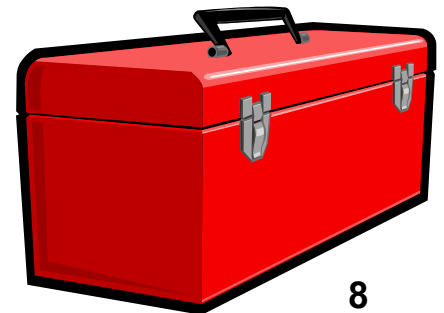
- Water and sewer service as incentive for economic development
- Comparability with our neighbors/competitors
- Potential legal and political risks

Cost/Benefit
Analysis

Subsidized Rates

Interruptible
Rates

Marginal Cost
Rates



Rate Stability

- Smooth program of rate adjustments is usually preferable
- Volatile swings should be avoided

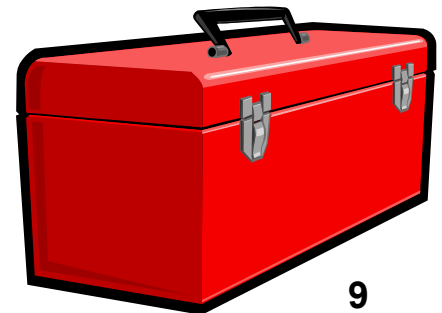
Proper
Capital
Planning

Appropriate Use
of Debt Funding

Maintain Adequate
Reserves

Regular Rate
Adjustments

Phased Rate
Adjustments



Affordability to Disadvantaged Customers

- Economically disadvantaged customers should be able to afford the essential services provided by the utility
- Utility should understand the cost of affordability programs

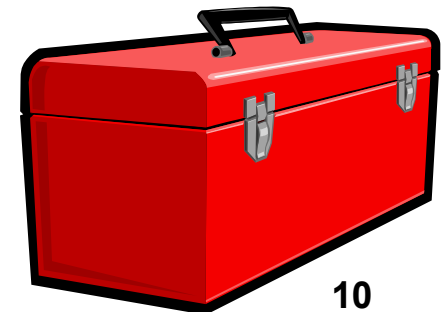
Variable Fee
Discounts

Fixed Credits

Minimize
Fixed Fees

Percentage
of Income

Fixed Fee
Discounts



Simple to Understand and Update

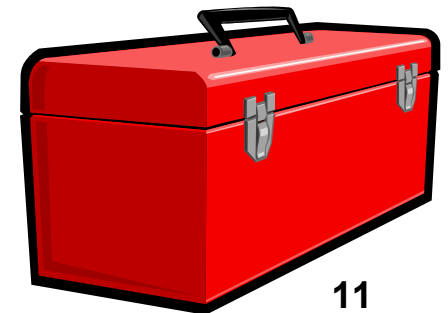
- Customers should be able to understand their bill
- Utility staff should be able to easily update rates

Effective
Communication

Uniform
Rates

User Friendly
Rate Model

Flat Fees



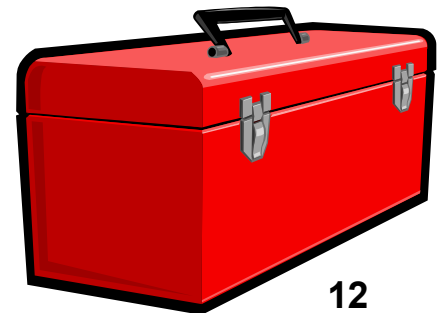
Ease of Implementation

- Minimal impact on customer service staff
- Compatible with billing software
- Based on readily available data

Uniform Rates

Minimize Rate
Structure Changes

Comprehensive
Billing Data



Legality

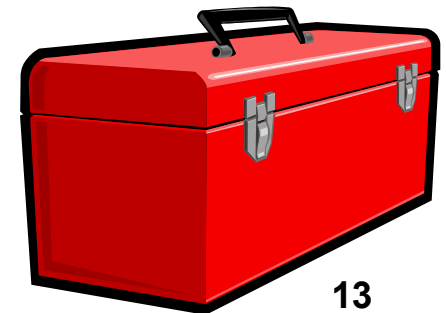
- Consistent with industry standards, local & state statutes and contractual obligations
- Minimize potential for litigation
- Effective in meeting bond covenants

Stakeholder
Involvement

Realistic
Budgeting

Follow AWWA
M-1

Comprehensive
Billing Data



Revenue Stability

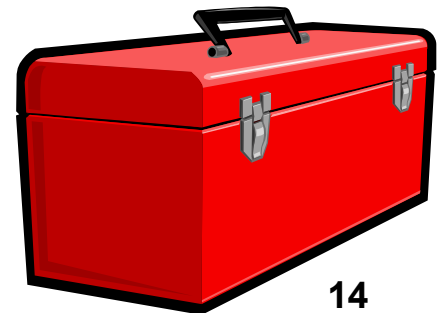
- Revenues are predictable and stable
- Revenues matched with revenue requirements

Regular Rate
Adjustments

Uniform Rates

Flat Rates

Maximize Fixed
Component



Conservation/Demand Management

- Pricing structure should encourage more efficient water use
- May target specific customer classes
- Targets discretionary use

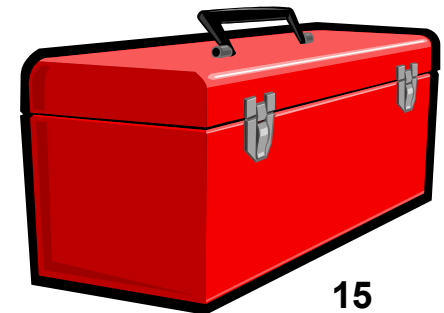
Minimize Fixed
Component

Water Budget
Rates

Irrigation Rates

Increasing
Block Rates

Seasonal
Rates





Conflicting Objectives

EXAMPLES

Revenue Stability

VS.

Conservation

Financial Sufficiency

VS.

Rate Stability

Equitable Contribution
From New Customers

VS.

Economic
Development

Conservation

VS.

Simple to Understand



Pricing Objectives Exercise



Financial and Pricing Objectives

Pricing Objective	Description
Financial Sufficiency	Rate structure should cover O&M, capital costs, target level of reserves and debt service coverage requirements.
Cost of Service Based Allocations	Rate structure should allow equitable contribution from each customer class based on the demand they place on the system.
Minimization of Customer Impacts	Rate structure should minimize rate impact on each customer class
Equitable Contributions from New Customers	New customers should pay for facilities needed to serve them. This can be done through connection fees.
Economic Development	Attracting economic development can be achieved through preferential connection charges.
Rate Stability	Rate structure should minimize dramatic rate increases or decreases over time.

Financial and Pricing Objectives

Pricing Objective	Description
Affordability to Disadvantaged Customers	Rate structure should incorporate policies to ensure economically disadvantaged can afford water service.
Simple to Understand and Update	Rate structure should be simple for customers and staff to understand and update in future years.
Ease of Implementation	Rate structure should be compatible with City's current billing system and other information systems.
Legality	Rate structure should use AWWA methodology to ensure rates are defensible if challenged.
Revenue Stability	Rate structure should provide steady stream of revenues from year to year.
Conservation/Demand Management	Rate structure should encourage water conservation and management of system demand.

Ranking The Objectives

EXAMPLE

	Classification of Pricing Objectives			
	Essential <i>(Maximum of 3)</i>	Very Important <i>(Maximum of 3)</i>	Important	Least Important
Financial Sufficiency	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Cost of Service Based Allocations	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Minimization of Customer Impacts	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Equitable Contributions from New Customers	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Economic Development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Rate Stability	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Affordability to Disadvantaged Customers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Simple to Understand and Update	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Ease of Implementation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Legality	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Revenue Stability	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Conservation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



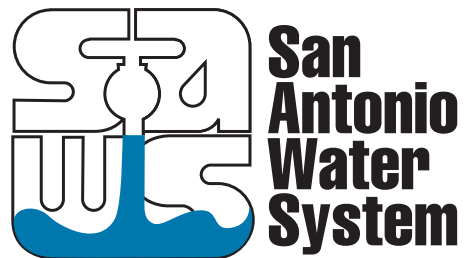
Objectives Rating Scale

Pricing goals will be weighted as follows:

- Essential = 4
- Very Important = 3
- Important = 2
- Least Important = 1

Sample of Results

Classification	Rank	Objective	Score
Essential	1	Simple to Understand and Update	30
	2	Financial Sufficiency	27
	3	Conservation/Demand Management	22
Very Important	4	Rate Stability	20
	5	Revenue Stability	19
	5	Equitable Contributions from New Customers	19
Important	7	Cost of Service Based Allocations	18
	8	Legality	17
	8	Ease of Implementation	17
Least Important	10	Minimization of Customer Impacts	16
	11	Affordability to Disadvantaged Customers	14
	12	Economic Development	11



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Comprehensive Cost of Service and Rate Design Study



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