

**2014-2015 PROPOSED BUDGET
RESPONSE TO REQUEST FOR INFORMATION**

DEPARTMENT: AWU

REQUEST NO.: Rate Option Request

REQUESTED BY: Tovo

DATE REQUESTED: 9/4/14

DATE POSTED:

REQUEST: Please provide proposed water rates and bill impacts if Austin Water's currently proposed rates were changed to include equal percentage increases for the residential monthly tiered minimum charge and the volumetric block rates.

RESPONSE:

Austin Water has completed two additional residential water rate options which include an equal percentage increase to each of the 5 blocks of the monthly tiered minimum charge and the 5 blocks of the volumetric rates, as requested by Council Member Tovo, and an alternative tiered minimum charge option for consideration. The tables at the end of this response provide residential water bill comparisons of the following rate options including:

- **Table 1:** Existing 2014 residential water rates vs. AWU Proposed 2015 water rates
- **Table 2:** Existing 2014 residential water rates vs. AWU Alternative Tiered Minimum Charge
- **Table 3:** Existing 2014 residential water rates vs. Tovo Requested water rates

Additionally, we have included a summary schedule (**Table 4**) of the residential water rates before the Joint Committee recommendations were implemented, the subsequent rates implementing the Joint Committee recommendations, and the proposed and additional option rates for 2015. This table also shows the impact of the proposed 2015 drought rates under each of the options above.

Austin Water Utility recommends the proposed water rates detailed in the 2015 Proposed Budget, with bill impacts provided in **Table 1**. These rates are consistent with the Joint Committee recommendations of 2012 and reaffirmed in their work in 2014. The proposed 2015 residential water rates include equal dollar increases in the tiered minimum charge blocks and the volumetric rate blocks. This was a fundamental recommendation of the Joint Committee that initiated the reduction in volatility of our water revenue. Practices of the past put more of the rate increases in the higher blocks, which under drought conditions or wet weather would significantly impact Austin Water's revenue. The Joint Committee specifically addressed this issue by recommending equal dollar increases to the tiered minimum charge and volumetric rates for future rate increases. The 2013, 2014, and the Austin Water Proposed 2015 rates have complied with this Joint Committee

recommendations. This option would have much less revenue volatility than an option that pushes more of the rate increase into the higher rate blocks.

For the Austin Water Proposed 2015 Water Rates compared to the existing 2014 water rates, the water bill impacts for the average water customer using 7,000 gallons for 2015 would be an increase of \$8.60 or 22.4%. For the lower use water customer that only uses 2,000 gallons, the bill impact for 2015 would be an increase of \$2.91 or 22.2%. **(Table 1)**

If the goal of the Council is to reduce the water bill impact for the lower volume water users, Austin Water would recommend our Alternative Tiered Minimum Charge rate option. This option increases the spread between blocks 1 and 5 of the Tiered Minimum Charge from \$10.55 in the existing rates to \$22.70 in the Alternative option. This option collects more of the revenue from the tiered minimum charge from the higher water users. This option reduces the average water customer using 7,000 gallons bill impact for 2015 from \$8.60 or 22.4% to \$7.41 or 19.3%. For the lower use water customer that only uses 2,000 gallons, the bill impact for 2015 is reduced from \$2.91 or 22.2% to \$1.31 or 10.0%. **(Table 2)** By increasing the spread of the Tiered Minimum Charge, the higher use customers see a larger bill impact both in dollar and percentage. The increase in the spread between blocks 1 and 5 of the tiered minimum charge was a recommendation of the Joint Committee in its 2014 work efforts. The recommendation was to begin the transition to the higher spread between blocks 1 and 5 in the future 2016 proposed rates, along with an increase in the overall fixed revenue from 20% to 25%. This alternative tiered minimum charge rate option achieves lower bill impacts for lower use customers and higher bill impacts for higher use customers, as compared to Austin Water's Proposed 2015 water rates.

The Tovo Requested Rate option includes an equal percentage increase in the block rates in both the Tiered Minimum Charge and the volumetric rates. The alternative tiered minimum charges, volumetric rates and bill impacts are provided on **Table 3** below. The table provides a comparison with the existing 2014 water rates.

For the Tovo Requested Rate scenario compared to the existing 2014 water rates, the water bill impacts for the average water customer using 7,000 gallons for 2015 would be an increase of \$6.65 or 17.3%. For the lower use water customer that only uses 2,000 gallons, the bill impact for 2015 would be an increase of \$1.45 or 11.1%. **(Table 3)**

When comparing the Austin Water Proposed 2015 water rates versus the Tovo Requested Rate scenario **(Table 1 versus Table 3)**, the water bill impacts for the average water customer using 7,000 gallons for 2015 would be reduced from \$8.60 or 22.4% in the Austin Water Proposed 2015 water rates to \$6.65 or 17.3% under the Tovo Requested Rate scenario. For the lower use water customer

that only uses 2,000 gallons, the bill impact for Austin Water Proposed 2015 water rates would be reduced from \$2.91 or 22.2% to \$1.45 or 11.1% under the Tovo Requested Rate scenario.

However, when comparing the Austin Water Alternative Tiered Minimum Charge option versus the Tovo Requested Rate option (**Table 2 versus Table 3**), the water bill impacts for the average water customer using 7,000 gallons for 2015 would be reduced from \$7.41 or 19.3% in the Austin Water Proposed 2015 water rates to \$6.65 or 17.3% under the Tovo Requested Rate scenario. However, for the lower use water customer that only uses 2,000 gallons, the bill impact for the Austin Water Alternative Tiered Minimum Charge option water rates would actually be lower at \$1.31 or 10.0% than the \$1.45 or 11.1% under the Tovo Requested Rate option. In fact, all of the lower use customers who would use below 5,000 gallons would see a lower bill impact under the Austin Water Alternative Tiered Minimum Charge scenario than under the Tovo Requested Rate option.

In reviewing the summary schedule of the residential water rates (**Table 4**) over the last several years, you can see the impact of the Tovo Requested Rates for 2015. The higher blocks 4 and 5 volume rates are increased significantly compared to the previous two years under the Joint Committee recommendations. The spread between blocks 1 and 5 of the volumetric rates for the Austin Water options remains at the Joint Committee recommendation of \$11.00. Under the Tovo Requested Rates for 2015, the spread between blocks would increase to \$14.34, with a block 5 rate of \$16.59. While having higher rates for the higher blocks would provide a greater conservation incentive for our highest users, this will create significant volatility in our revenue during drought restrictions and wet weather conditions.

Additionally, under the Tovo Requested Rates for 2015, the revenue losses under Stage 3 and Stage 4 drought restrictions would be greater than the Austin Water Proposed 2015 water rates. The consumption losses within the higher rate blocks would result in higher revenue losses that would need to be recovered through the drought rates. This would require higher drought rates to recover the additional estimated revenue losses under Stage 3 and 4. Under the Tovo Requested Rates for 2015, the drought rates for Stage 3 would have to be increased from \$1.00 per 1,000 gallons to \$1.10. For Stage 4, the drought rates would have to be increased from \$3.00 per 1,000 gallons to \$3.30.

Austin Water would not recommend the implementation of equal percentage increases to the tiered minimum charge and the volumetric rates as seen in the Tovo Requested water rates. We would recommend consistency with the Joint Committee recommendations to increase the tiered minimum charge and volumetric rates at an equal dollar amount by block. We would, however, support a 2015 implementation of the higher spread between blocks 1 and 5 for the tiered minimum charge, as recommended by the Joint Committee for 2016. This would reduce the bill impacts for lower water use customers as compared to the Austin Water Proposed 2015 water rates.

Table 1: AWU Proposed 2015 Rates

Residential Water AWU Proposed Comparison					Proposed Rates AWU Rate Option				
Monthly Usage	Existing	AWU			Existing	AWU			
Gallons	Bills	Proposed	\$	%	Rate	Proposed	\$ Var	% Var	
5/8" Meter	2014	2015	Var	Var					
					Meter Charge:	\$7.10	\$7.55	\$0.45	6.3%
0	\$9.10	\$9.75	\$0.65	7.1%	Tiered Fee Block 1	\$2.00	\$2.20	\$0.20	10.0%
1,000	11.09	12.87	1.78	16.1%	Tiered Fee Block 2	4.50	4.70	0.20	4.4%
2,000	13.08	15.99	2.91	22.2%	Tiered Fee Block 3	7.45	7.65	0.20	2.7%
5,000	26.20	32.53	6.33	24.2%	Tiered Fee Block 4	12.55	12.70	0.15	1.2%
6,000	29.74	37.21	7.47	25.1%	Tiered Fee Block 5	12.55	12.70	0.15	1.2%
7,000 Avg Cust.	38.35	46.95	8.60	22.4%	Block 1	\$1.84	\$2.93	\$1.09	59.2%
9,000	51.74	62.60	10.86	21.0%	Block 2	3.39	4.49	1.10	32.4%
15,000	109.94	127.49	17.55	16.0%	Block 3	6.20	7.29	1.09	17.6%
25,000	225.39	254.19	28.80	12.8%	Block 4	9.95	11.03	1.08	10.9%
30,000	290.34	324.79	34.45	11.9%	Block 5	12.84	13.93	1.09	8.5%
60,000	680.04	748.39	68.35	10.1%					

Table 2: AWU Alternative Tiered Minimum Charge Option

Residential Water AWU Alt Tiered Fixed Fee Comparison					Proposed Rates AWU Alternate Option				
Monthly Usage	Existing	AWU			Existing	AWU			
Gallons	Bills	Alternate	\$	%	Rate	Alternate	\$ Var	% Var	
5/8" Meter	2014	2015	Var	Var					
					Meter Charge:	\$7.10	\$7.10	\$0.00	0.0%
0	\$ 9.10	\$ 8.15	\$ (0.95)	-10.4%	Tiered Fee Block 1	\$2.00	\$1.05	-\$0.95	-47.5%
1,000	11.09	11.27	0.18	1.6%	Tiered Fee Block 2	4.50	3.00	-1.50	-33.3%
2,000	13.08	14.39	1.31	10.0%	Tiered Fee Block 3	7.45	7.60	0.15	2.0%
5,000	26.20	30.38	4.18	16.0%	Tiered Fee Block 4	12.55	23.75	11.20	89.2%
6,000	29.74	35.06	5.32	17.9%	Tiered Fee Block 5	12.55	23.75	11.20	89.2%
7,000 Avg Cust.	38.35	45.76	7.41	19.3%	Block 1	\$1.84	\$2.93	\$1.09	59.2%
9,000	51.74	62.10	10.36	20.0%	Block 2	3.39	4.49	1.10	32.4%
15,000	109.94	138.09	28.15	25.6%	Block 3	6.20	7.29	1.09	17.6%
25,000	225.39	264.79	39.40	17.5%	Block 4	9.95	11.03	1.08	10.9%
30,000	290.34	335.39	45.05	15.5%	Block 5	12.84	13.93	1.09	8.5%
60,000	680.04	758.99	78.95	11.6%					

Table 3: Tovo Rate Request Option

Residential Water Tovo Option Comparison					Proposed Rates Tovo Rate Option				
Monthly Usage Gallons 5/8" Meter	Existing Bills 2014	Tovo Option 2015	\$ Var	% Var	Existing Rate	Tovo Proposed	\$ Var	% Var	
0	\$9.10	\$9.65	\$0.55	6.0%	Meter Charge:	\$7.10	\$7.55	\$0.45	6.3%
1,000	11.09	12.09	1.00	9.0%	Tiered Fee Block 1	\$2.00	\$2.10	\$0.10	5.0%
2,000	13.08	14.53	1.45	11.1%	Tiered Fee Block 2	4.50	4.70	0.20	4.4%
5,000	26.20	30.30	4.10	15.6%	Tiered Fee Block 3	7.45	7.80	0.35	4.7%
6,000	29.74	34.69	4.95	16.6%	Tiered Fee Block 4	12.55	13.15	0.60	4.8%
7,000 Avg Cust.	38.35	45.00	6.65	17.3%	Tiered Fee Block 5	12.55	13.15	0.60	4.8%
9,000	51.74	61.31	9.57	18.5%	Block 1	\$1.84	\$2.25	\$0.41	22.3%
15,000	109.94	134.74	24.80	22.6%	Block 2	3.39	4.20	0.81	23.9%
25,000	225.39	284.14	58.75	26.1%	Block 3	6.20	7.65	1.45	23.4%
30,000	290.34	368.04	77.70	26.8%	Block 4	9.95	12.91	2.96	29.7%
60,000	680.04	871.44	191.40	28.1%	Block 5	12.84	16.59	3.75	29.2%

Table 4: Residential Water Rate Summary

Residential Water Rate History AWU Proposed Comparison						
	Approved Rates 2012	Approved Rates 2013	Approved Rates 2014	Table 1 AWU Proposed Rates 2015	Table 2 AWU Alternative Rates 2015	Table 3 Tovo Proposed Rates 2015
Minimum Charge (5/8")	\$ 7.10	\$ 7.10	\$ 7.10	\$ 7.55	\$ 7.55	\$ 7.55
Revenue Stability Fee	\$ 4.40	\$ -	\$ -	\$ -	\$ -	\$ -
Tiered Minimum Charge						
Block 1: 0 - 2,000	-	\$ 2.00	\$ 2.00	\$ 2.20	\$ 1.05	\$ 2.10
Block 2: 2,001 - 6,000	-	4.50	4.50	4.70	3.00	4.70
Block 3: 6,001 - 11,000	-	7.45	7.45	7.65	7.60	7.80
Block 4: 11,001 - 20,000	-	12.55	12.55	12.70	23.75	13.15
Block 5: 20,001 and over	-	12.55	12.55	12.70	23.75	13.15
Volume Rates						
Block 1: 0 - 2,000	\$ 1.17	\$ 1.25	\$ 1.84	\$ 2.93	\$ 2.93	\$ 2.25
Block 2: 2,001 - 6,000	3.08	2.80	3.39	4.49	4.49	4.20
Block 3: 6,001 - 11,000	7.92	5.60	6.20	7.29	7.29	7.65
Block 4: 11,001 - 20,000	10.95	9.40	9.95	11.03	11.03	12.91
Block 5: 20,001 and over	12.19	12.25	12.84	13.93	13.93	16.59
Spread Variance	\$ 11.02	\$ 11.00	\$ 11.00	\$ 11.00	\$ 11.00	\$ 14.34
Drought Rate Impact						
Stage 3				\$ 1.00	\$ 1.00	\$ 1.10
Stage 4				\$ 3.00	\$ 3.00	\$ 3.30