

# **Constructing A Successful Rate Structure: *The Art & Science***

## **Rate Restructure Communication Workshop**

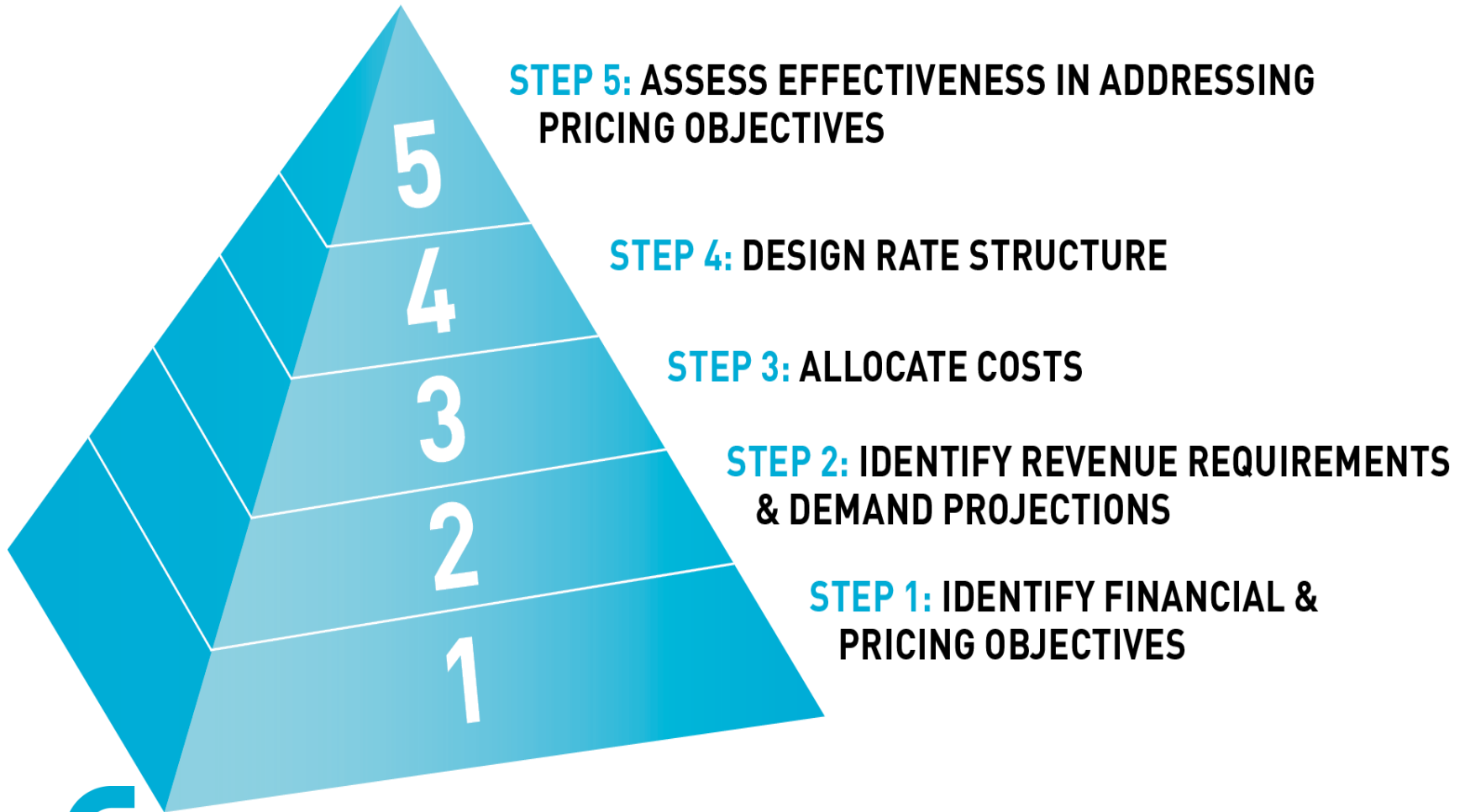
**Denver Water**

**Water Research Foundation**

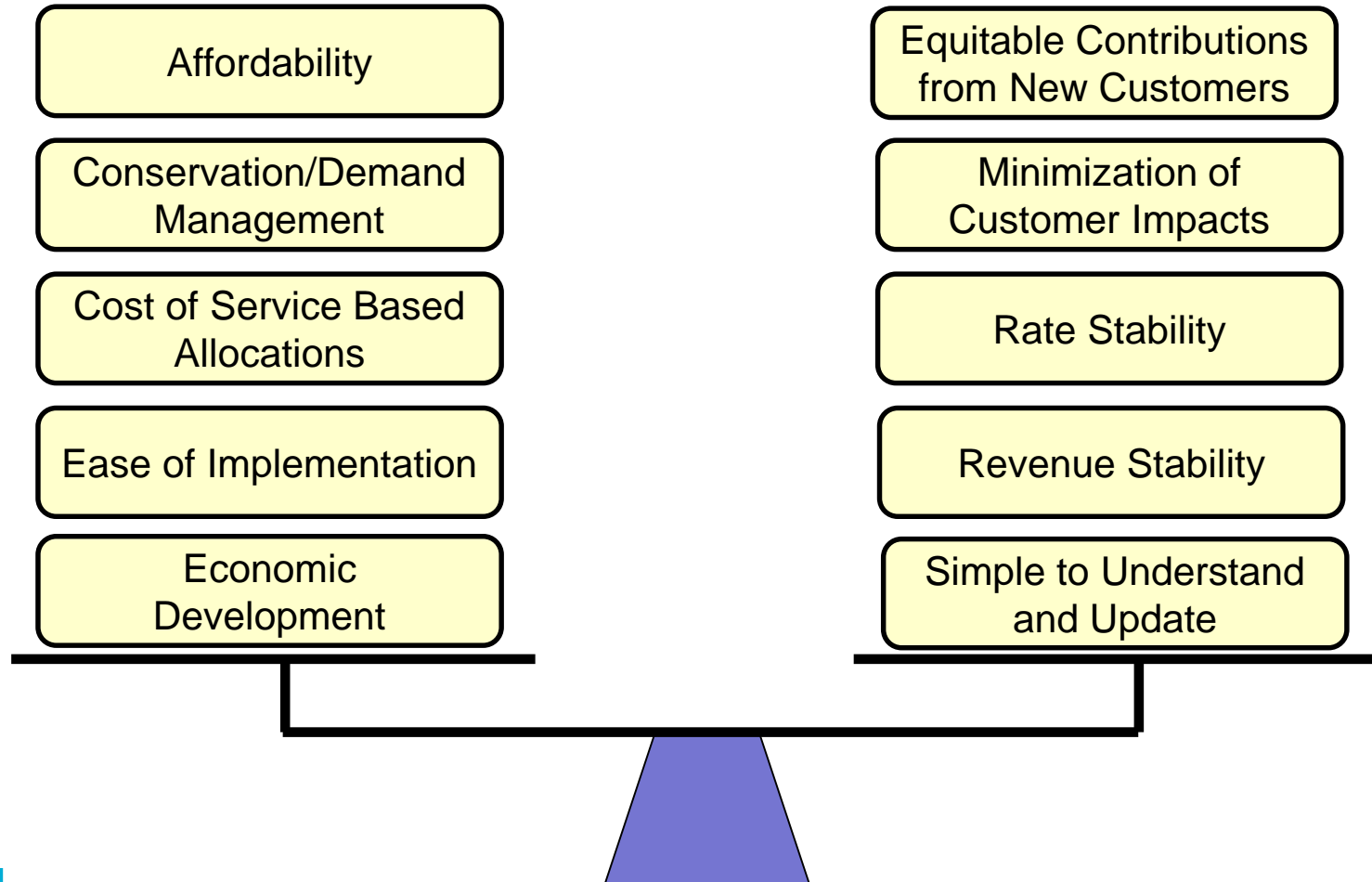


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Executive Vice President  
Raftelis Financial Consultants, Inc.

# The Rate Setting Process



# Weigh Pricing Objectives



***“Water may be the most vital resource in every aspect of human endeavor, but the economics of water is a mash-up of tradition, wishful thinking, and poor planning.”***

Charles Fishman, Author *The Big Thirst*, 2010

# The Perfect Storm

**2008 - 2012**

**Economic downturn**

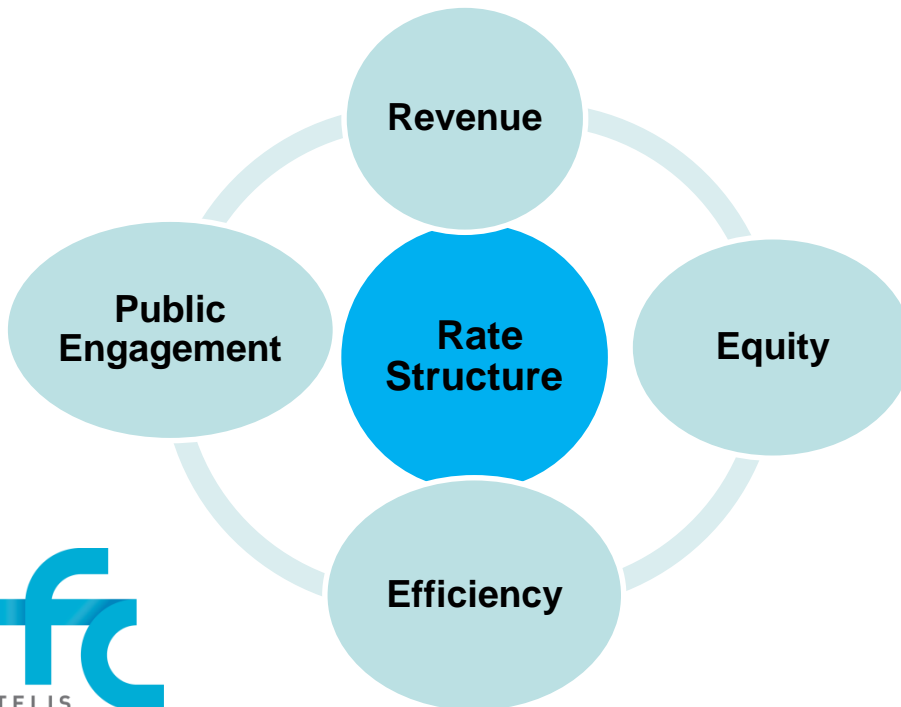
**Drought / Restrictions**

**Lower water sales**

**Revenue loss**

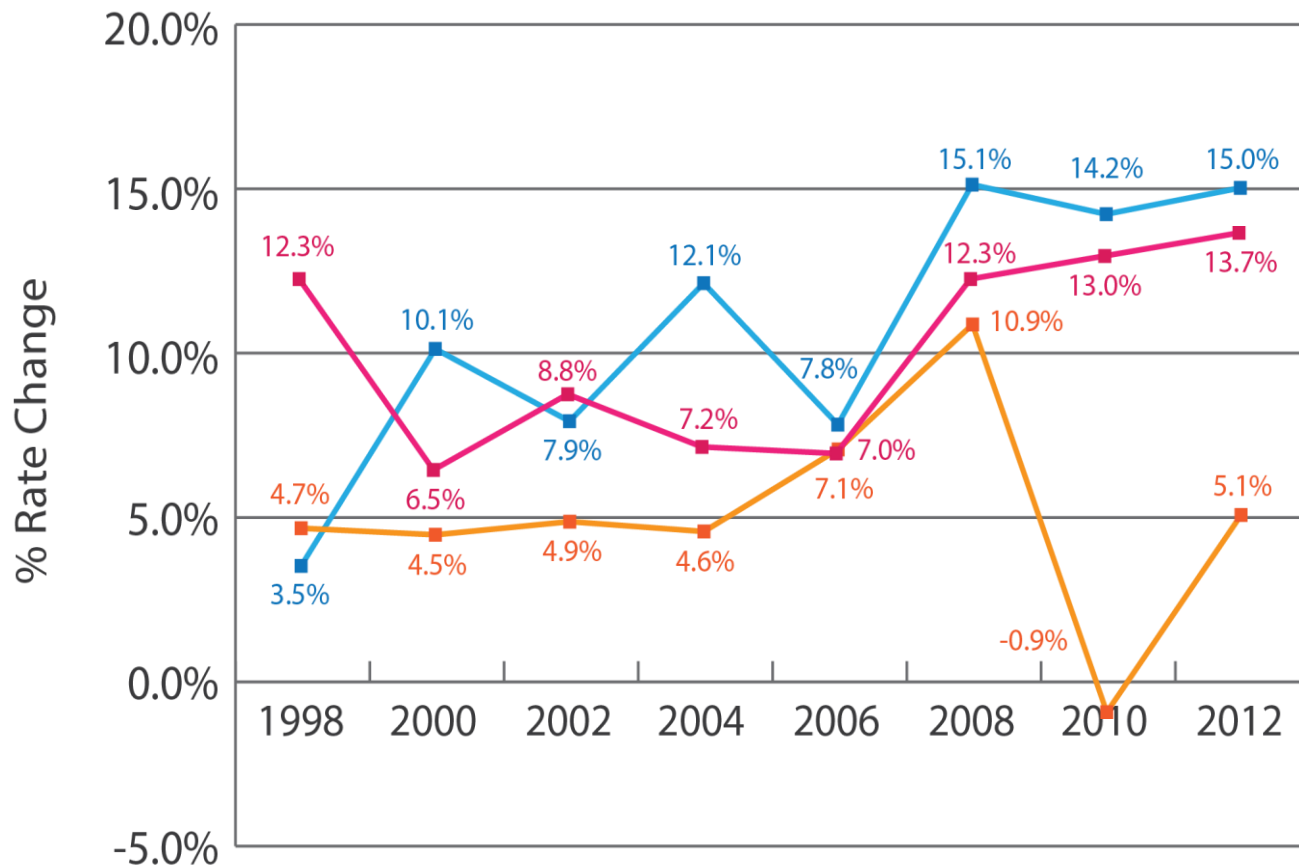
## **The “New Normal”**

- **Costs will go up**
- **Droughts will happen**
- **Water efficiency is here to stay**
- **Customers want to see rates that reflect their situation**
- **Customer Service will become more and more important**
- **Utilities need more tools**
  - **Defensible**
  - **Logical**
  - **Flexible**



# Water-Wastewater vs. CPI

Source: AWWA – RFC 2012 Survey

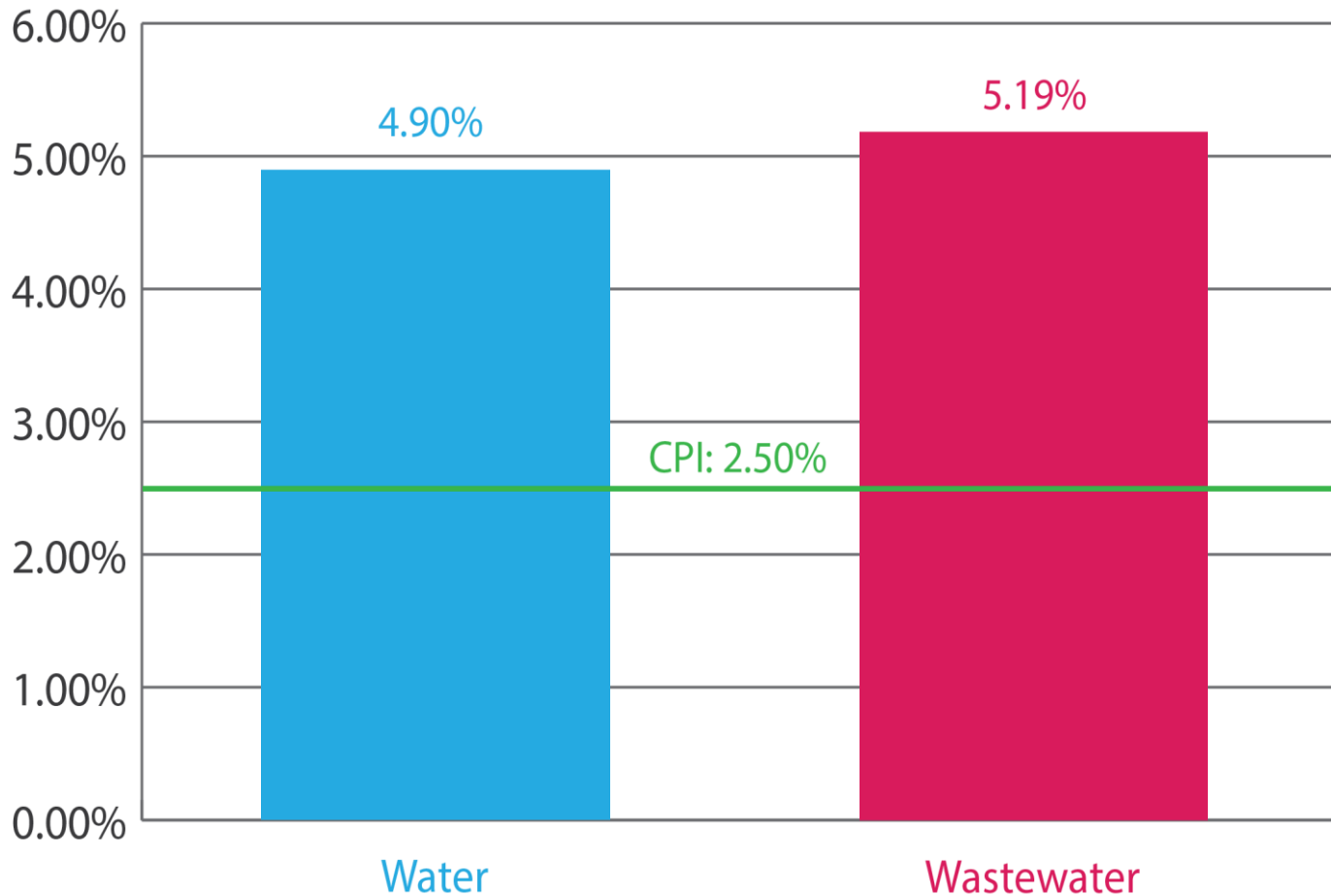


Survey Year (all assumed to be Jan. 1, except 2008-2012, which is July 1)

— CPI — Wastewater — Water

# Annualized Rate Increase 1996 to 2012

Source: AWWA – RFC 2012 Survey



# Rate Structure Expectations?

## Utility:

- Equitable
- Effective
- Generates required revenue
- Encourages efficient use
- Clear and understandable
- Adaptable when necessary

## Customer:

- Equitable
- Reasonable
- Clear and understandable
- Consistent
- Information-oriented
- “All about me”



# Your Rate Structure?

“If customers save more than 2% per year due to conservation, we have to raise rates.”

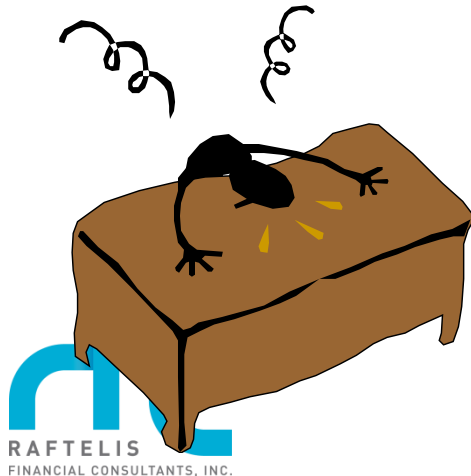
“We saved water when you asked, now you raise our rates because you did not sell enough water. We need to vote you out.”

“Agencies create rate structures that are a bad business practice.”

“... we're selling a lot less water than we originally anticipated, that's what we call the new normal. We have to embrace, and change some of our foundational assumptions.”

“ I have a large family and a large lot. Your rates penalize our family even if we are conservative water users”

“We have a rate structure designed to fail.”

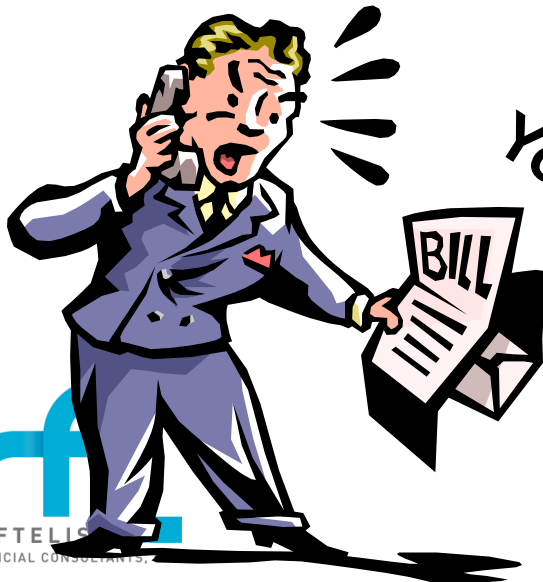


# Constructing Successful Rates

- Ask the right questions

- Get good data/info

## Staff Involvement



Engage  
Your Public

## Engage Officials

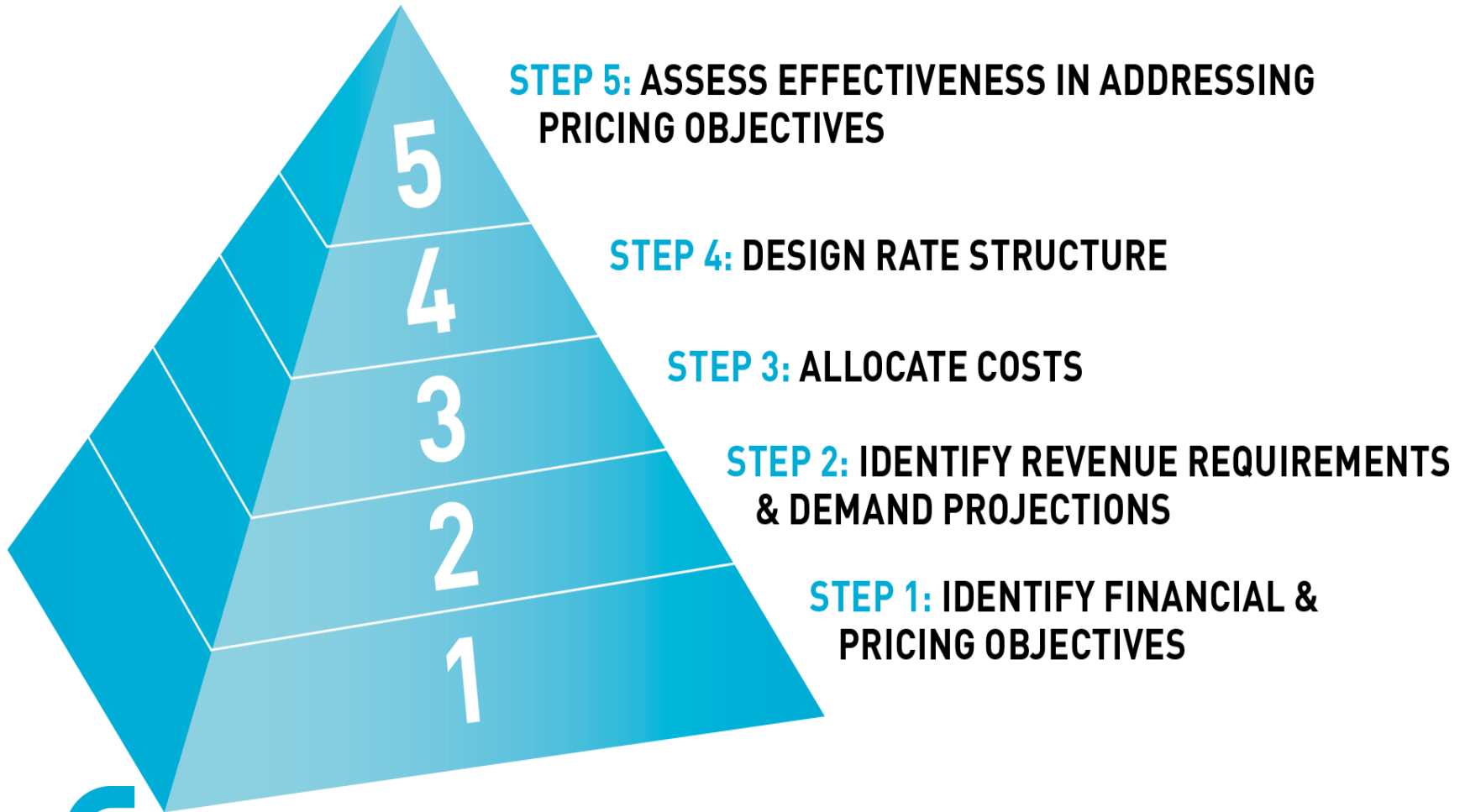


# What is a Successful Rate Structure?

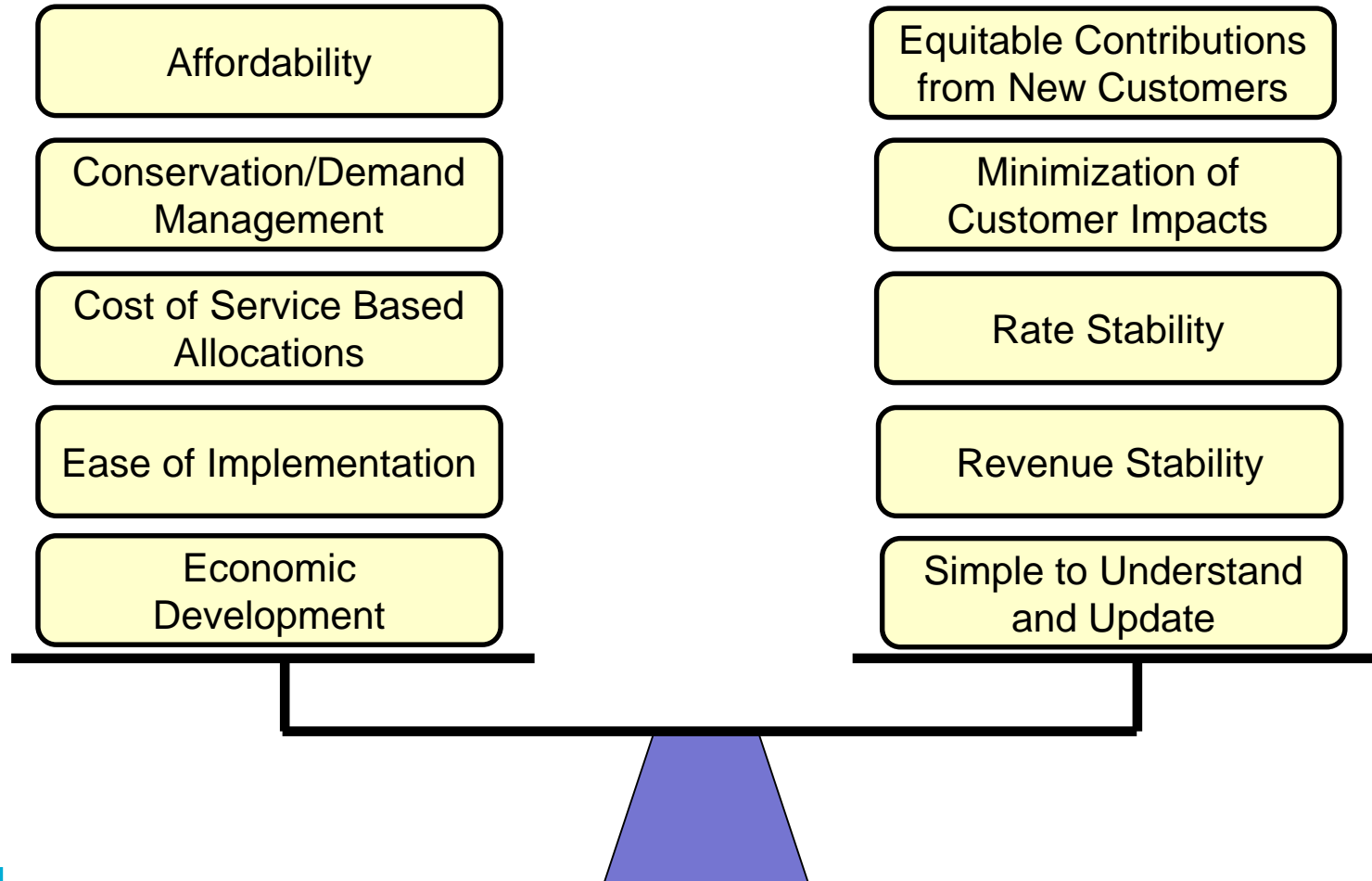
- **Balances the needs of the utility and those of the customer**
  - Allocates costs accurately and proportionally
  - Recovers costs in a stable manner
  - Meets the water needs of the customer
- **Is “flexible” to adapt to changes**
  - Costs
  - Economy
  - Weather
  - Legislation
- **Can be an equitable “drought response” tool for the utility**
- **Is perceived as “fair” by customers**
- **Is “defensible” for officials**
- **Sustains adequate revenue and maintains water use efficiency**



# The Rate Setting Process



# Weigh Pricing Objectives



# Art + Science = Results

## Art:

- Why Change...?
- Board Education
- Staff Education
- Public Outreach
- Customer Service Plan
- Conservation Programs

## Science:

- Demand Analysis
- Customer Data
- Customer Allocations
- Financial Modeling
- Billing System Upgrade

## Results:

- Stable revenue
- Defensible rates
- Educated customers
- Targeting tool
- Increased utility knowledge
- Future flexibility
- Long-term efficiency