

ALTERNATIVE RATE STRUCTURE EVALUATION: WATER QUANTITY CHARGES MEETING OVERVIEW

INTRODUCTION

The Philadelphia Water Department (PWD or the Department) provides retail water to over 500,000 customers and wholesale water service to Aqua PA. To provide water services and fulfill all its regulatory obligations, PWD fully funds its water operations through its rates and charges imposed on both its retail and wholesale customer base. As part of PWD's alternative rate structure evaluation, the Department is revisiting its declining block water quantity rate structure, which was initially adopted nearly 40 years ago.

The following are reasons to consider re-evaluating the current water quantity rate structure:

- Periodic re-evaluation is a recognized best practice for water/wastewater utilities.
- The increased attention on resource sustainability is resulting in the decreasing use of declining block rate structures industry-wide across the country in recent years.

The following industry-wide issues further support the need to evaluate the current rate structure:

- Declining consumption continues to impact all utilities across the nation;
- Advancements in the management of the total water cycle are changing how utilities view water supply management and how those costs are best recovered from their customers; and
- Adjustments to further address affordability.

BACKGROUND

Water utilities set their rate structures based on different goals and objectives. The goals and objectives are based on internal and external factors facing the utility. As identified in American Water Works Association (AWWA) Principles of Water Rates, Fees and Charges (M1) Manual, these objectives include, but not limited to:

- Revenue stability for the utility;
- Predictable bills for the customer;
- Affordability;
- Promotion of water conservation or efficient water use;
- Fair and equitable among customer classes; and
- Compliance with applicable laws.

WATER RATE STRUCTURES

The most common water rate structures used in the U.S. are composed of two components:

1. Service Charge: This represents a fixed fee per billing period regardless of consumption. The fee can be the same regardless of meter size or can increase based on the meter size connection.
2. Consumption (or Commodity/Volumetric/Quantity) Charge: This represents a variable fee per billing period based on water consumption. The fee is based on price per unit of water.

With respect to consumption charges, in addition to declining block rates, uniform rates, inclining block rates, as well as seasonal rates are used throughout the country based upon the specific needs and goals of the respective water utilities and their customers.

INDUSTRY TRENDS

While still in use, water industry surveys show a move away from declining block rate structures. Uniform rates are widely used throughout the U.S. as they are the simplest and easiest to understand quantity charge structure. Inclining block rates are widely used throughout the U.S. as they are generally seen as a water conservation structure.

ALTERNATIVE RATE STRUCTURE MEETING NO. 1 – WATER QUANTITY CHARGES

PWD's overall mission to provide safe and reliable drinking water to the City of Philadelphia and its customers has not changed; however, the Department continues to evolve to improve service, meet current customer needs, address aging infrastructure, compliance requirements as well as facing different challenges. As such, PWD is interested in assessing whether its current rate design is still appropriate for the Department's goals and also whether the current design will meet future objectives.

During the first alternative rate structure meeting, the Department and its consultants will present the following to participating stakeholders:

1. Background information on the rationale behind the current declining block rate structures;
2. A summary of alternative consumption (i.e. quantity) charge rate structures;
3. Advantages and disadvantages associated with the current and alternative rate structures;
4. Industry Trends and Peer Comparisons; as well as,
5. Suggestions for implementing a uniform block rate along with estimated customer impacts.