

**RAC Meeting**  
**24 September 2019**  
**Questions on RAC Presentation**  
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Regarding the methodology, where “Identifying financial and pricing objectives” is the first step: the AWWA manual (2017) supports that “Step 1” is for “defining goals and objectives” and it lays out some of the key information needed to do this. Will the process here provide us with the type of comprehensive overview that the manual suggests is good practice? The presentation here implies that this is largely so, but I am particularly interested in the question of “*how customers responded to existing and previous rate structures and rate adjustments*”. In general, it is good practice to first understand prior experiences. Did they achieve their stated objectives in an efficient and effective manner? Did their projected impacts differ from the actual impacts? What are the lessons learned from them that should be incorporated into current consideration?

It is also worth noting that valid questions have been raised by a number of stakeholders as to the extent that the 2015 rate restructuring met its stated objectives and adhered to basic principles of “user pays”, “growth pays for growth”, equity and transparency. It thus seems doubly important that we begin with this understanding of “*how customers responded to existing and previous rate structures and rate adjustments*” at the outset, and before making any decisions on financial and pricing objectives. If examples are needed to illustrate the questions that have been raised, these include:

- To what extent did the new tiered rates achieved the stated objectives, e.g., of sending price signals to residential water users that incentivized water use efficiency and/or water conservation?
- How accurate/realistic were demand projections (water and EDUs) and what, if any, implications might this have for the assumptions to be made for current analysis?
- Did the merging of all non-residential classes -- Commercial, Institutional, and Multi-family Residential classes -- into one “General” user class have the effect of obscuring a central rate setting principle that “one class should not subsidize another”?
- Did the 2015 rate-change for the Water Supply Fee, which created tiered rates for the general class, in practice reflect the real cost of the water supplies it was supposed to support?
- Did the reclassification into the General Class have unintended outcomes as regards cost apportionment, for example, General Class usage increased slightly (3% to 4%), while its share of Water Supply Fees dropped almost 15%?

Also, in looking at the list of pricing objectives presented here (and in comparison to those listed in the AWWA manual), I would suggest that it be considered to remove “Economic Development”. First, the concern should be that rates be fair and equitable. If fair and equitable rates would unnecessarily hinder “economic development”, i.e., be non-competitive in comparison to similar markets, then there are likely to be broader issues to deal with that rate setting does not address (or which may pave over). Second, water rates would seem to be a very blunt instrument for incentivizing greater economic growth, once one moves beyond having reasonably competitive rates. Third, this runs the risk of implicitly establishing a principle that water rates for “economic development” may (or do) merit a subsidy as a “public good” ...and going down that path would require great transparency and a compelling, prior, economic justification. If the members prefer to keep a reference to economic concerns, I would then suggest that “Competitive Rates” be substituted for “Economic Development”.