

2014 Council Study Issue

FIN 14-02 Creation of Annualized Water Usage Pricing Tiers

Lead Department Department of Finance

Sponsor(s) Sustainability Commission

History 1 year ago: 2 years ago:

1. **Scope of the Study**

a. What are the key elements of the study?

The City currently utilizes a tiered water rate structure that escalates based on water usage. Bills are sent to residential customers on a bimonthly basis and commercial customers on a monthly basis. Tier 1 is designed to provide an amount of water needed to provide for basic needs and protect public health. Tiers 2-4 are set at increasing rates based on additional volume of water used. Each price tier break is based on City wide average use in a particular customer class. For example, residential billing tier 2 ends and tier 3 starts at 15ccf of water use per month. This level of consumption is the City wide average summer use, so the tier reflects when customers begin to use more than the average, and increases the price accordingly. This tiered rate structure serves two essential purposes. It charges customers more as they use more water and encourages water conservation. It also serves to recover the higher cost of providing more water from the appropriate users.

This study issue would evaluate a potential restructuring of the water rate system to use a customer's annualized water usage to determine the pricing tiers.

b. What precipitated this study?

The Sustainability Commission has discussed on numerous occasions that because of a wide seasonal difference in water use experienced by customers, the tiered rate structure discourages residents from planting summer vegetable gardens which are known to have multiple environmental benefits but require additional water. The Commission proposes a rate structure based on annualized water usage behavior and pricing tiers that allow a credit for low winter usage be applied in the summer.

c. Is this a multiple year project? No Planned Completion Year 2014

2. **Fiscal Impact**

a. Cost to Conduct Study

i. Level of staff effort required (opportunity cost)

Major Moderate Minor

ii. Amount of funding above current budget required \$5,000

Will seek budget supplement Will seek grant funding

iii. Explanation of Cost: (Explain what the Budget Supplement will pay for) It is estimated that, due to the strict state laws associated with municipal utility rates that require rates reflect the cost of providing the service, a significant change in the rate structure used by the City

would require consultant assistance to develop and implement. Approximately once every five years, the City engages a consultant to update its rate model. The next study is planned and funded for FY 2015/16. Funding is set at \$15,000, however this was estimated based on an update of the existing rate model, not a wholesale change to the City's pricing structure. Therefore, staff estimates an additional \$5,000 would be required to fully fund this change.

b. Costs to Implement Study Results

- No cost to implement.
- Unknown. Study would include assessment of potential costs.
- Some cost to implement. Explanation:

The City's billing system will not accommodate an annualized tier. Therefore, a custom program modification will be required to implement this change as described. The cost for this modification is estimated at \$20,000.

A budget supplement of \$25,000 would be required to provide additional funds for the next cost of service study and to implement the changes. Also, administering this rate structure would require additional staffing on an ongoing basis.

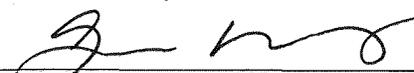
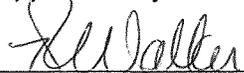
3. **Expected participation in the process**

- Council-approved work plan
- Council Study Session
- Board/Commission Review by: Sustainability Commission

4. **Staff Recommendation**

a. Position: Drop

b. Explanation: The current water rate structure is designed to support the costs associated with the provision of water service to all residents and businesses in Sunnyvale. A change to the rate tiers as proposed would create a disincentive to water conservation by allowing users who normally reduce water use during the winter to resume or increase their normal summer water use, likely increasing operating costs as well as jeopardizing the City's ability to comply with state water conservation law. Additionally, the City is legally prohibited from providing special consideration for water users who are growing a vegetable garden versus other customers as there is no cost nexus between the cost of operating the water utility and maintaining a vegetable garden. Therefore properties with other uses would have to be provided the same benefit, regardless of their use. If Council chooses to move forward with this issue, staff recommends that it be incorporated with the next Water Cost of Service Study in FY 2015/16 and that \$30,000 be added to the FY 2015/16 budget to conduct and implement the study.

Reviewed By:	Approved By:
	
Date 10/29/13	Date 11-4-13
Department Director	City Manager