

SPU Customer Review Panel Subcommittee on Rate Policy

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Document dated April 9, 2014

While rate policy is not part of the Panel's mission, at the February SPUN Committee meeting City Council members raised a number of rate structure/rate policy questions during the Strategic Plan and Solid Waste 101 Briefings.

At its March 12 meeting, the Panel formed a subcommittee to offer these ideas about information that would be helpful gather to support the City Council on the subject of rate structure and policy, and that may also be of general interest to the Panel. This document sets for the subcommittee's recommendations.

Part 1: Grounding information the Subcommittee thinks would be helpful:

1. Has the City Council adopted a rate policy resolution or ordinance (*akin to what they have for City Light—Resolution 31351*)? What does it say? When was it last amended?
2. For each Line of Business, what are the general rate classes, and who is in them? How are rates charged to each customer class?
 - a. Are the definitions of "residential" and "commercial" the same for each Line of Business?
 - b. Provide a description of who falls under the residential rate class, and who would pay under the commercial class.
3. Over the last decade or so, what has been the **% change in rates** applicable to **each rate class** (year by year, by each Line of Business)?
4. This is probably a request for the City Attorney: Describe any basic legal limitations under state law applicable to rate structures and rate policy. In particular, on what bases can the City differentiate charges imposed on different customers? Provide examples of things the City can and cannot do under rate structures.
5. Do we know very much about the cost of serving different customer classes? Does providing a unit of water for a resident in a single family unit generally cost more or less than providing that same unit to a commercial customer (or a residential customer living in a building paying under the commercial rates)? How about for the other lines of business? Are there significant economies of scale for serving some customers groups and not others? Are there any general conclusions here, or is it all site specific and facility/building specific? (*If we don't have a lot of information here, that may be a very good reason for the simple rate structures in place that charge residents and commercial folks on a pretty similar basis.*)
6. Exploring how **residents** are charged:
 - a. Estimate how much of the city's population is included in the residential rate class versus the commercial class -- based on census data about how many city residents live

in housing that qualifies for the residential rate, and how many live in larger multi-family units.

- b. What generally is known about the range of household size and income of persons in each group?

Put another way, is it fair to say that in both the residential and commercial rate classes, we have **city residents** that could be in any one of these 6 categories?

	<i>Low income</i>	<i>Middle income</i>	<i>High income</i>
<i>Small household</i>			
<i>Large household</i>			

- c. Is it correct to say that since (other than those voluntarily signing up for the low income rate subsidy program) income or household size is not relevant to how SPU charges customers, the utility does not have or collect this type of information about its customers?
- d. Does the utility have any estimates of the percentage of the commercial rate class revenues attributable to residential usage as opposed to truly commercial usage? If not, why not? What, *generally* are the challenges associated with developing a different set of rate classes, that would for example capture all residents in a single rate class?
7. Provide more information on how the low income rate subsidy program works for customers. How is the amount of their credit calculated and paid? How does where a customer live affect their eligibility (private or public housing, etc.)
8. Generally, how much fixed cost and how much variable **cost** does each Line of Business have? How much of the **revenue** is charged in the form of fixed charges versus variable use charges? Can the Lines of Business be generally ranked in order from that with the most to least total fixed cost?

Part 2: Some policy questions for possible deliberation by someone *other than* the Panel

- Are there industry “best practices” for public utility rate structures? How do SPU rates compare?
- How can the Utility best deal with the situation where they have incentivized declining usage (conservation) and have a rate system based almost entirely on variable costs? By way of general example, the fixed costs cover the networks of pipes, and variable charges cover the quantities water or sewer flowing through the networks. Both access to the network of pipes, and the quantity of water consumed/sewer disposed of have value to the consumer. Under current rate structures, as usage declines, rate revenue declines -- or rates must be increased.

- Is the Utility’s rate design structure aligned in terms of the fixed and variable **costs** and fixed and variable **revenues**? Should it be?
- Should all residents be combined into a single customer class regardless of where they live? Or should a new rate class be developed for residents living in commercial class structures?
- Residents in commercial rate class buildings have no summer third tier “penalty” charges for water use—if they have a lot of landscaping at their properties, is this fair?
- The drainage rate structure doesn’t seem to provide any incentive to standard residential class customers to reduce impervious surface on their properties. Could rate structures be changed to provide an incentive and if so, what would be the benefit or downside?