

# CITY OF SONOMA

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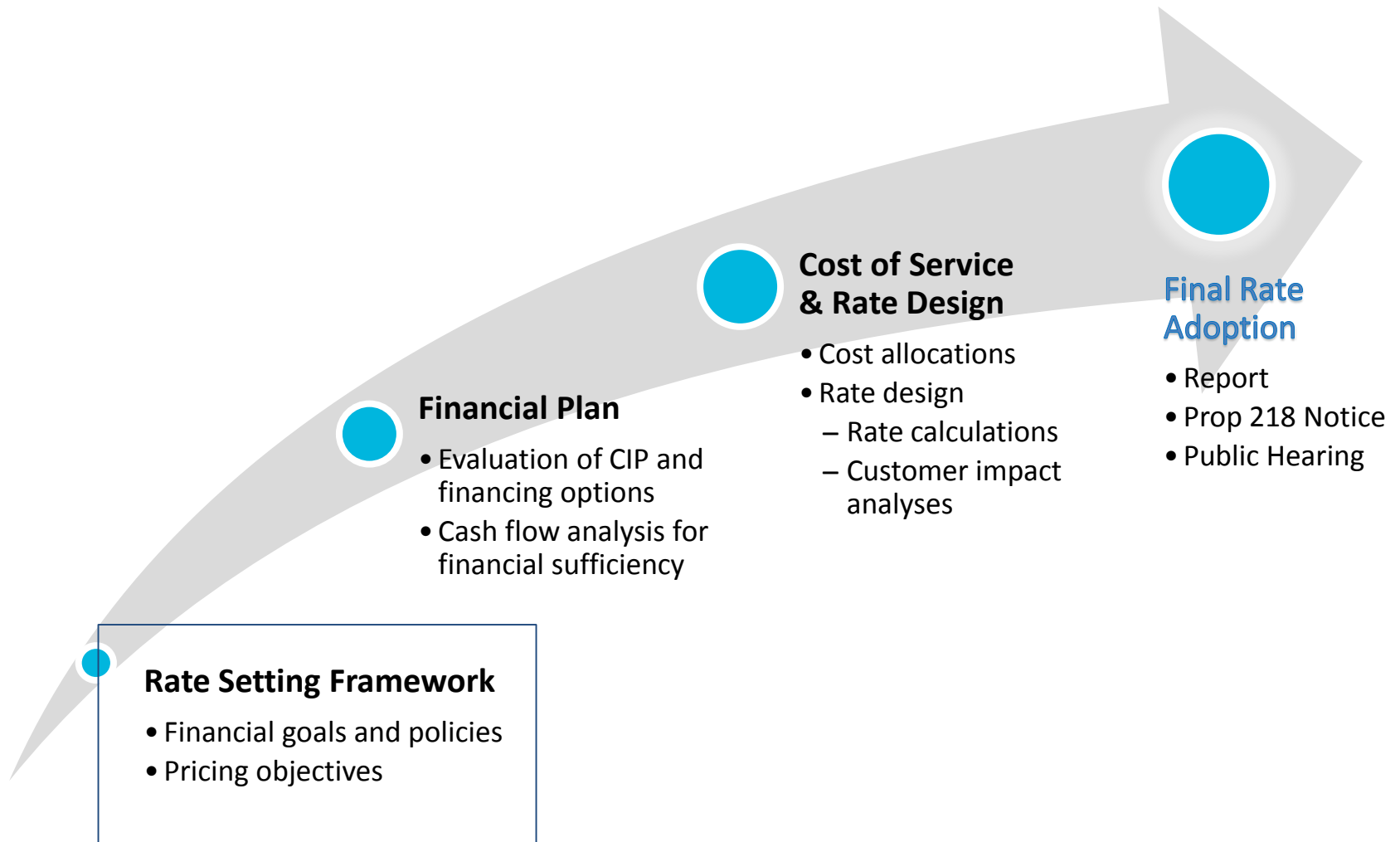
Pricing Objectives Discussion  
2018 Water Rate Study  
City Council Meeting / January 17, 2018



# Agenda

1. Introduction
2. City's Current Rate Structure
3. Water Rate Structure Evolution Overview
4. Pricing Objectives Discussion

# Steps in Conducting a Rate Study



# Current Rate Structure

## Fixed Charges

Meter Size	Current Monthly Service Charge
5/8"	\$19.79
3/4"	\$19.79
1"	\$19.79
1 1/2"	\$30.18
2"	\$37.72
3"	\$56.58
4"	\$94.30
5"	\$69.47
6"	\$151.02

# Current Rate Structure Cont'd

2017 Base Rate: \$5.74

Customer Class	Use Factor
Residential	1.00
Multi-Family	0.80
Commercial	1.15
Municipal	1.00
Irrigation, Fire & Hydrant	1.32

# Current Rate Structure Cont'd

## Volumetric Charges in \$/1,000 gallons (Kg)

Residential Volumetric Charges		
	Tier Width (Kg)	Rate Per Kg
Tier 1	1 to 6	\$3.94
Tier 2	7 to 12	\$6.91
Tier 3	13 to 18	\$7.76
Tier 4	19+	\$11.22

Multi-Family Volumetric Charges		
	Tier Width (Kg)	Rate Per Kg
Tier 1	1 to 26	\$4.27
Tier 2	27 to 78	\$4.87
Tier 3	79+	\$5.12

# Current Rate Structure Cont'd

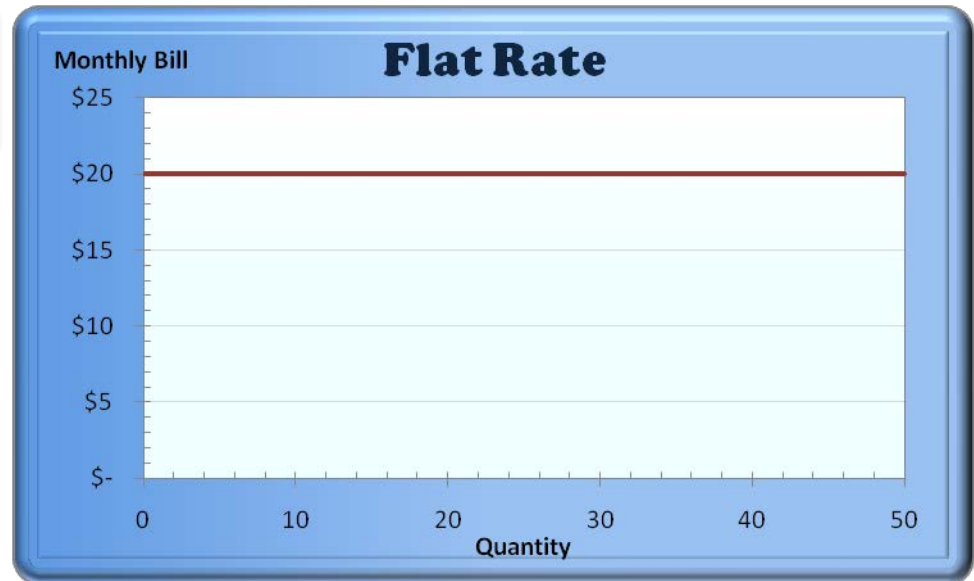
## Volumetric Charges per 1,000 gallons (Kg)

Commercial Volumetric Charges		
	Tier Width (Kg)	Rate Per Kg
Tier 1	1 to 25	\$6.27
Tier 2	26 to 61	\$6.60
Tier 3	62+	\$7.21

Other Uniform Volumetric Charges		Rate Per Kg
Municipal		\$5.74
Irrigation		\$7.57
Fire & Hydrant		\$7.57

Outside City Multiplier	
All outside city rates increased by 15%	

# Water Rate Structure Evolution



**Flat Rate:** \$xx / month regardless of usage

Pros: Revenue stability, easy to understand

Cons: Inequitable, no conservation signal, less affordable for essential use customers



# Water Rate Structure Evolution

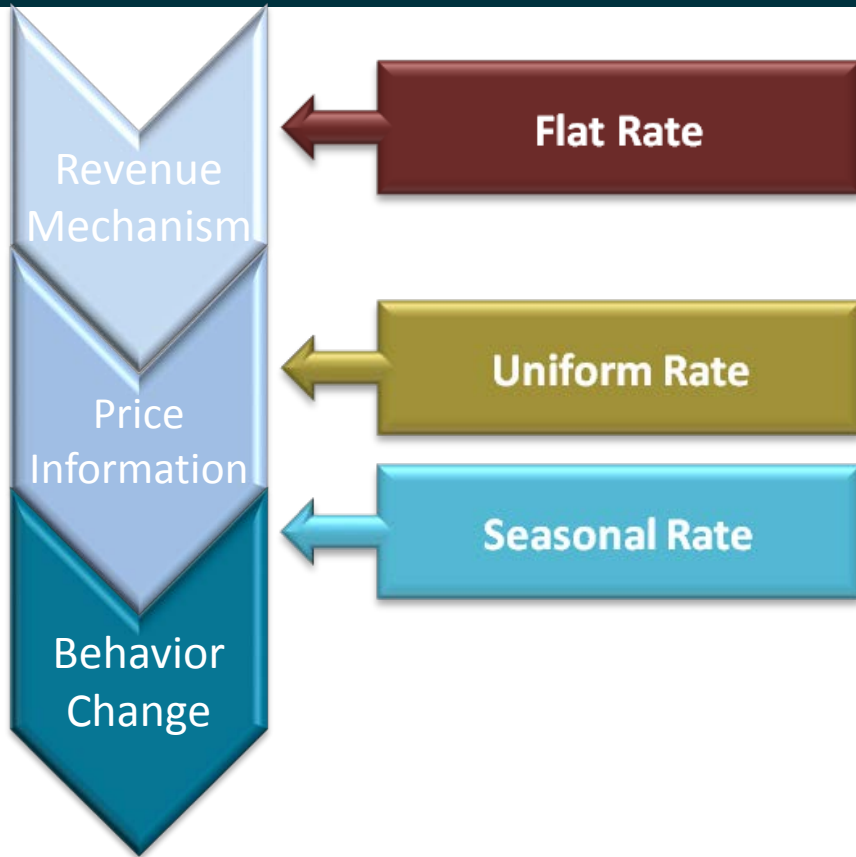


**Uniform Rate: \$xx / hcf**

Pros: Revenue stability, administrative ease, easy to understand

Cons: Weak conservation, less affordable for essential use customers

# Water Rate Structure Evolution

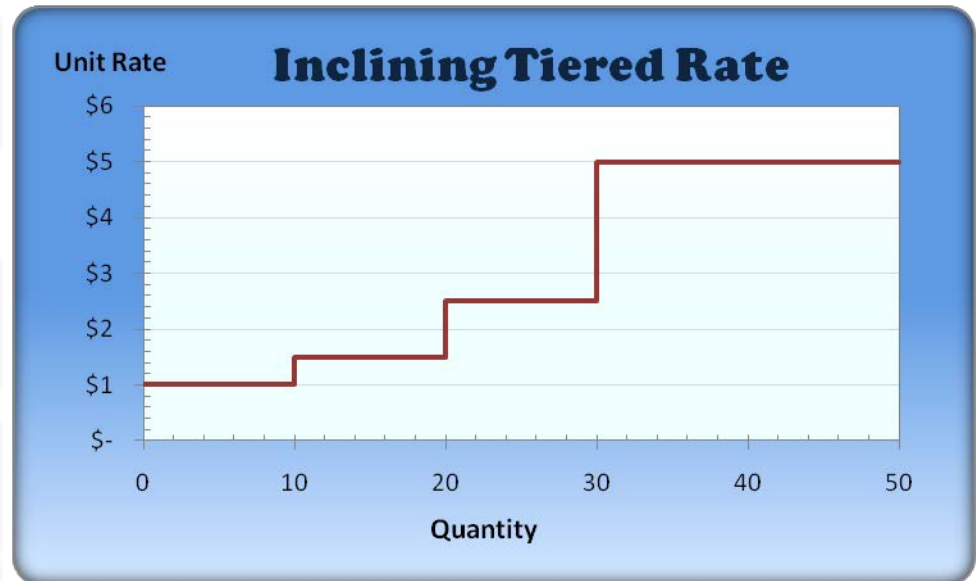
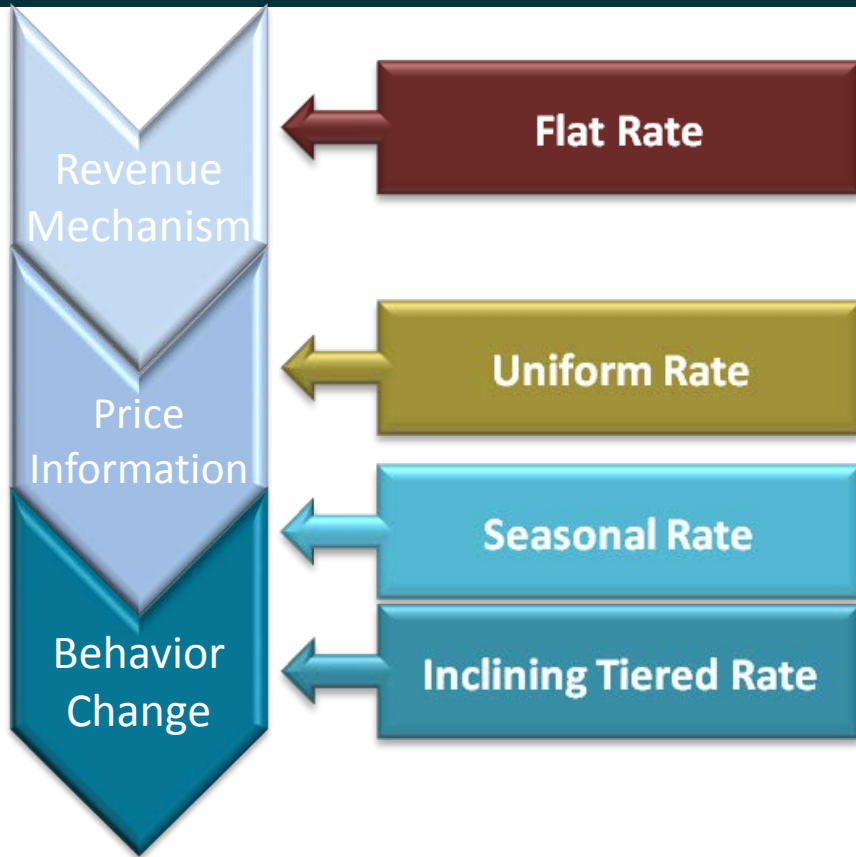


**Seasonal Rate:** \$ xxx / hcf in Summer,  
\$ x/hcf in Winter

Pros: Promotes water conservation in the summer, easy to administer

Cons: Revenue instability, less affordable for essential use customers

# Water Rate Structure Evolution

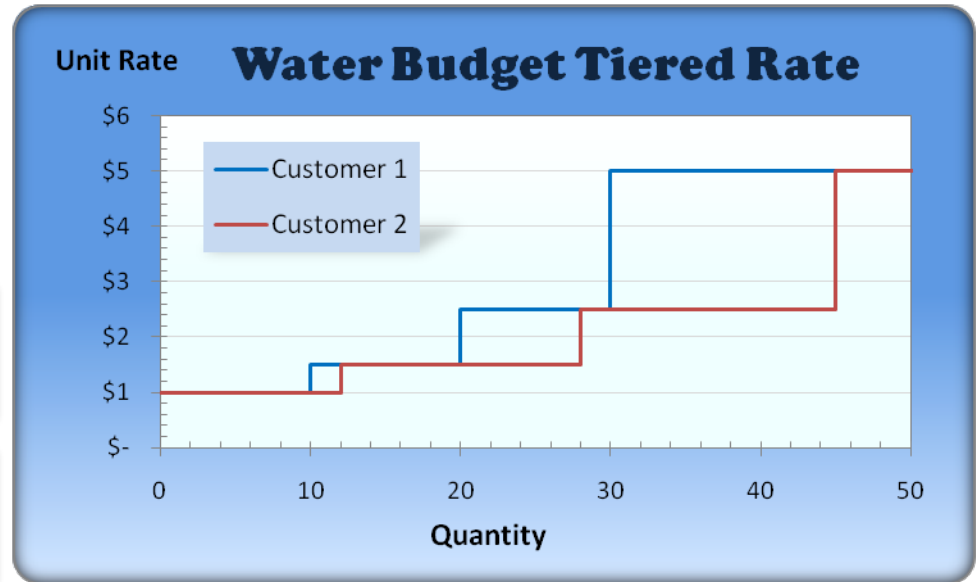
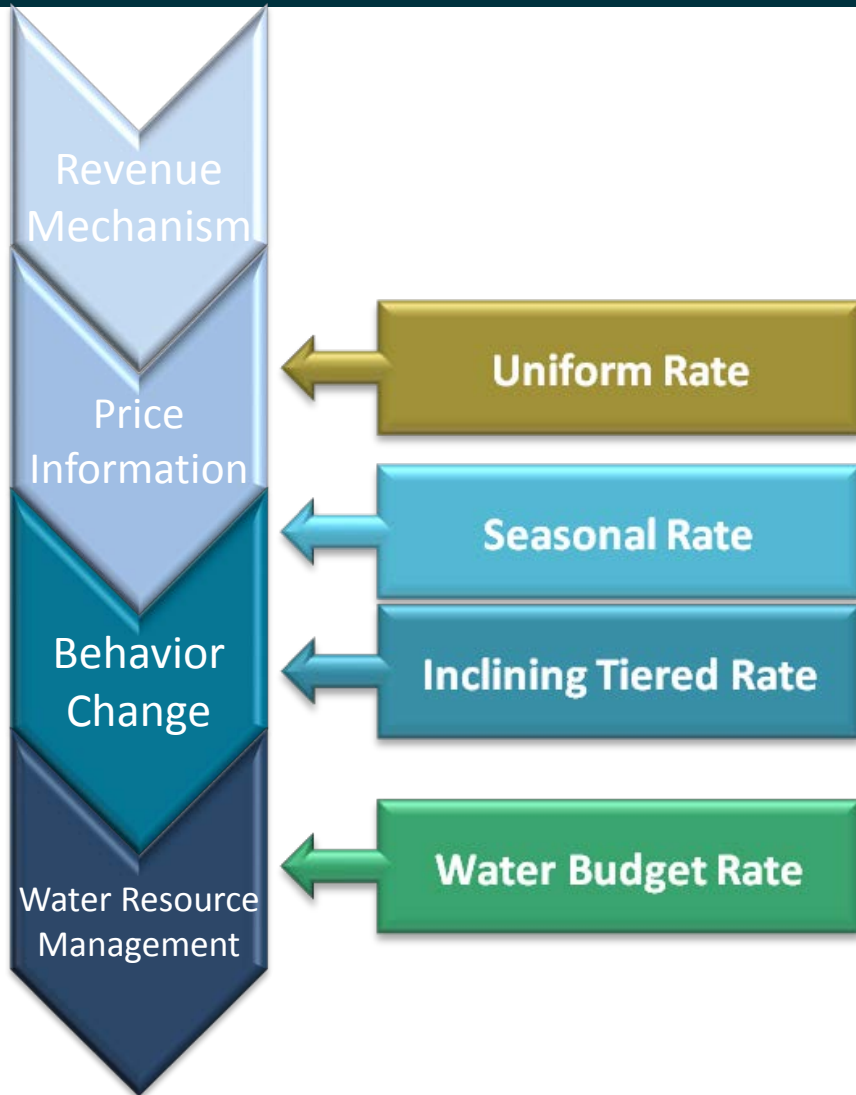


## Inclining Tiered Rate:

Pros: Promotes conservation, affordable for essential use, easy to administer, easy to understand

Cons: Higher volume users pay more

# Water Rate Structure Evolution

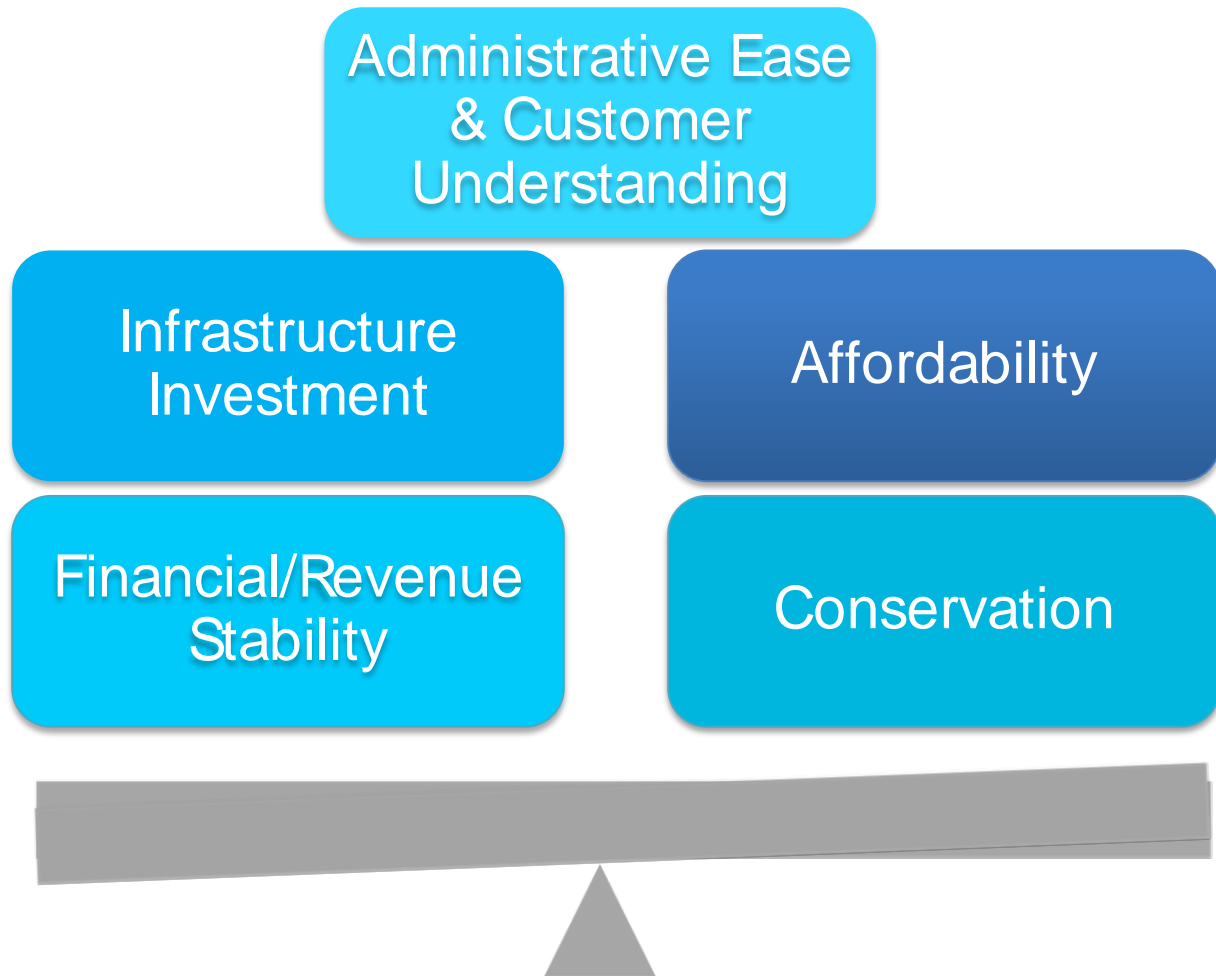


## Water Budget Tiered Rate:

Pros: Promotes water efficiency, equitable, affordable for essential use, drought allocation tool, revenue stability

Cons: High administrative cost, harder to understand

# Balancing Competing Pricing Objectives



# Administrative Ease & Customer Understanding

- » This objective consists of making the rate structure simple, easy to understand, easy to bill and easy to explain to customers.
  - Rate structures exist on a spectrum of complexity
  - An example of a rate structure that would help achieve this objective is a uniform rate structure, whereas a water budget structure is complex to administer and understand

# Affordability

- » This objective consists of keeping costs to water customers low, especially for low or fixed-income “essential use” customers.
  - Examples of policy decisions that would help achieve this objective:
    - Establishing lifeline rates subsidized with a transfer from General Fund.
    - Increasing the percentage of revenue recovered by commodity charges tends to reduce the overall cost on low water users.

# Conservation

- » This objective consists of encouraging reduced water use due to drought, potential drought or other low water supply concerns.
  - An example of a rate structure that can help achieve this objective is a inclining tiered rate structure.
  - Another example is water budget based tiers.



# Financial/Revenue Stability

- » This objective consists of ensuring overall financial viability and sustainability of the water utility enterprise. Also includes a dependable cash flow to fund system operations or repay debt. Ensuring adequate reserves for operational and capital needs.
  - Lowering the percent of revenue recovered by commodity charges can increase financial/revenue stability.

# Infrastructure Investment

- » This objective consists of paying for significant deferred maintenance or other pending identified capital projects needed to keep the water system running safely and efficiently (e.g., reducing short-term and long-term maintenance costs with proactive capital planning).
  - Meeting this objective would not necessarily have an effect on rate structure, but would inform the selected financial plan.

# Q & A

*thank*  
**YOU**

**CONTACT**

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