CHARLOTTE

Charlotte City Council

Restructuring Government Committee

Meeting Summary for January 27, 2011

COMMITTEE AGENDA TOPICS

I. **Subject:** **Water/Sewer Rate Study**
Action: None

COMMITTEE INFORMATION

Present: Warren Cooksey, Patrick Cannon, Patsy Kinsey, James Mitchell, and Warren Turner
Time: 12:10 p.m. to 1:30 p.m.

ATTACHMENTS

1. Agenda Package
2. Utilities Handout

DISCUSSION HIGHLIGHTS

Chairman Cooksey called the meeting to order and asked everyone in the room to introduce themselves. He stated that the only item on the agenda is the Water and Sewer Rate Study. He stated that he hoped they can get to a recommendation at the end of the meeting. In order to get the methodology addressed before the budget cycle begins, the ideal schedule would be a Public Hearing on February 14 and Council action on February 28.

I. Water and Sewer Rate Study

Mr. Barry Gullet said this rate study process evolved out of the rate setting process last spring and there were questions about how rates were set. He said Council was also receiving a lot of complaints about the equity of our rate setting process. He stated that they are at the end of the rate study process and they really need to put this to rest before getting into the process of setting the rates for the year going forward. Mr. Gullet said the presentation is a lot of what the Committee has already seen in earlier presentations. The numbers you see in the presentation are all based on this year and what the rates would have been if they had used the new methodology versus what they are using for the old methodology. He also reminded the Committee that it is all revenue neutral. Mr. Gullet began reviewing the "Water and Sewer Rate Study" presentation (copy attached).

(Council member Cannon enters)

["Fixed Monthly Charge" slide]

Mr. Gullet described the current fixed rate for water and sewer which is $2.40/month each. That is used to recover the billing and customer service costs. They are proposing to keep the current fee and add an availability fee. The availability fee would target recovering 20% of the annual debt service. The fee also varies proportionally with the water meter size. This fee would be charged every month. They are also proposing to change the way they calculate this. They normally calculate it on a daily basis and there are a lot of customers that are concerned about how they prorate when a billing period isn't exactly 30 days. Therefore, they would like to change the methodology to make it clear that both of the fees are per billing period.

["Sewer Cap" slide]

Mr. Gullet said they have a sewer cap because a lot of people who irrigate use one meter. In the summertime, a lot of the water they use doesn't really return to the sewer system. They've addressed that by putting a cap on it. It's currently at 24 ccf and very few of their customers get to 24 ccf. They would like to base the cap for each individual customer on their winter time usage. They propose to delay that option a year and in the meantime they would lower the cap to 16 ccf. They feel they need a year to get everything up and running and to adequately let the customer know about the change coming.

Cannon: What would be the advantages and disadvantages of what's being proposed?

Gullet: The advantage is people will be paying more closely for the service they are receiving. The disadvantage is the unit rate they pay will probably be higher.

Cannon: Potentially, how much higher?

John Mastracchio: Assuming that's the only thing that changes in the rate structure, currently the sewer unit charge is $4.31 and if you changed from 24 ccf to 16 ccf, that would result in the need to have a unit charge of approximately $4.42. If you went to the winter time average, it would be

about $4.51. That's directly related to the number of units of billed consumption that are figured into the calculation.

Gullet: Today, if they use 30 ccf of water, they pay sewer charges on 24 ccf of that and they get 6 ccf that they don't pay sewer charges on. In reality, they probably only put 12 or 16 ccf back into the sewer system, so they are paying for a service they didn't really receive. If we lowered the cap there will be fewer units billed, so to recover the same amount of revenue the price per unit has to go up a little bit.

Cooksey: Do we keep track when there is a high bill question of what the ultimate reason for it is? The impression I get is most of the time there is a spike in the bill it's because there has been a leak on the customer's side of the meter.

Gullet: We do keep track of it in the comments field of the billing records.

Cooksey: What I'm curious about is if due to weather we get more leaks on the customer side in winter time than we do in other seasons. That would be another element of why a delayed implementation would be good.

Steve Miller: The low flow indicator is about triple in the winter months.

["Tiered Rates" slides]

Mr. Gullet said the tiered rates are just subtle changes. They are being clearer on the specific costs that are assigned to each tier and how they set those tiers. Tier 1 would be half of Tier 2. The Tier 2 rate would be set to recover average day costs, 25% of the maximum day costs and a portion of the Tier 1 subsidy. Tier 3 would also subsidize the lower Tier 1 rate.

["Alternative Rate Structure Illustration Water Rates" slide]

Mr. Gullet read through the example on the slide. You would have lower charges on each of the tiers except Tier 3.

["Alternative Rate Structure Illustration Residential Bill Impact" slide]

Mr. Gullet described the slide and discussed the impacts on customers that use different amounts of water. The slide shows that if you weren't using any water at all, you still had a water bill that was $4.80 ($2.40 for water and $2.40 for sewer). Under the proposed methodology, you would have to add that availability fee to that, which is why the percent increase for the low water using customers, is higher. A typical customer is an 8 ccf customer and that works out to be a difference of about $1.12. The reason there is a decrease in bills for people using 17 ccf or more is because of the changes to the sewer cap. They would be paying sewer bills on less consumption than they were previously.

Cooksey: All those very significant decreases we see starting at 18 ccf and on are because we are billing people for sewer service they aren't using. Is that a fair statement?

Gullet: That's correct.

Kinsey: When you said the majority use 8 ccf, does that put them in Tier 2 or Tier 3?

Gullet: That would be Tier 2. Almost half the bills we send out are typically below 5 ccf. If you go up to the 9 ccf level, 84% of the bills we send out are that or less.

Cooksey: Is there any residential customer base that is Tier 4 year round?

Gullet: I would expect there are very few, if any.

Cooksey: That's another factor we have to look at when we are addressing this chart. Our Tier 4 really hits more in the summer time season. I wonder if you can do this kind of chart with peak of summer and peak of winter to see what percentage of our bills are being billed at Tier 4 in January and then again in August.

Gullet: We have that data, but it is very involved and very difficult to present. There is a variation from month to month. Looking at this data, it looks like for 17 ccf and up, in July, there are 92% at that or less. In winter time, we get up to 98.4% that are 17 ccf or less, which means that 1.6% is potentially in Tier 4 year round. That's not an exact evaluation, but that's a pretty good evaluation.

(Council member Turner enters)

Mastracchio: Those that do use more than 17 ccf year round, when you look at the winter average approach, wouldn't see the significant decrease because they are paying the winter average. So, their bill impact on the sewer side will not be a significant reduction.

Cooksey: Thanks, that's a good point to go back to for sewer because we are truly aiming to get the sewer charge to recover the actual cost of the service and consumption of the service.

["Irrigation Usage" slides]

Mr. Gullet said it is important to establish incentives for our customers to install separate irrigation meters. Today, there are less than 8,000 irrigation meters in our system. Most of those are commercial. Having a separate irrigation meter allows Utilities to respond better to high bill complaints and allows the customer to manage their water use better. During drought conditions, it makes it easier for us to monitor compliance with drought restrictions. They propose that if the customer puts in a separate irrigation meter, has the proper backflow prevention device, and installs a smart irrigation controller, then they would be charged only at the Tier 3 rate.

To help incentivize the customers to install the meters, they are proposing to eliminate the assessment of the capacity fee for "split service" irrigation meters. The connection fee would still have to be paid, but they are proposing to spread that fee out over 12 months and add it to the water bill, so it will be more affordable. This also needs to be a phased implementation due to program changes needed to be made in the billing system.

[“Bulk Customers” slide]

Mr. Gullet said they propose to continue charging the Tier 3 rate for the public systems outside of Mecklenburg County. For the master-metered communities, they are proposing to prorate tier widths based on the number of units on that street, in those communities or in those complexes. This is a complicated item and CMU will be spending more time with other cities that use this method as well.

[“Capacity Fee” slide]

Mr. Gullet said they received mixed reviews on the capacity fee during the stakeholder meetings and the public meetings. Some wanted to increase the fees and others wanted to leave them as is. He said staff believes that during these economic times they should be left alone, for now. He said they use a buy-in methodology for capacity fees. People are paying a depreciated cost. Some communities use a replacement cost method, which results in a higher capacity fee. Somewhere down the road, under a different economic time, perhaps it should be reconsidered.

[“Other Fees” slide]

Mr. Gullet said there is a long list of other fees they charge for things like delinquencies, new services, establishing an account, turn-on’s/off’s, etc. and they won’t change the methodology for those, but they will have to update the numbers. They generate a small amount of revenue, so it won’t be a big impact.

Chairman Cooksey said he would like to go over item by item, with the Committee working off the handout called “Proposed Rate Methodology Changes” (copy attached) since it has more detail than the presentation. .

Cooksey: Regarding the fixed monthly charges, Mr. Gullet and I talked about a stability proportion to the availability fee, so it wouldn’t be changing wildly from year to year.

Gullet: Yes, and when we talked we had 1.05 cap. From one year to the next, that availability fee wouldn’t increase more than 5%. We went back and talked more about that and we believe that another way to do the same thing is to target that at 20%, which came from the Utilities Advisory Committee. They felt the 5% cap might be more constraining at some point down the road. Setting a target of 20% would give Council the opportunity to have a little more flexibility in the fee, if they needed it down the road.

Kinsey: Can you give us an idea of what 20% of the debt service might be?

Mastracchio: On the water side, 20% is about $10 million in FY11 and on the sewer side, it’s about $17 million.

Kinsey: What would that equate to on an average bill?

Cooksey: It would be about $2.19 on the water and $2.73 on the sewer.

Cannon: Will the availability fee vary by meter size?

Gullet: Yes.

Cannon: Talk about the trauma if this proposed methodology is shot down.

Gullet: Then we stay with the methodology we have. The advantages of the proposed methodology are that it's more equitable and it provides more revenue stability. Having the availability fee will enhance the stability of the revenue coming in if we are in a dire drought situation.

Mastracchio: Right now, with the fixed billing charge, 5% of the revenues are generated by that fixed billing charge. When you add the availability fee to that, it makes the fixed component of the rate structure about 16%. When water usage fluctuates from season to season, the Utilities can count on 16% of the revenue being fixed, which is a lot better that 5%.

Kinsey: Will the fixed fees insulate us from having to come back in a drought situation and hit our customers with an increase?

Gullet: I don't think so. It will certainly help, but I can't predict what the weather is going to do. If we get into a mandatory restriction and customers really cut back, a huge amount of our costs are still fixed costs and they don't vary with the amount of water or wastewater that is treated. If we sell less units of water, we still have to generate the same amount of revenue to cover the fixed costs.

Kinsey: That's going to make it more difficult to explain. Also, the 20% is on the existing debt service. It's not looking toward anything in the future, like the huge bump we are going to have if we do the Long Creek Wastewater Treatment Plant, right?

Gullet: It would be applied annually. Whatever the debt service is for that year, the target would be 20% for that particular year.

Cooksey: It's a difficult talking point, but the key element is it does have a strong potential to reduce the required increase in a drought situation. We did a 15% increase in the last drought and we haven't given it back.

Turner: How much is driven by the current status of our bonds? When we can't sell our bonds and do the projects that we proposed, how much of this revenue generated goes to debt services?

Gullet: Currently, we are financing about 90% of our Capital Program with bond funding. We are working through our financial goals to try to get to a 60/40 ratio, which would be 60% of capital projects are funded with debt and 40% are funded with PAYGO money. That transition takes place over the next several years. It will be painful to get there, but we are working hard to do that.

Turner: How do you propose doing it?

Gullet: By increasing the amount of money that we are budgeting each year for PAYGO money.

Turner: Right, and that means increasing our fees.

Gullet: It's a balancing act. If we sell bonds then we have debt service increases. If we don't sell as many bonds, then the debt service increase is less and we can allocate that money to PAYGO. If you do that over a period of years, you eventually are putting enough money into PAYGO that you don't have to sell all those bonds. This year, our PAYGO contribution is about $27 million. We are proposed to do about the same next year, but the year after that, the PAYGO amount is projected to increase to about $32 million. In 2015, it goes to $53 million and in 2016 it goes to $62 million, which gets you to your 60/40 goal.

Turner: What is your projection for what people will be paying for water at that time?

Gullet: We'd have to make a lot of assumptions to make that projection. We'd have to assume what the growth will be between now and then. We've done some very conservative modeling and we aren't ready to roll this out yet because it's still being worked on. This is what we will bring to you in March at the budget meetings. The projections are that we are going to have a larger rate increase initially and then some smaller increases. I don't know the magnitudes of those just yet.

Turner: Well, 2014 is not far away and based on the economic reports and the real estate market, they don't look very bright for growth. Based on our debt service and your operation costs, over the next 3 years, if we did nothing and chose to continue the way we are today, would we be able to operate and cover the future projects that have been proposed to us? In order to keep up with what we are doing today we are going to need to talk about tier structure and costs.

Gullet: The idea is this methodology would be used for some number of years into the future. We will bring to Council our revenue requirements, which is based on our operating budget and capital budget and we apply those costs to the methodology.

Turner: What I'm getting at is the prices aren't coming down. They aren't going to get their 15% back and if we went into a drought this year and we were operating in the proposed methodology, it still would not cover that cost. The only way to offset the cost would be to change the cost structure to make up the difference. You clearly told us that this new methodology would not prevent you from raising the price in a drought situation. You will still be coming back, at some point, asking the Council to approve a rate increase.

Gullet: I don't know of any type of rate structure that we could adopt that would do what you are describing.

Turner: The problem I'm having with the structure is what we find to be minimal, will be a large impact to a lot of people. We can't answer a lot of their questions today. I don't know how we are going to justify this to them. Some people may say they think this is a great plan to try to get ahead, but it's impossible to get ahead and we can't predict where we will be. If you are short on

revenues you will come back for another price increase to cover it.

Gullet: This really doesn't address that. This is not a rate proposal for next year. It's a methodology we would apply for each year.

Cooksey: The issue that strikes more at what you are getting at is the Capital Program. Last year, in the budget cycle, I asked for a chart showing the projected debt service increases over the next 10 years under a no bill scenario, a reduced bill scenario and an as planned scenario. We didn't see a deviation in the debt service until about year-3. The decision about how our operation affects rates isn't the methodology; it's what capital improvements do Council support 2 – 3 years down the road. If you want to avoid rate increases in the future, you scale back the Capital Program and tell people we aren't going to grow. This may be something for us to look at this budget cycle.

Gullet: That is something that we are spending a lot of time on. It will look different this year than it did last year.

Mitchell: Regarding the irrigation usage, how long would we give the customer to make a decision to put the smart irrigation control system and the back flow device in? Is there a 30 day grace period?

Gullet: They put it in and we inspect it. Once it's installed then we set up the account. There is already a requirement that if a person has a separate irrigation meter they have to have a backflow prevention device. That device has to be inspected on an annual basis and reported back to us. We would incorporate that smart irrigation controller as part of that inspection process so we have some assurance that we are getting the benefit that we incentivized.

Cooksey: For bulk customers, do we process sewer for anybody besides the municipalities?

Gullet: Yes we do. The only one we do right now is Union County and they made a capital contribution. So, we charge them based on the actual operating and maintenance costs at the plant.

Kinsey: I just want to make sure we are billing them exactly what it costs us?

Gullet: Yes.

Kinsey: What is that rate?

Mickey Hicks: It's $0.79 per ccf. That does not include the capital.

Gullet: They aren't paying any debt service and they aren't paying for any of the costs of operating the collection system because they operate their own collection system.

Kinsey: That sounds awfully low.

Gullet: It is low. It's low because of the efficiency of our operation of the treatment plants.

Cooksey: We didn't really talk about the other miscellaneous fees and charges section. Is there anything in there we should hear about.

Gullet: One thing that comes to mind is we are proposing a change to the industrial user fees. This only affects roughly 100 customers in the whole system. One of the parameters we have a surcharge for is cBOD (carbonaceous biochemical oxygen demand) and the water/wastewater industry is moving away from that as surcharge criteria and is moving towards a measure called Chemical Oxygen Demand. We are proposing to transition to that and it would be delayed a year for implementation.

Cooksey: We all received an email from Bruce Anderson who was a member of the North Meck Rate Study Advisory Group. He wanted to make sure we addressed a few issues in Committee. He was concerned about the conservation rate process. Is there any interest from the Committee to think about raising the Tier 1 rate above the conservation rate?

Mitchell: I'd like to hear feedback from staff before I suggest moving forward.

Gullet: There are some customers that believe everyone should pay their full cost including the neediest customer. I believe that is Mr. Anderson's issue. The point to remember with that is everyone gets that benefit; it's not just a few customers. Everyone who pays a water bill pays the same rate for the first 4 ccfs.

Cooksey: Another question he had, in terms of the rate structure, is right now the charge is per household consumption without regard to the number of people in a household. Are there any concerns about the structure of that? The analogy would be we prorate for a private community, if a 2-person household uses 10 ccf and a 4-person household uses 10 ccf on a per person basis, the 4-person household is paying less than the 2-person household for the same amount of water. Does anyone want to look into that? (All Committee members said no)

Gullet: I'm not sure how we would ever do that anyway.

Cooksey: I'll read the next concern he has so I get it right. He says, "Many in our county were told water and/or sewer service was not available for years. Now, if the service becomes available, those same customers are asked to pay a connection fee that is much higher than they would have had to pay at the time they requested service. That fee should be reduced for those who could not connect through no fault of their own." Is there any interest from the Committee in pursuing that? (All Committee members said no) Okay, so we've talked about everything. Is the Committee comfortable moving this methodology forward to Council for further action?

Mitchell: I think I am. I struggle with raising the rates, but I was so convinced when you came to the District 2 Town Hall meeting and how you explained it to the citizens and you turned a lot of "no's" into "yes'" and understanding. I encourage us to continue to have dialogue with the citizens as much as possible.

Council member Mitchell made a motion to recommend moving forward to Council for consideration, the proposed methodology as presented. Council member Kinsey seconded and requested to speak to it.

Kinsey: Will we present this at a Workshop?

Campbell: It would be at the February 14 Dinner Briefing and then placed on the February 28 Business agenda for a public hearing and action.

Kinsey: We have to do it in February?

Campbell: Yes, in order to get it done before the budget cycle. Also, the February 28 meeting has to be a joint meeting with the Utilities Advisory Committee.

Cooksey: Do we have to have a recommendation from that Committee to take action?

Gullet: The Committee heard the same presentation last week and they were fine with moving it forward.

Kinsey: I think when we have a hearing and a decision on the same night, it tells the people who are there for the hearing that we have already made up our mind. That worries me. I don't know how to get around it, but I don't think it's good.

Cooksey: It's always Council's prerogative to postpone a decision. If on February 28, we have a hearing and controversy erupts, it's in our purview to do that.

Mitchell: Perception wise, if we have a hearing on February 28 and come back to the first meeting in March that might be better.

Cooksey: We don't have another business meeting until the end of March because of NLC.

Mitchell: Could we do it at the March 7 Workshop?

Cooksey: It would be off camera. Is it possible to do the public hearing on February 14 after the dinner presentation?

Campbell: That's possible. The only question would be if this is a mandatory hearing, do we have the timeframe to meet all the requirements. We'll have to look into that after this meeting.

Cooksey: Okay, so our preference, if legal, would be a dinner presentation and a public hearing on February 14 and an action on February 28. We have a motion on the table, so let's vote. *(Motion passed 4-1, Turner against)*

Kinsey: I want to bring up an issue. I had a COG lunch last week and sat at the table with the Cornelius Town Manager and another lady. She was very complimentary of the way this whole situation with the north has been handled. She made a couple of suggestions and I forwarded

them to the Manager and he suggested that I bring it up today. She suggested that the Utilities Advisory Committee be made up of the 6 town Mayors. When I talked with the Manager he suggested that maybe we could add two people to the Committee. One from the north end of the County and one from the south end of the County and they could select who they wanted on the Committee.

Gullet: The Advisory Committee membership is established in an agreement between the City, towns and the County. The current representative from the small towns is from Huntersville. We also have a member on the Committee from Davidson.

Kinsey: Are they professionals or are they an ordinary citizen?

Gullet: The appointee from Huntersville used to be the town engineer for the Town of Huntersville. His designated role on the Committee is a small town representative. The gentleman from Davidson is filling the role of a neighborhood leader.

Kinsey: Well, I still make that suggestion because she was pretty adamant about it. I think we should take this into consideration.

Turner: What do you mean when you say north end and south end?

Kinsey: The three northern towns and the three southern towns.

Cooksey: I think that should be a motion in the Mayor/Council items at the next meeting and see if they can refer that back into Committee.

Kinsey: The Manager told me we didn't have to do it that way.

Cooksey: Okay, we'll figure something out then.

Mitchell: We've received a lot of feedback about the ReVenture project and at one of my community meetings about 60% of the questions were related to our vision. It would be helpful for us to get better educated on that. I'd appreciate some updates on that periodically.

Gullet: We will do that.

Chairman Cooksey thanked Mr. Gullet for all his hard work and adjourned the meeting.

Restructuring Government Committee
Thursday, January 27, 2011
12:00 – 1:30 p.m.
Charlotte-Mecklenburg Government Center
Room CH-14

Committee Members:	Warren Cooksey, Chair Patrick Cannon, Vice Chair Patsy Kinsey James Mitchell Warren Turner
Staff Resource:	Eric D. Campbell

AGENDA

I. Water and Sewer Rate Study
Staff Resource: Barry Gullet
The Committee will receive an update on the Water and Sewer Rate Study process. If desired, the Committee may refer the proposed methodology to the full Council for consideration.
Attachment: 1. Water and Sewer Rate Study.ppt

Next Meeting: Thursday, February 24; 12:00 – 1:30 pm, Room 280

Distribution:	Mayor & City Council Mac McCarley Mickey Hicks	Curt Walton, City Manager Barry Gullet	Leadership Team Kim Eagle

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CHARLOTTE-MECKLENBURG UTILITIES

Restructuring Government Committee Briefing
Water and Sewer Rate Study

January 27, 2011

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Proposed Water & Sewer Rate Methodology

1. Fixed Monthly Charge
2. Sewer Cap
3. Tiered Rates
4. Irrigation Usage
5. Bulk Customers
6. Capacity Fee
7. Other Fees

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1. Fixed Monthly Charge

- Retain the existing fixed billing charge (currently $2.40/month water + $2.40/month sewer)
- Add a fixed availability fee
  - Target level is 20% of annual debt service costs
  - Fee varies proportionally with water meter size

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2. Sewer Cap

- Base sewer cap on each customer's average winter consumption
- Delay implementation
- Interim step – reduce residential sewer cap
  - From 24 ccf to 16 ccf for single family
  - Maintain the sewer cap at 11 ccf/ unit for multi-family

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3. Tiered Rates

- No changes proposed to the tier widths or cut-off thresholds
- Tier 1 rate would be set at 50% of Tier 2 rate
- Tier 2 rate would be set to recover:
  - Average day costs
  - Approximately 25% of maximum day costs
  - A portion of the rate subsidy provided by Tier 1 (lifeline rate)

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3. Tiered Rates (Cont'd)

- Tier 3 rate would be set to recover
  - Average day costs
  - Approximately 25% of maximum day costs
  - Approximately 35% of maximum hour costs
  - A portion of the rate subsidy provided by Tier 1
- Tier 4 rate would be set to recover
  - Average day costs
  - Approximately 50% of the maximum day costs
  - Approximately 65% of the maximum hour costs

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Alternative Rate Structure Illustration
Water Rates

Water Rates		Existing	Alternative	
Fixed Billing Charge		$2.40	$2.40	per bill
Availability Charge		$0.00	$2.19	per eq meter
Residential				
Tier 1	0-4	$1.45	$0.89	per ccf
Tier 2	4-8	$1.64	$1.77	per ccf
Tier 3	8-16	$2.69	$3.55	per ccf
Tier 4	>16	$5.32	$4.61	per ccf
Commercial		$2.04	$1.86	per ccf

Water and sewer rates shown are for illustration only and are revenue neutral in comparison to the existing 2011 rates. Actual 2012 rates under the alternative rate structure will be developed during the budget process.

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Alternative Rate Structure Illustration
Sewer Rates

Sewer Rates	Existing	Alternative	
Fixed Billing Charge	$2.40	$2.40	per bill
Availability Charge	$0.00	$3.73	per eq meter
Volumetric Rate	$4.31	$3.99	per ccf
Sewer Cap - SFR	24 ccf	16 ccf	

Water and sewer rates shown are for illustration only and are revenue neutral in comparison to the existing 2011 rates. Actual 2012 rates under the alternative rate structure will be developed during the budget process.

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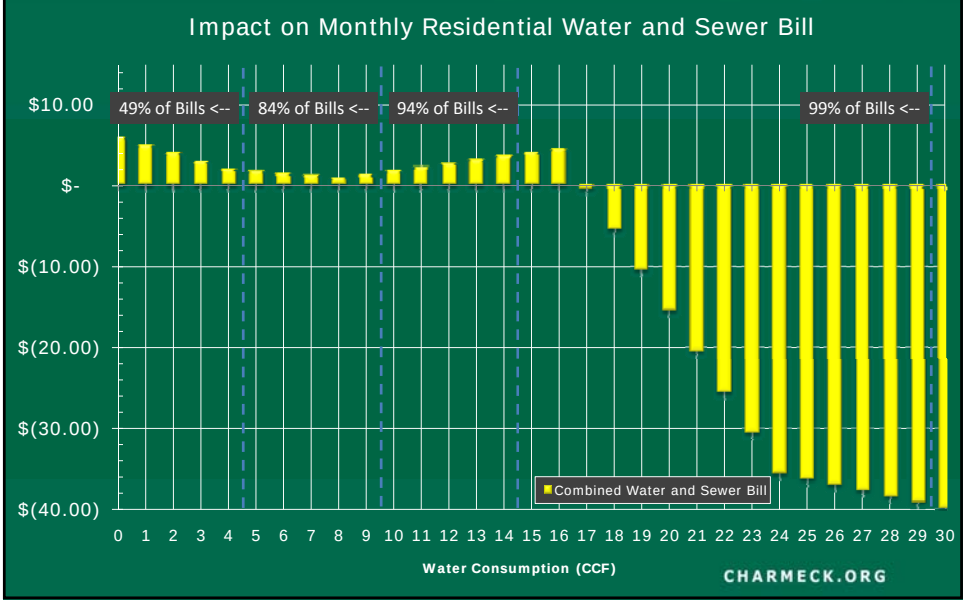
Alternative Rate Structure Illustration Residential Bill Impact



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4. Irrigation Usage

- Establish incentives to install separate irrigation meters
- Separate meter irrigation rates would begin at Tier 3 and progress to Tier 4 based on usage
- When a backflow prevention and smart irrigation controller are installed and maintained, Tier 3 rates would apply

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4. Irrigation Usage(Cont'd)

- Eliminate assessment of capacity fees for residential irrigation meters installed as a "split service"
- Connection fees for separate residential irrigation meters would be payable in 12 monthly installments
- Phased implementation

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5. Bulk Customers

- Public systems outside of Mecklenburg County (Concord, York County, etc)
  - Continue to charge Tier 3 rates for all water used
- Master-metered, private utility systems within Mecklenburg County (Private street and/or gated communities, multi-family complexes, etc)
  - Prorate Tier widths based on number of units

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6. Capacity Fee

- Continue existing methodology

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7. Other Fees

- Adjust miscellaneous fees to reflect current costs

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Questions / Discussion

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Water and Sewer Rate Methodology

Proposed Rate Methodology Changes

Several rate methodology changes are proposed based on the results of the rate structure evaluation and public input process. These proposed changes consist of:

1. **Fixed Monthly Charges.**

   Current Methodology:

   The fixed billing charges for water and sewer recover the cost of basic servicing of customer accounts, such as the cost of meter reading and billing. Currently the fixed billing charge is $2.40/month for water and $2.40/month for sewer.

   Proposed Methodology:

   a. Retain the existing fixed billing charges that recover the cost of basic servicing of customer accounts, such as the cost of meter reading and billing.

   b. An Availability Fee would be added to recover a target of 20 percent of annual debt service cost and reduce the volatility of rate revenues. The Availability Fee would vary and increase by meter size in accordance with published meter capacity ratios.

2. ***Sewer Cap.***

   Current Methodology:

   a. Water consumption used for determining the monthly sewer bill for residential customers (determined via the water meter) is currently capped at 24 ccf. Residential customers do not pay sewer usage rates on water used beyond this amount.

   b. Multi-family (apartment) usage is capped at 11 ccf of water usage per dwelling unit, and multi-family customers do not pay sewer usage rates on water used beyond this amount.

   c. Irrigation meter customers do not pay sewer usage charges.

   Proposed Methodology:

   a. Water consumption used for determining the monthly sewer bill for residential and multi-family (apartment) usage would be capped based on each customer's average winter consumption.

      The implementation of the average winter consumption methodology would be delayed until at least 2013 to allow average winter consumption data to be gathered, allow the development and vetting of back-office and customer service procedures that will be needed following the adoption of this methodology change,

and allow this methodology change to be publicized for a period of time before implementation.

As an interim step, the single-family residential sewer cap would be lowered from 24 ccf to 16 ccf, and the sewer cap for multi-family will be maintained at 11 ccf per dwelling unit beginning in July 2011.

b. As with the current methodology, irrigation meter customers under the proposed methodology would not pay sewer usage charges.

3. Tiered Water Rates

Current Methodology:

a. Residential customers pay for water usage based on a four tier rate structure. The existing Tier widths are:

Tier 1	0 to 4 ccf
Tier 2	5 to 8 ccf
Tier 3	9 to 16 ccf
Tier 4	Over 16 ccf

The tier widths for multi-family residential customers and for master-metered single-family residential neighborhoods are scaled based on the number of dwelling units served by the master-meter.

b. The rates associated with each of the tiers are determined as follows. The Tier 1 rate recovers the base cost associated with average day operation. Tier 2 adds a portion of the maximum day costs to the average base rate. Tier 3 and Tier 4 add a portion of the maximum day and maximum hour costs to the average base rate.

Proposed Methodology:

a. Residential customers will continue to pay for water usage based on a four tier rate structure, with no change to the existing tier widths. The tier widths for master-metered multi-family residential and single-family residential neighborhoods will continue to be scaled based on the number of dwelling units served by the master-meter.

b. The rates associated with each of the tiers would be determined as follows:

- The lifeline (Tier 1) water rate would be set at 50 percent of the Tier 2 rate. This lower rate is intended to improve affordability of essential domestic consumption (e.g., drinking, washing, cleaning) for all customers.

- The Tier 2 water rate would be established to recover average day costs, approximately 25 percent of maximum day cost, and a portion of the rate subsidy provided by the lifeline rate.

- The Tier 3 water rate would be established to recover approximately 25 percent of the maximum day costs, 30 percent of the maximum hour costs, and a portion of the rate subsidy provided by the lifeline rate.

- The Tier 4 water rate would be established at a rate that would recover approximately 50 percent of the maximum day costs and approximately 70 percent of the maximum hour costs.

4. ***Water Rates for Separate Irrigation Meters.***

Current Methodology:

a. Separate meter irrigation accounts pay a one-time connection fee, and a one-time capacity fee at the time that the connection is made.

b. Rates for separate meter irrigation water usage begin at Tier 3 for water usage up to 16 ccf per month, and progress to Tier 4 for usage above this amount. Currently, the tier widths are not scaled for separate irrigation meters serving more than one residence.

Proposed Methodology:

a. The capacity fee for residential irrigation meters installed as a "split service" would be eliminated. Connection fees for separate residential irrigation meters would be payable in 12 monthly installments as part of the customer's water bill.

b. Rates for separate meter irrigation water usage:

- Rates would continue to begin at Tier 3 for water usage up to 16 ccf per month, and progress to Tier 4 for usage above this amount.

- For master metered irrigation only accounts used only for residential lawn watering, such as might be found in communities with private streets, rates would be scaled based on the number of dwelling units. Irrigation meters serving common areas, landscaped street medians, neighborhood parks, or other similar areas would not be subject to tier scaling. Rates would begin at Tier 3 for water usage up to 16 ccf per dwelling unit, and progress to Tier 4 for usage above this amount.

- When a separate irrigation meter, backflow device and smart irrigation controller are installed and maintained in accordance with Utilities' standards/requirements, then Tier 3 rates would apply to all irrigation usage.

5. ***Water Rates for Bulk Water Customers.***

Current Methodology:

Public water systems outside of Mecklenburg County (e.g. Concord, York County) served by CMUD are charged the Tier 3 residential rate for all water used.

Proposed Methodology:

There are no changes to the current methodology for public water systems outside Mecklenburg County proposed.

6. ***Connection and Capacity Fees.***

Current Methodology:

a. Anyone desiring a new connection to the water or sewer system must pay a connection fee and a capacity fee.

b. Connection fees are calculated based on the actual labor and material costs to provide and install the service connection. Connection fees are established annually based on average actual costs from the prior year.

c. The current capacity fees are calculated using the buy-in method. Under this method, new customers are required to "buy-in" to the existing backbone facilities (plant, pump stations, supply reservoirs, large collection and distribution facilities), at a rate that reflects the prior investment of existing customers. The following steps outline the methodology:

- The original cost less accumulated depreciation value (net book value) of existing backbone facilities are compiled based on Utilities fixed asset records.
- The unit capacity cost is determined by dividing the net book value by the total average day water and sewer treatment capacity ($ per gallon per day).
- The capacity fee for a ¾" meter size is calculated by multiplying the unit capacity cost by a usage factor of 250 gallons per day.
- The capacity fees for water meter sizes that are larger than ¾" are determined by scaling up the capacity fee for a ¾" meter size, using published meter equivalency ratios.

Proposed Methodology:

No changes to the existing connection or capacity fee methodologies are proposed. However, as discussed above, the capacity fee for residential irrigation meters installed as a "split service" would be eliminated.

7. **Other Miscellaneous Fees and Charges**

Current Methodology:

a. Industrial Wastewater Program Charges. Utilities charges three types of wastewater charges related to higher strength wastewater:

- *Industrial Waste Charge.* Industrial and commercial customers are assessed an industrial waste charge that recovers a portion of the System Protection Division costs. The industrial waste charge is assessed on the basis of volume of flow.

- *Industrial High Strength Surcharges.* Industrial customers that discharge wastewater with a concentration of cBOD (carbonaceous biochemical oxygen demand), TSS (total suspended solids) and NH3-N (ammonia)at a strength that is higher than domestic strength pay a surcharge based on the amount of pounds of each constituent that is discharged over the domestic loading and the cost per pound associated with treatment.

- *Commercial High Strength Volume Charge.* The commercial high strength volume charge is assessed to non-monitored customers in the industrial wastewater program that discharge waste that is greater than domestic loadings. The high strength volume charge is calculated by determining the average loadings for these customers over the domestic loading, applying the industrial high strength unit costs of treatment, and calculating a volumetric charge that includes the cost of the high strength loadings.

b. Other Miscellaneous Fees and Charges. Other miscellaneous fees and charges are set based on cost data and analysis. These fees and charges include the following:

- Reconnection Fees
- Turn on / Turn off Fees
- Meter Testing Fees
- Delinquent Bill Fees

Proposed Methodology:

a. Industrial Wastewater Program Charges. Utilities will continue to maintain the Industrial Waste Charge, Industrial High Strength Surcharges, and the Commercial High Strength Volume Charge, with the following proposed methodology change:

- *Industrial High Strength Surcharges.* The proposed methodology changes one of the parameters used as the basis of the surcharge from cBOD to COD (chemical oxygen demand). The COD laboratory test is a less expensive, shorter test that is equally as accurate and reflective of the costs that are incurred at the wastewater treatment plants as the cBOD test. Utilities proposes to work with individual industrial users to transition this change through a one year period ending by July 1, 2012.

b. Other Miscellaneous Fees and Charges. There are no proposed changes to the methodology for calculating the other miscellaneous fees and charges. However, these fees will be adjusted to reflect current costs.

Summary of Fixed Charges – North Carolina Utilities
2010

	Water	Sewer	Total
Cary, NC	$ 3.07	$ 3.07	$ 6.14
Concord, NC	4.04	3.39	7.43
Durham, NC	5.11	5.71	10.82
Greensboro, NC	3.15	3.15	6.30
Onslow Water and Sewer Authority (ONWASA)	12.15	19.75	31.90
Orange Water and Sewer Authority (OWASA)	13.19	10.77	23.96
Raleigh, NC	5.23	4.15	9.38

Summary of Fixed Charges – Southeast Regional Utilities
2010

	Water	Sewer	Total
City of Atlanta Department of Watershed Management: Atlanta, GA	$ 5.21	$ 5.21	$ 10.42
Austin Water Utility: City of Austin, Texas	6.70	8.50	15.20
Birmingham Water Works & Sewer Board	14.23	-	14.23
Cobb County Water System	7.00	-	7.00
Marietta Power and Water: Marietta, GA	16.20	14.10	30.30
Sewerage and Water Board of New Orleans, LA	3.70	11.60	15.30
San Antonio Water System: San Antonio, TX	6.77	7.76	14.53
Tampa, FL	1.50	-	1.50