

To: Climate and Environment Commission
From: David Switzer, Water and Light Advisory Board Chair
Date: 9/14/2022

Subject: Response to CEC Water Rates Memo

I am writing on behalf of the Water and Light Advisory Board to address the CEC's memo on water rates. Thank you for the communication. While we don't agree on everything, we hope to continue a fruitful dialogue on these issues into the future. Our comments:

1. We understand the desire to focus rate increases in tier 3 and tier 2, and therefore avoid increases in the base rate and tier 1. Unfortunately, this is not financially feasible under the current rate structure. The tier system only applies during the four summer months, meaning a plan that does not address base or tier 1 rates only raises additional revenue over the current baseline during those four months. Additionally, tier 3 usage represents a relatively small portion of the community's total usage and a similarly small percentage of the utility's revenues. Tier 3 represented only 289,451 CCF of usage in FY21. In total, 4,981,589 CCF of usage were billed by the CWL in FY21. This means tier 3 usage was only 5.8% of billed usage in FY21. Even doubling tier 3 revenues, which would require more than doubling the price due to the elasticity of water (as the price goes up, tier 3 usage will go down), would only result in \$1.75 million in additional revenue. This would not cover the necessary revenue increases.

While tier 2 represents more of the system's usage (although still only 9.1% of the total billed CCF in FY21), it also has a significant impact on almost every customer under the current rate structure (since tier 2 applies to summer usage at 70% to 170% of winter usage). Raising tier 2 rates to make up the difference could, therefore, have the adverse effect of actually making rates less affordable, since even customers only using water for essential use will likely have at least 30% of their summer usage charged at these higher rates. Indeed, this scenario is why the WLAB recommended shifting some of the rate changes for FY23 from tier 2 to the base rate. Given the quirks of our rate structure, it actually improved affordability (according to the hours at minimum wage metric).

All this said, the principles behind the CEC's suggestion, ensuring affordability and payment for the cost imposed by high water usage on the system, are important. We would be happy to work with the CEC on figuring out more practical ways of turning those principles into action.

2. The second major point we want to address is the idea of a minimum base rate, with a certain amount of uncharged CCF usage included in the minimum. This is not an uncommon approach to water rates. Nearly 20% of municipal utilities serving more than 40,000 residents use this approach, including four municipalities in Missouri. There are advantages and disadvantages to the approach, but it is definitely an approach worth considering. A few of the advantages include more consistent bills for the customer and

more revenue stability for the utility. The WLAB is going to work on providing Council with more information regarding different approaches to water rates over the next year. Consideration of a minimum rate with a certain number of CCFs included will certainly be part of that discussion. We will make sure to engage with the CEC in those plans as we move forward.

3. Related to these points, over the next few months, the WLAB will be discussing affordability metrics to help illustrate the impact of rate adjustments on the most vulnerable utility customers. We will make sure to keep the CEC in the loop on these projects and will engage with the CEC to get feedback on our recommendations as we move forward.