



THE REED GROUP, INC.

February 27, 2009

Jamille Moens
Dept. of Utilities
City of Sacramento
1395 35th Avenue
Sacramento, CA 95822

Subject: Addendum to Metered Water Rate Report

Dear Ms. Moens,

In August 2008, The Reed Group, Inc. submitted the *Metered Water Rates* report regarding proposed revision to the City's metered water rate structure. The proposed rate structure is intended to apply to both residential and non-residential customers of the water utility, and should be implemented prior to the initial conversion of flat rate residential customers to metered rates.

The August 2008 *Metered Water Rate* report included a rate schedule based on the then-proposed 3.75 percent increase in the water rates for FY 08-09. That water rate adjustment was not adopted, and it appears now that no rate increase will occur in FY 08-09. At this time, City staff and the newly formed Rate Advisory Committee (RAC) are evaluating revenue needs for FY 09-10.

In a meeting with the RAC on January 21, 2009 there was some discussion regarding the relative mix of water rate revenues between the water usage charge and the monthly basic service charge. Proposed rates are designed to generate 59 percent of the revenue from the water usage charges and 41 percent from the service charges. RAC members expressed an interest in having a higher percentage included in the water usage charge, in order to promote greater water conservation.

Working with City staff, we have revised our recommendations to reflect water rates that would generate 60 percent of revenues from water usage and 40 percent from service charges. The revised rates are still consistent with cost of service requirements and are believed to strike a balance between encouraging water conservation and maintaining revenue stability for the water utility. This balance is particularly important as the City begins the transition from flat rate to metered billing for about one-quarter of its residential customers in the near future.



City of Sacramento -- Water Utility
Proposed Metered Water Rates

METERED WATER RATES	Current (1)
Monthly Basic Service Charges (2)	
Up to 1" meter	\$ 13.86
1 1/2" meter	\$ 26.10
2" meter	\$ 40.79
3" meter	\$ 75.08
4" meter	\$ 124.05
6" meter	\$ 246.49
8" meter	\$ 393.41
10" meter	\$ 564.82
12" meter	\$ 1,054.56
Water Usage Charge (\$/ CCF) (3)	
All water usage	\$ 0.566

Notes:

- (1) Proposed water rates are revenue neutral to the current water rates.
- (2) Basic service charges apply to metered rate accounts, regardless of water use.
- (3) Water usage charge applies to each 100 cubic feet (CCF) of water usage.
One CCF = 748 gallons.

The rate schedule shown above presents the revised water rate recommendation. These water rates are intended to be revenue neutral relative to the current water rates, which were implemented at the beginning of FY 07-08. A full description of the proposed water rate structure is included in the August 2009 *Metered Water Rate* report.

Commensurate with any need for increased water rates in FY 09-10 and beyond, the proposed water rates can be adjusted to meet any revenue need of the utility. For example, if a 10 percent rate adjustment is found to be needed for FY 09-10, relative to the current rates, then both the water usage charge and the basic service charges would be adjusted by 10 percent to meet the rate adjustment target.

As the City gains experience with residential metered billing and the new rate structure, it could consider changes to the revenue mix. In addition, as the City gains data on residential water use characteristics it can begin to consider that potential advantages of a tiered water rate structure. Development of a tiered rate structure requires detailed water use data analyses, assessment of potential administrative changes or constraints, and due consideration of a variety of technical and policy issues.

Please let me know if you have any questions regarding the revised metered water rate recommendations, or if you would like to discuss any other water rate or transition issues in greater detail.



JAMILLE MOENS
FEBRUARY 27, 2009
PAGE 3

We appreciate the opportunity to be of continued service to the City of Sacramento and the Department of Utilities.

Sincerely,

Robert Reed
The Reed Group, Inc.

City of Sacramento

Rate Advisory Committee

Metered Water Rates

March 4, 2009

The Reed Group, Inc.



Current Situation

- AB 2572 requires the City to bill all customers with water meters based on water usage by January 2010
 - About 32,000 customers will be converted in first group
- Existing metered rate structure was developed for non-residential customers in the 1960s



Rate Setting Objectives

- Reflect the cost of providing water service and be equitable to all customers
- Maintain financial stability within the water utility during transition to metered billing
- Encourage water conservation by billing based on water usage
- Easy for customers to understand and for the City to administer



Proposed Metered Water Rates*

METERED WATER RATES	<u>Current (1)</u>
<i>Monthly Basic Service Charges (2)</i>	
Up to 1" meter	\$ 13.86
1 1/2" meter	\$ 26.10
2" meter	\$ 40.79
3" meter	\$ 75.08
4" meter	\$ 124.05
6" meter	\$ 246.49
8" meter	\$ 393.41
10" meter	\$ 564.82
12" meter	\$ 1,054.56
<i>Water Usage Charge (\$/ CCF) (3)</i>	
All water usage	\$ 0.566

Notes:

- (1) Proposed water rates are revenue neutral to the current water rates.
- (2) Basic service charges apply to metered rate accounts, regardless of water use.
- (3) Water usage charge applies to each 100 cubic feet (CCF) of water usage.
One CCF = 748 gallons.

* Revenue neutral with current water rates.



Rate Structure Impact for Typical Single Family Customer

	Typ. Water Use (1)		Flat Rate Bills (2)	Prop. Mtr'd Rate Bills (3)
	gal/day	CCF/mo.		
January	265	11	\$ 25.97	\$ 20.08
February	267	10	\$ 25.97	\$ 19.51
March	241	10	\$ 25.97	\$ 19.51
April	274	11	\$ 25.97	\$ 20.08
May	386	16	\$ 25.97	\$ 22.91
June	549	22	\$ 25.97	\$ 26.30
July	676	28	\$ 25.97	\$ 29.69
August	724	30	\$ 25.97	\$ 30.83
September	673	27	\$ 25.97	\$ 29.13
October	531	22	\$ 25.97	\$ 26.30
November	499	20	\$ 25.97	\$ 25.17
December	410	17	\$ 25.97	\$ 23.47
Annual Totals	459	224	\$311.64	\$292.98

Notes:

- (1) Estimated median monthly water use based on data from tracking meters.
- (2) Based on single family home with 6-9 rooms.
- (3) Based on single family home with 1" meter and water usage as shown.



Benefits of Proposed Rates

- Meets statutory requirements for metered water rates
- Maintains revenue stability for water utility during period of transition
- Encourages water conservation
- Fair and easy for customers to understand

