

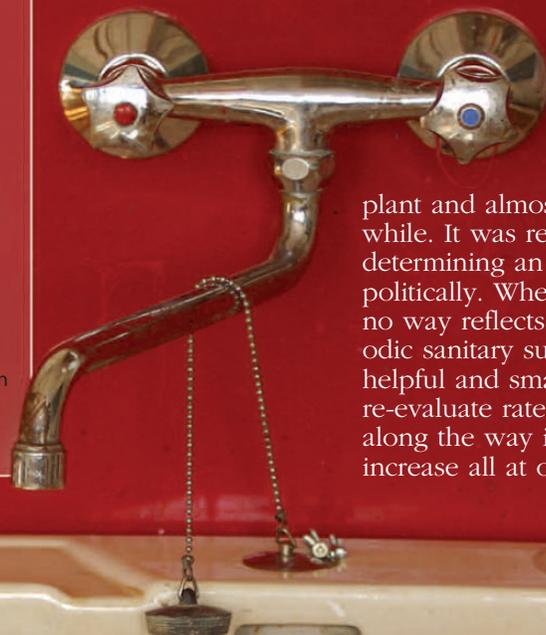
Each issue, we ask members of the *On Tap* Editorial Advisory Board to answer a drinking water-related question. We then print as many responses as space permits. The opinions expressed are not necessarily those of NESCA.



Many communities know that their water rates are too low, but they are reluctant to raise rates to appropriate levels. After all, higher fees are never popular with customers. Another, often overlooked, aspect of these increases is that a state regulatory body usually must approve them.

Q: Which is more difficult: raising the rates or getting the increase approved by the state public service commission?

What are some ways to make implementing rate increases easier?



You Won't Win a Popularity Contest

I may not be qualified to answer this question because I've never been involved in the approval process with the public service commission. However, when I worked as an operator with the City of Helena, Montana, the city built a new surface water treatment plant and almost doubled the rates. We were unpopular for a long, long while. It was relatively easy to do the math—projecting the costs and determining an appropriate water rate. It was just not popular nor easy politically. When I look at rates for many small communities, I see it in no way reflects the real cost of operating the system. I think that periodic sanitary surveys that take an overall look at the operation are very helpful and small systems should use that three- to five-year interval to re-evaluate rates on a periodic basis and make needed adjustments along the way instead of hitting customers with a 100 percent (or more) increase all at once.



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Raising Rates Is Never Easy

In Washington, the procedure for increasing rates varies depending system ownership, as does the rate of success. The easiest process for getting rate increases approved has been with our nonprofit managed systems. Typically, it requires meeting with board members to discuss cost of service and necessity for a reserve account, and voting. By contrast, conducting a cost of service study and increasing rates and fees for our owned systems has been next to impossible, even though we have the ability to do it in-house.

As a struggling nonprofit water utility within a financially solvent electric company, it has been extremely hard to propose a rate increase. Since the first rates were adopted in 1996, there has been an increase in 2000 and another in 2003. The company had a consultant recommend the last rate increase. Our rates consist of a single base rate (not meter size dependent) with six tiers (too many, in my opinion). Most customers are within the first two tiers, even during the summer.

Since the last rate increase, staff have had salary increases each year, gas prices continued to rise, material costs increased, and interest expense paid on debt water owed the company more than doubled. We have also completed necessary significant capital improvements on several systems, all without an increase in rates or connection fees. Most recently, meter reading was outsourced at more than double the cost.

Investor owned systems have to submit annual financial reports and prepare cost of service rate studies to change their tariff (procedures, rates and fees) to the Washington Utilities and Transportation Commission (WUTC). Working with WUTC accountants is not easy. In my opinion, they do not have a standard submittal process, nor are they clear about what they want, but they have the ability to propose significant changes after lots of time is spent developing proposed rate increases. WUTC is not as assistance-oriented as other state regulatory agencies. Despite the lack of technical guidance, we have successfully completed three tariff filings in five years.

To improve the rate increase process, I offer the following recommendations:

- 1** Connection fees and minimum base rates should be based on equivalent residential units and meter capacity, respectively.
- 2** Tiers should be minimized and send a clear water conservation and efficiency message. Three easy tiers to explain to customers are ones that establish a reasonable winter and summer use, plus an excessive rate tier.
- 3** For nonprofit water systems, if the cost of service increases, rates should increase proportionally. Not increasing rates only forestalls the inevitable and requires that customers pay a higher future rate.
- 4** Utilities should consider adopting a reasonable annual increase reflective of the cost of living increase, along with immediately adopting surcharges for significant capital improvements that sunset once debt is paid off.
- 5** Rates should be paying down debt, if any, and build a reserve for replacing capital facilities.



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