

ROCHESTER CITY COUNCIL INTRODUCES LEGISLATION TO IMPROVE THE CITY'S WATER/SEWER RATE STRUCTURE

During its meeting of September 28, 2015, City Council introduced legislation to improve the City's water/sewer rate structure. City Council will consider final adoption of the new rate structure during its meeting of October 26, 2015. City Council and Administration have been working on the development of the new rate structure for several years. With the assistance of Umbaugh and Associates, the new rate structure has been developed to address two specific goals:

- (1) To allocate the costs to operate each of the City's three water/sewer systems to the customers that receive service from the system. The City's three water/sewer systems are:

Well Water System

The City owns and operates several community water wells and a water treatment plant. The City pumps, treats and distributes this well water to 2,305 customers, generally located on the west side of the City (west of Letica Road). The City has operated this water system for decades and provides water from the system at a very economical rate.

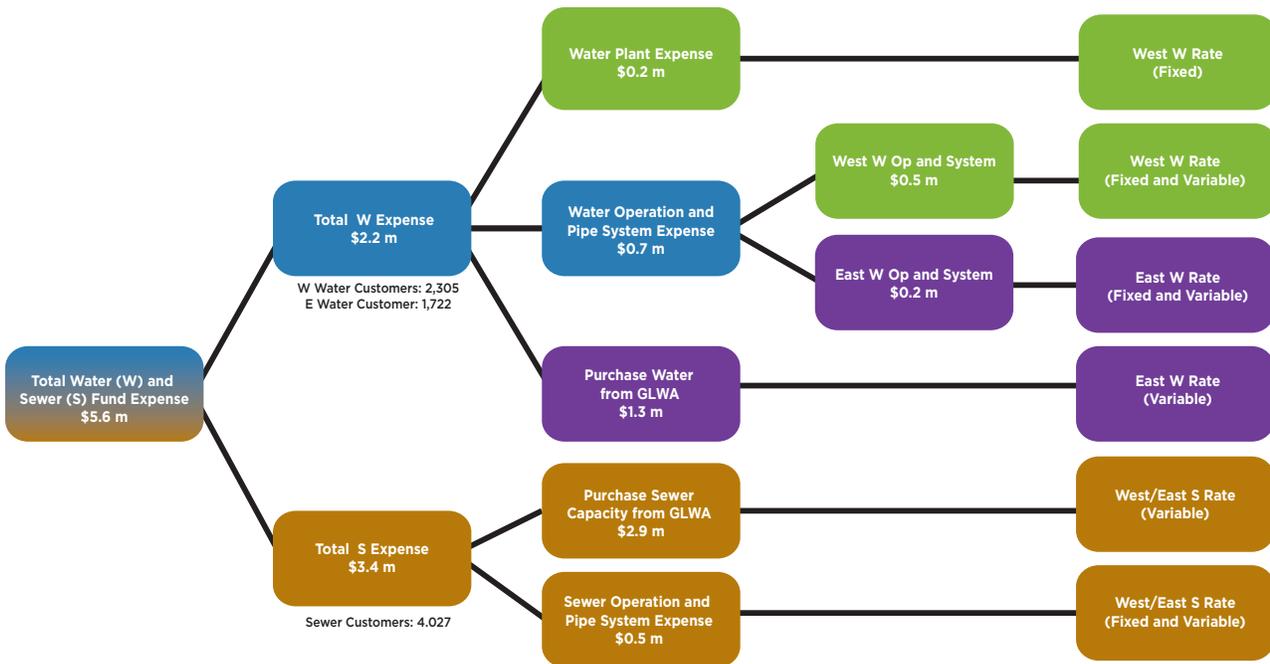
GLWA (DWSD) Water System

When the City expanded its boundary east of Letica Road it entered into an agreement with Shelby Township to purchase water through the Township from the Detroit Water and Sewer Department (DWSD). Recently, DWSD has been replaced by the Great Lakes Water Authority (GLWA) as the provider of water and sewer service to suburban communities. The City provides GLWA water to 1,722 customers. The City is required to pay the rate as set by the water supplier.

Sewer System

All 4,027 sewer service customers in the City receive the service from the same provider – Oakland Water Resources Commission, through a contract with GLWA. The City is required to pay the rate as set by the sewer service provider.

The below Water/Sewer Budget Cost Accounting flow chart outlines the components of the City's \$5.6 million water/sewer operation:



- (2) To provide a system that allocates costs based on the fixed and variable costs to operate each water/sewer system. This has been accomplished by developing a rate structure with two components:

Ready to Serve Fee

There are certain costs associated with customers having the ability to receive water/sewer service when they want it; the City defines these costs as "Ready to Serve" costs and the costs are generally fixed (they do not change regardless how much water/sewer service is provided by the city).

Commodity Charge

The cost associated with the water consumption and sewer usage are highly variable, depending on individual household and seasonal changes. The City has defined the variable cost of the quantity of water/sewer service used by customers as a "Commodity Charge."

Below are two sample bills, one for a Well Water System customer and one for a GLWA System customer calculated using the new rate structure. In both examples the customer used 20 units of water during a quarterly billing cycle.

The colors below correspond with the colors included in the Water/Sewer Budget Cost Accounting flow chart. The explanation bubbles next to the bill explain whether the cost is fixed or variable.

Rochester Well System	
Customer Usage	20
Water	
Ready to serve fee (1" meter)	\$ 6.67
Commodity Charge (\$0.84 per ccf)	\$ 16.80
	\$ 23.47
Sewer	
Ready to serve fee (1" meter)	\$ 31.99
Commodity Charge (\$3.09 per ccf)	\$ 61.80
	\$ 93.79
TOTAL	\$ 117.26

This fee is based on the fixed costs to operate the Well water system. The Ready to Serve Fee is the same for every residential Well water customer, regardless of how much water used during the bill quarter.

This fee is based on the variable costs to operate the Well water system. The Commodity Charge is directly based on the water used during the bill quarter. In this example 20 units x \$0.84 per unit = \$16.80

This fee is based on the fixed costs to operate the Sewer system. The Ready to Serve Fee is the same for every residential customer, regardless of how much water used during the bill quarter.

This fee is based on the variable costs to operate the Sewer system. The Commodity Charge is directly based on the water used during the bill quarter. In this example 20 units x \$3.09 per unit = \$61.80. If a customer chooses to install an Irrigation Meter, the non-sewer water used by the customer, as measured by the Irrigation meter, will be subtracted from the units used (in this example, subtracted from the 20 units).

GLWA Rochester DWSD System	
Customer Usage	20
Water	
Ready to serve fee (1" meter)	\$ 4.94
Commodity Charge (\$4.87)	\$ 97.40
	\$ 102.34
Sewer	
Ready to serve fee (1" meter)	\$ 31.99
Commodity Charge (\$3.09 per ccf)	\$ 61.80
	\$ 93.79
TOTAL	\$ 196.13

This fee is based on the fixed costs to operate the GLWA water system. The Ready to Serve Fee is the same for every GLWA water residential customer, regardless of how much water used during the bill quarter.

This fee is based on the variable costs to operate the GLWA water system. The Commodity Charge is directly based on the water used during the bill quarter. In this example 20 units x \$4.87 per unit = \$97.40

This fee is based on the fixed costs to operate the Sewer system. The Ready to Serve Fee is the same for every residential customer, regardless of how much water used during the bill quarter.

This fee is based on the variable costs to operate the Sewer system. The Commodity Charge is directly based on the water used during the bill quarter. In this example 20 units x \$3.09 per unit = \$61.80. If a customer chooses to install an Irrigation Meter, the non-sewer water used by the customer, as measured by the Irrigation meter, will be subtracted from the units used (in this example, subtracted from the 20 units).

What Impact with the New Rate Structure Have on My Bill?

In general, customers that use less water/sewer service will see a savings in their water/sewer bill. High water/sewer users will see an increase in their bill. City Administration has modeled the impact the rate structure change will have on the bills of its customers, based on prior year's usage. The result of this modeling shows that Well Water System customers that use less than 24 units per quarter (check your prior water/sewer bill to see how many units you have used in the past) will pay less than they did under the prior rate system. Well Water System customers that use more than 24 units will expect to pay more than they had under the prior rate system. For GLWA Water System customers, the breakeven point is 18 units per quarter; meaning those who use less than 18 units should expect to pay less than they had under the prior rate system and those who use more than 18 units should expect to pay more than they had under the prior rate system. In addition to the rate system change, customers should be aware that the new rate system includes pass-through rate increases based on the 2015 rate increases received from the City's water and sewer service providers.

Irrigation Meters Available

As part of adopting a new water/sewer rate structure, the City will make available irrigation meters for residents to install at their homes. Irrigation meters measure water that is used on the outside of the home (for example lawn sprinkling systems and external hose connections). The water that goes through an irrigation meter will not enter a home's sewer system; so the units measured by the irrigation meter will be subtracted from the resident's sewer bill. If residents are interested in learning more about an irrigation meter, please visit www.rochestermi.org. The program is anticipated to begin on November 1st.