

MEMO

TO: Michelle Metteer, Manager

DATE: April 25, 2024

FROM: James Mann, Financial Analyst

RE: Tiered Rate Structure – Water Utility



In response to your request to evaluate the implementation of a tiered rate structure for single-family water users, and to modify the tiered rate structure for the municipal and sprinkler rate classes, below is a proposed methodology and accompanying analysis of the concept. It is my understanding that this is in response to a recommendation identified in the Minturn Water Nexus Report and Action Plan (Resolution 5, Series 2024 approved on February 7, 2024) that suggested a tiered residential rate structure would further encourage residents to conserve the finite water resource.

Residential Tier Rate Structure

Currently, the rate methodology the Town is using for residential water users three-fold: base rate, debt repayment rate, volumetric rate. A summary of the rate components is as follows:

- Base Rate – monthly rate that covers the basic operation of the water treatment plant and system up to the point that water is being delivered to the customer (think before the meter). Current 2024 rate is \$116.77/month per SFE
- Debt Repayment Rate – monthly rate that is meant to cover the annual debt service payments and annual debt service coverage on the outstanding debt of the utility. Current 2024 rate is \$17.37/month per SFE
- Volumetric Rate – use rate per 1,000 gallons of water use (think after meter) that is meant to cover the added cost of water production for delivery. Current rate is \$8.82/1,000 gallons of use
 - For residential customers, the current volumetric rate structure will generate \$178,226 based on the test year data
- SFE Multiplier – for non-municipal/sprinkler accounts, a SFE multiplier is used that applies to the Base and Debt Repayment rates (i.e., if you are a 2.0 SFE customer, the Base/Debt calculation would be as follows: $(\$116.77 + \$17.37) \times 2.0 = \$268.28$)
- Municipal Code defines an SFE (single family equivalent) as “...the basic unit for determination of water charges and usage. One (1) SFE shall be equal to the water required to serve up to three thousand (3,000) square feet of building area as measured from the exterior dimensions of development and two thousand (2,000) square feet of outside irrigated area.”

In looking at the concept of implementing a tiered rate structure, Town staff met with representatives of the Eagle River Water and Sanitation District to understand the revised rate methodology that they are looking into that is similar in nature. In that meeting, ERWSD indicated that they were looking to eliminate the SFE multiplier on the volumetric calculation, however we pointed out that may produce a result that is punitive to certain users, therefore the Town is looking to utilize the multiplier on single-metered structures with multiple dwelling users.

For the residential side of the implementation, we looked at establishing a three-tiered rate structure that becomes more costly the more water that is consumed. The goal of the structure was to generate the same volumetric revenues as are currently produced. Based on the average residential customer utilizing approximately 3,000 gallons/month, the following was developed:

- Tier 1 – 0 – 3,000 gallons \$ 6.75/1,000 gallons
- Tier 2 – 3,001 – 6,000 gallons \$ 9.75/1,000 gallons
- Tier 3 – 6,001 or more gallons \$12.75/1,000 gallons

Further, any single-family residence that is greater than 1 SFE calculation, the SFE multiplier is only applied to the base and debt rates. The SFE multiplier does not apply to the tier allowance in gallons. Utilizing the same 2 SFE example, the base and debt rates are doubled, however the gallon allowance in the tiers remain as stated above (there is no multiplier).

This methodology, if implemented, would generate \$177,049 in volumetric revenues, a drop of \$1,177, which is based on the test year data. Our goal was to not increase the overall volumetric burden. **Most customers will see a reduction in their annual water liability, while a few heavy users will see increases.**

Irrigation/Sprinkler Rate Modification

Currently, the Town utilizes a tiered rate structure for irrigation and sprinkler only accounts. It is my understanding that the irrigation and sprinkler only accounts are only charged the volumetric water rates for the period of time when the meter is hooked up (sprinkler accounts are generally hooked up May through October).

Town staff has identified that the irrigation and sprinkler class of accounts was not paying the monthly Base or Debt fees and was utilizing a SFE multiplier on the tiers resulting in few accounts moving out of the lowest tier for volumetric usage. The current rate structure generates the following revenues, based on the test year:

- Irrigation Base \$ 24,125.20
- Sprinkler Base \$ -

- Irrigation Volumetric \$ 10,851.20
- Sprinkler Volumetric \$ 71,647.50

- Base Year Revenue \$106,643.90

To correct the above, the following tiered rate structure was developed to address the above:

- Charge all accounts the Base and Debt fees, multiplied by their appropriate SFE
- Leave Tier usage same for Irrigation and Sprinkler, but eliminate the SFE multiplier

Irrigation Rates would be as follows:

- Tier 1 – 0 – 8,000 gallons \$12.50/1,000 gallons
- Tier 2 – 8,001 – 16,000 gallons \$20.00/1,000 gallons
- Tier 3 – 16,001 – 24,000 gallons \$27.50/1,000 gallons
- Tier 4 – 24,001 – 32,000 gallons \$35.00/1,000 gallons
- Tier 5 – 32,001 or more gallons \$42.50/1,000 gallons

Sprinkler Rates would be as follows:

- Tier 1 – 0 – 20,000 gallons \$13.25/1,000 gallons
- Tier 2 – 20,001 – 30,000 gallons \$21.00/1,000 gallons
- Tier 3 – 30,001 – 40,000 gallons \$28.75/1,000 gallons
- Tier 4 – 40,001 – 50,000 gallons \$36.50/1,000 gallons
- Tier 5 – 50,001 or more gallons \$44.25/1,000 gallons

This methodology would generate the following revenues based on the Test Year data:

- Irrigation Base \$ 24,125.20
- Sprinkler Base \$ 25,352.46
- Irrigation Volumetric \$ 11,185.50
- Sprinkler Volumetric \$ 85,521.76

- Base Year Revenue \$146,204.92

Due to the Irrigation and Sprinkler Class of accounts previously not being charged the monthly Base and Debt Fees, the amount of revenues anticipated from this class is the majority of the increase.

A couple of notes that should be considered prior to finalizing the tiered structure for Residential, Irrigation and Sprinkler:

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- Total SFEs should be scrubbed and checked. There are a variety of accounts within the Test Year data that did not have an SFE calculation
- There are a number of accounts that showed zero usage for the entire Test Year that should be evaluated