

# The Source

UTILITY ENTERPRISE MANAGEMENT

A publication of Advanced Engineering and Environmental Services, Inc.



First Quarter 2005

## 2005 AE2S Regional Utility Rate Survey Underway

**E**ach year, AE2S conducts a survey of water, wastewater, and stormwater utility rates throughout the region for cities with populations of 5,000 and higher. The information is compiled in an easy to read report with graphs for quick comparison and distributed to survey participants to use in their rate planning. Rate survey participants have indicated that the survey report is an invaluable tool for utility and finance managers to use when discussing rates with government decision makers and constituents. All survey participants receive a complimentary copy.

At the request of past rate survey participants, we have included questions regarding solid waste rates, rate structures used, full-time and part-time staff, and the funding of utility capital improvements. The results of the 2005 Survey will be compiled in a report that will be completed in April.

The survey questionnaire is available online at [www.ae2s.com](http://www.ae2s.com) or you may email [Sheryl.Smith@ae2s.com](mailto:Sheryl.Smith@ae2s.com) to have a copy sent to you.

Plan to participate and receive your complementary copy of the results. Responses were originally requested by March 11, 2005, but the deadline for completed surveys has been extended March 18, 2005. ■

**M**any utilities are starting to plan for changes in their utility rates for 2006. The following information is presented in response to requests from readers to provide a summary of the types of water rate structures most often used. This overview can be shared with decision makers to help facilitate discussion regarding the most desirable rate structure for your utility.

## Utility Rate Structures - What is Right for You?

**Flat Fee** is a rate structure where all customers are charged the same fee, regardless of the volume of water used. A flat fee does not take into account the cost of providing service to various user classes or encourage reasonable water use through increased costs for increased usage. A flat fee is simple and can provide stability through knowing the revenue that will be generated per household.

**Constant Block (Uniform Rates)** is a structure that has a constant unit price for all metered volumetric units of water consumed on a year-round basis. It differs from a flat fee in that it requires metered service. Constant block rates are appropriate when the cost of providing the service is generally the same across all user classes, although multiple constant blocks can be utilized for multiple user classes. Constant block rates provide some stability for utilities and encourage conservation because the customer bills vary with water usage.

**Declining Block Rates** is a rate structure in which the unit price of each succeeding block of usage is charged at a lower unit rate than the previous block(s). Declining block rates are designed to recover the costs of serving different classes of customers while maintaining reasonable equity among the customer classes. Declining block rates assume that customers that have a higher demand also have a more predictable peak demand than do smaller customers. Thus they receive a discounted rate for the higher volumes that they use. Declining block rates do not, however, promote conservation, and many utilities are moving away from this rate structure.

**Increasing Block Rates** is a rate structure in which the unit price of each succeeding block of usage is charged at a higher unit rate than the previous block(s). Increasing block rates are designed to promote conservation. While this can be beneficial, it is also harder for a utility to predict revenues from seasonal consumption. When the rate for additional usage is high, customers may cut usage, and the utility may experience reduced revenues.

Use of increasing block rates should only be carried out after careful analysis of the user classes and anticipated consumption. Utilities may also want to establish reserves to help cover revenue shortfalls during periods of lower than expected consumption.

(continued on back side)

# The Source

UTILITY ENTERPRISE MANAGEMENT

A publication of Advanced Engineering and Environmental Services, Inc.

If you have any questions concerning the contents of this newsletter, please contact Sheryl Smith at 701.746.8087 or [Sheryl.Smith@ae2s.com](mailto:Sheryl.Smith@ae2s.com)

## March Madness vs. Sense & Sensibility

**T**he North Dakota League of Cities Municipal Government Academy will present a seminar on Wednesday, March 16, 1:00 p.m. - 5:00 p.m., Thursday, March 17, 8:30 - 4:00 p.m., and Friday March 18, 8:30 a.m. - noon, at the Radisson Hotel in Bismarck.

Topics covered will include GASB 34 requirements, document retention and records management, city financing options, tax increment financing, meeting requirements, economic development tools and uses, bond issues, job descriptions and policy manuals, effective meeting management, technology to lighten your workload, and stress management.

The seminar is open to all elected and appointed city officials. The registration fee is \$95 for the full seminar or \$40 for any half-day session. Register online at [www.ndlc.org](http://www.ndlc.org). A block of rooms is available at the state rate by calling the Radisson Hotel (701) 255-6000. ■

## Utility Rate Structures - What is Right for You? (Continued)

**Seasonal Rates** are rates that cover a specific time period. They are established to generate additional revenue during periods of peak demand and to encourage conservation during these peak periods. Examples of seasonal rates may be increases for the summer season due to increased demand associated with lawn watering and outside activities.

Many utilities use a combination of a fixed fee (base) and a variable fee (volume) for their water rate structure. Fixed charges generally include the price the customer pays as a base charge to help cover the costs of meter reading, billing, and in some cases debt service. Variable charges are the price the customer pays per volume of water used. Having a fixed component in a fee structure generally enhances revenue stability. The variable portion of the charge is dependent on customer usage and is harder to predict. It does, however, allow customers to control their water bills somewhat through usage.

Selecting the best rate structure for a utility is not an easy task. Utility managers, City Officials, and customers may have differing views as to what is most appropriate. Combinations of fixed and variable charges along with various alternative rate structures that reflect utility and community objectives should be considered. Proper planning and evaluation of alternatives is necessary when setting rates that will be construed as fair and reasonable for all user classes. ■

*Note: The 2005 AE2S Regional Utility Rate Survey will include a compilation of the various rate structures used throughout the region.*

Advanced Engineering and  
Environmental Services, Inc. (AE2S)  
2016 Washington Street South  
Grand Forks, ND 58201  
Offices in:  
Grand Forks, ND  
Bismarck, ND  
Williston, ND  
Moorhead, MN  
Brainerd, MN  
[www.ae2s.com](http://www.ae2s.com)

