

***Tucson Water  
Customer Rate Design Group  
Report to  
Citizens' Water Advisory  
Committee  
and the  
Mayor and Council***

**April 2007**



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## Report to Citizens' Water Advisory Committee and the Mayor and Council

### Background

In October 2000, Mayor and Council first directed Tucson Water staff to convene a Customer Rate Design Group (the Group) to provide representatives from the Utility's various customer classes the opportunity for input during the water rate cycle. As a result, Groups have provided input during the rate cycles leading to rate adjustments in October 2001, October 2002, July 2004, and August 2006, and provided comments on the Water System Equity fee proposal during the spring of 2003. Participants in the FY 2007 Customer Rate Design Group have prepared this report.

In February 2007, Tucson Water staff contacted the following customers who had participated in previous Design Group meetings and requested they represent their respective customer classes as part of the 2007 rate process:

<b>Customer Class</b>	<b>Recruited through:</b>	<b>Customer Name</b>
Residential/Single Family (Inside City)	General Recruitment	Roger Watson
Residential/Single Family (outside City)	General Recruitment	John Carhuff*
Residential/Duplex-Triplex	Tucson Water Customer Listing	Patrick Neal
Commercial	Tucson Chamber of Commerce	Sandy Sarah
Submetered Mobile Home Parks	Manufactured Housing Communities of Arizona	Jeff Landon
Industrial	Texas Instruments	John Janzen
Multifamily	Arizona Multihousing Association	Suzanne Gilstrap
Reclaimed	Tucson Water Customer Listing	Wade Dunegan

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*\*John Carhuff, who has served as Chairman of both CWAC and its Finance Subcommittee, was unable to attend the meeting. He has, however, reviewed the material presented and provided input into this report.*

## Customer Rate Design Group Goals

### Tucson Water

The underlying goal for the Customer Rate Design Group is to provide representatives from the major water customer classes the opportunity for input during the rate process. Specifically, Tucson Water requested input on the following questions:

- How should Tucson Water's total requirement for water sales revenues be allocated among customer classes?
  - ⇒ Should cost-of-service results be used to set customer class revenue targets?
  - ⇒ Should the difference in peaking costs calculated under the *average* peaking factors for the industrial class (which includes by contract the TUSD schools) versus under the 'true' industrial peaking factors continue to be allocated pro-rata across customer classes?.
  - ⇒ Should the potable subsidy of the reclaimed system be continued? If so, how should the subsidy be assigned to the potable customer classes?
- Given a water sales revenue target for each class, what rate structure does each customer representative believe to be the most appropriate for his or her specific customer class?

### Group Members

Group members indicated varying reasons and goals for agreeing to participate, including:

- To represent interests of their customer class
- To gain insight and understanding of Tucson Water's rate process from both a business and personal perspective
- To obtain a general understanding of resource and operational issues facing the Utility and the impacts on water rates

## Meetings

A meeting was held on March 26, 2007 from 4:30-8:00 p.m. At the meeting, the Group discussed:

- the Tucson Water rate process

- cost of service allocations and related policies
- rate design and alternative rate structures
- consideration of rate design changes.

## Group Recommendations

Prior to the conclusion of the meeting, the Group summarized their comments and recommendations on the various issues.

### How Should the Utility's Total Requirement for Water Sales Revenue Be Allocated Among Classes?

#### ❖ Should cost-of-service results be used to set customer class revenue targets?

#### Individual Member Comments:

During development of the Group's recommendations, members reaffirmed comments from the previous Customer Rate Design Group report:

- Cost of service analysis provides a good benchmark for beginning discussion of revenue targets
- When setting revenue targets, consideration needs to be given to cost of service vs. revenue target history by customer class
- May need to provide plus/minus limits to the percentage of increase/decrease to an individual customer class
- Goal may be multi-year transition to cost of service based rates (example: over a three to five year period)
- May want to consider economic development and business retention in rate setting
- Consideration should be given to modifying state law that requires owners of submetered mobile home parks to bill their tenants at the Utility's rate for single family residential customers.

#### Group Recommendations:

After discussions, the Group made the following recommendations:

- The American Water Works Association endorsed cost-of-service methodology is an appropriate starting point from which customer class revenue targets can be developed.
- While the Group believed multi-year movement towards cost-of-service targets is desirable, it also concurred that the following *may* be reasons for deviation from cost-of-service revenue targets:

⇒ If cost-of-service targets indicate decreases to a customer class (revenues at existing rates are projected to exceed allocated cost of service)

- If cost of service studies have indicated a history of decreases (greater than 3-5 years) for a particular class – consider decreasing rates for that class.
  - If this history has not been demonstrated, do not decrease rates for that class, but perhaps no rate increase.
- ⇒ If cost-of-service targets indicate increases to one customer class significantly in excess of the overall revenue increase required, consider capping the increase at a certain level.

❖ **What approach is justifiable to achieve fair treatment of the Tucson Unified School District (TUSD) and the “true” industrial customer? If a subsidy is needed, how should the subsidy be assigned to the potable customer classes?**

In the June 2002 report from the Customer Rate Design Group, the industrial class representative raised the issue of TUSD’s impact on his customer class. In 1970, the City entered into a Water Service Agreement (adopted by Resolution No. 7879) under which the City agreed to provide water services to TUSD at the industrial class rate in exchange for the TUSD-owned wells and pumping facilities previously used to meet their water demands. The agreement provides the right for TUSD to reopen the wells if the City does not supply them with water for “all present and future demands.” The City considered the agreement a positive step toward proper control and management of the area’s groundwater resource.

As a result of the agreement, TUSD and Industrial accounts are grouped together into a combined Industrial customer class. Customer class usage characteristics play an important role in cost-of-service allocations, especially the extent to which a class has large peaking requirements (typically summer usage in excess of winter usage). TUSD has a much higher peaking factor than the ‘true’ industrial customer. When TUSD is combined with true industrial customers, the *average* peaking factor for this combined class is higher than the true industrial customers’ factor and lower than TUSD’s factor. Consequently, TUSD’s water usage characteristics results in more costs allocated to the industrial class than would be the case if costs were allocated based solely on the ‘true’ industrial peaking factors. Therefore, to the extent that the revenue target for the class adheres to the cost-of-service results for the class, higher industrial rates result.

**Group Recommendations:**

After discussions, the Group confirmed the following recommendation and allocation policy:

- ⇒ All potable customers benefited from the 1970 agreement under which TUSD transferred its wells to Tucson Water in exchange for receiving water at the Industrial rate.

⇒ The difference in peaking costs calculated under the *average* peaking factors for the class versus under the 'true' industrial peaking factors should be allocated pro-rata across customer classes (based on potable cost of service allocations).

❖ **Should the potable subsidy of the reclaimed system be retained? If so, how should the subsidy be assigned to the potable customer classes?**

**Individual Member Comments:**

During development of the Group's recommendations, members made the reaffirmed comments from the previous Customer Rate Design Group report:

- Price differential between potable and reclaimed acknowledges that reclaimed water is a product with more limited use.
- The reclaimed subsidy encourages customers, via pricing incentives, to replace large potable use with reclaimed use, especially when considering that customers switching to reclaimed have on-site conversion costs as well as on-going maintenance costs.
- Reclaimed use displaces potable use, resulting in reduced potable system expansion and therefore costs.
- What role will reclaimed water play in Utility's long-range plan; does this need to be considered as the reclaimed system is expanded and marketed?
- Reclaimed system is a relatively small system; new customer revenues trail infrastructure investment .
- Much more detailed information would be needed by the Group to be able to provide more in-depth comment on the long-term financial viability of the reclaimed system.
- The long-range strategy should be to move closer to covering cost of service (reduction over time of the subsidy); the subsidy should not be permanent.

**Group Recommendations:**

After discussions, the Group made the following recommendations:

- Group reached consensus on the following:
  - ⇒ The subsidized reclaimed rate provides incentive for customers to convert from potable to reclaimed water
  - ⇒ The reclaimed subsidy should be maintained in the FY 2007 rate setting process (what would be an appropriate subsidy level was not agreed upon)
  - ⇒ The reclaimed subsidy should be allocated pro-rata across customer classes (based on potable cost of service allocations)

**Given A Water Sales Revenue Target For Each Class, What Rate Structure Does Each Customer Representative Believe To Be The Most Appropriate For His Or Her Specific Customer Class?**

**Group Recommendations:**

After discussions, the Group made the following recommendations on rate structures for their individual customer classes:

• **Residential:**

- ⇒ *Single Family*: The Group's two single family customer representatives recommend continuing to use Tucson Water's current *inclining block structure*, which charges increasing rates, by block, for increased consumption. The members cited the structure's support of conservation efforts as the main reason for retaining the structure.
  
- ⇒ *Duplex/Triplex*: The representative suggested retaining the inclining block structure for his customer class but requested staff consider modifying the consumption amounts within the blocks (expanding the first block and narrowing the second).

• **Commercial:**

The representative of the commercial class recommended retention of Tucson Water's seasonal rate design for this class (a "base" rate year-round, with two-tiered summer surcharge for summer usage exceeding 100% and 145%, respectively, of customer-specific winter average usage).

The representative requested additional information about the uniform rate (what would the uniform rate be for commercial customers as compared to the current "base/surcharge" rates) and may consider that structure in the future.

• **Submetered Mobile Home Parks:**

The representative recommends maintaining the class' *uniform rate structure*.

In addition, the representative for this class recommends rates that continues to provide a differential between what is billed to the submetered mobile home park owners by Tucson Water (for master meter usage) and what the owners are able to bill out to their tenants (for submetered usage) under existing state law. The representative believes the differential needs to be adequate to cover the owner's operational and maintenance costs of the park's sub-metered water system (i.e., the water system on the park's side of the master meter). The representative cited existing state law, which requires owners of submetered mobile home parks to bill their tenants at the Utility's rate for

single family residential customers, as the main reason for this recommendation.

- **Multifamily:**

The representative of the multifamily class recommends retention of the *uniform rate structure*. A uniform rate structure for this class was implemented in October 2001. The representative gave summer vacancies and resulting cash flow issues as a major reason for recommending retention of the uniform rate.

Apartments and sub-metered mobile home parks are both in the multifamily class for cost-of-service analysis and share the 'responsibility' of meeting whatever revenue target is established for the class during the rate process. The multifamily representative noted that the way the parks desire their rates to be set has resulted in much lower rates for the parks than for the apartments and reasoned that the apartments, therefore, have been made responsible for a larger part of the class revenue target than would be the case if both apartments and parks had the same rates. The representative also noted that mobile home parks *without* sub-meters pay the same rates as apartments.

- **Industrial:**

The representative of the industrial class recommends Tucson Water retain the existing structure for this class ("*base*" rate year-round, *two-tiered summer surcharges*). The representative felt this structure provided an adequate conservation message.

- **Reclaimed:**

The representative of the reclaimed class recommends retention of the *uniform rate structure*.

## **Acknowledgements**

The Group appreciates the opportunity to share this report, which has been reviewed by all Group members, with both the Mayor and Council and the CWAC.

## Tucson Water Customer Classes

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**Residential:** One residential unit (single-family) or two/three residential units (duplex/triplex) served by one master meter

**Multifamily:** More than 3 residential units served by at least one master meter (apartment complexes) or Mobile home parks with sub-meters: (parks served by at least one master meter, but sub-metered (by park owners at individual home sites)

**Commercial:** Non-residential units (motels, hotels, laundries, service stations, restaurants, churches, government offices, retail and wholesale businesses, etc.)

**Industrial:** Customer who uses at least 5 million gallons per month for manufacturing purposes at one location (and TUSD per contractual agreement)

**Construction Water:** Customer who takes water needed for construction projects, such as utility pipeline installations or repairs, street or highway construction, or for use in site grading, dust control, and concrete mixing

**Reclaimed:** Any customer receiving water delivered through the reclaimed distribution system

**Water Sprinkler Service:** Customers receiving fire protection service via privately installed fire sprinklers

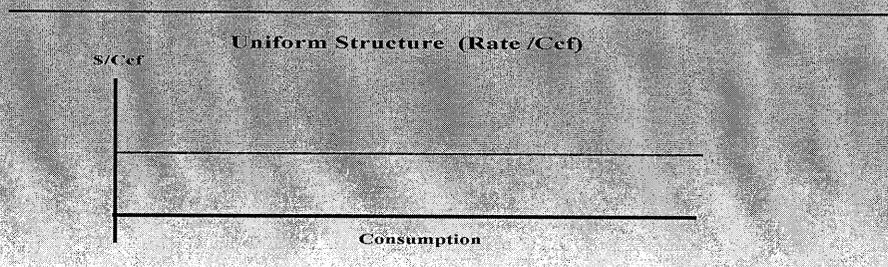
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## Rate Structures Currently In Place at Tucson Water

### Uniform Rate

Multifamily (incl. Submetered Mobile Home Parks), Construction Water, Reclaimed

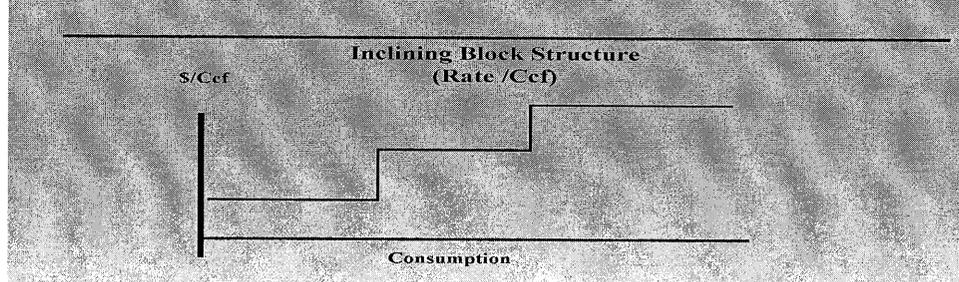
- ◆ Rate charged per unit remains constant as consumption increases.



### Inclining Block

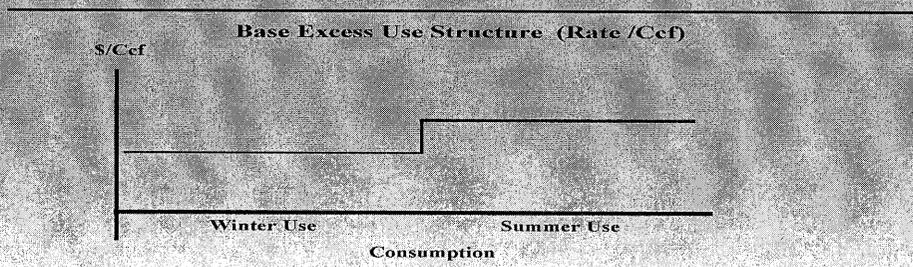
Residential (Single Family, Duplex/Triplex)

- ◆ Rate charged per unit increases as consumption increases into next block



### Base/Excess Use (Commercial , Industrial)

- ◆ Seasonal rates - One rate for base use (winter) with additional increases for summer use above base amount (tiered rates).





# Tucson Water

## Schedule of Current Water Rates

(Rates Effective August 7, 2006)

### POTABLE WATER SERVICE CHARGES

#### A. MONTHLY MINIMUM CHARGE (1)

Meter Size Inches	Minimum Charge
5/8	\$5.35
1	\$6.99
1-1/2	\$10.73
2	\$15.41
2 ½	\$21.73
3	\$28.05
4	\$45.84
6	\$90.78
8	\$135.71
10	\$205.92
12	\$338.39

#### B. MONTHLY WATER USE CHARGES

Customer Class	Winter (per Ccf) (2)	Summer (per Ccf) (3)
<b>Single Family</b>		
1-15 Ccf	\$1.10	\$1.10
16-30 Ccf	\$3.82	\$3.82
31- 45 Ccf	\$5.36	\$5.36
Over 45 Ccf	\$7.50	\$7.50
<b>Duplex-Triplex</b>		
1-20 Ccf	\$1.10	\$1.10
21-35 Ccf	\$3.82	\$3.82
36-50 Ccf	\$5.36	\$5.36
Over 50 Ccf	\$7.50	\$7.50
<b>Multifamily</b>		
Basic Volume Charge (4)	\$1.68	\$1.68
<b>Sub-metered Mobile Home Parks</b>		
Basic Volume Charge (4)	\$1.32	\$1.32
<b>Commercial</b>		
Basic Volume Charge (4)	\$1.54	\$1.54
Summer Surcharge-Tier 1 (5)	--	\$0.95
Summer Surcharge-Tier 2 (6)	--	\$0.25
<b>Industrial</b>		
Basic Volume Charge (4)	\$1.48	\$1.48
Summer Surcharge-Tier 1 (5)	--	\$0.95
Summer Surcharge-Tier 2 (6)	--	\$0.25
<b>Construction Water</b>		
Basic Volume Charge (4)	\$1.94	\$1.94



C. CENTRAL ARIZONA PROJECT CHARGE (7)

\$0.04

\$0.04

The customer's monthly bill is calculated by adding together the monthly minimum charge, all monthly water use charges for the customer's class, and the Central Arizona Project (CAP) charge.

**NOTES:**

- (1) *The monthly minimum charge is applicable to all customer classes.*
- (2) *Winter rates are applicable to water use from November through April.*
- (3) *Summer rates are applicable to water use from May through October.*
- (4) *The Basic volume rate is applicable to all usage.*
- (5) *Summer surcharge, Tier 1 is applied to all use during a summer month which is in excess of the actual average monthly use during the previous six winter months.. The calculated surcharge amount is added to the basic volume charge.*
- (6) *Summer surcharge, Tier 2 is applied to all use during a summer month which exceeds 145 percent of the actual average monthly use during the previous six winter months.. The calculated surcharge amount is added to the basic volume charge and to the summer surcharge Tier 1 charge.*
- (7) *The CAP charge is applied to all potable water use.*

**FIRE SPRINKLER SERVICE MONTHLY CHARGES**

<u>Connection Size Inches</u>	<u>Minimum Charge</u>
2	\$5.41
3	\$8.39
4	\$12.96
6	\$24.87
8	\$38.87
10	\$60.63
12	\$97.58

**RECLAIMED WATER SERVICE CHARGES**

**A. MONTHLY SERVICE CHARGE**

<u>Meter Size Inches</u>	<u>Minimum Charge</u>
5/8	\$5.35
1	\$6.99
1-1/2	\$10.73
2	\$15.41
2 1/2	\$21.73
3	\$28.05
4	\$45.84
6	\$90.78
8	\$135.71
10	\$205.92
12	\$338.39

**B. MONTHLY RECLAIMED USE CHARGE**

**Reclaimed Water Charge \$/Ccf \$1.55 (\$675 per acre foot)**

The reclaimed water customer's monthly bill is calculated by adding together the monthly service charge and the monthly reclaimed use charge. The monthly reclaimed use charge is applied to all use.

ADOPTED BY THE  
MAYOR AND COUNCIL

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RESOLUTION NO. 20651

RELATING TO WATER; APPROVING AND AUTHORIZING THE CWAC RATE RECOMMENDATIONS; APPROVING THE PUBLICATION OF A NOTICE OF INTENTION TO INCREASE CERTAIN WATER RATES AND FEES; SCHEDULING A PUBLIC HEARING ON THE ABOVE REFERENCED RATES AND FEES; AND DECLARING AN EMERGENCY.

BE IT RESOLVED BY THE MAYOR AND COUNCIL OF THE CITY OF TUCSON, ARIZONA, AS FOLLOWS:

SECTION 1. That the CWAC Rate Recommendations, attached hereto as Attachment A, are approved, and will be filed in the City Clerk's Office as the report supporting the proposed new fees.

SECTION 2. That the Notice of Intention to increase certain water rate components and fees, attached hereto as Exhibit A, and incorporated herein, is adopted and approved.

SECTION 3. That the attached Notice of Intention to increase certain water rate components and fees be published in a newspaper of general circulation no less than 20 days prior to the hearing date.

SECTION 4. The various City officers and employees are authorized and directed to perform all acts necessary or desirable to give effect to this resolution.

SECTION 5. WHEREAS, it is necessary for the preservation of the peace, health and safety of the City of Tucson that this resolution become immediately effective, an emergency is hereby declared to exist, and this resolution shall be effective immediately upon its passage and adoption.

PASSED, ADOPTED AND APPROVED by the Mayor and Council of the City of Tucson, Arizona, \_\_\_\_\_.

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

APPROVED AS TO FORM:

REVIEWED BY:

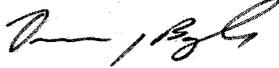
  
\_\_\_\_\_  
CITY ATTORNEY

  
\_\_\_\_\_  
CITY MANAGER

 CA:ds

DATE: April 4, 2007

TO: Mayor and Council

  
FROM: Francis J. Boyle  
Chairperson, Citizens'  
Water Advisory Committee

SUBJECT: Recommendations of the CWAC: Tucson Water Proposed FY 2008 Monthly Water Rate Schedule

Via this memorandum, the Citizens' Water Advisory Committee (CWAC) recommends a **new water rate schedule** (attached) to the Mayor and Council. Based on the FY 2008 year in the FY 2007 – FY 2012 financial plan, \$118,575,000 in total water sales revenues will be required to finance Tucson Water's operations in FY 2008, representing a 6.2% (\$6,922,000) increase in the revenues required for that year. The proposed new rate schedule is estimated to generate water sales revenues at that level in FY 2008.

The CWAC Finance Subcommittee met twice in March to provide direction to Water staff on: 1) how the revenue requirement should be distributed among ratepayer classes and 2) given the revenue targeted for each class, what the rates should be for each class. On March 28, the Subcommittee recommended forwarding the resulting class revenue targets and rate schedule to the full CWAC. Following a staff presentation and discussion among CWAC members on April 4, the CWAC voted (11 – 0) to recommend the attached rate schedule to the Mayor and Council.

The following sections of the report provide additional information on the CWAC's proposed class revenue targets and rate schedule.

### **Proposed Class Revenue Targets**

The CWAC continues to recommend that a cost of service study be the basis of distributing revenue responsibility among ratepayer classes, as is the current policy of the Mayor and Council. CWAC understands that the Customer Rate Design Group (CRDG) also supports revenue targets based on the cost of service approach. Methodology endorsed by the American Water Works Association (AWWA) was used by Water staff to conduct the study which first allocates the Utility's estimated costs for FY 2008 between the potable and the reclaimed water systems and then, within the potable system, to the different ratepayer classes.

Exceptions to the cost of study results endorsed by the CWAC are the same as they have been for prior rate changes: 1) hydrant (public fire protection) costs of \$1,992,000 for which there is no billable customer should be distributed to potable classes pro rata (based on their cost of service relationship to each other); 2) the peaking costs of Tucson Unified School District schools of \$249,000 should be shared, again pro rata, by all

potable classes; and 3) potable ratepayers should cover some level of costs allocated to the reclaimed system in order to continue to attract appropriate uses to reclaimed water and avoid constructing additional potable infrastructure to meet turf irrigation demand. In FY 2008, CWAC proposes that potable ratepayers cover 11% (\$950,000) of the reclaimed system's cost of service (versus 25% in the last rate change) at an estimated average cost to potable ratepayers of \$0.02 per Ccf of water usage (versus \$0.05 per Ccf in the prior rate change). The reversal from the last rate change in the amount of reclaimed cost potable ratepayers are recommended to cover is due primarily to the reclaimed system's having a lower cost of service in FY 2008; capital costs allocated to the system are less this year since the Utility's capital spending has been focused on adding infrastructure to accommodate CAP water recharge and recovery.

The table below shows the original cost of service results and the results after the adjustments previously indicated. **CWAC recommends that the adjusted results be the revenue targets for each class.**

Customer Class	Allocated Cost of Service (\$1,000)	Adjusted Cost of Service/Revenue Target (\$1,000)	Revenue Under Existing Rates (\$1,000)	Revenue, Existing Rates Minus Adj Cost of Service (\$1,000)	Revenue Increase (Decrease) Required
Residential	65,678	67,621	63,652	(3,969)	6.2%
Multifamily	16,558	17,048	16,089	(959)	6.0%
Commercial	21,425	22,059	20,703	(1,356)	6.6%
Industrial	1,874	1,930	1,775	(155)	8.7%
Construction Water	1,495	1,539	1,514	(25)	1.7%
Fire Sprinkler Service	802	826	810	(16)	2.0%
Hydrants (Public Fire Protection)	1,992	N/A	N/A	N/A	N/A
Schools Peaking Costs	249	N/A	N/A	N/A	N/A
Total Potable	110,073	111,023	104,543	(6,480)	6.2%
Reclaimed Water	8,502	7,552	7,110	(442)	6.2%
<i>Utility Total</i>	<b>118,575</b>	<b>118,575</b>	<b>111,653</b>	<b>(6,922)</b>	<b>6.2%</b>

## Proposed Rate Schedule

The CWAC recommends continuing the basic Mayor and Council policy objective of sending a conservation signal through pricing. As a result, the existing rate structures in place for each ratepayer class with metered water service are recommended to be continued, which is also the recommendation of each class' member on the CRDG. While three structures are in place (inclinng block for the potable residential class; uniform rate structure for the potable multifamily and construction water classes as well for the reclaimed water class; and uniform rate plus summer surcharges for the potable commercial and industrial classes), the design of all three structures sends a 'use more water, pay more money' signal to customers.

The rate amounts on the class structures have been adjusted, so that, in combination with the monthly service charge, the class revenue targets are estimated to be met. The

monthly service charge which all customers, regardless of class or level of water usage, are billed recovers the costs of meter maintenance/repair, meter reading, and billing; this year another cost component, a portion of distribution system maintenance costs, was added to the costs to be recovered via this charge; this 'readiness-to-serve' cost had previously been recovered in usage charges. The result is that the monthly service charge, based on meter size, is proposed to increase for the first time since 2000. The change in this charge, since it is a fixed charge, also helps to stabilize the water sales revenue stream of the Utility.

It should be noted, however, that the increases proposed in the monthly service charge represent a phased approach to reflecting full cost of service in the charges. The monthly services charges proposed for FY 2008 represent 100% of cost of service for the 5/8-inch meter size only. The dollar amount of increase in the monthly services charge for each larger size meter is about 50% of what the increase would be under full cost of service (with the balance reflected in the usage charge). Phasing in the increases for larger size meters helps reduce rate shock for customers who have larger meters but relatively low volume usage. The CWAC recommends that the monthly service charge for meters larger than 5/8-inch be based on full cost of service, when and if water rates are adjusted in future years.

The final proposed change affecting potable ratepayers only is a \$0.01 increase in the CAP water charge. Revenues from this charge are used to help pay the CAP water delivery charges; in total, those charges are expected to be approximately \$9 million in FY 2008, and with this change in the CAP charge, revenues are expected to provide for a little over 20% of the cost.

Under the recommended rate schedule, the reclaimed water standard ratepayer will see a smaller usage rate increase than in recent rate changes—and potable ratepayers will have a smaller amount of reclaimed cost to cover as well, as previously indicated. The lower increase in the standard reclaimed rate is due to several factors, including more reclaimed usage expected to be billed at the standard rate than in the previous rate change; special rates, based on the terms in the contracts, increasing more than was the case for the last rate change; and the proposed increase in the monthly service charge which affects all reclaimed customers-- special ratepayers as well as standard ratepayers.

Unmetered fire sprinkler service rates are proposed to increase for the first time since 2001. These monthly charges are determined primarily based on the extra capacity required in potable water system infrastructure for fire suppression; the larger the connection to the system, the higher the fee.

### **Customer Bill Effects: Recommended Rate Schedule**

Single family accounts constitute nearly 90% of Tucson Water's potable customer base. The effects of the recommended rate schedule on single family monthly potable water bills are summarized in the table on the following page.

Rate/Usage Block	Average % of Accounts Ending in Block	Average Number of Accounts Ending in Block	Monthly Bill <sup>1</sup> Range Under Existing Rates	Monthly Bill <sup>1</sup> Range Under Proposed Rates	Percent of Increase (Proposed Over Existing)
0	3.5%	7,021	\$5.35	\$5.42	1.31%
1 – 15	73.0%	146,434	\$6.49 - \$22.45	\$6.64 - \$23.72	2.31%-5.66%
16 – 30	18.6%	37,311	\$26.31 - \$80.35	\$27.86 - \$85.82	5.89%-6.81%
31 – 45	3.4%	6,820	\$85.75 - \$161.35	\$91.65 - \$173.27	6.88%-7.39%
Super Block <sup>2</sup>	1.5%	3,009	\$168.89 - \$349.85	\$181.35 - \$375.27	7.38%-7.27%

<sup>1</sup>All bills shown exclude City and State business privilege tax.

<sup>2</sup>Super Block usage begins at 46 Ccf, the range shown for bills is 46 through 70 Ccf.

All single family monthly bills will increase. However, customers whose usage ends in the first block (1 – 15 Ccf) will see modest monthly bill increases: from \$0.07 at zero usage to \$1.27 at 15 Ccf of usage. **It is important to note that around 77% (3.5% plus 73.0%) of Tucson Water’s single family customers use 15 Ccf or less of water each month.** Average monthly usage for this class (on a 12-month basis) is about 12 Ccf; that bill will increase \$1.03 per month under the recommended rate schedule.

The effect on bills for duplex-triplex customers is similar to that for single family customers.

All other customer classes with metered water service will see monthly bill increases. A customer whose water meter serves a complex (such as a multifamily and sub-metered mobile home park customer) and thus typically has higher average use than a single family customer will see bill increases commensurate with the higher usage. A multifamily customer with average use for the class will see a bill increase of around \$16 per month; a sub-metered mobile home park, again with average use for the class, will see a bill increase of around \$27 per month.

Commercial, industrial, and construction water customers with average use for their classes will see monthly bill increases of around \$10, \$34 and \$7, respectively. Usage among reclaimed standard rate payers varies greatly; a large turf irrigator, such as a golf course, will see monthly increases, likely around \$800 per month in the winter and around \$1,700 per month in the summer.

Business establishments will be affected by the recommended rate changes in unmetered fire sprinkler service. Most such establishments have either a 4-inch or a 6-inch connection to the water system and, under the rates proposed, will see monthly bill increases of \$.98 or \$.86, respectively.

## Conclusion

The CWAC appreciates the opportunity to provide the Mayor and Council with this report and hopes that the Mayor and Council will give due consideration to the recommendations in the report.

### Attachments:

*Recommended FY 2008 Water Rate Schedule, Metered Customer Classes and Fire Sprinkler Service*

**Tucson Water**

**Recommended FY 2008 Water Rate Schedule (Compared to Existing Schedule)**

**Metered Customer Classes**

Customer Class	Amount				Amount			
	Existing	Proposed	Increased	Percent Increase	Existing	Proposed	Increased	Percent Increase
<b>Monthly Service Charge</b>	<i>Potable</i>				<i>Reclaimed</i>			
<b>Meter Size</b>								
5/8"	\$5.35	\$5.42	\$0.07	1.3%	\$5.35	\$5.42	\$0.07	1.3%
1"	\$6.99	\$8.17	\$1.18	16.9%	\$6.99	\$8.17	\$1.18	16.9%
1.5"	\$10.73	\$13.31	\$2.58	24.0%	\$10.73	\$13.31	\$2.58	24.0%
2"	\$15.41	\$19.58	\$4.17	27.1%	\$15.41	\$19.58	\$4.17	27.1%
2.5"	\$21.73	\$27.98	\$6.25	28.8%	\$21.73	\$27.98	\$6.25	28.8%
3"	\$28.05	\$36.37	\$8.32	29.7%	\$28.05	\$36.37	\$8.32	29.7%
4"	\$45.84	\$60.31	\$14.47	31.6%	\$45.84	\$60.31	\$14.47	31.6%
6"	\$90.78	\$120.47	\$29.69	32.7%	\$90.78	\$120.47	\$29.69	32.7%
8"	\$135.71	\$180.50	\$44.79	33.0%	\$135.71	\$180.50	\$44.79	33.0%
10"	\$205.92	\$274.49	\$68.57	33.3%	\$205.92	\$274.49	\$68.57	33.3%
12"	\$338.39	\$451.97	\$113.58	33.6%	\$338.39	\$451.97	\$113.58	33.6%
<b>Usage Charge (Per Ccf)</b>								
<b>Residential (Single Family) Block Rates</b>								
1-15 Ccf	\$1.10	\$1.17	\$0.07	6.4%				
16-30 Ccf	\$3.82	\$4.09	\$0.27	7.1%				
31-45 Ccf	\$5.36	\$5.78	\$0.42	7.8%				
Over 45 Ccf	\$7.50	\$8.03	\$0.53	7.1%				
<b>Residential (Duplex-Triplex) Block Rates</b>								
1-20 Ccf	\$1.10	\$1.17	\$0.07	6.4%				
21-35 Ccf	\$3.82	\$4.09	\$0.27	7.1%				
36-50 Ccf	\$5.36	\$5.78	\$0.42	7.8%				
Over 50 Ccf	\$7.50	\$8.03	\$0.53	7.1%				
<b>Other Classes: Base Volume Rates</b>								
Multifamily *	\$1.68	\$1.76	\$0.08	4.8%				
Mobile Home Parks w/sub-meters *	\$1.32	\$1.39	\$0.07	5.3%				
Commercial	\$1.54	\$1.63	\$0.09	5.8%				
Industrial	\$1.48	\$1.61	\$0.13	8.8%				
Construction *	\$1.94	\$1.94	\$0.00	0.0%				
<b>Tier Rates (Summer Only: May - Oct)**</b>								
Tier 1	\$0.95	\$0.95	\$0.00	0.0%				
Tier 2	\$0.25	\$0.25	\$0.00	0.0%				
<b>Reclaimed Usage Rate * Per Acre-Foot</b>					\$1.55	\$1.60	\$0.05	3.2%
					\$675	\$697	\$22.00	3.3%
<b>CAP Charge ***</b>	\$0.04	\$0.05	\$0.01	25.0%				

\* Uniform rate year-round; not subject to summer tier rates

\*\*Applicable for Commercial and Industrial classes only.

\*\*\* Assessed to potable customers only.

**Tucson Water**  
**Recommended FY 2008 Rate Schedule (Compared to Existing Schedule)**  
**Fire Sprinkler Service**

<b>Connection Size</b>	<b>Distribution of Connections</b>	<b>Existing</b>	<b>Proposed</b>	<b>Amount Increased</b>	<b>Percent Increase</b>
5/8"		na	na	na	na
1"		na	na	na	na
1.5"		na	na	na	na
2"	116	\$5.41	\$6.08	\$0.67	12.4%
2.5"		na	na	na	na
3"	24	\$8.39	\$9.36	\$0.97	11.5%
4"	1,293	\$12.96	\$13.94	\$0.98	7.6%
6"	1,039	\$24.87	\$25.73	\$0.86	3.4%
8"	544	\$38.87	\$37.51	(\$1.36)	-3.5%
10"	21	\$60.63	\$56.18	(\$4.45)	-7.3%
12"	17	\$97.58	\$90.88	(\$6.70)	-6.9%

*Total Connections:*                      **3,054**

EXHIBIT A TO RESOLUTION NO. 20651

NOTICE OF INTENTION

The Mayor and Council of the City of Tucson give notice of their intention to increase certain water rate components and fees. A public hearing on the proposed increases will be held on June 5, 2007 at or after 5:30 p.m. at the regular meeting of the Mayor and Council at the Mayor and Council Chambers, City Hall, 255 W. Alameda, Tucson, Arizona.

A copy of the report supporting the proposed action is available at the office of the City Clerk, 9<sup>th</sup> Floor, City Hall, 255 West Alameda Street, Tucson, Arizona.