Setting Water and Wastewater Rates for Non-resident Customers of City Utilities

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HB 600

Caps the Ratio of Outside/Inside Water and Sewer Rates
In the Sullivan County Outside Service Area of Johnson City
@150%
Johnson City Monthly Price for 5,000 Gallons of Drinking Water

• Inside: $19.31

• Outside: $38.62

• Outside Rate/Inside Rate = 200%
Average Monthly Price of 5,000 gallons of Drinking Water (Weighted by Customers)

- Alluvial Plain: In City $14.97
- Highland Rim: In City $23.06
- Nashville Basin: In City $16.78
- C. Plateau: In City $26.21
- Ridge/Valley: In City $20.32

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Average Monthly Price of 5,000 gallons of Drinking Water (Weighted by Customers)

- **Alluvial Plain**
  - In City: $14.97
  - Out City: $25.39

- **Highland Rim**
  - In City: $23.06
  - Out City: $39.33

- **Nashville Basin**
  - In City: $16.78
  - Out City: $36.38

- **C. Plateau**
  - In City: $26.21
  - Out City: $36.00

- **Ridge/Valley**
  - In City: $20.32
  - Out City: $33.70

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Average Monthly Price of 5,000 gallons of Drinking Water (Weighted by Customers)

**Alluvial Plain**
- In City: $14.97
- Out City: $25.39
- UD: $27.74

**Highland Rim**
- In City: $23.06
- Out City: $39.33
- UD: $39.30

**Nashville Basin**
- In City: $16.78
- Out City: $36.38
- UD: $34.74

**C. Plateau**
- In City: $26.21
- Out City: $36.00
- UD: $41.99

**Ridge/Valley**
- In City: $20.32
- Out City: $33.70
- UD: $33.26

[Map showing location of regions]
Indicators of Potentially Controversial Outside Rates

• 20 cities with outside mark-ups of 200% or more

• All 20 cities are in regions where regional average mark-ups are 137% to 171%

• 16 of these 20 cities have outside water rates greater than both regional municipal outside average rates and regional UD average prices

• 13 of these 20 have water rates exactly double the inside water rates, giving the impression of an arbitrary mark-up
Another Indicator of Potentially Controversial Outside Rates: How Affordable is 5,000 gal./mo.?

41 of 195 of Tennessee’s Municipal Utilities Charge Outside Customers > 1.5% of MHI for the Outside County
The Search for Solutions: One Size May Not Fit Anyone
The Search for Solutions

Top-Down Solutions

• A single statewide cap on outside rates
• Private Act caps as needed for certain cities (HB 600)
• State-mandated rate-setting procedures and cost-of-service reporting requirements for outside services tied to “trigger” caps (Florida and Wyoming)

Customer-Focused Solutions

• Customer representation on governing Water Board
• Rate relief and service quality appeals to regulatory boards
Customer-Focused Solutions: Board Representation

Municipal Water Boards (presently)

- Can be same as elected city governing body
- or can be appointed by city governing body

Customer-Friendly Changes to City Water Boards: Options

- Specifically provide for customer members of the Board
- Specifically provide for outside customer members of the Board: Options
  - Proportional to % of outside customers
  - Outside Board membership as for extraterritorial representation on Regional Land Use Planning Commission

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Collateral Benefits of Board Representation

• Complaint procedures more sensitive and responsive to customer needs lessens the need to use alternative appeals processes
• Utility management more likely to generate outside cost-of-service data demanded by outside Board representatives
• Greater likelihood of fairer and more equitable rates
### Rate Relief and Service Quality Appeals to Regulatory Boards and Authorities

<table>
<thead>
<tr>
<th>Tennessee Regulatory Authority</th>
<th>Customers of Investor-owned Water and Sewer Utilities</th>
<th>Customers of Water-only Utility Districts</th>
<th>Customers Served by City-Owned Utilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. appeals regarding service quality</td>
<td>1. appeals regarding service quality</td>
<td>1. 10% of customers may jointly petition for rate relief</td>
<td>1. Rate appeals are heard</td>
</tr>
<tr>
<td>2. appeals regarding excessive rates</td>
<td>2. appeals regarding excessive rates</td>
<td>2. Customers may file quality of service complaints</td>
<td>2. Quality of service complaints are addressed</td>
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<tr>
<td>Office of the Comptroller: Utility Management Review Board</td>
<td>services provided to water customers</td>
<td></td>
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<tr>
<td>City Water Board accountable to City Voters</td>
<td>services provided to water and sewer city voter/customers</td>
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<tr>
<td>Office of the Comptroller: Water and Wastewater Financing Board</td>
<td>services provided to water and sewer customers</td>
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</tbody>
</table>

Customers Residing Inside Cities

Customers Residing Outside Cities
Commission Policy Summary

- House Bill 600 not recommended in its current form
- Some means of ensuring that inside/outside rate differentials are fairly set is warranted
  - Representation on the city water board
  - Appeals process for municipal customers through the Water and Wastewater Financing Board