Great Lakes Commission
Value of Great Lakes Water Initiative

Final Report on the Workshops Held: Findings and Recommendations

Prepared by the Alliance for Water Efficiency
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Project Summary

In 2010, the Great Lakes Commission received funding from the Great Lakes Protection Fund to lead a team of experts to examine how public water is priced in the Great Lakes region and to assess the feasibility of employing innovative, efficiency-oriented water rates. As part of this project, the Alliance for Water Efficiency (AWE) led a series of three workshops within the Great Lakes Basin to receive input and feedback from utility managers, local politicians, local watershed groups and water users in order to:

- Better understand the rationale for current water pricing (state/provincial regulations, culture and local politics) in the region;
- Identify state and provincial regulations/policies for utilities rates and other revenue streams; and
- Identify and examine external economic drivers that influence utility water pricing.

The three workshops were geographically distributed across the Great Lakes basin and were held as follows: Ann Arbor Michigan on October 12, 2010 with 21 attendees; Racine, Wisconsin on November 8, 2010 with 23 attendees; and Buffalo, New York on November 1, 2010 with 23 attendees. All of the meetings were held in person and included water utility managers, local politicians and watershed management groups. One of the workshops (Buffalo) was also conducted simultaneously as a webinar. Of the 67 overall participants across the three workshops, they represented 54 different stakeholders. 34 of the participants were water utilities.

A fourth workshop was added in Chicago on February 4, 2011 in conjunction with the Center for Neighborhood Technology, and the results from that workshop are also included in this report.

Workshop Description

The agenda for the workshops is included as Appendix 1. In addition to the agenda, the workshop participants also received a folder containing the power point presentations and a draft Water Pricing Primer written by Dr. Janice Beecher of Michigan State University. The Primer's main purpose was to brief workshop participants on the basic principles of different water rates and how they can be used to achieve various water management goals. The primer condenses information on water rates into a reader-friendly format, and presents water rate structures that are currently implemented in the region that were collected by a survey conducted under another task of the project. The primer provides an introduction of the concept of water rates as a tool to manage or reduce water use, summarizes the types of water rates in practice, and describes the associated benefits and expected outcomes.

Feedback from workshop participants was gathered through open discussions and a questionnaire that was assembled after the Ann Arbor workshop and used at the others. This feedback included identification of the barriers to implementing efficiency oriented rate

structures, as well as potential locations for a future pilot study. The workshop findings and recommendations are summarized below.

The Appendix documents contain the following specific information:

Appendix 1: The agenda for the workshops.
Appendix 2: The power point presentations from each of the speakers. The version included in Appendix 2 is the final version presented in Buffalo.
Appendix 3: The Rates Primer.
Appendix 4: The list of attendees for the project's three main workshops. There is a sheet for each of the workshop locations plus a final sheet that summarizes the workshop attendees by stakeholder category.
Appendix 5: The list of attendees for the added Chicago workshop. There were 40 attendees in Chicago.
Appendix 6: The questionnaire that was distributed to workshop attendees.
Appendix 7: The results from the collected questionnaires. There were 33 questionnaires collected.

Workshop Findings

The three project workshops were organized into morning presentations by Mary Ann Dickinson of the Alliance for Water Efficiency, Dr. Janice Beecher of the Institute of Public Utilities at Michigan State University, and Ed Glatfelter of the Alliance for the Great Lakes and former Central Lake County Water Agency General Manager. (The morning of the Chicago workshop was organized differently.) The afternoon in all four workshops consisted of a facilitated discussion among the attendees led by Ed Glatfelter to flush out the main issues of concern: what were local communities experiencing in terms of rates and revenue issues? Were conservation rates being considered? If not, why not? What were some of the barriers impeding progressive rate restructuring? In addition to the facilitated discussion, a questionnaire was distributed to the workshop attendees.

Participants listen at the Racine Workshop

The workshop participants were very vocal about their concerns and issues within their community. Rates are a sensitive topic, one of concern to local elected officials as well as consumers. Because of the political process required to vote most rate structure changes at the local level, it was perceived that rate reform is difficult to implement.

The following observations were provided by workshop attendees about rate setting:

1. Declining block and uniform rates are still very prevalent in the region. Despite knowing that these types of rates often do not encourage water efficient behavior among their consumers, water utility officials have stayed with their older structure in order to avoid the pain of rate restructuring.

2. Wholesalers have very different issues than retailers. There was a lengthy discussion at the Ann Arbor workshop about the difficulties of retailers buying water from a financially stressed wholesaler such as the City of Detroit, with resulting implications for local rate setting. Suburban purchasers of water can often feel that they are bearing a disproportionate share of the wholesaler system costs that they have to embed in their rates.

3. Utilities are not accurately forecasting demand reductions resulting from the recession. Most water utilities are not adjusting for the automatic reductions in demand that come from recessionary economic conditions, when industries reduce shifts and homes are being foreclosed. Demand is further reduced by the national plumbing standards. If the demand is not forecasted accurately, it will not be possible to calculate correctly how much revenue will need to be collected to meet utility system costs.

4. Many water utilities have excess capacity to sell. Having excess capacity tempts water utility managers to design rate structures to encourage excess consumption rather than to discourage it. The perceived need to sell off that excess capacity sends the wrong signal to the customer, a difficult one to reverse when the excess capacity suddenly becomes constrained.

5. Loss of revenue and revenue stability are the biggest issues. These are also politically sensitive ones. In the words of one workshop participant, "Water will get you elected, and water will get you fired." Utility rate structures designed in a growth economy no longer work in a recession, because the lowered demand does not produce enough revenue.

Perceived barriers to implementing conservation rates were discussed by workshop attendees as follows:

1. The lack of political will and "fear and loathing" of change are big barriers. Local elected officials have a tough job. Making the correct rate decisions for the water utility system can often be very unpopular decisions with the customers. There is a serious need for

educating local elected officials on the benefits of conservation rates and on how to work within the community to explain the needed decision.

2. Consumers are not well educated on water issues and often don't understand why rates need to go up. Because consumers have not been educated on the reasons for water utility cost increases, they have not been willing to pay for them. The "silent" water utility that provides clean and affordable drinking water is perceived by most consumers to be immune from inflationary cost increases or even the need to maintain and replace aging infrastructure. Thus, necessary rate increases are negatively perceived and often opposed.

3. The media often do not research the facts when doing stories on rate increases. Workshop participants consistently identified the local media as a significant part of the problem in rate restructuring. According to the workshop participants, the media often present fast, edgy coverage rather than more through and careful research. At all of the workshops the same complaint was voiced: reporters routinely convert a proposed rate increase to a percentage increase rather than reporting on the relatively small absolute changes in a customer's bill. A 30% increase in a rate can sound horrifying; but the reality might actually be only a $5 monthly increase in the average customer bill.

4. Management and elected officials often have opposing goals. The goal of a manager is to recover the fixed and variable costs of the system and to stabilize revenue. The goal of the elected official is to keep the rates as low as possible. No increase at all is the best of all possible worlds for the elected official; but that is not an acceptable option for the utility manager facing increasing operating costs in labor, energy, and treatment chemicals, and increasing capital costs in infrastructure maintenance.

5. Interest exists in conservation rate structures, but without help, the fear of revenue loss will prevent adoption of anything progressive. While the concept of a conservation rate structure is appealing, most of the attendees expressed the concern that the overriding issue for their utility systems is maintaining revenue. Reduced demand from conservation rate structures means reduced revenue for meeting utility bills. If a utility manager or elected official perceives that conservation rate structures will potentially endanger the utility's ability to recover their costs, the proposed conservation rate structure will not be adopted. Education is therefore needed to explain how restructuring the rates can ensure revenue stability for the utility as well as wise water use for the customer.

Workshop Recommendations

In the facilitated discussion during the workshops, the following recommendations were developed by the workshop participants in conjunction with the presenters to address the

findings and barriers that were identified. These recommendations are targeted at the individual utility.

1. Undertake a comprehensive rate analysis together with consumers and elected officials, in order to educate them and to seek their buy-in of the outcome results. Without question the most important action to take at a water utility is to carefully evaluate costs and needed revenues in a detailed rate study. Such a study can help managers, elected officials, and consumers understand the evolution of their own system infrastructure. It can also:

    - Enable comparison as well as correlation of rising costs of water to rising costs of other utility services such as energy, wastewater, cable, and garbage collection.
    - Show how short term investment can avoid long term cost and therefore long term rate hikes. Models exist for this purpose (the Water Conservation Tracking Tool developed by AWE was shown in the workshop and can assist in this analysis.)
    - Emphasize the concept of "load management" in rate design, where a well designed rate structure can help reduce peak loads which are often very expensive for a water utility to meet.

2. Employ a "no surprises" doctrine and communicate regularly with customers, elected officials, and the media, even when rates are not being changed. One of the reasons consumers or even elected officials react negatively is that they are often completely unprepared for the "bad news" of a rate hike. If a utility regularly communicates with its customers and elected officials, it can set the stage properly for rate redesign and re-evaluation. In addition, setting up a special process for involving the consumer in early discussions before revising rates is an excellent way to obtain customer feedback during the rate redesign process and to potentially head off knee-jerk opposition.

3. Better educate elected officials and utility board members at the time of a rate restructuring to help them make the right decision. Although there is a current trend among elected officials and utility board members to want to be perceived as "green" by the voters, the general tendency is for elected officials to be concerned about controversial issues that may affect their ultimate re-election. They are often unfamiliar with what goes into rate setting decisions until it happens. Without education on the factors necessary for successful rate design and revenue collection, the elected official tends to simply vote no on rate increases because of a lack of understanding of what that increase is for and how important it is to the system. The media should also be included in these educational outreach efforts.

4. Design rates that work in a recessionary economy, rather than just a growth economy. When rates are designed for a growth economy, the needed new revenue is often collected in new connection charges and additional consumption and therefore revenue on an existing fixed cost base. In a recessionary economy, the additional new consumption disappears and the traditional levels of consumption are reduced, whereas the fixed charges usually rise. The rate structure must be able to adjust to this changed dynamic.

Water utilities throughout the region are struggling with this problem and need help in designing rates that will be responsive to these factors.

5. Emphasize revenue stability. The utility manager must provide safe and reliable service at a reasonable price while maintaining revenue and system stability. Without consistent and stable revenue, needed maintenance is often deferred, and employees can be laid off.

6. Maintain customer equity. Another important issue identified in the workshops was customer equity. A rate structure will not be political acceptable if certain customer classes are favored at the expense of others. Rates must be based on a cost of service approach.

7. Target those communities with uniform rates or declining block rates as well as those with capacity issues. Communities with flat rates or declining block rates may need to revisit their rate structures, particularly if their rates are proving inadequate in meeting their goals. These communities may need assistance and educational tools in order to be able to move forward in this area. Communities with capacity issues (shortages in drinking water supply or in drinking water or wastewater treatment capacity) are especially in need of assistance, as proper rate design can be one of the tools to help a utility cope with that capacity constraint by reducing customer demand to the size of their current capacity. Although it was generally acknowledged among the workshop participants that capacity issues were rarer in the Great Lakes Region than in other parts of the country, the situation nonetheless exists in some parts of the basin.

8. Improve asset management and water loss reduction programs. In an era of needed revenue collection, reducing water loss and minimizing meter error results in greater collected revenue for the water utility. Asset management is also a tool that helps identify where pipes need replacing and where system investments need to be made.

9. Eliminate the "% increase" sound bite, and pro-actively educate the media to foster better reporting. This was a recommendation in all of the workshops. Help focus attention on the small absolute value of the increase rather than on the ominous sounding percentage.

A workshop attendee participates during the discussion period.

Next Steps for a Pilot

The questionnaire distributed during the workshop (see Appendix 6) asked attendee water utilities if they would be willing to participate in a future pilot study of conservation rates. 33 questionnaires were received, including from the Chicago workshop. There are no questionnaires from the Ann Arbor workshop, because the questionnaire was developed subsequent to it. The full responses from each questionnaire responder are in Appendix 7.

Below are the volunteers for a follow-on demonstration project gleaned from the questionnaires. Steve Elmore of Wisconsin DNR and Andrew Bielanski of US EPA replied affirmatively, but since they are not water utilities they are not included in the list below.

RACINE WORKSHOP

YES
Justin VanVooren, Village of Sugar Grove

MAYBE
Dwight C. Christianson, Cambridge Water & Sewer Utility
Linda McCulloch, Village of Bannockburi
Ken Scolaso, Racine Water Utility
Susan Christianson, Village of Cambridge
Mike Ray, City Water LLC (out of basin)

BUFFALO WORKSHOP

YES
Ken Sharrat, Sharratt Water Management

MAYBE
Mary Van de Logt, City of Rochester
Johann Manente, Region of Peel
Michael Kelly, Niagara Falls Water Board

CHICAGO WORKSHOP

MAYBE
Breanne McDonald, Milwaukee Metropolitan Sewage Dist.
Shawn Hurtig, Village of Algonquin
Sarah Pasquesi, McHenry Co. Government (although not strictly a water utility)
Michael Sturtevant, City of Chicago Water Management
Andrea Putz, City of Chicago Water Management
Barbara Little, Village of Deerfield