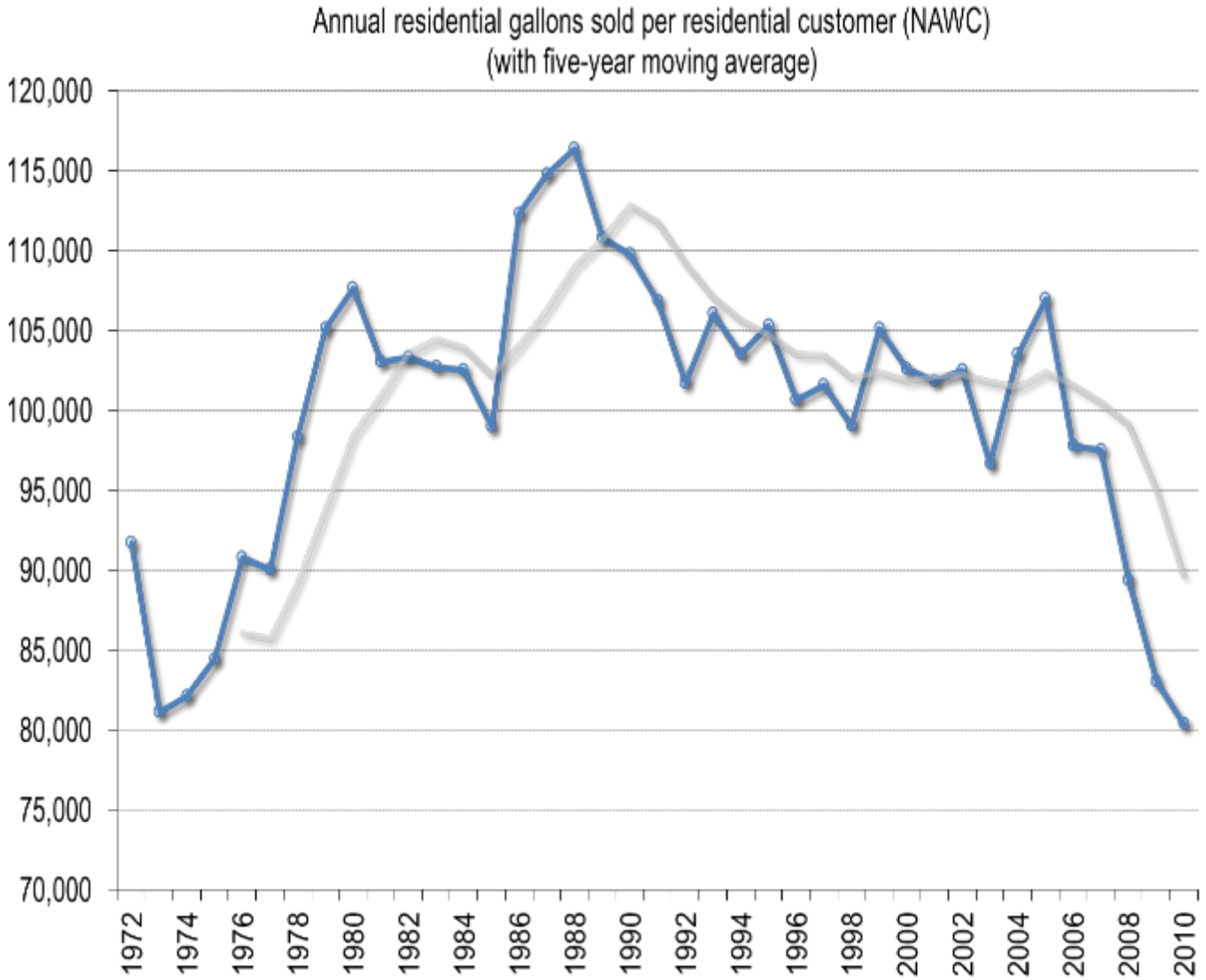
Introduction: Why is Utility Financial Management Becoming Harder Than Ever?

Residential Water Sales



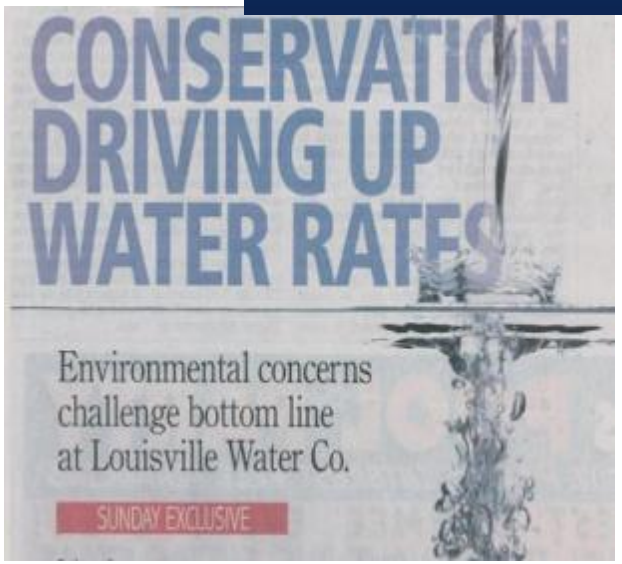
Isn't this a Success Story?

- *Yes, but with side effects*
- Lowered demand means reduced sales revenue
- Reduced sales revenue can mean not fully collecting fixed costs
  - Short-run variable costs (water, pumping energy, chemicals)
  - Long-run capacity costs (supply, transmission, storage, treatment)
- Revenue stability therefore becomes an issue – *and conservation is often blamed*
- Left untreated, long-term unstable revenue collection can affect bond ratings

The Political Reality

- We don't like to revise our rates
- It is politically unpopular, so rates are changed as little as possible
- The inevitable inflationary increase is postponed until it is a crisis, much less increases in other costs
- Conservation is often blamed for financial challenges – even when there are no active conservation programs in place
- This sends the wrong message to consumers

courier-journal.com
A GANNETT COMPANY


CONSERVATION DRIVING UP WATER RATES

Environmental concerns challenge bottom line at Louisville Water Co.

SUNDAY EXCLUSIVE

THE GLOBE AND MAIL

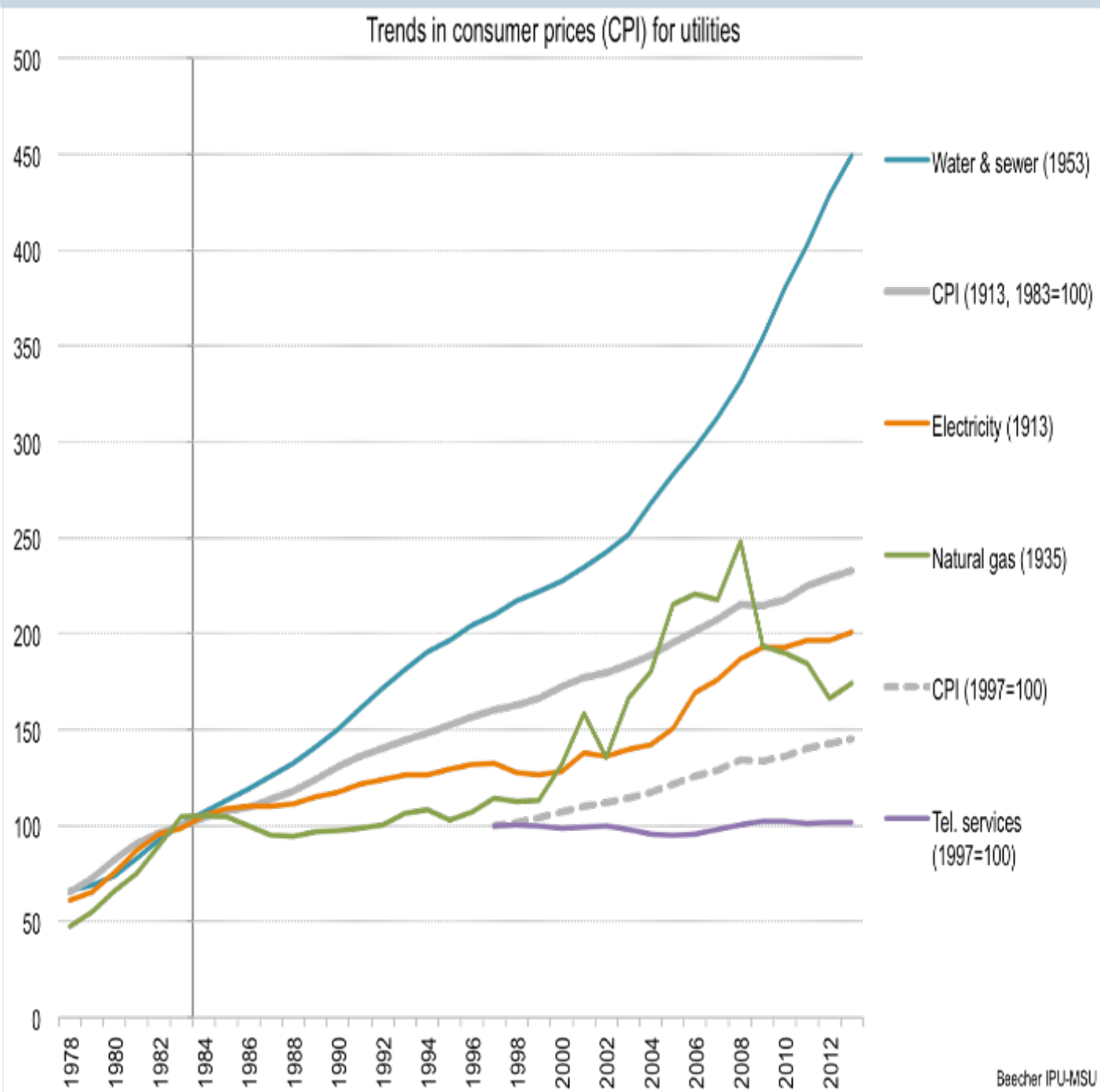
Reduced water use drains Toronto's funds for infrastructure upgrades

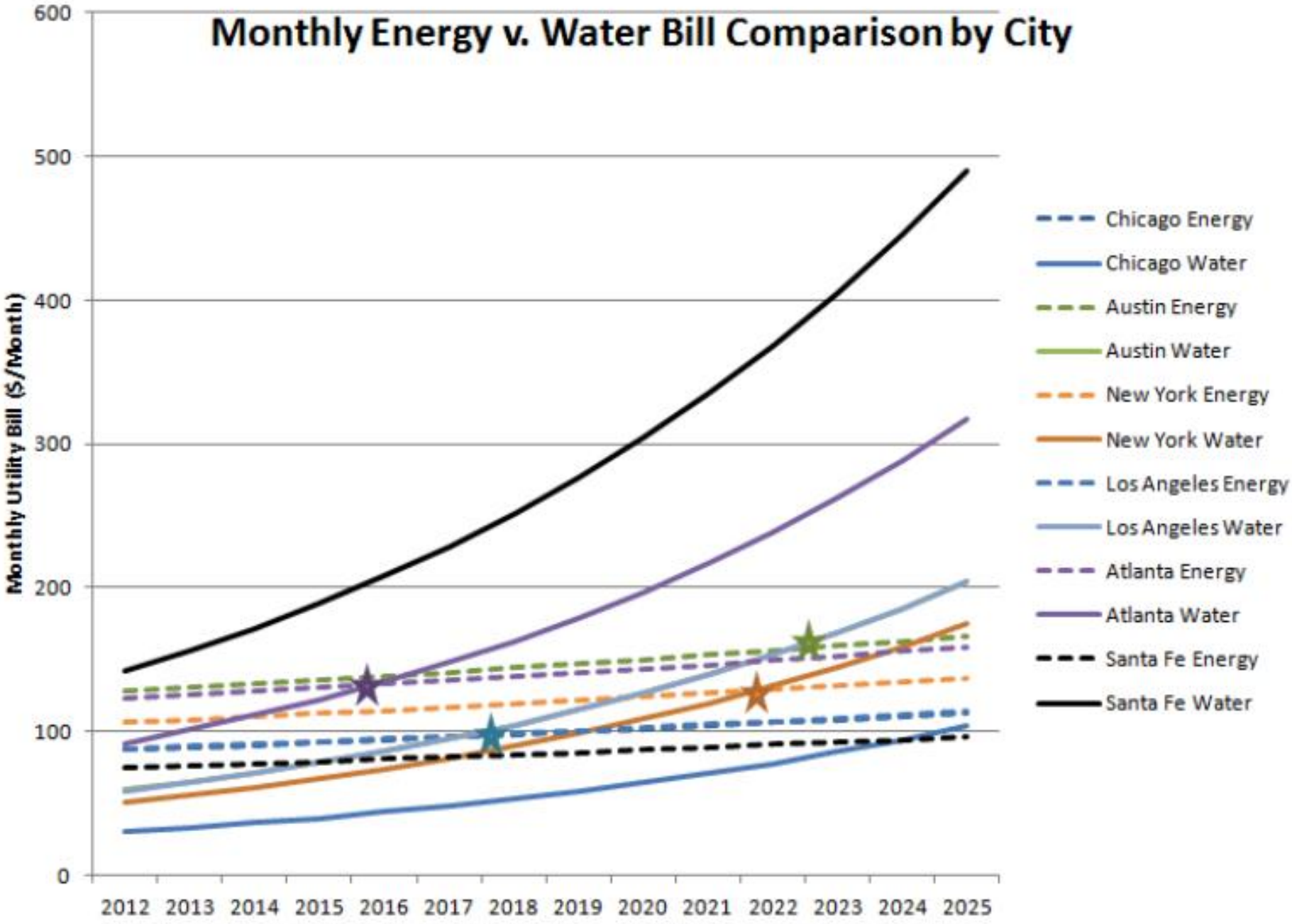
Raleigh Public Record

Raleigh's Water Conundrum: Conservation v. Rates

What Really Affects Revenue Stability?

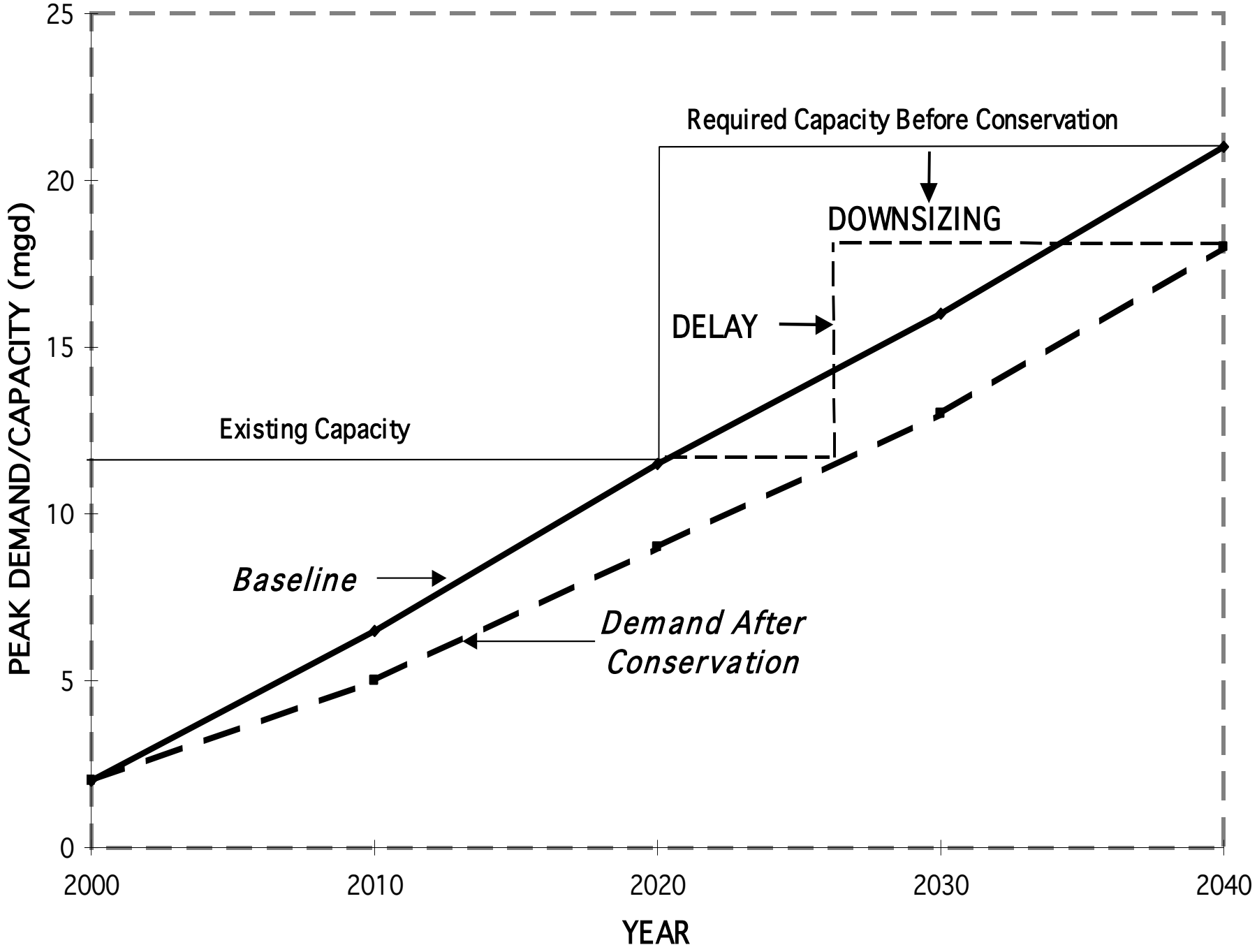
- Reduced demand from:
  - efficient fixture replacement under the plumbing and appliance codes
  - active conservation programs
  - the recession: industrial shift layoffs, home foreclosures
- Reduced peak demand in wet years
- Increased infrastructure costs
- Rise in other fixed costs
- Continuing Inflation


Trends in consumer prices (CPI) for utilities
500
450
400
350
300
250
200
150
100
50
0
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
Water & sewer (1953)
CPI (1913, 1983=100)
Electricity (1913)
Natural gas (1935)
CPI (1997=100)
Tel. services (1997=100)
Beecher IPU-MSU


Monthly Energy v. Water Bill Comparison by City
Monthly Utility Bill ($/Month)
600
500
400
300
200
100
0
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
Chicago Energy
Chicago Water
Austin Energy
Austin Water
New York Energy
New York Water
Los Angeles Energy
Los Angeles Water
Atlanta Energy
Atlanta Water
Santa Fe Energy
Santa Fe Water

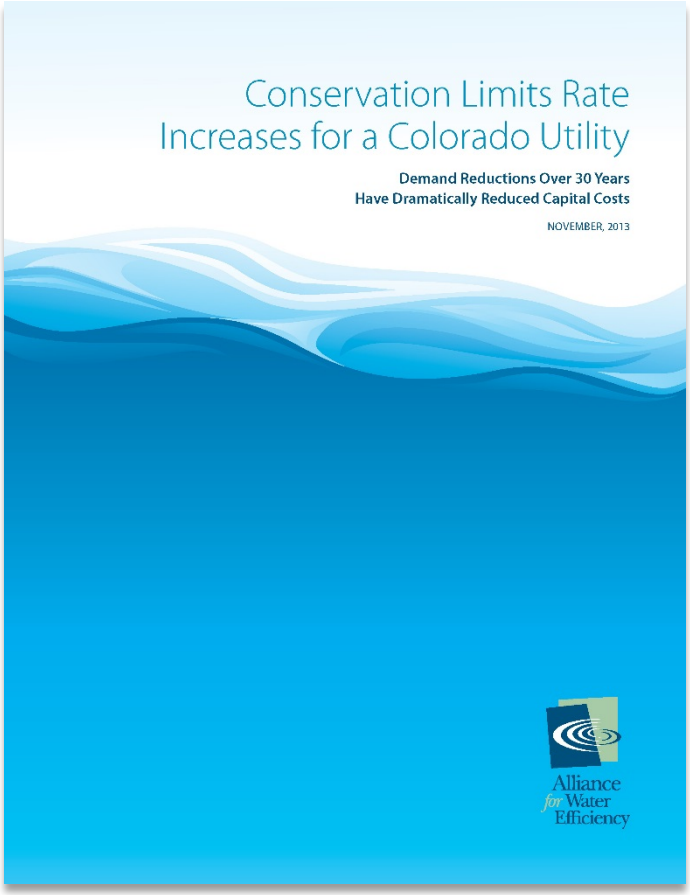
Conservation is Part of the Solution

- It is a long-term cost reducer to the utility
- Revenue loss is often due to other drivers
- Every gallon saved is water that does not have to be pumped, treated and delivered
- Conservation is an investment and short-term effects must be planned for
- Reduced utility costs generally mean reduced customer rates in the long-term due to avoided infrastructure capacity increases


25
20
15
10
5
0
PEAK DEMAND/CAPACITY (mgd)
Required Capacity Before Conservation
DOWNSIZING
DELAY
Existing Capacity
Baseline
Demand After Conservation
2000
2010
2020
2030
2040
YEAR

Westminster's Story

- Citizens complained about being asked to conserve when rates would just go up anyway
- Westminster reviewed marginal costs for future infrastructure if conservation had not been done
- Since 1980 conservation has saved residents and businesses 80% in tap fees and 91% in rates compared to what they would have been without conservation
- Communication is key

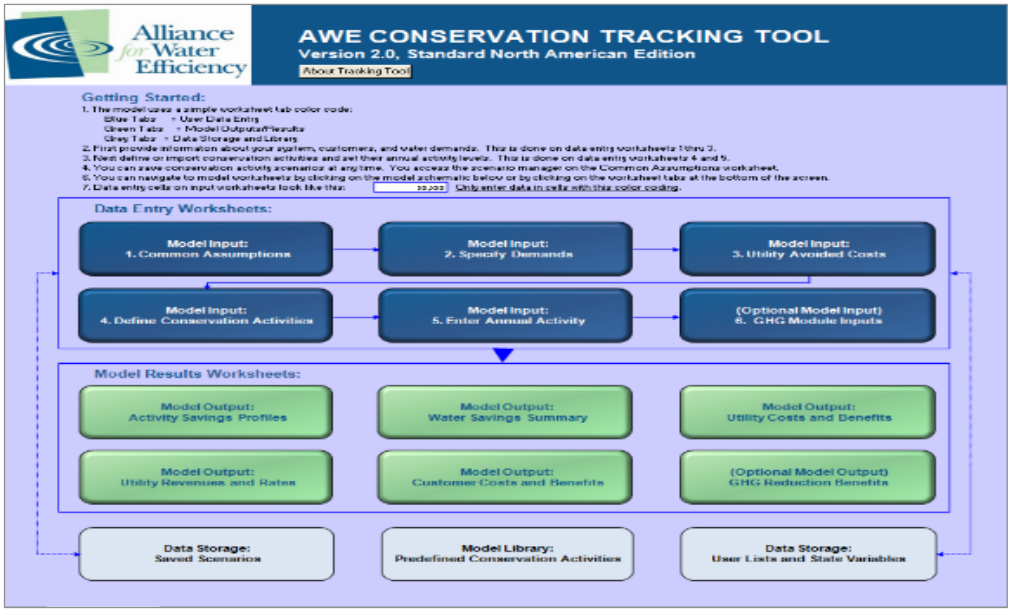


How This Workshop Will Help You

- Every utility's situation is different
- Where do costs come from and what are your future cost risks?
- What's your return on the investment in efficiency?
- How do you design rates for revenue stability?
- We are focusing on tools that are available for utilities to address these issues
- 4 Tools will be demonstrated in the workshop

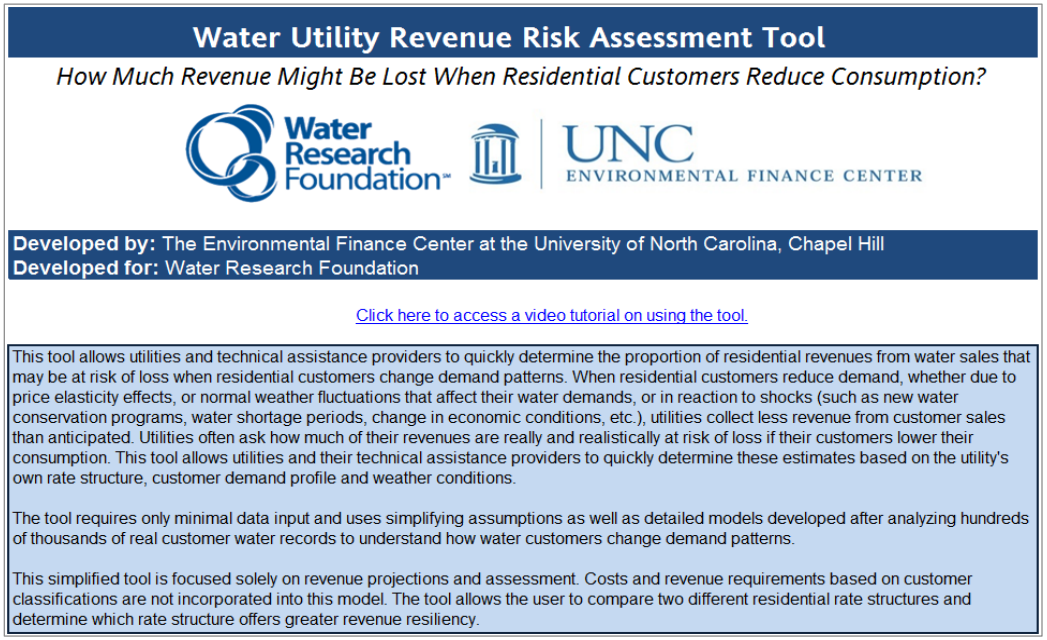
AWE Conservation Tracking Tool

- **Conservation Tool** to evaluate conservation options, which also identifies the potential shortfall in revenue requirement



UNC Revenue Risk Assessment Tool

- **Revenue Risk Assessment Tool** to measure a utility's susceptibility to revenue risk



Water Utility Revenue Risk Assessment Tool

How Much Revenue Might Be Lost When Residential Customers Reduce Consumption?

Water Research Foundation™ | UNC ENVIRONMENTAL FINANCE CENTER

Developed by: The Environmental Finance Center at the University of North Carolina, Chapel Hill
Developed for: Water Research Foundation

Click here to access a video tutorial on using the tool.

This tool allows utilities and technical assistance providers to quickly determine the proportion of residential revenues from water sales that may be at risk of loss when residential customers change demand patterns. When residential customers reduce demand, whether due to price elasticity effects, or normal weather fluctuations that affect their water demands, or in reaction to shocks (such as new water conservation programs, water shortage periods, change in economic conditions, etc.), utilities collect less revenue from customer sales than anticipated. Utilities often ask how much of their revenues are really and realistically at risk of loss if their customers lower their consumption. This tool allows utilities and their technical assistance providers to quickly determine these estimates based on the utility's own rate structure, customer demand profile and weather conditions.

The tool requires only minimal data input and uses simplifying assumptions as well as detailed models developed after analyzing hundreds of thousands of real customer water records to understand how water customers change demand patterns.

This simplified tool is focused solely on revenue projections and assessment. Costs and revenue requirements based on customer classifications are not incorporated into this model. The tool allows the user to compare two different residential rate structures and determine which rate structure offers greater revenue resiliency.

AWE Sales Forecasting & Rate Model

- **Sales Forecasting and Rate Tool** to evaluate your probabilities of collecting revenue among various rate options

3. Bill impacts of Proposed rates

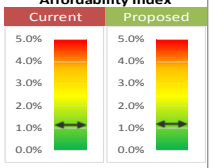
Under your Proposed rates, the volume charge may go up for some customers and down or stay the same for others. The Bill Impacts Table shows the percentage of bills that will go down, stay the same, or go up -- and by how much. Charts showing the distribution of bill impacts for each customer class are provided on the Bill Impacts worksheet.

% Change in Average and Median Annual Water Service Cost by Customer Class

Customer Class	Average Annual Water Service Cost			Median Annual Water Service Cost		
	Current	Proposed	% Change	Current	Proposed	% Change
Single Family	$777	$804	3.4%	$650	$672	3.3%
Multi Family	$4,254	$4,294	0.9%	$1,930	$1,942	0.6%
CII	$3,323	$3,382	1.8%	$1,481	$1,504	1.5%
Landscape	$5,599	$6,007	7.3%	$2,503	$2,720	8.7%
Not in use						
Not in use						

Affordability index equals the median annual water cost for the primary residential customer class divided by median household income.

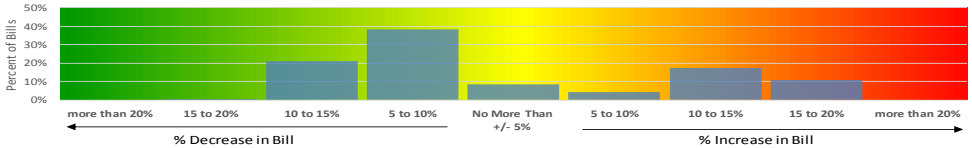
Affordability Index



Bill Impacts Table

Customer Class	% of bills decreasing by				No More Than	% of bills increasing by			
	more than 20%	15 to 20%	10 to 15%	5 to 10%	+/- 5%	5 to 10%	10 to 15%	15 to 20%	more than 20%
Single Family	0%	0%	21%	38%	9%	4%	17%	11%	0%
Multi Family	0%	1%	38%	25%	4%	4%	18%	12%	0%
CII	0%	0%	25%	20%	28%	7%	9%	10%	0%
Landscape	0%	0%	26%	12%	33%	2%	6%	20%	0%
Not in use									
Not in use									

Single Family Customer Class Bill Impact Histogram



UNC Rates Dashboards

- **Rates Dashboards** to help assess a utility's financial performance and benchmark rates to other utilities and to the board