INTERBASIN TRANSFER ACT PERFORMANCE STANDARDS

WATER RATES AND BILLING

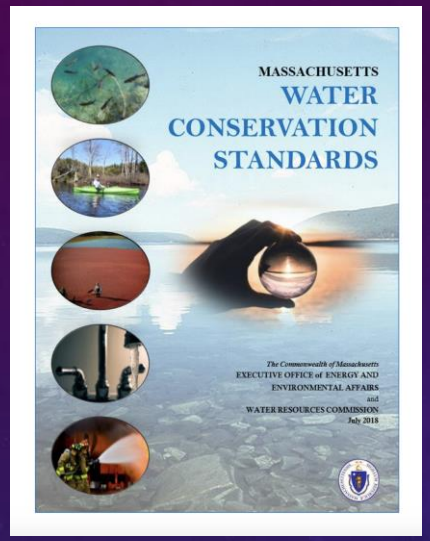
STAFF PROPOSAL

Water Resources Commission Meeting, February 2021

Purpose of update –

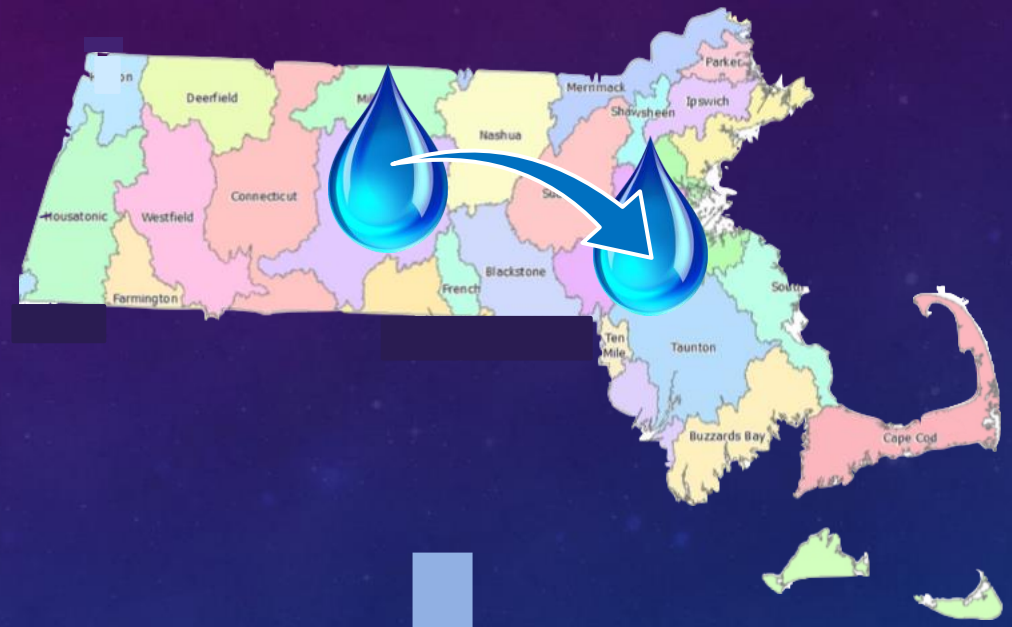
- Reflect updated Interbasin Transfer Regulations (2018)
- Reflect updated Water Conservation Standards (2018)
- Align with industry best practice

Water Conservation Standards



Require full-cost *recovery*

Interbasin Transfer



Require full-cost recovery; expectation of full-cost *pricing or timeline to transition to full-cost pricing*

Interbasin Transfer Act
(MGL Chapter 21 Section 8B-8D)

Section 8D. The commission shall promulgate rules and regulations… Said criteria shall include…

(c) implementation of rate structures which reflect the costs of operation, proper maintenance and water conservation and encourage the same

FULL-COST PRICING

- Is required explicitly in the ITA
- Conveys true value of water
- Incentivizes efficient use
- Is intuitively fair
- Can reduce long-term costs by avoiding deferred maintenance
- Creates financial sustainability
- *Is industry best practice*

- Can be politically unpopular
- Can lead to affordability concerns
- In certain circumstances, subsidies for the water department may be justified

Proposed language

Proponents should demonstrate full cost pricing; i.e., that water system revenues, including rates, fees, and other charges collectively reflect the full cost of the system, including: operation, maintenance, capital needs, source protection, debt service, administration, regulatory compliance, and water conservation, or establish a timeframe for transitioning to full-cost pricing. At a minimum, proponents must demonstrate that total revenue sources, including any from outside the water system, are sufficient to cover these costs. Budgets used to establish costs should use a 10-year or longer planning horizon.

Proposed language

Proponents **should** demonstrate full cost pricing; i.e., that water system revenues, including rates, fees, and other charges collectively reflect the full cost of the system, including: operation, maintenance, capital needs, source protection, debt service, administration, regulatory compliance, and water conservation, or establish a timeframe for transitioning to full-cost pricing. At a minimum, proponents **must** demonstrate that total revenue sources, including any from outside the water system, are sufficient to cover these costs. Budgets used to establish costs **should** use a 10-year or longer planning horizon.

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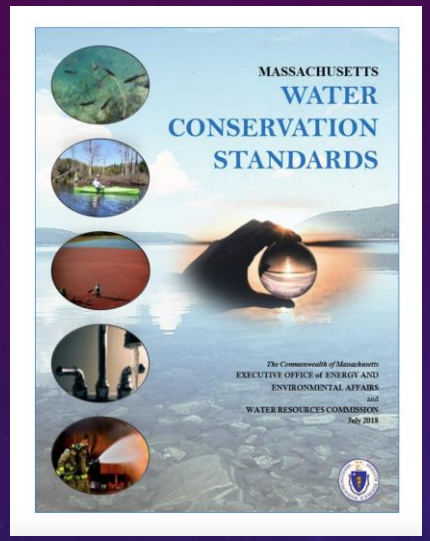
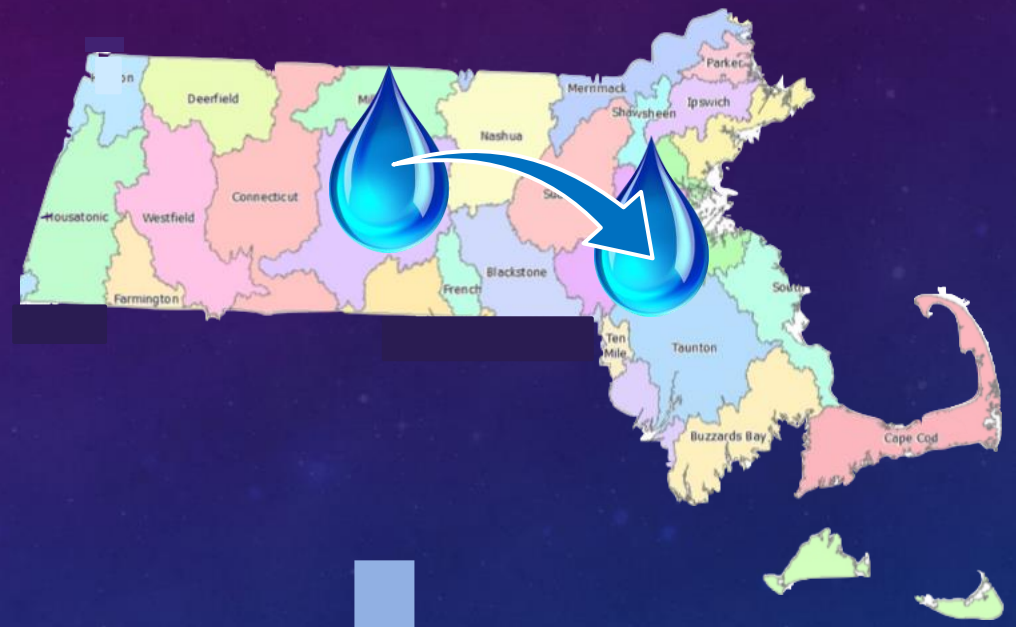


Recommend enterprise funds

Interbasin Transfer



Expectation of enterprise funds

Enterprise Fund

- Makes transparent the total cost of service and revenue
- Facilitates full-cost pricing
- Protects retained earnings for utility costs
- Incentivizes system investment
- Makes transparent the level of subsidy when full-cost pricing is not in effect
- Requires a transparent, balanced budget of expenditures and revenues
- *Is industry best practice*

- Can be politically unpopular
- Prevents utility revenues from being used to subsidize other town needs
- Requires vote of town council / town meeting
- Other structures may already accomplish the same thing

Proposed language

Municipal suppliers should demonstrate the use of an enterprise fund in accordance with Massachusetts General Law Chapter 44, Section 53F ½, or other such equivalent mechanism to segregate water system accounting from other municipal governmental activities and ensure all revenues derived from water supply activities are retained for, and applied only to, water related expenditures.

Proposed language

Municipal suppliers **should** demonstrate the use of an enterprise fund in accordance with Massachusetts General Law Chapter 44, Section 53F ½, or other such equivalent mechanism to segregate water system accounting from other municipal governmental activities and ensure all revenues derived from water supply activities are retained for, and applied only to, water related expenditures.

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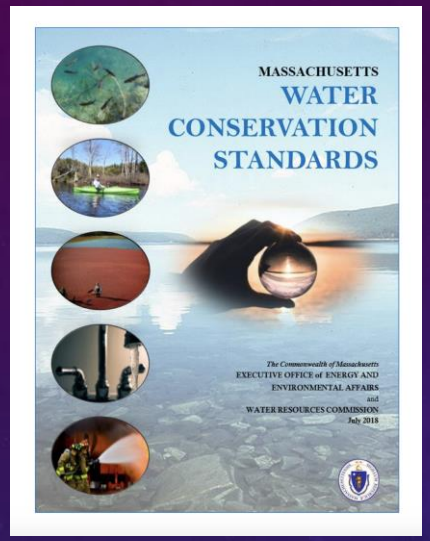
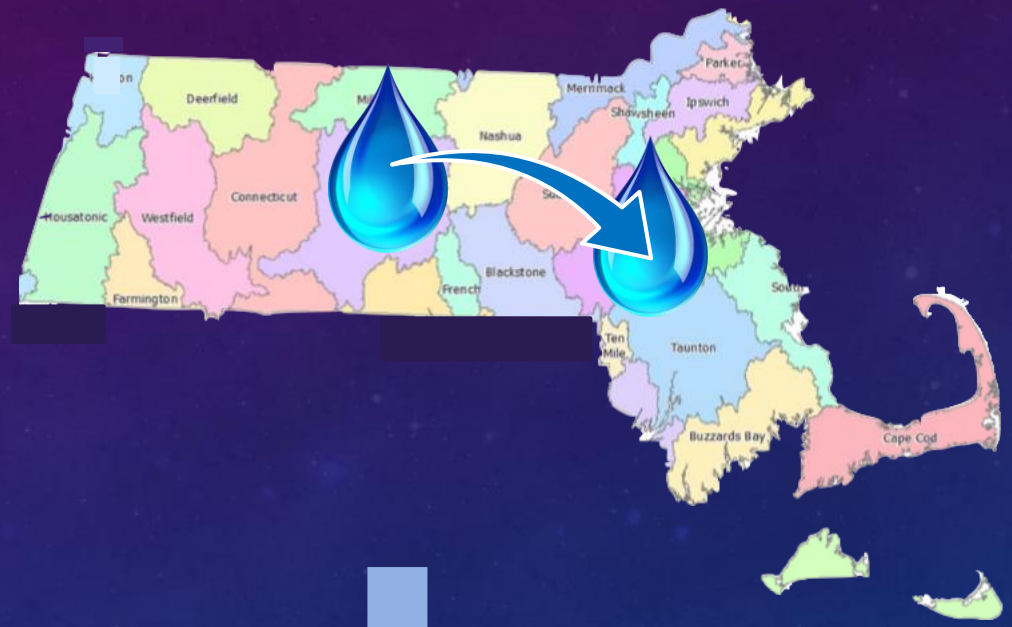


Recommend conservation price signal

Interbasin Transfer



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Conservation Pricing

- Is required explicitly in the ITA
- Promotes efficient use of water
- Can fit community needs through a wide range of approaches
- Can be targeted to address most problematic usage
- *Is industry best practice*

- May require restructuring
- May require raising rates for some customers
- Requires analysis of customer usage and revenue patterns

Proposed language

The rate structure must encourage water conservation. Appendix B provides guidance on financially sustainable conservation-oriented rate structures.

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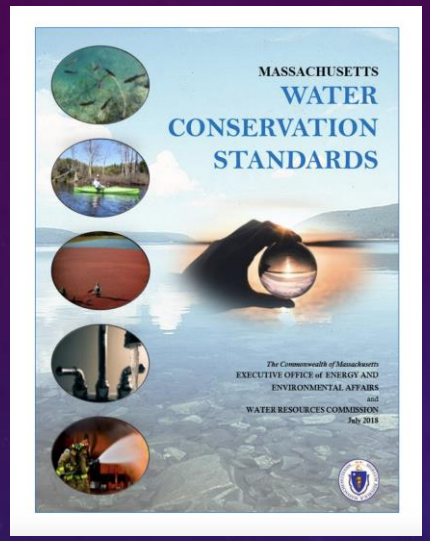
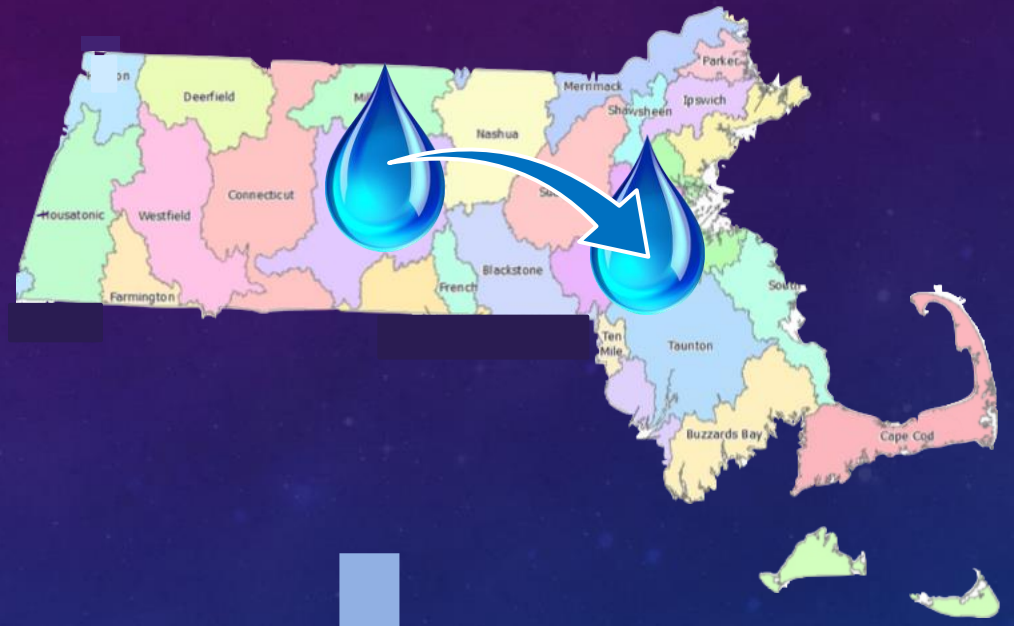
Water Conservation Standards



Require quarterly or more frequent billing; recommend monthly (or at a minimum bi-monthly) billing

Interbasin Transfer



Require quarterly or more frequent billing; expectation of monthly billing or timeframe to transition to monthly billing

Monthly Billing

- Important for the connection between price signals and behavioral change
- Helps identify leaks quickly
- Helps establish usage patterns for rate setting and conservation programming
- Can ease affordability problems
- Creates stable cash flow
- Conforms to other utility billing
- Enables more accurate UAW assessments
- *Is becoming industry best practice*

- Can be infeasible without automated metering infrastructure (AMI)
- Is administratively more burdensome and costly
- May weaken ”sticker shock” impact of bill (reduce conservation urgency)
- May feel more burdensome to customers

Proposed language

Proponents should bill customers monthly or establish a timeframe for transitioning to monthly billing. At a minimum, customers must be billed quarterly.

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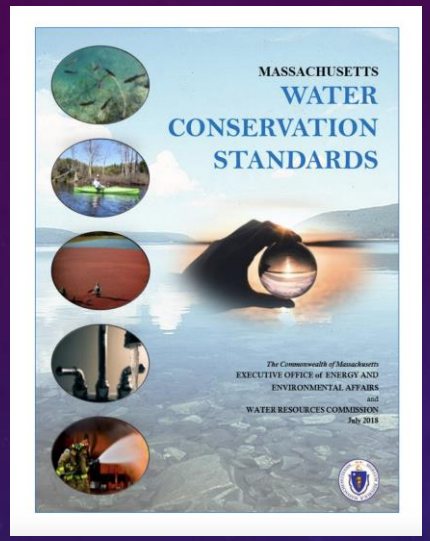
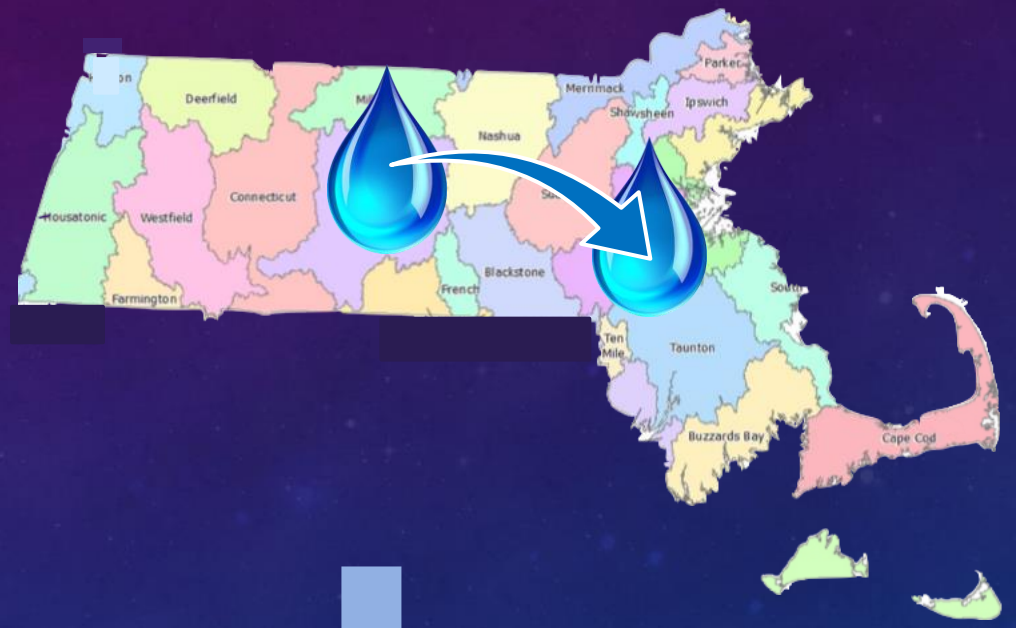


Recommend billing practices that support conservation

Interbasin Transfer



Expectation of billing practices that support conservation

Billing Practices that Support Conservation

- Help customers track their usage patterns
- Help customers connect their bill to their behavioral choices
- Have been shown to encourage conservation

- May require more data processing and administrative time

Proposed language

Bills should be easily understandable to the customer, indicate the rate structure clearly, and provide water use in gallons. Additionally, bills (or customer portals if using software services that support this)
should provide information to help customers track their usage trends, such as seasonal shifts in use, comparisons to the same period in the previous year, or comparisons to typical usage in their customer category or sub-category.

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DISCUSSION