



CITY OF BREA

**ADMINISTRATIVE SERVICES
DEPARTMENT**

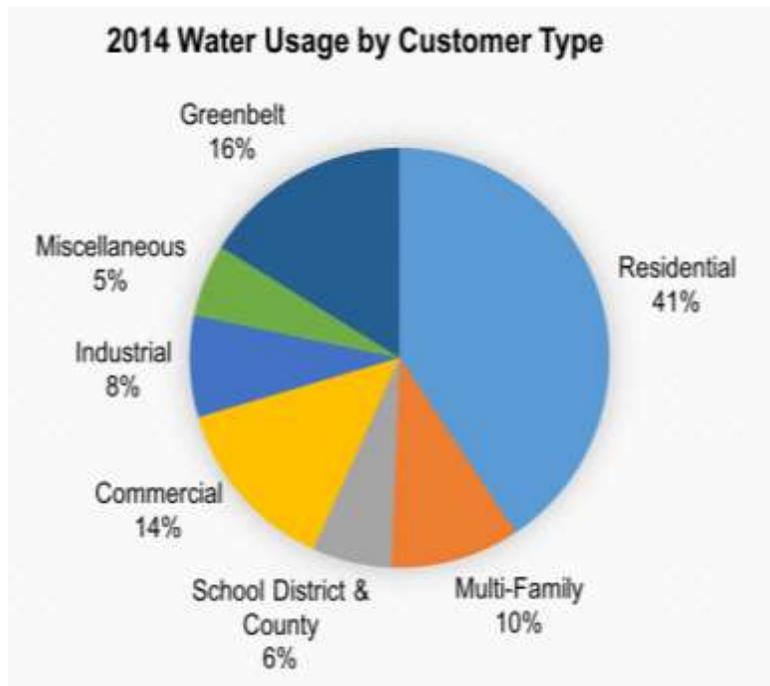
Memorandum

To: Mayor and Council
From: Bill Gallardo, Assistant City Manager/Administrative Services Director
Date: May 1, 2015
Re: **May 5th Study Session Item - Pricing Objectives for Water Rate Study**

During the Study Session, we will be discussing Brea's water rates and "pricing objectives". Pricing objectives is a major component for developing water rates and this is the opportunity to discuss any Council interest in alternative water rates.

This is the first step to modeling different rates and determining impacts on the water customer.

Below are a couple of charts which provide some perspective on Brea's water usage by different customer classes.

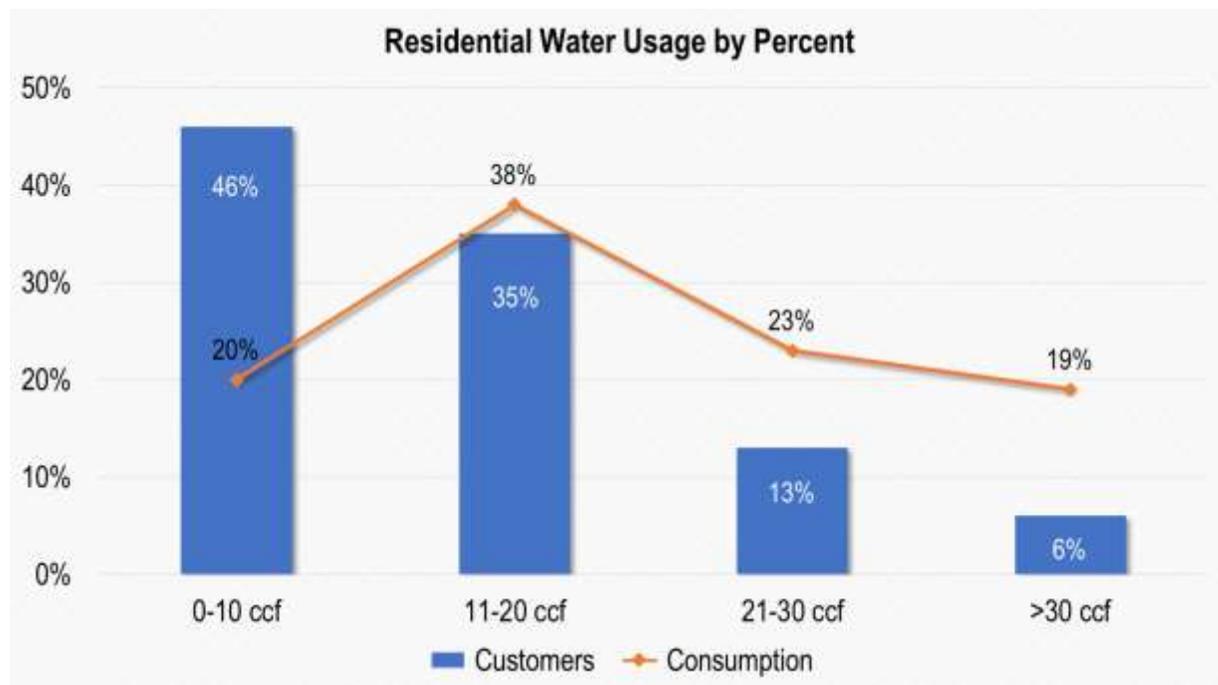


The second chart is useful to understand the breakdown of residential water usage from July 1, 2014 to March 31, 2015.

This chart shows that during this period 46% of residential customers were billed only at the first tier water rate and their consumption was 20% of all residential water used. In other words, 46% of residential customers never exceeded 10 CCF's of monthly usage during the past nine months.

Conversely, 6% of residential customers exceeded 30 CCF's of usage during the same nine month period and consumption was 19% of overall residential water use.

1 ccf = Equals 748 Gallons of water



PRICING OBJECTIVES

During the Study Session you will be asked to indicate your individual preferences on eight different pricing objectives. The rankings will be from "Most Important" to "Least Important" and the summary of preferences will help guide the development of water rates.

Please come to the meeting prepared to identify your top pricing objectives. Each of you will have a "voting clicker" so we can tally the results real time.

Excerpts of the presentation on this topic are shown in the following pages.

If you have any questions please contact me.

PRICING OBJECTIVES OVERVIEW

- Equitability (cost of service based)
- Minimization of customer impacts
- Rate stability
- Affordability
- Simple to understand and explain
- Administrative ease/Ease of implementation
- Revenue stability
- Conservation



PRICING OBJECTIVES DESCRIPTION

- **Equitability (Cost of Service Based Allocations)**
 - Ensure that each customer class is contributing equitably towards revenue requirements based upon the costs of providing service to each customer class.
- **Minimization of Customer Impacts**
 - Adverse rate impacts on each customer class are minimized.
- **Rate Stability**
 - Minimize dramatic rate increases or decreases over the planning period.
- **Affordability**
 - The rate structure should not overly burden low volume customers.



PRICING OBJECTIVES DESCRIPTION (CONT.)

- **Simple to Understand and Explain (Customer Understanding)**
 - The rate structure should be easy for City customers to understand, utilizing a moderate level of educational tools. In addition, the rate structure should be able to be effectively maintained by City staff in future years.
- **Administrative Ease/Ease of Implementation**
 - The rate structure should be compatible with City's billing system. In addition, the rate structure should allow for the continuation of existing management and system reports.
- **Revenue Stability**
 - The rate structure should provide for a steady and predictable stream of revenues to the utility such that the utility is capable of meeting its current financial requirements.
- **Conservation**
 - The rate structure should encourage conservation.



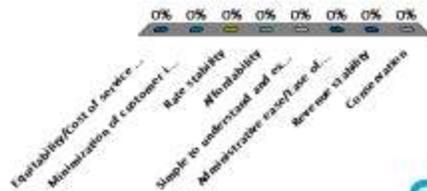
PRICING OBJECTIVES EXERCISE

- Rank up to 2 objectives as **Most Important**
- Rank up to 2 objectives as **Very Important**
- Rank as many objectives as desired as **Important** or **Least Important**



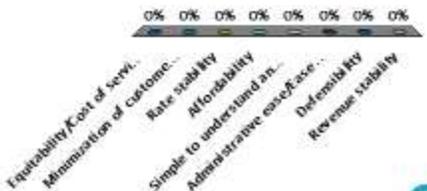
Most Important Objectives

- 1. Equitability/Cost of service based allocations
- 2. Minimization of customer impacts
- 3. Rate stability
- 4. Affordability
- 5. Simple to understand and explain
- 6. Administrative ease/Ease of implementation
- 7. Revenue stability
- 8. Conservation



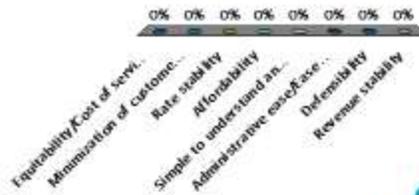
Very Important Objectives

- 1. Equitability/Cost of service based allocations
- 2. Minimization of customer impacts
- 3. Rate stability
- 4. Affordability
- 5. Simple to understand and explain
- 6. Administrative ease/Ease of implementation
- 7. Revenue stability
- 8. Conservation



Important Objectives

- 1. Equitability/Cost of service based allocations
- 2. Minimization of customer impacts
- 3. Rate stability
- 4. Affordability
- 5. Simple to understand and explain
- 6. Administrative ease/Ease of implementation
- 7. Revenue stability
- 8. Conservation



Least Important Objectives

- 1. Equitability/Cost of service based allocations
- 2. Minimization of customer impacts
- 3. Rate stability
- 4. Affordability
- 5. Simple to understand and explain
- 6. Administrative ease/Ease of implementation
- 7. Revenue stability
- 8. Conservation

