

**City of Bend**  
**Water Rate Design Workshop**  
**Meeting Notes**

The Bend City Council participated in the Water Rate Design workshop called to order at 1:00 pm on Tuesday, October 14, 2014 at the North Fire Training Center. Present were Bend City Councilors Jodie Barram, Scott Ramsay, Mark Capell, Doug Knight, Sally Russell, Victor Chudowsky and Mayor Jim Clinton. Also present were Temporary Committee Members Andy High, Nikki Roemmer, Zhai Logan, Keith Wooden, Kris Scholl and David Rathbun. From FCS Group, rate consultants, Angie Sanchez Virnoche, John Ghilarducci, and Ryan Bert attended. The meeting was facilitated by Eric King, City Manager and Gillian Ockner, Senior Policy Analyst.

The audio recording of the meeting along with the presentation slides are available at [www.bendoregon.gov/utilityrates](http://www.bendoregon.gov/utilityrates)

A high level summary of the workshop is provided below with more detailed notes to follow including “parking lot” questions imbedded in the appropriate sections.

**SUMMARY**

The first part of the workshop focused on the cost of service analysis conducted for the water utility rates and two alternative rate design scenarios compared with our existing rate structure.

The *Existing Rate Structure* shows monthly rate by meter size, currently with first 400 cubic foot allowance. Anything over the allowance is charged \$1.68 per 100 cubic feet (CF). The existing rate collects 53% of revenue from meter (fixed) charges, and 47% from usage (variable) charges.

The *One Rate Schedule* scenario continues to charge the same amount for volume (\$1.68/100 cubic feet) for all classes starting from zero consumption (same as it is today but without the 400 CF allowance). This scenario trues up the fixed charges by meter size with the AWWA meter capacity ratios and applying customer costs equally. This scenario collects the total revenue requirement.

The *Charge by Customer Class* scenario also collects system revenue needs, uses AWWA meter capacity ratios, and eliminates the 400 CF allowance. It shows what collecting revenue based on the way specific customer classes are impacting the system might look like. There are different rate schedules for each class with revenue targets for the classes set by the cost of service analysis (See table below).

In general under both scenarios very large users will see a reduction while very small users will see an increase.

An option shown for the Charge by Customer Class scenario adjusted the Single Family rate schedule to have a low fixed and high volume charge to reward very low water use. This has been termed the *Single Family Conservation* scenario. Because the other two scenarios result in slightly increasing the bill for water use below 400 CF from the current charge with the allowance, it was important to show an option that brought the cost down for low water users. However, the risk is that this scenario

would generate revenue instability as 82% of customer accounts are single family residential and this scenario collects only 30% of revenue from fixed charges (down from the current 61%).

### Cost of Revenue Targets

Customer Class	EXISTING REVENUE	COST OF SERVICE	\$ Difference	% Difference
Single Family	\$ 9,465,037	\$ 10,414,533	\$ 949,496	10.0%
Multi Family	1,425,757	1,299,796	(125,962)	-8.8%
Commercial	3,383,548	3,246,709	(136,839)	-4.0%
Irrigation	810,580	901,356	90,777	11.2%
Large Volume	189,664	175,921	(13,742)	-7.2%
<b>Total</b>	<b>\$ 15,274,585</b>	<b>\$ 16,038,315</b>	<b>\$ 763,729</b>	<b>5.0%</b>

At the workshop, participants requested seeing a low fixed option for the One Rate Schedule Scenario. FCS Group provided this information from a quick analysis as follows:

All Classes (30% of revenue collected from fixed charges)

¾" meter \$17.02/month [NOTE: Did not display all of the meter sizes at the workshop]

Per 100 CF \$2.07/100 CF

The second part of this rate workshop focused on using a straw polling tool to enable participants to vote anonymously on rate design questions posed, see results instantaneously, have discussion and then vote again. The final results of this poll are presented here.

#### Sewer: Single Family Residential

Question: Do you want to charge for volume?

Results: 15 % Yes  
 23 % Yes, with caveats  
 62% No continue charging a flat fee

#### Sewer: Non-Residential

Question: Do you want to implement the adopted Extra Strength Charge program?

Results: 58% Yes, with a different approach  
 25% Yes, by phasing in cost of service  
 17% No

#### Sewer: Non-Residential

Question: What rate structure do you prefer?

*(ESC is embedded, continue to bill for volume and fixed like we do now, no 1,000 CF allowance)*

Results: 23% Low Fixed  
 77% Balanced Fixed (50% fixed, 50% volume)  
 0% None of the above

Sewer: Multi-Family

Question: Do you want to bill all multi-family the same way?

Results:        0%    Yes, like Single Family (flat rate per unit)  
                  0%    Yes, like Non-Residential Standard (no ESC program)  
                  92%   No, give it its own rate structure  
                  8%    No, continue to let them choose

Water: All Classes

Question: Do we maintain one rate schedule or charge by customer class?

Results:        85%   Charge one rate schedule like our current one (for now, not forever)  
                  15%   Charge by customer class with a separate rate schedule for each class  
                  0%    I need more information

Water: All Classes

Question: Do you prefer a low fixed (30%) and high volume (70%) charge?

Results:        17%   Yes  
                  17%   Yes, with caveats  
                  67%   No, keep it at balanced fixed (Shift from 53% to 43%)

Next Steps

Going into the November 5<sup>th</sup> Council Work Session, we will recommend maintaining one rate schedule for water. For sewer, we will develop a recommendation with a couple of options that are different from strictly following cost of service for implementation of an extra strength charge. All are invited to attend the work session.

The following are the detailed notes following the presentation and discussion at the workshop.

### **1. Welcome and Introductions**

City Manager Eric King welcomed the group and reflected on the last workshop. Based on feedback from the previous session, there will be an effort to improve clarity around decision points, what decisions need to be made, and a simplified presentation. Also, this session will work to improve the tools and methods to develop direction from the group.

Mr. King highlighted differences between water and sewer. Water is part two of the rate design process and part three in November will be putting sewer and water together. One key difference between water and sewer is that water doesn't have a list of upcoming capital projects. Once the surface water project is complete there are no other significant projects in the near term, so projected rate increases are significantly less. Also, it is less challenging than sewer because there isn't the Extra Strength component. Looking at water cost of service analysis will show the inverse result from sewer in terms of the portion of the total revenue attributable to the residential customer.

The goals of this rate restructuring remains to remove the allowances (400 cubic feet for water and 1,000 cubic feet for sewer), charge for volume starting at zero, and to implement the Extra Strength Program with the number one concern being equity.

### **2. Purpose of Workshop**

Senior Policy Analyst Gillian Ockner provided an overview of the workshop and posed the questions:

- Do we want to charge one rate schedule for all customer classes based on meter size?
- Do we want to look at different rate schedules for different classes based on usage characteristics?

All scenarios presented generate the total revenue requirement estimated for the water utility with the recent 5% increase implemented October 1, 2014.

### **3. Water Cost of Service**

John Ghilarducci of FCS Group reviewed the *3-Step Rate Setting Process*, noting that where sewer included flow, strength and customer service as functions, water includes customer service, fire protection, average demand and peak demand. Again, these are allocated to customer classes, and the final step of rate design determines how much of revenue should be collected in fixed charges and how much in variable charges.

Angie Sanchez Virnoche of FCS Group shared the slide *Water Customer Meters* to show the breakdown of meter counts by customer class. There were two customers (St. Charles and Deschutes Brewery) that were classified as Large Volume because the amount of water they use is significantly more than any of the other commercial users and was skewing this class. Councilor Russell pointed

out that there are large irrigation customers not metered separately that are included in the commercial class.

The *Monthly Water Use* slide shows monthly water consumption. The Large Volume class is using a consistent amount of water all year long. The Commercial class has some increase in use during the summer (possibly due to irrigation or tourism), and Multi-Family peaks some in the summer months as well. Single Family and Irrigation classes have significant peaking during the summer (including discretionary use, or use that could be cut back). Because the system has to meet peak demand, that increases our infrastructure costs. Customers that have large peaking periods in their water consumption impose a larger cost on the system.

The *Water Cost of Service Results* compare existing to new cost of service based on analysis. The *Cost of Service Revenue Targets* show what we are collecting today versus what we need to be collecting based on cost of service. The analysis shows that if we want to follow cost of service, we should increase the amount we are collecting from the Single Family and Irrigation classes, while decreasing the amount we collect from Multi-Family, Commercial and Large Volume customers.

Nikki Roemmer asked if cost of service includes peaking costs and the group confirmed that it does, explaining that we have to oversize to meet fire and peak demand, using additional storage reservoirs for peak times and electricity for pumping from wells in the summer. Ms. Sanchez Virnoche added that there is pipe maintenance, repair and replacement costs associated with peaking as well.

Mayor Clinton stated that pipes and streets need to be sized for fire protection, not peak demand and raised similar concerns from the previous session about the assumptions and calculations in the analysis to determine cost of service. He is not convinced with the division by customer class and feels that a great deal of judgment was included in the process of assigning cost.

Ms. Ockner pointed out that we are not currently charging by class for water, so it will be a decision to consider moving in that direction.

Ms. Roemmer asked what the division of Single Family households were, between different usage patterns because she observes that the Single Family cost is going to go up regardless of usage.

Mr. King stated that later in the session we are proposing a conservation scenario that is intended to reward Single Family customers using less water.

#### **4. Water Rate Design: Comparative Impacts of Scenarios**

The *Existing Rate Structure* shows monthly rate by meter size, currently with first 400 cubic foot allowance. Anything over the allowance is charged \$1.68 per 100 cubic feet (CF). The existing rate collects 53% of revenue from meter (fixed) charges, and 47% from usage (variable) charges.

Mr. King and Water Resources Manager Patrick Griffiths explained the significance of the 400 CF. In the early 90's, some people were metered and some were not. For equity, everyone was given 600 CF as part of their rate based essentially on indoor water use of typical residential customers per month at the time and it never got removed. After 2004, when Bend was fully metered, a volume

rate was established and the allowance moved to 400 CF by Council in 2011. Councilor Capell added that the policy was to stair step down to see the impact on revenue, and the goal was to drop it every other year by 200 units until we reached zero to be cautious.

Kris Scholl asked how we got to \$1.68 per 100 CF. Interim Finance Director Sharon Wojda explained that the volume charge would have come from a previous rate study (possibly from 2007) and has escalated over time with rate increases.

Before viewing the separate scenarios, the *Key Factors for All Scenarios* explained that all include the ability to collect system revenue needs, use AWWA meter capacity ratios, and eliminate the 400 CF allowance.

The *Rate Scenarios Developed* slide previews the One Rate Schedule as charging the same amount for volume for all classes starting from zero consumption (same as it is today but without the 400 CF allowance).

Councilor Russell asked why we separate by meter size. The group discussed that it shows maximum capacity or the potential maximum for peak demand. If the customer base was all at ¾ inch meters, the treatment requirements and storage requirements would be simpler. When adding larger meters you have to be able to accommodate for as much water as they can pull at a time and need to maintain a system to support that (for both peak and fire flow).

Councilor Russell followed up by questioning if Single Family are arbitrarily on ¾ inch meters or if there is any consistency to what they have. Mr. Griffiths explained that engineers count fixtures and select meter size according to uniform plumbing code; however, the City of Bend doesn't specify due to legacy conditions. He said a three bedroom, two bath home typically doesn't need more than ¾ inch meter. Andy High added that it was up to homeowner, or builder to determine meter size. Most homes now are ¾ inch meter. Ryan Bert of FCS shared that about 12,000 Single Family have ¾" meters, and roughly 6,800 have 1" meters.

The *Rate Scenarios Developed* slide also shows the Charge by Customer Class scenario that tie rates to class based on cost of service analysis. There is an option shown under this scenario that provides a Conservation Incentive rate for Single Family. This rate is only for Single Family because that is the customer class that has the most significant discretionary use.

Ms. Roemmer asked if there is talk to add the Irrigation Only class into that conservation discussion as well. The group discussed that this class is not a significant amount of users right now, currently made up of about 330 irrigation only meters belonging to customers in both residential and commercial classes.

Councilor Knight expressed surprise that we did not include a scenario that addresses irrigation rates specifically, remembering that in earlier discussions surrounding potential acquisition of Juniper Utility there was a desire to look at moving to a class of irrigation only customers. Mr. King explained that a separate irrigation rate and incentive for off peak use is still something we want to look at, but it is fairly complex. There is a need for a policy in place to require irrigation only meters based on

criteria for properties with large landscape areas. We can still do a pilot to determine the right policy direction for that. It is still something we want to pursue.

### One Rate Schedule Scenario

This scenario does not differentiate by customer class. It has pros of consistency with current structure, minimal change to billing and promotion of efficient use. The cons are that it is not cost of service based in terms of customer class and has less revenue stability than the existing rate structure.

In looking at the *One Rate Schedule Scenario Monthly Bill Comparisons* it was apparent that there is an increase for small users due to the removal of the 400 CF allowance and keeping the same volume charge at \$1.68 and to true up the meter size. This was a concern to Mayor Clinton and Ms. Roemmer.

Mayor Clinton made the observation that there are multiple One Rate schedules that could have been presented. Ms. Sanchez Virnoche reviewed the approach and methodology used for the rate schedule chosen. The decision was made to set a parameter for the volume charge and to keep it at \$1.68. Also, we are trueing up AWWA capacity ratios with city standard meter sizes as we now have different meter sizes than when the existing rate table was established. Also, rate increases over time were applied each meter charge rather than to the base and then realigning with the AWWA capacity ratios. We could move away from the hydraulic equivalency to determine fixed charges by meter size, but AWWA capacity ratios are industry standard.

Ms. Roemmer questioned why the same usage at 400 CF goes up under this scenario. Councilor Capell shared that when we reviewed water rate structure two years ago a similar result was found and therefore we put a stop to the process. We thought that if we based the rate on what it costs, the person using 200 units would pay less than what they paid to get 400 units. We assumed they were subsidizing the high user because they were paying for more than they were getting. However, the rate study determined that the big water user was actually subsidizing the small user.

### Charge by Customer Class Scenarios

The purpose of looking at this scenario was to show what collecting revenue based on the way specific customer classes are impacting the system might look like. There are different rate schedules for each class.

It was discussed that cost of service shows that while water rates currently over collect from businesses and under collect from Single Family, it is the opposite for sewer. The net effect of combining the two bills will be looked at later in the session.

The *Single Family Rate Schedule* is designed to collect 10% more in total revenue from these customers to account for the higher peaking impacts that these customers collectively impose on the system.

The *Multi Family Rate Schedule* shows there could be a decrease in the target revenue for this class because they do not have as significant a peaking factor as single family. The *Multi-Family Bill Comparison* shows different decreases depending on the number of units.

The *Commercial Rate Schedule* shows a 4% decrease. One of the cost drivers for this class is a higher fire flow requirement although they don't have as high of peaking costs as Single Family does.

Mr. Scholl asked if all Commercial are lumped together when calculating peak flow which was confirmed by the group. An example of a low user on the *Commercial Bill Comparison* would be an auto dealer or realty, and a high user would be a large grocery store. The largest users (St. Charles and Deschutes Brewing) were broken out into their own class because they don't have peak costs and their water consumption is orders of magnitude higher. In general the commercial class is probably picking up some of the peak costs.

A concern was brought out surrounding the peaking concept and allocation. The residential class is easier to assume that they act similar, but for businesses it is harder to tell if usage is tied to tourism, irrigation or other business behavior. The design is for the class average.

The *Irrigation Only Rate Schedule* shows another class that needs to increase. They have the highest volume charge because of their peaking factor.

The *Large Volume Rate Schedule* shows a significant decrease because there is not much peak requirement and in trueing up meter capacity ratios the fixed charge is going down. They do have higher fire costs.

The *Single Family Conservation Scenario* proposes a lower fixed, higher variable rate design. This puts fire and peak into variable costs, decreasing revenue stability. It keeps costs down for low water users, but the potential volatility in revenue is higher as 82% of total users are in this class. The objective of this scenario is to provide an alternative to low water users having an increase as they do in the other scenarios. Councilor Capell pointed out that there are very few low users in reality. [NOTE: an analysis of the frequency of monthly bills shows that 18% of bills in 2013 were for zero to 399CF of water.]

Mr. High stated that the policy decision focuses around what is a fixed cost. Some believe fire flow and debt is not a fixed cost, where he would argue differently.

Ms. Ockner added that from FCS experience other communities billing based on usage are about 30% fixed and 70 % variable in terms of what they are collecting. In checking with our financial advisors, they wouldn't want us to go below that 30% fixed.

The FCS group said they often work with utilities that have 30% fixed. Bend is extremely stable for water and sewer, both over 50%. Recently, due to economic impact of the recession a lot of publicly owned utilities are going toward 50%. The trend is to go up with fixed (i.e. 30 to 40%).

Mr. High said that in privately owned utilities you would see debt and replacement costs as all fixed, so they would see it as 70% fixed and 30% variable instead. The Public Utility Commission (PUC) that regulates private utilities forces a higher fixed.



Mr. Scholl brought up an unintended consequence if we went with the Single Family Conservation Scenario. Who could really conserve? He believes it may not be Single Family, but Multi-Family and Commercial. It was pointed out that the suggestion of this scenario was for Single Family only and not intended for Commercial.

Mr. High brought up that this scenario really helps people with second homes who are receiving the benefit of fire flow without paying for it in their fixed charge.

Councilor Chudowsky asked about taking out peak and fire and the fairness to other classes. FCS assured that it is included, but only in the variable portion.

Councilor Knight asked if the conservation scenario could be implemented as part of the one rate schedule, and if so would be the risk to stability of revenue? The FCS group put that together quickly at the workshop. This impromptu scenario of Conservation with One Rate schedule for all classes looks like:

All Classes (30% fixed)

¾" meter \$17.02/month [NOTE: Did not display all of the meter sizes]

Per 100 CF \$2.07/100 CF

We would want to set aside significant funds for revenue stabilization.

If we made all costs variable: All Volume (100% variable) would be \$2.95 /100 CF. This scenario was provided for comparison, but is not implementable as it jeopardizes the utility's financial stability.

Keith Wooden asked if conservation incentivizing rate structures that FCS as seen in the past created a need to re-visit and adjust for revenue loss following reduction in use. FCS stated that it is difficult to isolate with so many factors (such as weather or economy). However, you may have to go back to adjust if behavior is due to rate structure and the rate structure is doing its job in terms of cutting back on usage. Previously, short term effects were seen, but not an influence to behavior over the long term. In the last few years usage is reducing regionally. It could be a combination of different factors such as building codes, etc., but usage per unit shows a downward trend nationwide.

Councilor Capell stated that these two scenarios would really benefit second homes (not paying for fire flow at all when they are not there) and large users would be hammered.

PARKING LOT: Price Elasticity of Demand – what is the impact of increasing costs on water use?

PARKING LOT: Refinement of customer class data to determine if additional categories are required to get to a finer grain of cost allocation in the future.

There is still a lot of work to do before moving to billing by customer class is fully implementable. Given the City's LEAP project, acquiring new billing software and analytics needed to connect meter data with billing, we are about 3 years out from being ready. With going to all meters as recently as 2004, we are decades behind in other communities in billing by usage.

Ms. Ockner added that moving to billing by class would mean additional administrative (staffing) cost that has not been included on top of what we are doing for the Extra Strength program for sewer.

BREAK

Ms. Ockner shared *General Public Comments* she received from a forum on Bend Voice. The feedback and conversations with mostly single family residential customers reveal that all felt rates are too high. Some thought the 400 CF water allowance is unfair for small households. Some want tiered rates and some say the opposite. Single Family would like larger users to pay, Non-Residential would like to share the costs across all users. Only 28 comments were received over months of attempts to engage the public in this Forum and through other outreach.

The slide *Water and Sewer Combined Bill* for Single Family assumes balanced fixed scenario for sewer and average monthly water use. All scenario combined bills go down.

*Water and Sewer Combined Bill* for Non-Residential: Low Extra Strength

There is an increase in billing in all scenarios when combined with sewer because of the Extra Strength component in sewer. (Assumptions for both water and sewer is 1,000 cubic feet of usage.)

*Water and Sewer Combined Bill* for Non Residential: High Extra Strength

Bills increase significantly with the strength differentiation in sewer and there is not enough savings in water to offset it.

Councilor Russell wanted to follow up on a conversation about how in the last 5 years there has been relatively low increase in peak use of water, (even this year). If we can keep our usage low and stable by incentives, even as businesses grow, the decisions we make now will actually benefit the community going forward over time by delaying investment in infrastructure. We reap the rewards five, ten and twenty years out.

David Rathbun asked what the current utilization. Ms. Kris Trask, Finance Performance Analyst, verified that we billed approximately 563 million CF in 2013.

The group discussed investment trigger points established in the last water master plan update (2011). The next trigger point for investment is peak day demand of 29mgd and projection for that is out at year 2024 conservatively.

Councilor Knight added that is important to have conservation as part of our rate design and that one rate schedule is what we should be implementing. That is why he asked if a conservation plan can be included. With the complexity of the rate class needing refinement and the need to add an irrigation class, he is uncomfortable going to a rate class now. More than 30% (35%) might make more sense to provide more of a buffer. NOTE: the One Rate Schedule Scenario would collect 43% from fixed monthly fees.

Mr. Scholl and Mr. Rathbun suggested that like Energy Trust, diverting funds to conservation efforts has worked well. Everyone is paying into this fund as part of their bill. Although not easy, it can't be assumed that with rate structure people will change behavior just because price is higher. We should

be rebating behavior that results in tangible conservation. Instead of spending money on capital, spend it on change that will defer needing capital improvements. Ms. Ockner said that there is a Water Management and Conservation Play update as part of master water plan effort beginning in 2015 where these ideas would make the most sense.

Mr. Rathbun expressed that he thought this forum was to be more like the SIAG process, more discussion on what is important to us from a value standpoint, not just taking the cost based approach. Mr. King responded by saying that having a value based discussion around objectives like conservation was tried earlier this year and proved too hard without providing scenarios, and seeing comparative impacts or trade-offs.

Mr. Rathbun made the observation that with these water scenarios, you don't end up with very large shifts like what we saw with sewer. The group agreed that we need to circle back on sewer and address unanswered questions. Also, it was noted that the water utility doesn't have much growth potential because most of the potential for growth is covered by Avion; and after the surface water project there are little capital improvement projects required.

## 5. Rate Design Poll

Members of the group voted anonymously on the following questions with the opportunity to share their reasoning behind votes once results were revealed. There were thirteen total voters.

### SEWER

Sewer Assumptions: Winter quarter average used for calculating volume, eliminate 1,000 CF allowance, all revenue needs are met, and Extra Strength program fee allocated to Non-Residential except standard class.

Sewer: Single Family Residential

Question: Do you want to charge for volume?

Results:	31%	Yes
	31%	Yes, with caveats
	38%	No continue charging a flat fee

Mr. High explained that he voted "yes, with caveats" because he is not comfortable going to 30% for the fixed charge, leaning toward an option of Balanced to High fixed.

Councilor Capell asked why people want a flat fee if we were looking at finding a fair system. Councilor Chudowsky offered that on the water side, if we moved toward a more volume oriented (by removing the allowance and decreasing fixed charges) system, then that provides more control based on actual use. Looking at the relationship between the two bills, you can reduce the water bill, but there is no incentive on the sewer side so that stays the same. You end up with more stable and predictable revenue on the sewer side. Mr. Rathbun added that with the cost based approach, Single Family class sewer rate would come down.

Mr. Scholl added that it doesn't make sense to charge for volume if you can't measure it [NOTE: other communities with a volume based sewer charge also use winter quarter average as metering residential sewer is cost prohibitive]. Councilor Capell also feels that for those that leave in the winter, it doesn't work to base their volume on winter quarter average. Mr. King pointed out that the sewer rate for Single Family Residential applies the winter quarter average across the whole year. The bill does not fluctuate, it is just based on winter quarter average and is reset every year. Ms. Ockner added that for those not on City water, we would choose a default value and that she wanted to later discuss possibly charging a stand-by rate instead of shutting off service for those who leave during the winter.

After discussion, the group voted again: Do you want to charge for volume (on sewer)?

Results:	15 %	Yes
	23 %	Yes, with caveats
	62%	No continue charging a flat fee

Sewer: Single Family Residential

Question: Which rate structure do you prefer?

The group agreed that based on results from the first question (with most preferring a flat rate), it didn't make sense to vote on this question.

Sewer: Non-Residential

Question: Do you want to implement the adopted Extra Strength Charge (ESC) program?

Results:	8%	Yes, by cost of service revenue targets
	69%	Yes, (cost of service) by phasing
	23%	No

Zhai Logan explained that the reason she voted no was because we didn't define what is equitable as part of our rate policy objective. Non Residential contains such different organizations as a restaurant, a grocery, a prison, a school, a homeless shelter. Do we believe these should be categorized with the same value? Without settling how we are being equitable, we are lumping many groups together as being valued the same. Mr. Rathbun agreed and doesn't want huge rate increases for any segment of the business category. There must be other alternatives to allocate costs across tens of thousands of customers (residential) instead just a few (ESC customers), or otherwise phase in ESC over a very long period.

Councilor Knight added that the percentage of proposed collection from the Extra Strength group is relatively small compared to the overall collection. (Roughly \$2 of the \$18 million). Because Extra Strength customers are only contributing a small part of overall revenue, you are shifting a huge burden to those customers when you are not collecting a lot of the revenue in doing so.

Mr. High said he voted no because he would rather pay a dollar more a month as a rate payer and see businesses grow. He sees a value in the employment and production we have here. Because other areas may not be charging it, businesses will move. Ms. Roemmer questioned if businesses would move, or pass the cost along to customers.

Councilor Russell stated that we know that the Extra Strength users really do affect the system and add costs. However, there are proactive things businesses can do to make less of a burden on the system and the program allows them to appeal their ESC status.

Councilor Capell asked if the people who voted no are wanting to get rid of Extra Strength.

Mr. Rathbun explained that he understands there is a difference in sewer based on strength, but feels we need to come up with a way to recognize we can't to give someone a 400% increase.

Mr. Scholl voted "yes with phasing" because he wants to pay his fair share and wants to identify other Extra Strength users, which may make it more equitable. Phasing allows us time to collect data and measure other Extra Strength users.

The group discussed how the impact of increases would be passed on to others in terms of taxes, for example, if schools have to pay or businesses raising prices. Can businesses even do so while still meeting their pricing strategies to compete?

Ms. Logan would like to see a system where we place value, and in an equitable way. What is the value for job creators, educators and how do we systematically place value that is measurable? Councilor Knight added that by creating an Extra Strength category, you are grouping together entities that wouldn't normally be considered similar.

Ms. Roemmer added that in terms of equity, we are making assumptions as a group that all residents value the same way. Ms. Ockner commented that there was a definition process for each of the rate objectives earlier in the year. Because of direction from Council not to use rates to social engineer, equity was defined in terms of relative cost impact to the system by different users.

Ms. Ockner also responded to the proposal from Mr. Scholl about changing how we calculate charges by stating that it will affect the Single Family class. Based on cost of service as calculated, we know their cost goes down. If the calculation changes, do you create a system that makes it cost-prohibitive to live here? There are trade-offs, so by optimizing for business there will be an impact on Single Family that is not just a small amount.

Councilor Russell offered that in the committees there was proposal aside from rate that addressed low income needs. So it is social engineering, but a different program aside from this rate structure. Mr. King said we could set aside a reserve to isolate that and help those in need with a program.

After discussing, the question was voted on again using slightly different choices.

Results:	58%	Yes, with a different approach
	25%	Yes, by phasing in cost of service
	17%	No

The results showed that the group agreed with the extra strength concept, but need a different model that doesn't harm business. Mr. Scholl added that once ESC is implemented, we will collect data to be able to refine it.

Sewer: Non-Residential

Question: What rate structure do you prefer?

*(ESC is embedded, continue bill for volume and fixed like we do now, no cf. allowance)*

Results:	23%	Low Fixed
	77%	Balanced Fixed (50% fixed, 50% volume)
	0%	None of the above

Sewer: Multi-Family

Question: Do you want to bill all multi-family the same way?

Results:	0%	Yes, like Single Family (flat rate per unit)
	0%	Yes, like Non-Residential Standard (no ESC program)
	92%	No, give it its own rate structure
	8%	No, continue to let them choose

Before voting, the group discussed how complicated this class is because they currently are allowed to choose what structure they are billed under. Buildings with 2-5 units are generally charged flat rate per unit. Above five, the owner typically asks the City to go to a Non Residential structure for a flat fee per sewer account and then charge by volume. Because of that, the impact of cost of service is split. Those on per unit structure would go down, while those on volume would go up. When you average as a group they all go up. The group discussed how these buildings are metered and if going by a volume approach, it should be tied to the type of water meter they have. The buildings do not have water meters on their separate units so that cannot be used as a criteria. If we move to a Single Family structure, we may need to consider how they are metered.

Mr. Wooden shared that he has single meters for each building, and commercial volume standard which is beneficial because it is lower than fixed rate. He would want to combine into one, an equitable rate with a variable use increment to it.

The assumptions for water questions are that we collect all of the revenue needs, adjust ratios to AWWA standards, and eliminate the 400 cf. allowance.

Water: All Classes

Question: Do we maintain one rate schedule or charge by customer class?

Results:	85%	Charge one rate schedule like our current one (for now, not forever)
	15%	Charge by customer class with a separate rate schedule for each class
	0%	I need more information

Before voting, Councilor Capell confirmed with Ms. Ockner that in choosing option one it won't mean we can't move to cost of service down the road when we have more information.

Mr. Rathbun is still unclear of customer class vs the size of meter. He confirmed with the group that we will still have the ability for one rate schedule, but have different meter sizes. The volume charge is the same for everybody. We are limited to apply cost of service because we don't charge by class, but we can use the size of the meter to differentiate as we currently do.

Based on the conversation for one rate schedule, the following question was added.

Question: Do you prefer a low fixed (30%) and high volume (70%) charge?

Results:	23%	Yes
	15%	Yes, with caveats
	62%	No, keep it at balanced fixed

Ms. Roemmer voted yes because she feels like we didn't cover as much with water with the low fixed, balanced, and high. People are already conserving water. With all of the classes, everyone else was getting charged less than residential because of peaking which she doesn't like. This alleviates the peaking a bit. The hope in voting yes is that people using more are paying more.

Councilor Knight voted "yes with caveats" to send a message that we value conservation. With lower fixed charge, we reward using less water. People on the system with low demand, low cost of service or burden on system are able to capture savings. Mr. High agreed but pointed out that it depends on what is a fixed cost. In this scenario, debt is not a fixed cost so there is the question of what is in that fixed piece. Fire flow is a general benefit and shouldn't be pulled out of fixed.

Councilor Knight stated that this has nothing to do with cost of service which he feels is altruistic. As much as we want residential users to share their cost of service, the fact is that some people in that class use less than average and need to be accommodated. The caveats that need to be included is to not affect bond rating and go more like 35%.

Mr. Rathbun agreed with both. Not knowing how behavior will change, he predicts that a portion of the community will cut back. He also doesn't want to hold back those willing to spend more and to conserve green space, not making Bend turn brown. Councilor Knight added that a higher volume

charge could shift the burden to business (large water users) and harm business growth. Mr. Rathbun responded that he gives businesses credit to find ways to be creative, invest in technology, or find ways to adjust and still be financially disciplined.

Mr. High feels we need a much bigger discussion on the value piece. Mayor Clinton feels that the fixed and variable parts of the bill should reflect the fixed and variable parts of cost. He feels that conservation is cheaper than building new infrastructure [NOTE: A cost comparison of infrastructure to conservation options was not provided in this workshop].

Councilor Chudowsky added that perhaps the discussion should be what percentage we want fixed not what constitutes fixed costs. Also he feels that part of the value of water is usage, part of it is the ability or opportunity to use water when you need it.

After discussion, the group re-voted: Question: Do you prefer a low fixed (30%) and high volume (70%) charge?

Results:	17%	Yes
	17%	Yes, with caveats
	67%	No, keep it at balanced fixed (Shift from 53% to 43%)

**6. Wrap-up and next steps.**

Mr. King summarized that going into the November 5<sup>th</sup> Council Work Session, we will recommend maintaining one rate schedule for water. For sewer, we will develop a recommendation with a couple of options that are different from strictly following cost of service for implementation of an extra strength charge. All are invited to attend the work session.