INDEPENDENT CONSUMER ADVOCATE

COMMENTS REGARDING AGENDA ITEM 6: ECONOMIC DEVELOPMENT RATE FOR THE CLEAN WATER PROJECT CHARGE

The special Revenue Committee has proposed what it terms an economic development rate which it believes will encourage additional water use. It is restricted to the very largest customers-those using more than 20,050 ccf per month. It appears that there is currently only one customer who approaches this threshold. The rate is in two parts. Water consumed above this threshold in any given month will be charged 80% of the water rate or $3.18/ccf instead of the rate paid by everyone else of $3.97. This part of the rate has been approved by the water bureau.

The second part of the rate, which is before you tonight, affects the clean water project charge(cwpc) of the customer bill. For water consumption above the threshold, there will only be a cwpc imposed on that portion of the water consumption which is in fact discharged to the sewer as measured by a sewer meter. For example if a customer used 21,050 ccf of water and only discharged 25% of the water into the sewer, the customer would only pay the cwpc on 25% of 1000ccf (the portion of the water consumption above the threshold) or 250ccf. The result would be a 75% discount from the cwpc paid by every other customer. (Of course the customer would be paying the full cwpc rate on the first 20,050 ccf of consumption).

The Independent Consumer Advocate favors true economic development rates. He also favors the decoupling of the cwpc from water consumption in those instances where the water is demonstrably not being discharged into the sewer system. It is indeed the coupling of these rates which has caused the 'death spiral' referenced in comments on the budget. However, this proposal meets neither of these worthy objectives.

First, it appears, at least in the short run, that this proposal will only be available to one customer. For any other customer, existing or new, to take advantage of this rate, substantial building by that customer would need to occur. There is nothing to suggest that there are very large customers waiting to start construction until this rate is approved. Second, new customers who are contemplating a move to one of the member towns (or for that matter a customer contemplating a significant expansion) want some certainty that a rate that exists today will exist tomorrow. For example, when a municipality grants a tax deferral or tax abatement to attract a new taxpayer, it grants it for a fixed number of years and based on clear requirements: meet the requirements and for the fixed number of years get the tax savings. An economic development rate needs the same certainty if it is to be effective.

The decoupling being proposed is only for the one customer. There are numerous other identifiable customers whose consumption is not being discharged into the sewer system. Customers with irrigation systems, who can be readily identified due to the requirement of registering and paying the cross connection inspection fee, is one such class. (It should be noted that to the extent the MDC has had difficulty insuring that irrigation systems are properly registered and the cross connection fee is paid, any decoupling will provided a powerful incentive.) For example, a year ago, the Advocate was contacted by a condominium association who separately metered its irrigation water. It sought relief from the cwpc for such consumption. It was denied on the grounds that all water consumption needed to pay the cwpc. The association was planning to cut back its irrigation as a result.

This restriction of the decoupling raises the issue of who will 'make up ' the revenue loss if the decoupling is approved in its current form and the hoped for additional consumption does not occur. Based on MDC reports, if this rate had been in effect in 2019, the customer would have had a reduced bill of approximately $214,000 for the 11 months through November. December would had added to the bill reduction since it has been reported that consumption for December was above the threshold. Most of this reduction would be due to the reduction in the cwpc. If the rate is implemented during 2020, and the 2020 consumption is the same as 2019, how will this deficit be made up? Will every other customer have its bill increased to make up the difference or will the MDC run a deficit?

It is likely that, at least in the short run, the revenue loss of $214,000 will not be made up by increased consumption. Assuming the same consumption pattern in 2020 as occurred in 2019 and further assuming that 25% of the water is discharged into the sewer (as has been reported by MDC staff at the revenue committee meeting), this customer will have to increase its overall water consumption by 20% for the MDC to break even. That is, if the customer averaged 700ccf a day, this amount would need to increase to 840ccf a day for MDC to reach break even.

This rate, in its current form, must be rejected. It is not going to have the intended result of increasing water revenue and it is unfair to all other customers.

The Advocate does believe that there are good designs for economic development rates that will serve to increase water revenue without risking a burden on other customers. Fixed terms for rate incentives, use of the rate stabilization fund in a creative way, and other approaches should be considered to bring about the worthy objective.

Respectfully Submitted

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January 31, 2020