



Conservation Rates in Minnesota Law

Part 3

The first two installments of this article established what conservation rates are, what they do, and which structures are allowed by Minnesota law. This installment will cover rate structures that are not allowed by the new conservation rates law.

By Carl Brown

Following, in shaded text boxes, is the Minnesota Department of Natural Resources' (MDNR) guidance document on conservation rates. The document includes recitals of the law. The author's comments are included in unshaded text.

Please note: The author is not an attorney and these comments should not be taken as legal advice. For that you need to consult your attorney. The author is a rate analyst so these comments go to the practical and rate effects of the law and MDNR's guidance.

Non-conservation rate examples:

Declining (Decreasing) Block Rates: The cost per unit of water (cubic foot or gallon) decreases as the water use increases beyond the basic block. This rate structure provides no incentive to conserve because the cost of water per unit decreases with increased use.

Rate Structures That Are Not Allowed

Following are several rate structures that are disallowed by the State for consideration as conservation rates. If your system is subject to this law and you have one of these structures, a serious rate analysis and rate restructuring are in your near future.

Declining rates make good sense in the right situation, but you shouldn't adopt such rates unless they are based upon the results of a cost of service rate analysis. That analysis should show that the system enjoys significant economies of scale to supply higher volumes of water and the rate reductions are based on those cost savings.

Declining rates may encourage high-volume users to come to or stay in your community. High-volume users are often good employers so economic development may flow from this rate structure. However, as a matter of policy it appears the State of Minnesota does not want to follow that rate setting strategy so forget declining rates if your system is subject to this law.

In all likelihood you needn't have declining rates to attract and keep good employers anyway. Outside of steel mills, beverage bottlers, canneries and other very large water using industries, few employers actually consider water rates to be a major determining factor when deciding where to locate. (Sure, they will get cheap rates out of you if they can, but they don't need them.) At almost any rate being charged almost anywhere in the U.S. water is truly cheap and employers know it.

Flat rates are a minimum charge only and they do encourage excessive water use. However, if the system is small, the users are very uniform (a single family home subdivision where the home values are all about the same) and there is strong peer pressure to not waste water, unmetered water sales work just fine.

Flat rates are very simple to understand, they take no calculation at all and rate revenues are very dependable. That makes budgeting very simple. It's like being paid on a salary basis rather than on an hourly basis. You don't get to rake in lots of overtime when business is good but at least when sales are down you are still going to bring home the same pay.

Flat Rates: A set fee allows the use of an indefinite amount of water. This rate structure is used where water is unmetered and provides no incentive to conserve water because cost is unrelated to volume used.

Generally the only communities that have flat rates are very small communities. Trailer courts, RV parks and small rural subdivisions are the most common users of flat rates. When these water systems were put in, cost was a big factor in deciding what to install – initial cost and the cost of billing later on. Thus, almost all flat rate systems have no customer meters.

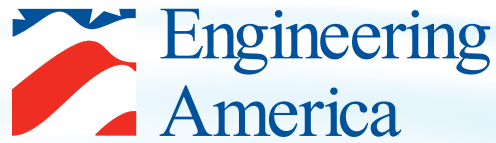
These communities are below the size limit affected by this law so conservation rates compliance is not an issue. However, unmetered systems of 50 or more connections should seriously consider installing meters and billing on a metered basis to slow down water waste, to identify and help locate water leaks and to bill more fairly.

Uniform Rates: The cost per unit is the same regardless of the volume used. This rate structure is considered conservation neutral.

One of the great features of a uniform unit charge is simplicity. If a ratepayer calls you up and says, "I think my water bill is wrong," this rate structure makes it easy to hand calculate their bill while they wait on the phone. Their bill is simply the volume they used times the unit charge rate plus the minimum charge. While any unit charge will cause some conservation, uniform rates will not cause as much conservation as inclining rates.

The water volume allowed in this kind of structure is usually called a "usage allowance" or "give away volume." The "little old lady, widowed, retired, living alone on Social Security" in her Clapboard Village home may take a hit if she has to pay for all of her use. However, in actual practice, it rarely turns out that way. Including a usage allowance with the minimum

continued on page 30



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City of Starbuck

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charge usually makes revenue generation a more sure thing for the system. Why? The system simply adds some or all of the cost of that “free” water to the minimum charge. In that case the “little old lady...” has to pay a higher minimum charge to get her “free” water, even if she doesn’t use it all. A give away volume encourages higher use. When you encourage some one to do something, they often will. The give away just has to go.

There you have it, Conservation Rates 101. Simple conservation rates cover a lot more ground than you thought, don’t they? But, get it right and your system will not only comply with the law, it will boost rate revenues and probably encourage water conservation, too.

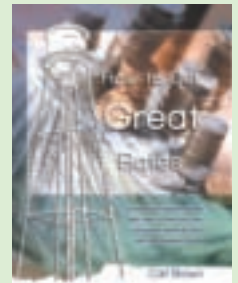
Service Charge (Base Rate) that includes a Minimum Water Volume:
The inclusion of a minimum volume of water in the service charge (base rate) discourages conservation especially if the minimum volume exceeds average customer usage.



Author Bio and Contact Information

Carl Brown is President of Carl Brown Consulting, LLC, specializing in water, sewer and storm water system rate analysis, asset management and training nationwide. He is also President of GettingGreatRates.com, home of the book, “How to Get Great Rates,” GettingGreatRatesNow© and other rate setting tools. Mr. Brown may be contacted at: Phone (573) 619-3411, E-mail carl@carlbrownconsulting.com, Web sites: <http://carlbrownconsulting.com/> and <http://www.gettinggreatrates.com/>

Editor’s Note: Now it is time to act and get your rates set properly. To learn how to do that we invite you to attend **Water Rates for Your System Workshop** to be conducted by Mr. Brown (sponsored by Minnesota Rural Water Association) on October 27, 2009, in St. Cloud. If you are an elected city, water district or sewer district official, or if you are the manager, finance director, clerk or you hold a similar position, you should attend. Visit www.mrwa.com to register. Order Carl’s book “How To Get Great Rates” from MRWA (Price is \$25.00 plus shipping) by calling our office at (800) 367-6792.



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