

Staff's Responses to Public Comments

Mr. Marshall's questions generally fell into three areas: rate design, cost drivers, and comparison of rates.

Rate Design – Rates

What is fair and appropriate for residential customers?

An important principle of utility rate determination is that the revenue requirements should be equitably recovered from classes of customers in proportion to the cost of serving those customers. The cost of service study found that the residential customer class represented 55.6% of FPB's cost of service and proposed rates that would recover 52.9% of the revenue. Additionally, the Board considered no less than three options to implement the proposed increase and chose a stepped approach that would have the least financial impact to its customers.

Rate Design – Service Charge

Has the service charge always been used to such a degree to finance utility service?

A customer service charge or a minimum bill or a have been a key part of the FPB revenue makeup for as long as staff can recall. Prior to 2013, the FPB had a minimum bill of 2000 gallons. In 2013, the Board discontinued use of the minimum bill and implemented a customer service charge.

Is there a danger in falling in love with this cost recovery mechanism to the point that it is unfair and inequitable to customers?

When designing rates, fixed charges are viewed as being desirable because they provide a measure of revenue stability to the utility. However, it is not common utility practice to provide revenue solely on fixed charges. As such, a reasonable balance of fixed and volumetric charges that provide a degree of revenue stability in a time of decreasing demand, is best for our customers.

Rate Design – Volumetric Charges: Declining Block Rate vs. Inclining Block Rate, etc.

Which is best for customers in your service area?

Volumetric charges have also been a key part of the FPB revenue makeup for as long as staff can recall. Prior to 2016, the FPB had a declining block rate structure (DBRS). A DBRS is a structure in which the unit price of each succeeding block of usage is charged at a lower unit rate than the previous block(s). In 2016, the Board implemented a uniform rate structure based on customer classification; residential, commercial, or industrial.

Per AWWA M1 manual – "The uniform rate structure has gained relatively wide acceptance. Uniform rates also afford water utilities a degree of revenue predictability and stability." A uniform rate might not be preferred by every water user. Large-volume customers might believe that favorable cost-of-service

characteristics justify the use of decreasing block rates. Conservationists might believe that efficiency and environmental concerns justify the use of increasing block rates. In balancing these perspectives, uniform rates or uniform rates by customer class can present a compromise.”

Over time things change, so have you re-evaluated which are appropriate mechanisms to be used?

Yes, evident by FPD’s move away from a declining block rate structure to uniform rate structure.

Cost Drivers

Isn't it likely that energy costs will be increasing?

FPB’s water division cost structure is approximately 90% fixed costs and 10% variable costs with the latter consisting primarily of chemical and pumping costs. It should be worth noting that over the last decade, water sales are down 1.48% while the operating costs have increased at an average rate of 2.90%. The division has done an acceptable job of containing costs, but the combined loss of sales is too much to overcome without rate adjustments. The division must also generate enough revenue to maintain the water system (capital projects) to deliver safe, reliable water supply to community. To counter the effects of declining demand, the division is always looking for opportunities to sell more water.

With respect to energy costs, it is quite possible that these costs will continue to rise. That being said, the division will endeavor to maintain energy efficient pumping stations as well as periodically perform cost of service studies and react accordingly.

Comparison of Rates

Which are the appropriate comparisons?

The FPB has historically been an active member of the Bluegrass Area Development District’s (BGADD), Water Management Council. The council exists exist to coordinate water and wastewater system development statewide. Members include all county judge/executives, the mayors of any city with a municipal water or wastewater system and representatives of each local health department within the Bluegrass Region.

Every year the council prepares a Water/Sewer Rate book, of which the FPB’s rates are included. How FPB rates compare with both the BGAAD average and Kentucky American are provided to the community on our website.