

August 30, 2012

Dear Mayor and Council,

The Water and Light Advisory board has had recent discussions regarding rate philosophy for water and electric. It was decided to solicit feedback from the council regarding the matter. Tom O'Connor developed the following summary for the council's consideration. Please review the summary and offer any guidance back to the Advisory Board and staff. It may be a good subject to take up at a council work session.

"The Water and Light Advisory Board recommends a well-planned, revenue-neutral modification of our utility rate structures in order to encourage conservation of both water and electricity.

Conservation rate structures provide a price incentive to encourage conservation – which is by far the cheapest, simplest, and cleanest way to meet future electricity and water demands.

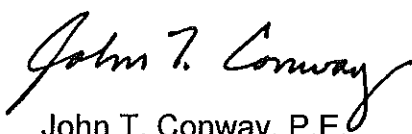
In preliminary discussions regarding rate structures staff has expressed very legitimate concerns about consistently collecting enough revenue to fund utility operations. A problem with our current rate structure is that we are forced to depend on higher usage in order to generate sufficient income. In other words, our rates are built such that responsible fiscal management is at odds with encouraging conservation. This conflict needs to be remedied before we can make substantive progress with our demand side management efforts.

The Water and Light Advisory Board recommends that council direct staff to develop options for conservation rate structures either through in-house efforts, or hiring a rate consultant.

Rates shall:

- be sufficient in quantity and stability to dependably recover the ongoing costs of utility operations
- be fair and non-discriminatory (customers receiving like services under similar circumstances are treated equally)
- be transparent; easy to understand
- encourage conservation and efficiency
- give customers as much control over their costs as possible
- not place an undue burden on those customers least able to pay

With a modern, conservation rate structure, our utility and our individual customers will all benefit through decreased overall system costs and deferred need for capital expenditures, which will keep rates as low as possible for as long as possible."



John T. Conway, P.E.

Chairman

Water and Light Advisory Board