



## **Staff Report**

For City Council Meeting - 10/4/2023

### ***Subject - New Business - Discussion - Water Conservation Pricing Direction***

**Synopsis:** The attached message from Steve Donovan discusses a presentation at the City Council's September 6th meeting on water conservation pricing options. It proposed a system of increasing block pricing with six consumption blocks and emphasized the need to tailor water pricing to local circumstances and legal requirements.

Based on feedback and a review of other communities' pricing structures, Mr Donovan's recommendation is to adopt a more streamlined four-block pricing structure, with pricing changes starting in the third block for consumption from 31 to 50 Ccf. This strategy aims to promote water conservation among Gearhart's customers.

#### ***Council Options:***

- Discuss the program and make a recommendation to the staff to draft an ordinance for consideration at the November city council meeting;
- Suggest another program with different rate structure;
- Do nothing

**Recommendation:** The staff recommends implementing the new pricing structure on January 1, 2024, along with customer education and necessary software revisions.

**Legal Analysis:** Council will need to decide prior to January 1, 2024 whether or not to implement tier-structured pricing, and if so, at what percentage. Water rates will be evaluated annually with changes made via resolution.

**Financial Analysis:** Recommendation is that any water rate changes go into effect May 21st, even if approved in January, so budget season accurately reflects changes for the next year, and so the summer months see the revenue.

Respectfully Submitted,

Chad

# Memorandum



**To:** Gearhart City Council  
**From:** Steve Donovan  
**Cc:** Chad Sweet, Justine Hill, Peter Watts  
**Date:** September 12, 2023  
**Re:** Water Conservation Pricing Staff Recommendation

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## Background

At the City Council's September 6<sup>th</sup> business meeting, I presented a range of options concerning water conservation pricing. At the conclusion of my presentation, I left the Council with the following two key policy considerations concerning conservation pricing:

1. *The number of consumption blocks in the water rate structure (i.e., increasing block pricing)* - With increasing block pricing, the rate per unit of water increases as the volume of consumption increases. Customers face a low rate up to the first block of consumption and pay a higher price up to the limit of the second block, and so on until the highest block of consumption. At the highest block customers can use as much water as they desire, but for each additional water unit consumed they pay the highest price in the rate structures. In my presentation to the Council, I crafted an example that consisted of six (6) consumption blocks in increments of 10 hundred cubic feet (Ccf) per block. The sixth and last block covered any bi-monthly consumption over 50 Ccf.
2. *Pricing* - Water pricing can reduce demand by providing an economic incentive for customers to conserve water. Many water suppliers in Oregon and the nation have established rate structures to incentivize water conservation. However, There is no one-size-fits-all approach to rate-setting, let alone setting rates that promote conservation. Conservation water pricing must be carefully tailored to local circumstances to be effective. Further complicating rate-setting, the Council must carefully construct and document their rate structures to comply with constitutional limitations that differentiate "fees for service" from "taxation".

## Analysis

With the benefit of feedback from the City Council and review of conservation pricing structures of other Communities in western Oregon, I have concluded the Council and its water customers would be better served by a more compressed block pricing structure consisting of four (4) blocks as follows:

Consumption Block (Ccf)	Block Description	Summer '22 Observations	Current Price \$/Ccf	Block Pricing Multiplier	Block Price \$/Ccf
1 to 10	Included in bimonthly fixed charge	247	\$0.00	-	0
11 to 30	Base block - no surcharge	265	\$7.41	1.00	\$7.41
31 to 50	Conservation block #1 - 10% surcharge	114	\$7.41	1.10	\$8.15
over 50	Conservation block #2 - 20% surcharge	96	\$7.41	1.20	\$8.89
Total		722			

As the data in the above referenced table shows, I am recommending that conservation pricing starts in the third block covering bi-monthly water consumption from 31 to 50 Ccf. I recommend this block be priced at 110% of the current water commodity rate of \$7.41 per Ccf. Based on the observed July-August 2022 metered water data, this pricing strategy would affect 114 customers or 16% of all observed ¾" meter customers from that period.

I further recommend the fourth block includes all customers that consume over 50 Ccf in a bi-monthly billing period. For these customers, I recommend the block be priced at 120% of the current water commodity price of \$7.41 per Ccf. Based on the observed July-August 2022 metered water data, this pricing strategy would affect 96 customers or 13% of all observed ¾" meter customers from that period.

In my judgment, the recommended water conservation pricing structure is balanced and promotes the Council's goal of conserving water for the benefit of current and future Gearhart water customers.

### **Staff Recommendations**

1. Direct City Staff to implement the recommended four (4) block water conservation pricing structure on January 1, 2024.
2. Direct City Staff to implement a customer education and outreach to inform Gearhart water customers of the new water conservation pricing structure and how to minimize their future water bills through home and business water conservation.
3. Direct City Staff to revise the City's utility billing software to accommodate the recommended four (4) block water conservation pricing structure for an effective implementation date of January 1, 2024.



# INVERTED BLOCK PRICING BASED ON HISTORICAL CONSUMPTION PATTERNS



- Example of how an “inverted block” water pricing structure could work in Gearhart
- One “base block” and four (4) “incentive” blocks

Consumption Block	Observations n	Current Price \$/Ccf	Block Pricing Multiplier	Block Price \$/Ccf
1 to 10	247	\$0.00	-	\$0.00
11 to 20	157	\$7.41	1.00	\$7.41
21 to 30	108	\$7.41	1.10	\$8.15
31 to 40	61	\$7.41	1.20	\$8.89
41 to 50	53	\$7.41	1.30	\$9.63
over 50	96	\$7.41	1.40	\$10.37
Total	722			



Chad Sweet <chadsweet@cityofgearhart.com>

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## Water conservation pricing recommendation for City Council consideration

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**Steve Donovan** <steve.donovan@donovan-enterprises.com>

Tue, Sep 12, 2023 at 10:17 AM

To: Chad Sweet <chadsweet@cityofgearhart.com>, Justine Hill <jhill@cityofgearhart.com>

Attached is a memo from me to the City Council recommending a four (4) block water conservation pricing structure for implementation on January 1, 2024. If this memo works for you, I ask that it be included in the Council packets for their October meeting. Thanks

Steve Donovan

President, Donovan Enterprises, Inc.

9600 SW Oak Street, Suite 335

Portland, Oregon 97223

Voice: 503.517.0671; Fax: 503.517.0672



**Memo to Gearhart City Council on water conservation pricing SJD - September 12, 2023.docx**

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