

In late summer and fall 2008, Denver Water worked with BBC Research & Consulting (BBC), FiSite Research and GBSM, three Denver-based research/strategy consulting firms, to investigate customer response to alternative water rate structures. The findings presented here combine results from:

- BBC's telephone survey with residential customers;
- A survey of individuals accessing Denver Water website conducted by FiSite Research based on Denver Water survey questions;
- BBC focus groups with HOA and office/apartment commercial customers; and
- GBSM in-depth telephone interviews with large commercial, industrial and public sector customers.

The focus groups and in-depth interviews with commercial customers discussed:

- Existing seasonally-based block rate structure with higher summer rates;
- An alternative individualized block-rate plan based on estimated average winter consumption with incremental rate increases for water use exceeding the established estimated average; and
- A "water budget" based on a number of factors such as number of households and optimal water use per square foot of irrigated land for HOAs.

BBC synthesized and reformatted research reports that FiSite Research and GBSM submitted to Denver Water to produce this combined report. Key findings across the combined research include the following.

1. Customers served by Denver Water have a limited understanding of the current water rate structure.

If they review their bills at all, most customers simply review the amount due and total amount of water used when they receive their water bills. It was rare for a survey respondent to report looking at any additional pricing information.

Based on the telephone survey, few residential customers (8%) are able to accurately recall the last price increase. (Denver Water's announcement of a price increase for 2009 was made after this survey was completed.)

When asked about water pricing, just one-quarter of customers correctly note the price per gallon goes up as more is used.

Many residential customers do not know Denver Water is a public agency that is not run to make a profit. None of the large commercial/industrial customers interviewed by GBSM know much about Denver Water or the existing rate structure.

Although HOA customers are familiar with the existing seasonal rate structure, they are unfamiliar with the justification for this system and do not connect seasonal rates with water conservation. Instead, seasonally-based rates are considered to be "revenue generating" tools or a response to "supply and demand."

2. Many customers perceive the current Denver Water rates and rate structure as “fair.”

Two-thirds of customers agree the current cost of water is a fair price to pay; just 19 percent said “no” in the telephone survey.

When informed in the telephone survey that “after a certain quantity of water, the cost of an additional gallon goes up,” 69 percent of customers say this is a fair way to charge for water versus 23 percent who say it is not.

A majority of people with fixed incomes or low household incomes report that this rate structure is fair, although more disagreed than other adults. People who know Denver Water is a public agency are more likely to say the rate structure is fair.

“Fairness” ratings are much higher for Denver Water than for Qwest, Xcel Energy or Comcast Cable among telephone survey respondents.

Few people think they can give input in the Denver Water ratemaking process. Among those who do, only one-half think their input could “make a difference.”

More customers prefer the existing rate structure over seasonal or water budget rate structures according to on-line survey respondents (although some would choose the seasonal or water budget rates and many are also critical of existing rates).

Based on focus groups, HOA customers do not believe current seasonal rates to be fair and prefer some change in rates.

3. Few customers support rate structures that would charge higher rates for outdoor use or for larger yards.

Although residential customers appear to be supportive of a higher price the more one uses, they are unsupportive of rate structures that single out specific types of uses (based on telephone survey results).

- Only one-third of respondents indicate it is more fair to charge a different rate for indoor and outdoor use.
- Only one-quarter of customers support charging more per gallon for people with large yards.

Results are similar in the on-line survey. Reacting to alternative rate structures, one on-line respondent wrote, “Stop making it so complicated – it looks like you are trying to hide something.”

GBSM discussed alternative rate structures with large commercial/industrial customers. No one alternative is preferred by these customers, and they are able to point out unfairness in each. Customers do not want to feel penalized for conservation efforts or for growing their businesses, and they see some alternatives as failing these tests. They also urge Denver Water to improve any communication about rates so that it reaches appropriate decision-makers in their companies.

HOA and apartment/office/apartment customers find individualized block-rate or water budget rate structures confusing, based on focus group results. They also see how these rate structures could be unfair to certain customers or abused by customers seeking to lower their water bills. Keeping rates simple is preferred, and these customers recommend simple, clear messages about rates from Denver Water.

4. There is some support for higher rates among residential customers, especially if it is for additional spending for water system repairs.

The telephone survey tested differences in support for higher rates by the reason given for the higher rates. Three-quarters of customers are supportive or somewhat supportive of increasing water rates to pay for “additional spending to repair and replace water mains and other parts of the water system.”

Customers are relatively less supportive of an increase in the price of water to pay for an increase in water supplies (63% indicate support).

Increases in prices for additional spending to meet water quality standards (69% support) and increases for water conservation programs (66% support) rate between system repairs and increases in water supplies as reasons for price increases.

Even though 95 percent of customers think water conservation programs are important, slightly fewer than 50 percent support increasing the price of water as a way to “get people to use less water.”

Many commercial customers see the potential for unfair effects of rates intended to encourage reductions in outdoor water use.

5. Many people prefer landscapes with at least some low-water-use landscaping.

The telephone survey included a number of questions about current landscaping, landscape preferences and interest in changing one’s landscape if unconstrained by cost. Many customers report at least some low-water-use landscaping in their yards. About 85 percent of customers prefer at least some low-water-use landscaping and almost 50 percent prefer either mostly or only low-water-use landscaping. Higher income customers are more likely to have a preference for low-water-use landscaping.

Those with a preference for low-water-use landscaping are more likely to indicate support for an increase in the price of water to get people to use less water and also are more likely to support a rate increase to pay for additional spending on water conservation programs.

Summary

Denver Water residential customers, in general, believe their current rates and rate structure are “fair.” Customers are not supportive of changes to the rate structure that would single out specific types of water use for higher rates.

Residential and commercial customers, in general, do not appear to favor complicated rate structures. They prefer rate structures that are simple to understand, and urge Denver Water to provide simple, clear explanations of the rates they face.

The explanation Denver Water gives for why an overall rate increase is needed matters to customers — overall system repair and maintenance appears to garner more support than a need to increase water supplies. Residential customers generally support rate increases to pay for more conservation programs but are less supportive of rate increases to encourage conservation. Commercial customers do not understand the link between the existing rate structure and a conservation incentive.

More remains to be done to explain that Denver Water is a public agency not in business to make a profit. A correct understanding of Denver Water appears to influence whether telephone survey respondents report rates to be “fair.” Limited understanding of Denver Water and rate structures is also apparent among commercial customers.