



Municipal Technical Advisory Service  
INSTITUTE *for* PUBLIC SERVICE

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## Charging Water and Wastewater Customers Fairly

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Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](http://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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# Table of Contents

Charging Water and Wastewater Customers Fairly.....	3
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## Charging Water and Wastewater Customers Fairly

**Reference Number:** MTAS-797

Fairness is an important consideration for setting water and sewer rates. No group of customers should be subsidizing another group. The 12-month billing summary for the water department is shown in Table 1 below.

The finance director calculated percentages for each rate classification and made the comparisons shown in Table 2 below.

Since the percent consumption and percent revenue columns in Table 2 closely match within a few percentage points, staff decided that the current rate structure treats customer groups fairly. No structural changes would be needed to the current rates. If expense data per customer group is available it could be included in the fairness test.

The fairness test was repeated for the sewer rate structure with similar results.

**Table 1: Any City  
Water Billing Summary by Customer Class**

	Number of Bills	Consumption (Gallons/Year)	Revenues/Year
Residential Inside	4,000	30,000,000	\$630,000
Residential Outside	1,000	6,000,000	\$163,000
Commercial Inside	100	20,000,000	\$428,109
Commercial Outside	12	4,000,000	\$150,000
Utility Districts	1	12,000,000	\$350,000
Industrial	7	7,200,000	\$176,870
Total	5,120	79,200,000	\$1,897,979

**Table 2: Any City  
Water Usage Versus Revenue by Customer Class**

	Consumption (Gallons/Year)	%	Annual Revenues	%
Residential Inside	30,000,000	38%	\$630,000	33%
Residential Outside	6,000,000	8%	\$163,000	9%
Commercial Inside	20,000,000	25%	\$428,109	23%
Commercial Outside	4,000,000	5%	\$150,000	8%
Utility Districts	12,000,000	15%	\$350,000	18%
Industrial	7,200,000	9%	\$176,870	9%
Total	79,200,000	100%	\$1,897,979	100%

**Note:** Multiple step declining block rate structures are likely to lead to fairness issues. In such rate structures, large volume users are usually found to be paying less than their fair share. Many cities decide on lower water and sewer rates for large volume users, such as manufacturing facilities,

because of the benefits they add to the city, such as jobs. A better approach is a uniform rate structure where the first 1,000 gallons costs the same as the 101,000 gallon.

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