



Water Rate Design

September 2026



How do water rates and rate structures get developed?

- Water utilities use a cost-of-service study to ensure that costs of operating and maintaining the system are fully recovered and costs are equitably shared across customers.
- This study results in a rate structure for each customer class.
- Utilities often apply **declining block rate structures** to commercial and industrial customers because these customers typically **consume water at a lower average cost to serve** than residential users, and the structure helps utilities **recover costs while reflecting economies of scale**.



Declining Block Rate

Declining block rates mean that **the more water a business uses, the cheaper each gallon becomes**. Water utilities use this pricing model for commercial customers because it is cheaper and easier to supply water in bulk to one large factory than to hundreds of individual homes. Here is a breakdown of why this happens:

1. It is cheaper to build pipes for one big customer

- To send water to a neighborhood of homes, the water company must build and maintain a massive, web-like network of small pipes under every single street.
- Big businesses, however, usually connect directly to the city's **giant water highways** (called trunk lines). Because the utility company does not need to build miles of neighborhood plumbing just to serve them, the overall cost to deliver each gallon of water is much lower.

2. The "Buy in Bulk" discount: Water utilities structure their bills into "blocks" or tiers:

- **The First Block (Expensive):** The utility charges a high rate for the first chunk of water. This ensures the utility covers its basic costs, like running the water treatment plant and maintaining the main pipes.
- **The Later Blocks (Cheaper):** Once those fixed infrastructure costs are paid for by the first block, actually pumping extra gallons of water costs very little. The utility passes those savings onto the business with a lower rate.

3. Balancing the rules

- Utility companies have to fairly apportion costs. By charging businesses this way, they make sure that large commercial users pay their equitable share for the heavy strain they put on the main system. At the same time, giving them a fair bulk rate helps support local businesses and keeps the utility company's monthly revenue steady and predictable.

Commercial and Industrial customers make up only 8% of total customer served, but produce 49% of water revenue MLGW receives
Residential customers make up 92% of total customers served and produce 51% of water revenue MLGW receives



1,000 Bottles of Water to 1 Customer



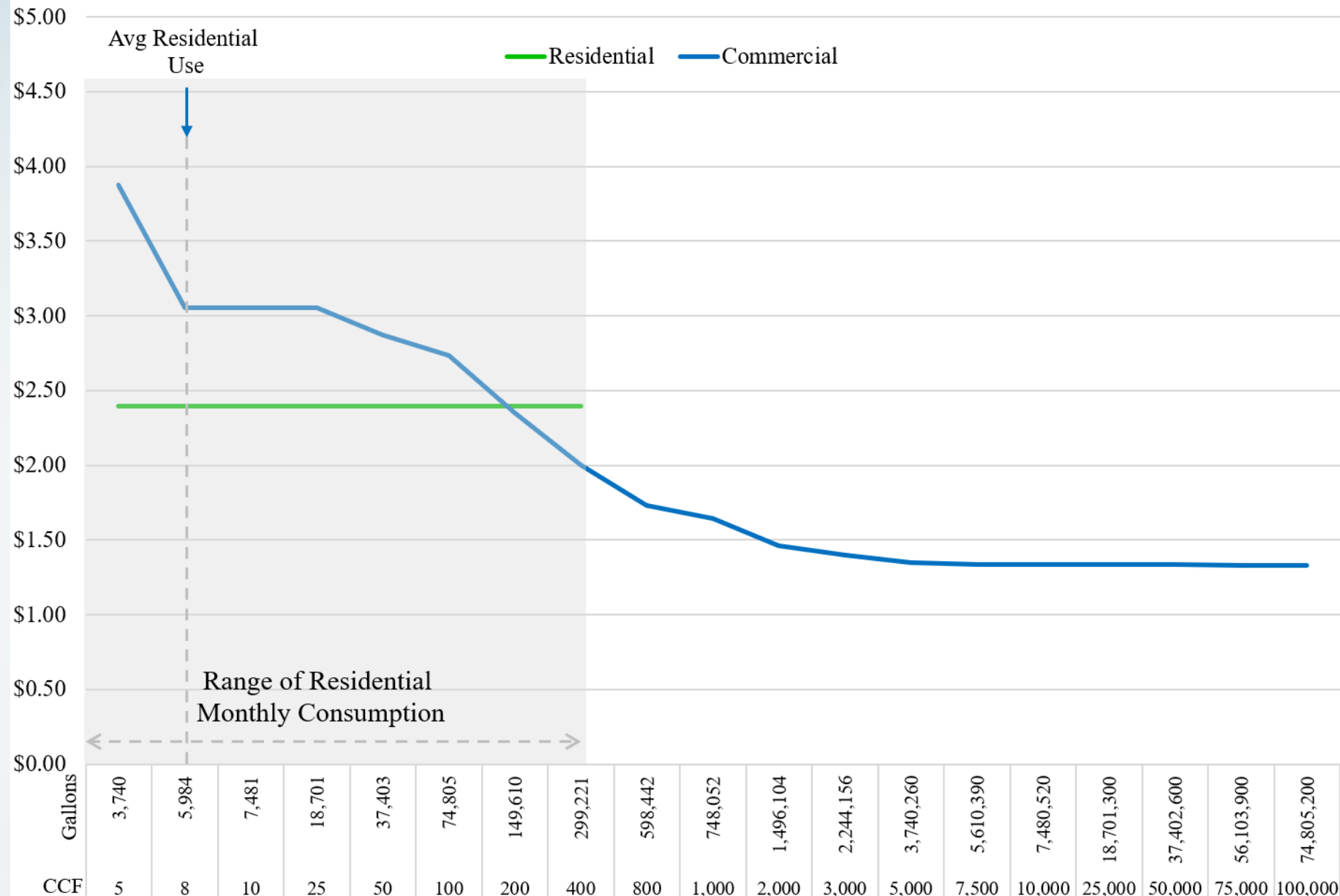
1 bottle of water to each of 1,000 Customers

***Same volume of water delivered,
very different costs to deliver***



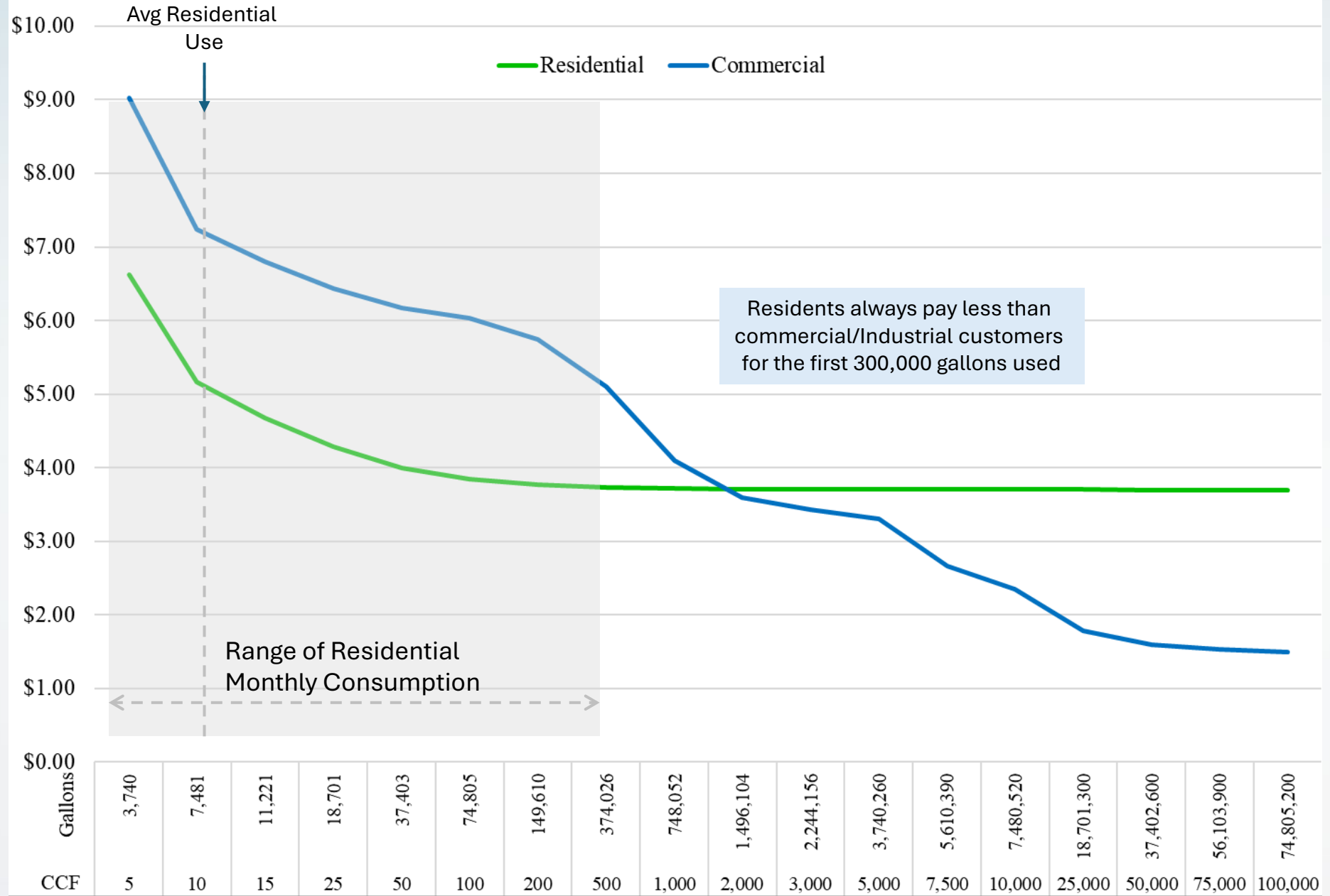


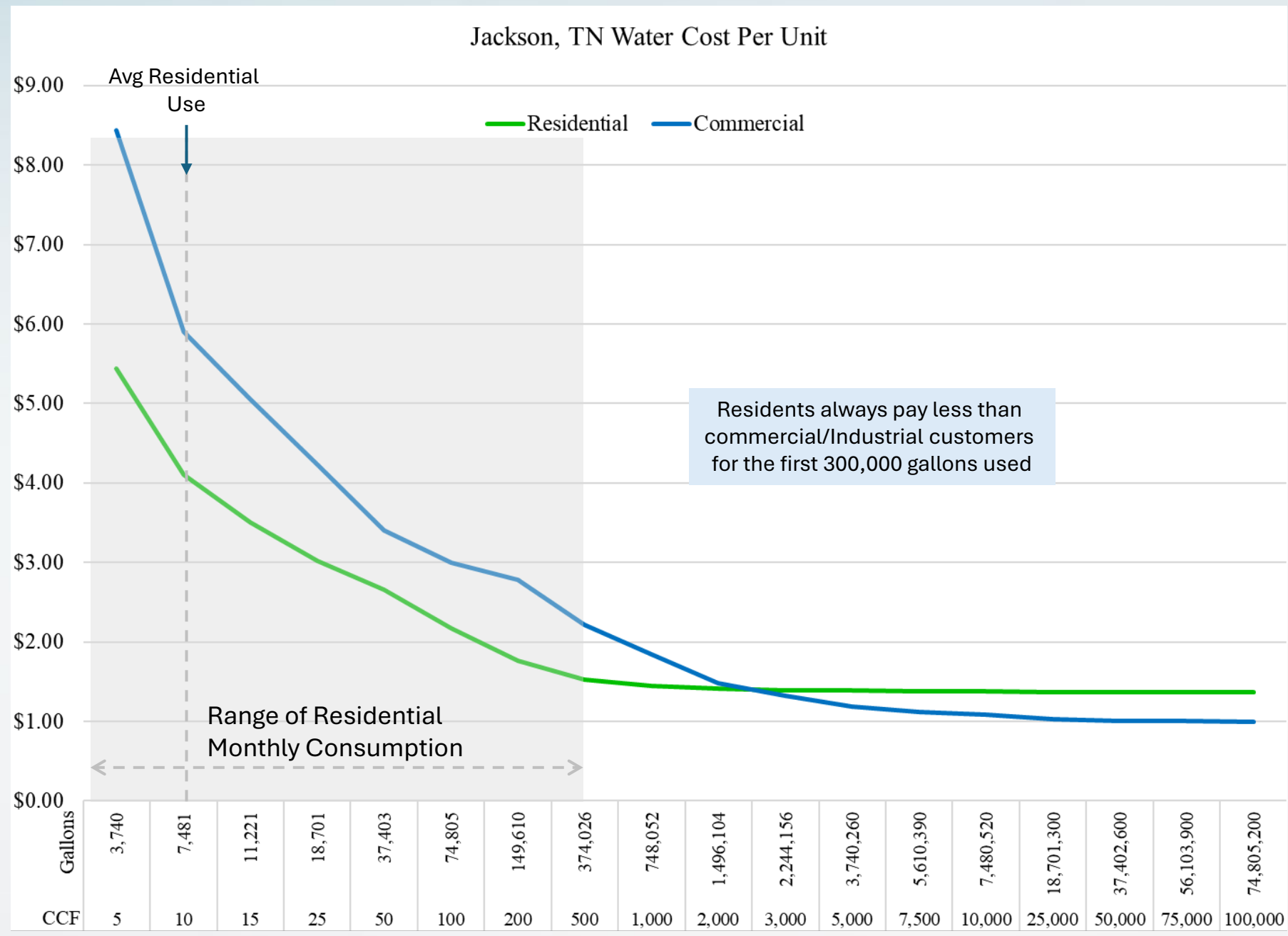
Current MLGW Water Cost Per Unit





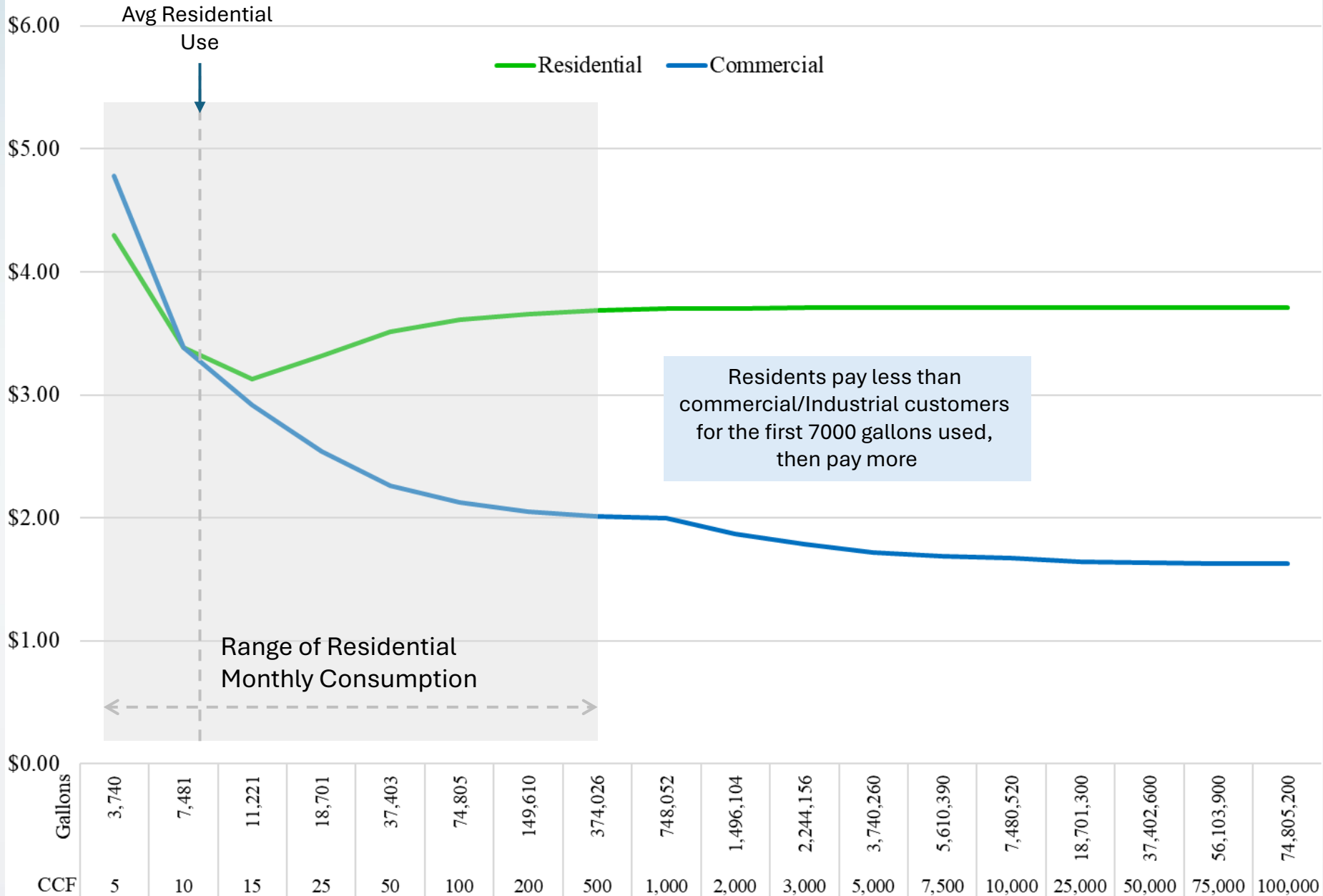
Knoxville, TN Water Cost Per Unit





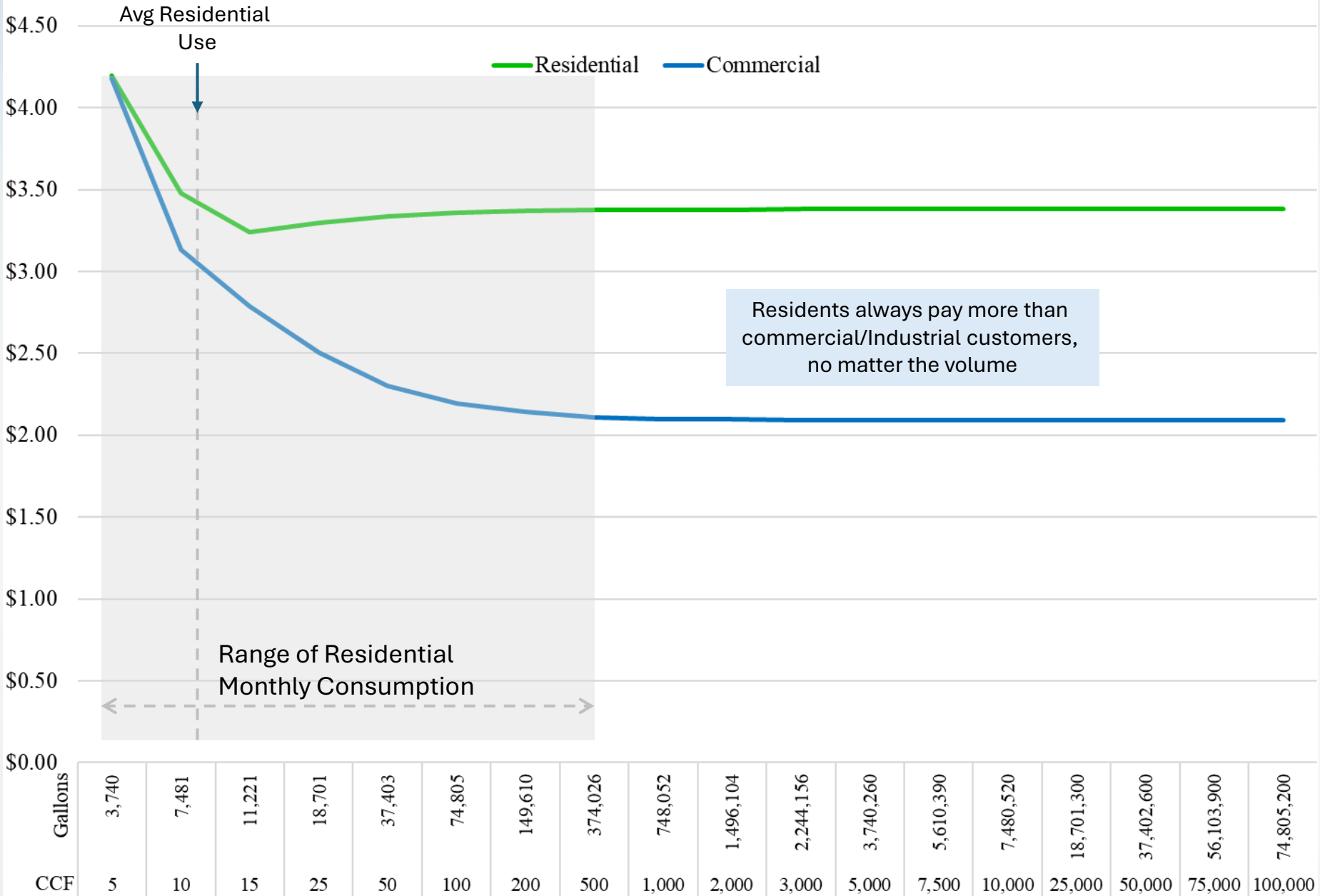


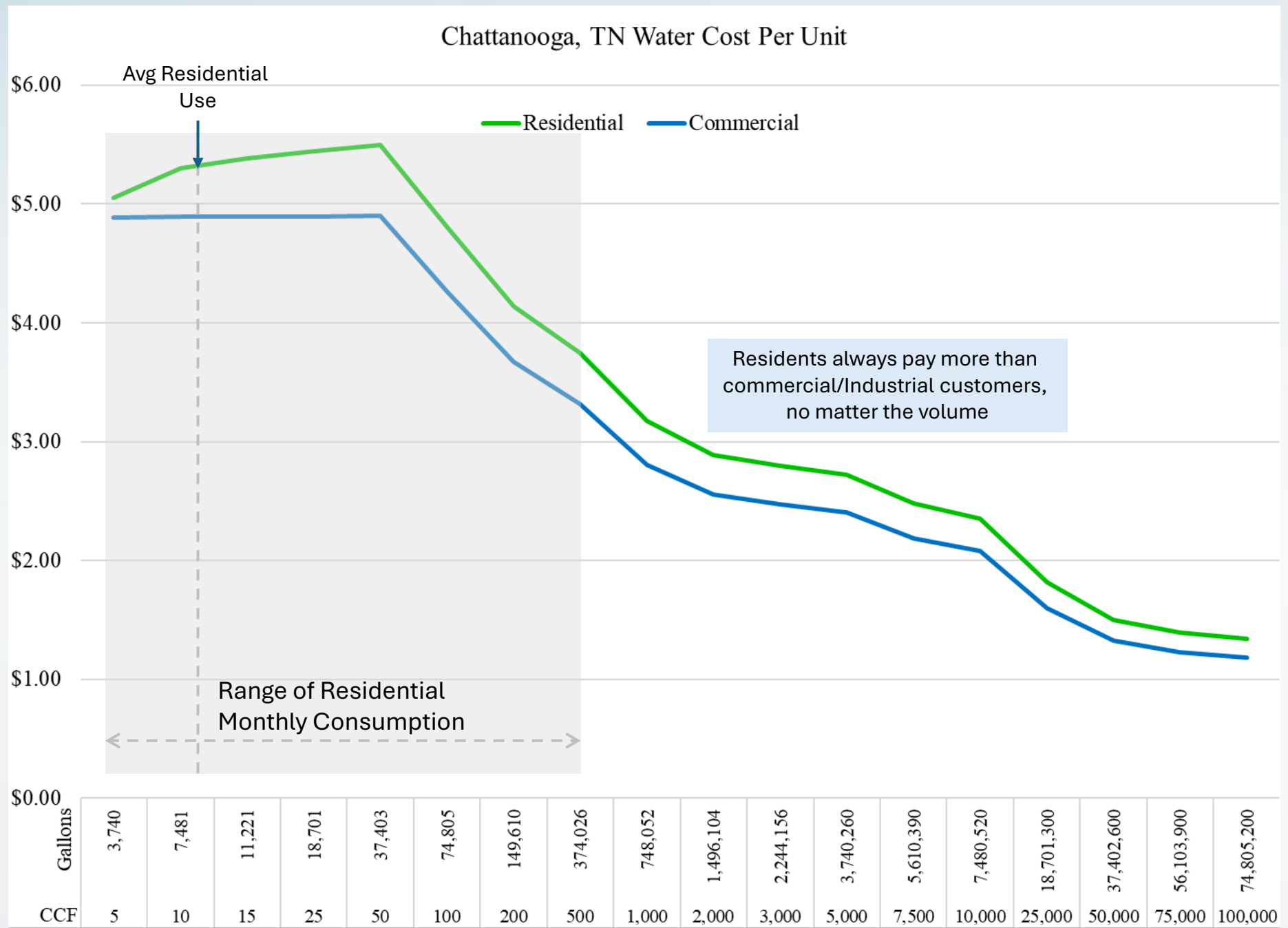
Huntsville, AL Water Cost Per Unit





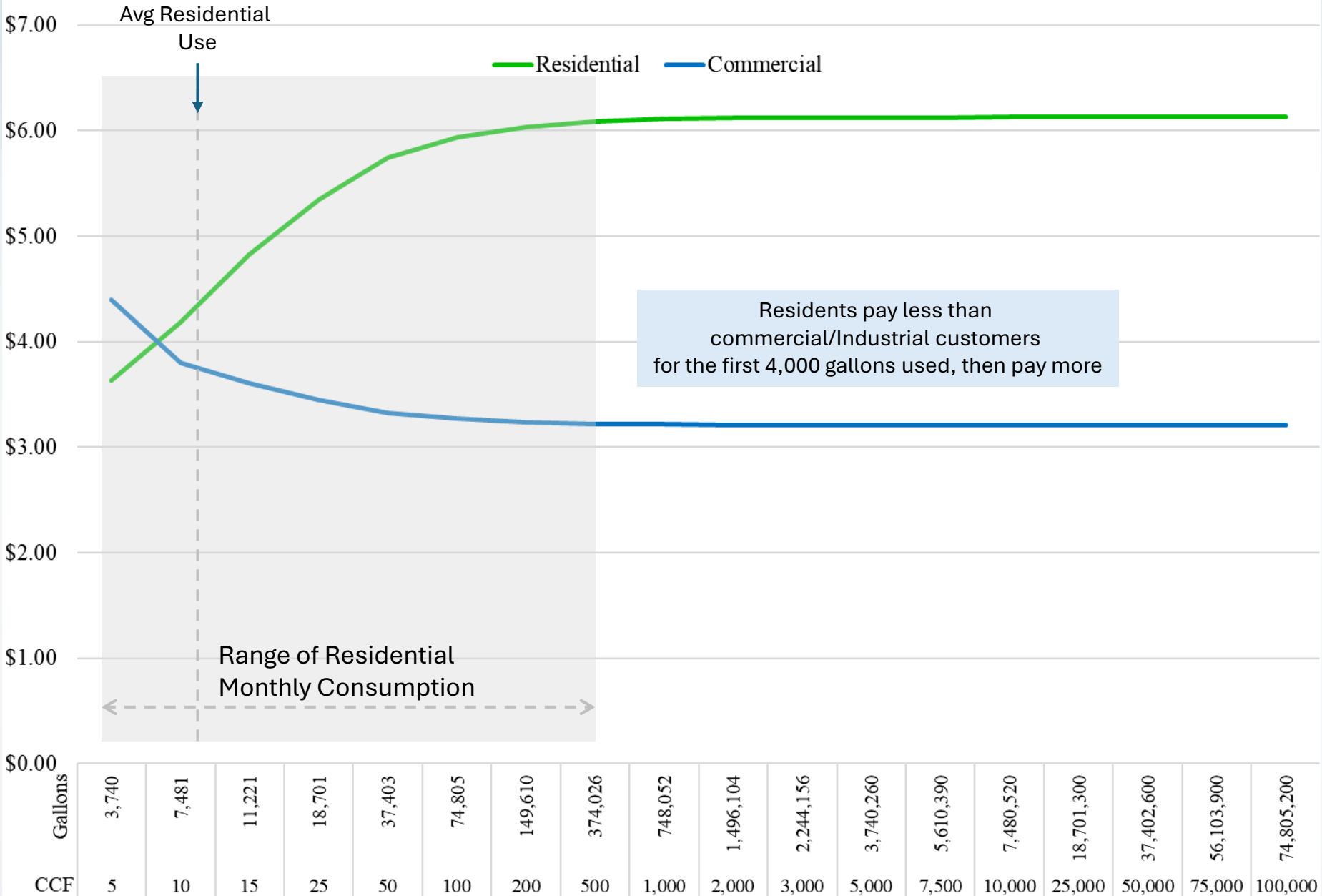
Little Rock, AR Water Cost Per Unit

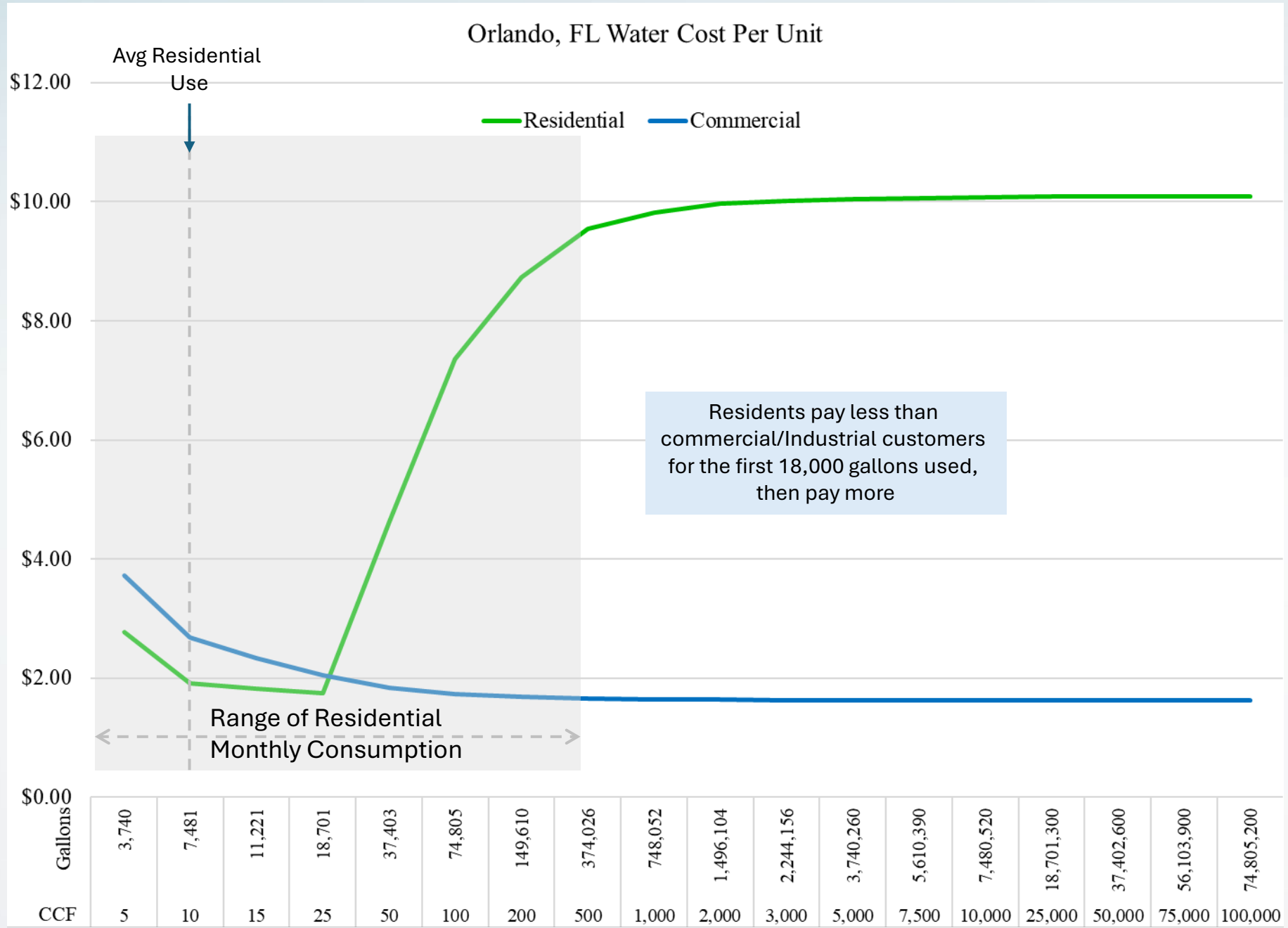






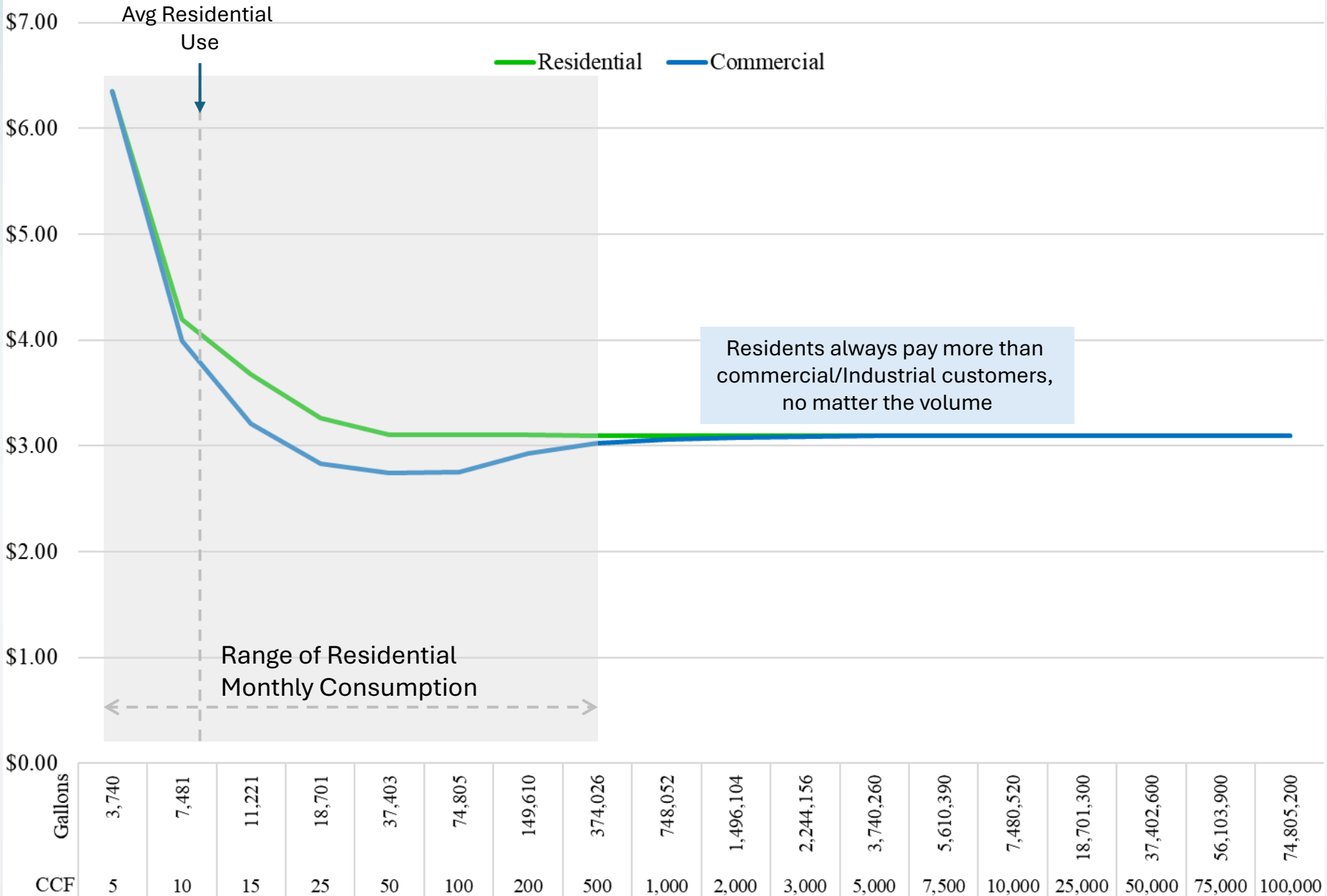
Nashville, TN Water Cost Per Unit





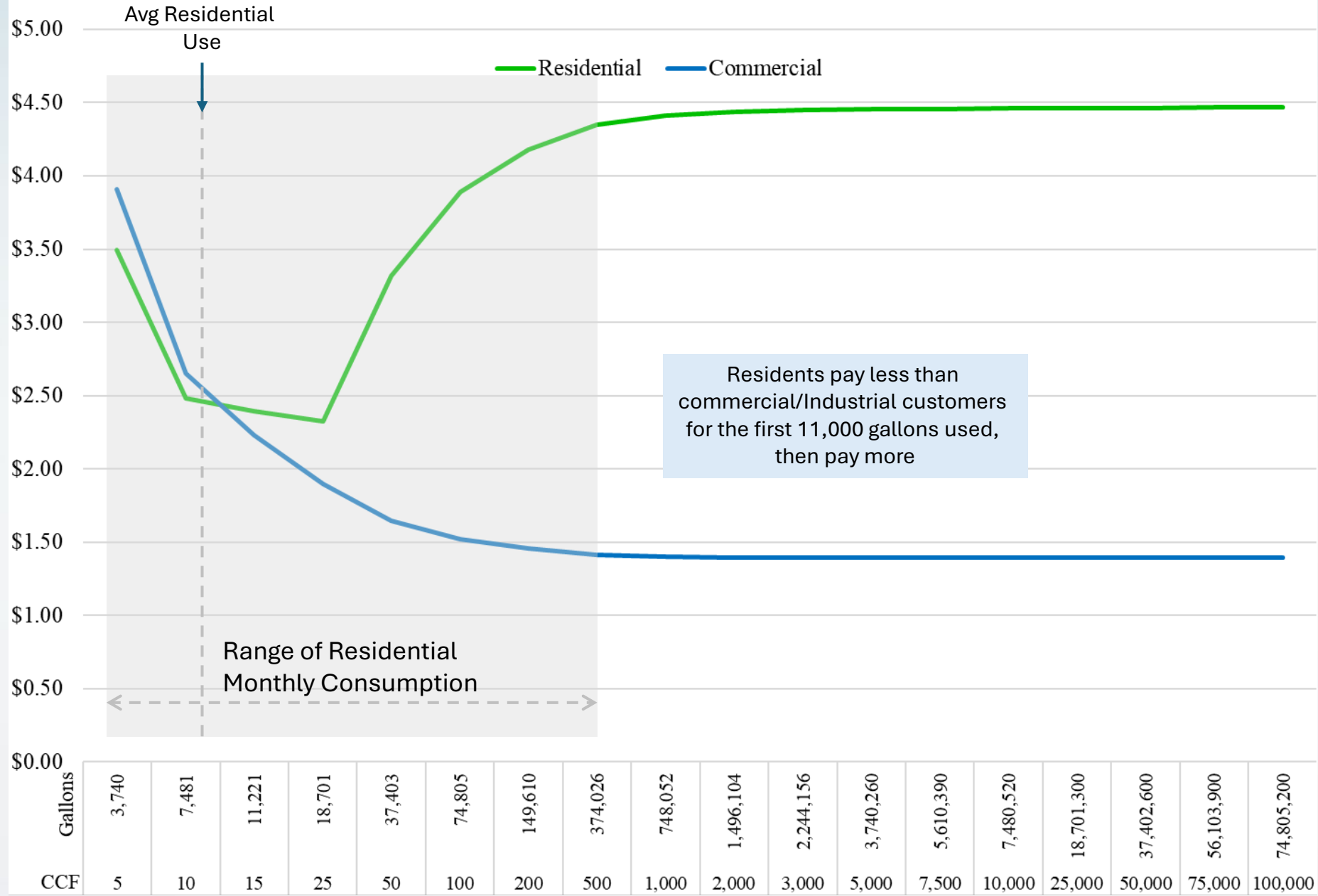


Reno, NV Water Cost Per Unit



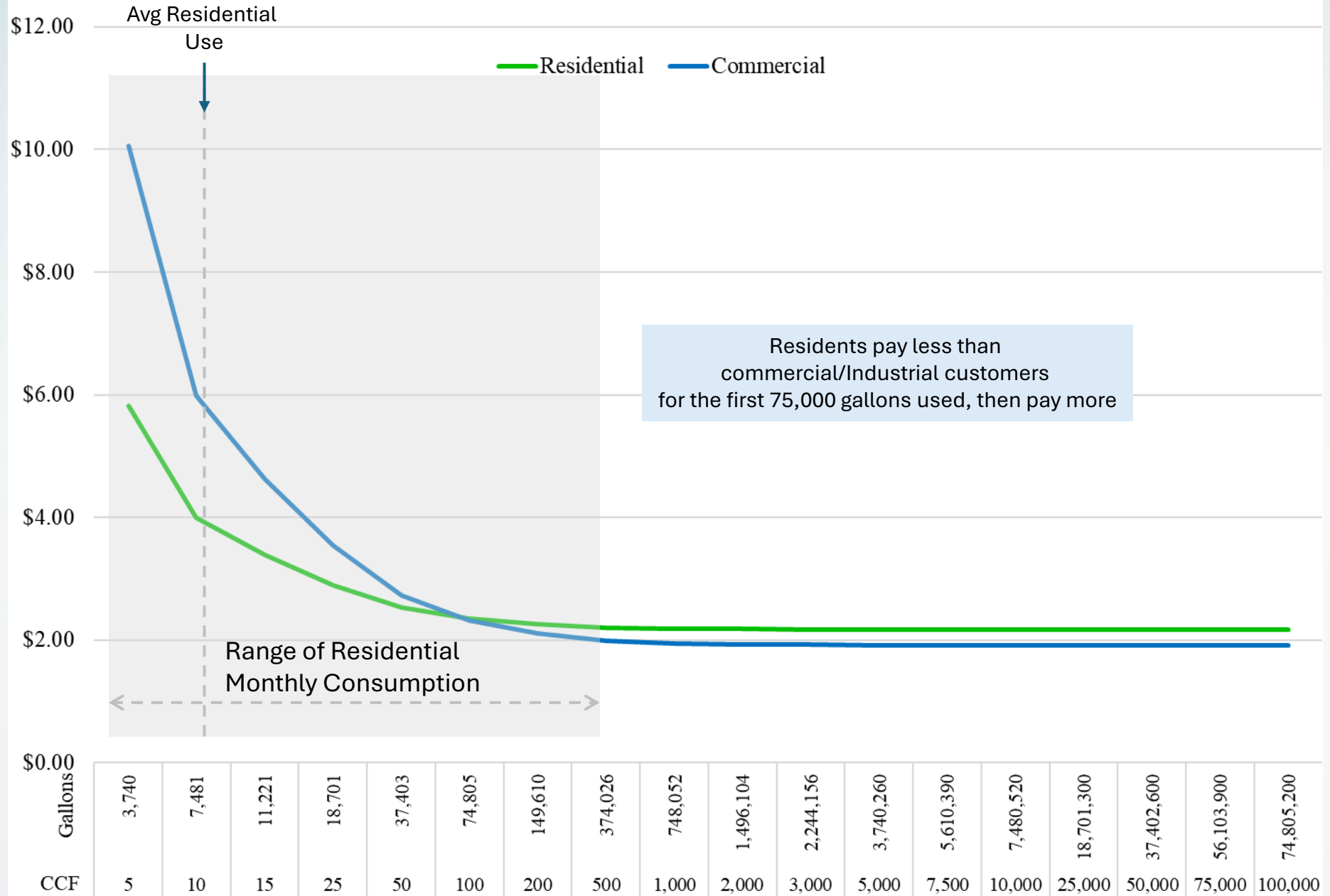


Jacksonville, FL Water Cost Per Unit



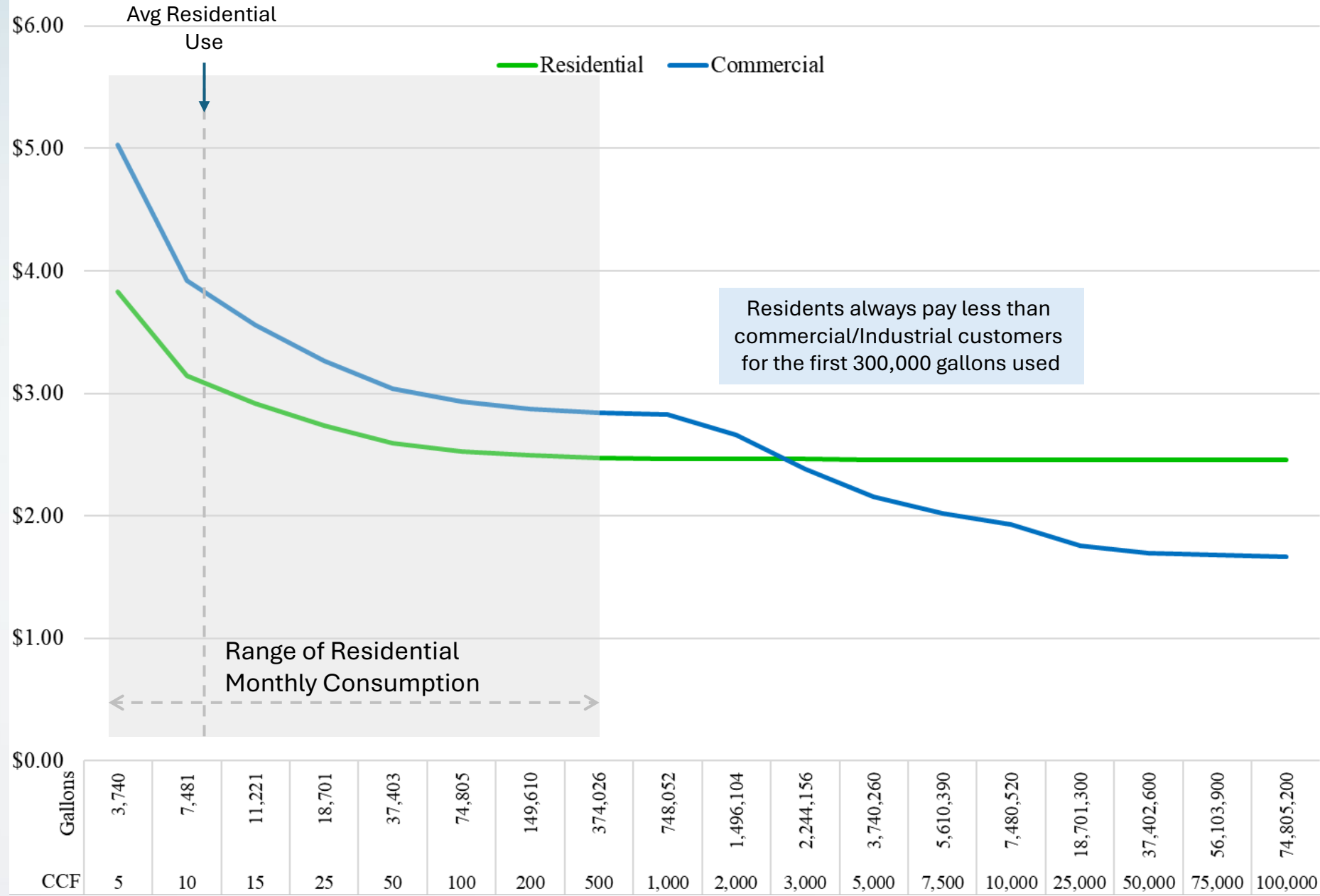


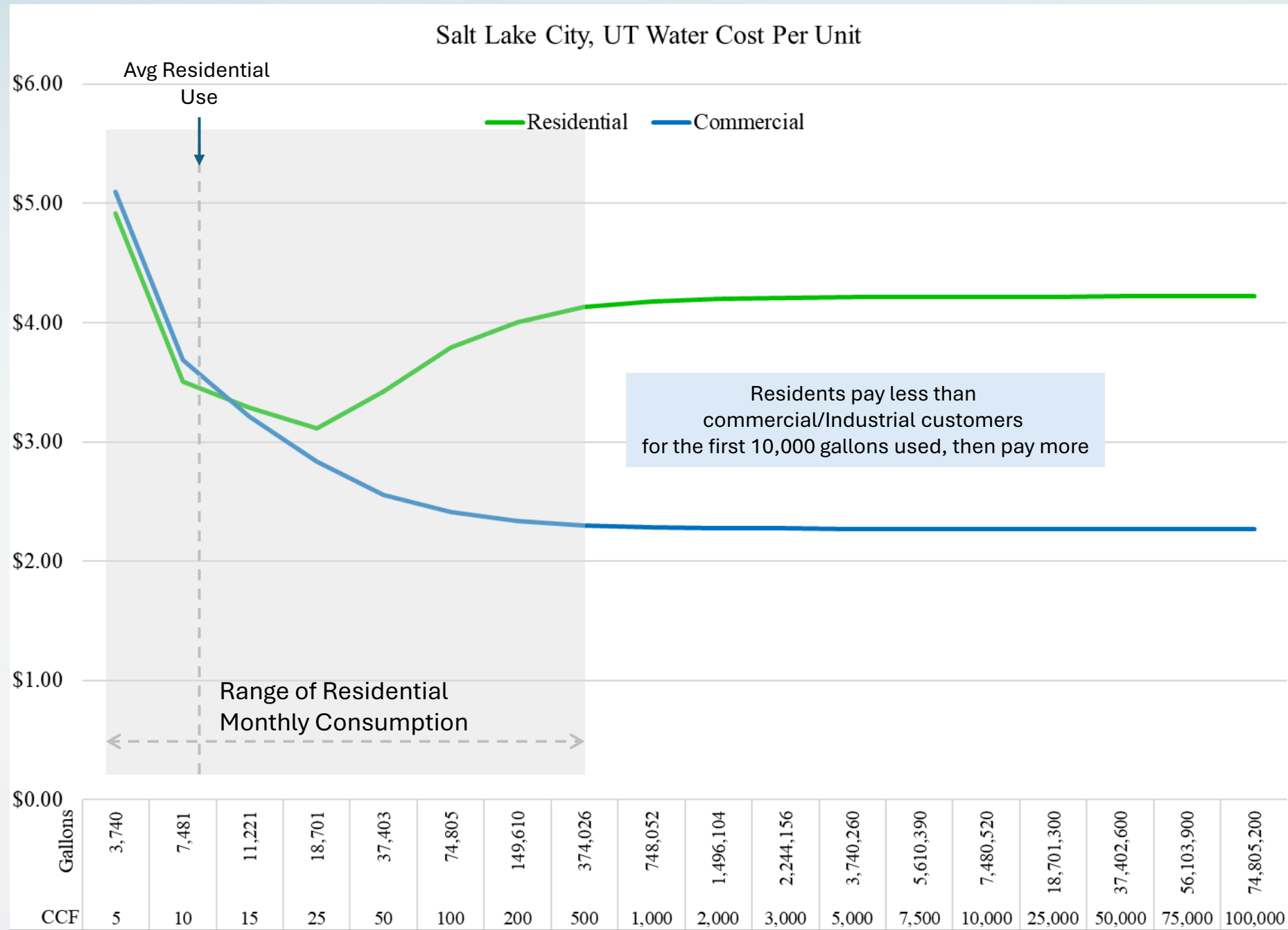
Omaha, NE Water Cost Per Unit





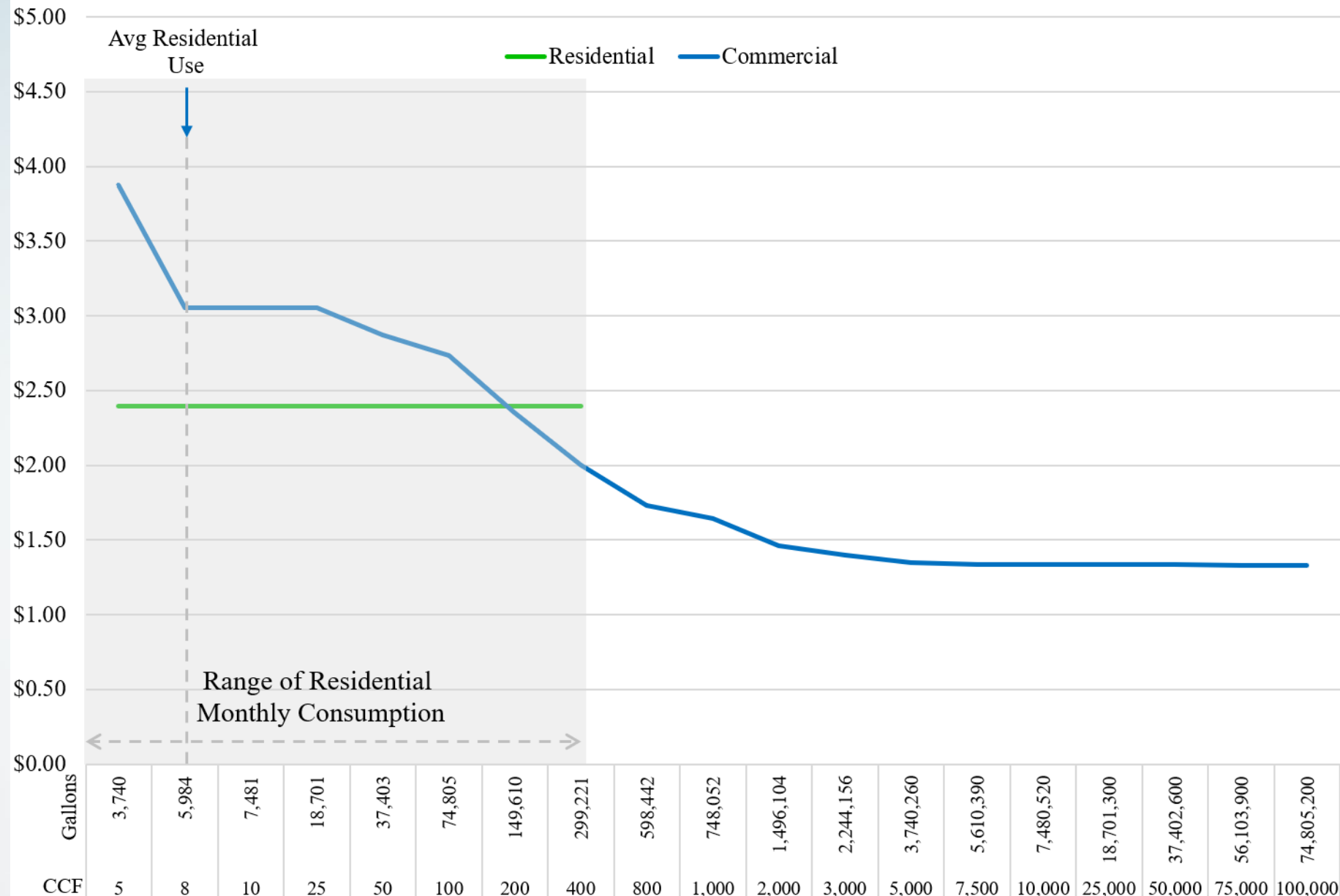
Milwaukee, WI Water Cost Per Unit





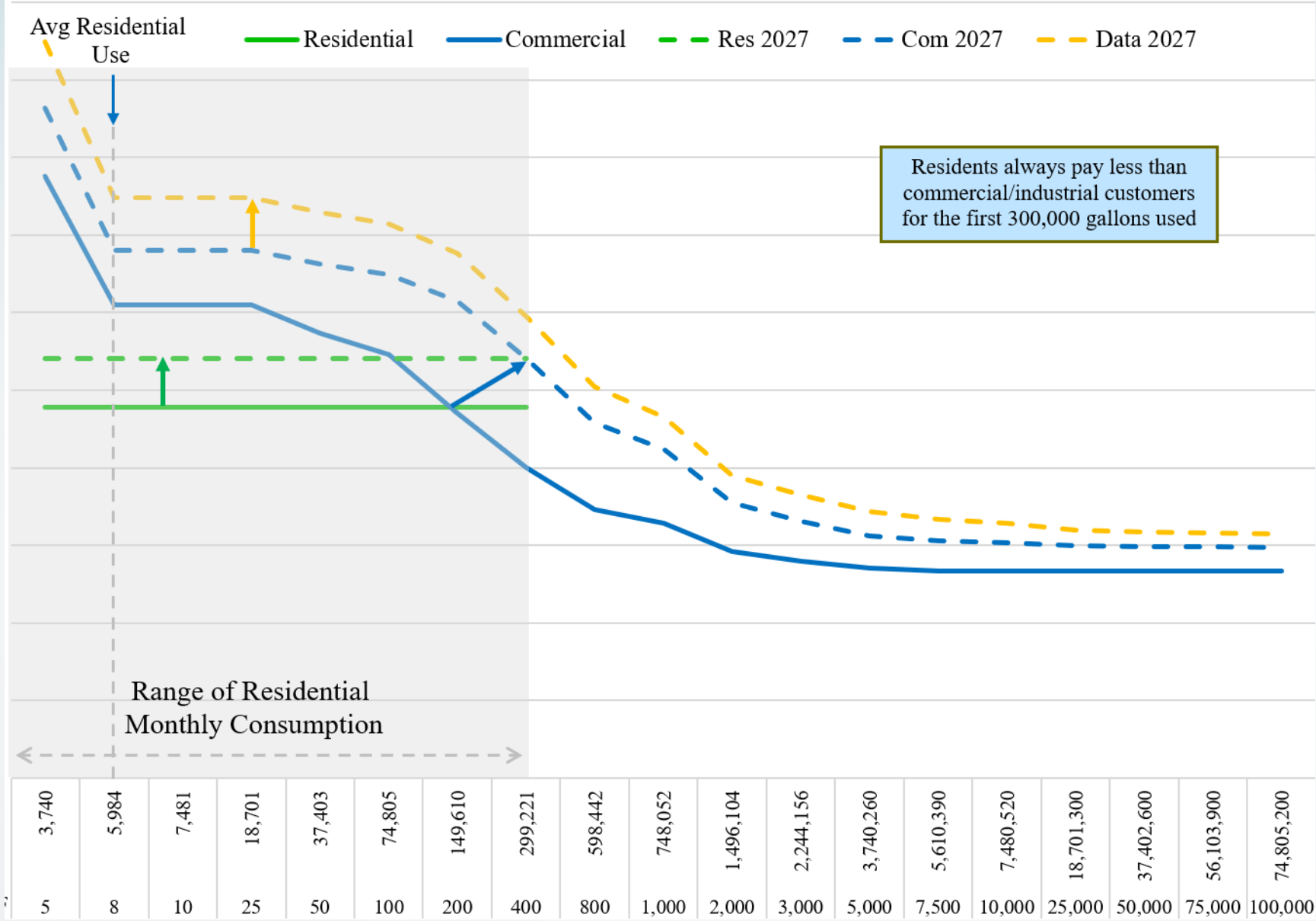


Current MLGW Water Cost Per Unit





Potential changes for 2027





Proposed 2027 Rate Structure Changes

- 3-year rate action in all classes to support needed revenue increase in water division
- Minimize impact to very low residential users by capping the increase to the minimum bill charge (benefits 58,000 customers in Residential class)
- Update the crossover point (200 ccf to 400 ccf) of the Commercial and Industrial (C&I) curve relative to the Residential rate so that *C&I customers will always pay more per unit than every Residential customer*
- Add a new rate for Data Centers