

Rate Design: Attitude Adjustment

Editor's Note: This is the second in a series of six articles on rate setting. This educational effort is one part of the Kansas RATES Program (Rate Analysis and Training for Environmental Systems, accessible at krwa.net/ratereviews/). If you wish to learn more and learn it quicker, you should visit the author's Web site at gettinggreatrates.com/ and click on the "Freebies" link. From there, download dozens of free rate setting articles, guides and tools.

Wouldn't it be nice if, after reading this article, you could crank some numbers into a calculator, arrive at new rates and fees and adopt them next month? If you believe that is possible you have an attitude adjustment coming. To properly conduct a rate study, the reviewer(s) need to know something about how water systems operate.

Before you start entering numbers into a calculator or spreadsheet, you need to sit back and think about your system, its finances and the ratepayers.

The system:

- Is it large and complex?
- Is use growing or declining?
- Is it performing well or poorly?
- Is it up to date on equipment repair, replacement and refurbishment?

Does the system need to change markedly:

- Build an expensive upgrade?
- Enter into a new supply agreement?
- Fend off a lawsuit?

Do operations need to change markedly:

- Do new positions need to be added?

Great rates are adequate, fair and appropriately simple or complex; a simple concept that is often hard to achieve.



Should a water system have cash reserves? Picture this: There you are, in the spotlight, up on the high-wire, over the center ring, under the big top, in your tie-dyed spandex tights. The calliope starts to play. The crowd catches its breath. You pick up your balance pole, take one quick look at the floor far below, no safety net to break your fall. You slide your foot out onto the wire. Simultaneously all of your ratepayers, clutching your waist, slide one foot forward. Your journey to the other landing has commenced.

This is precisely what running a utility without adequate reserves is like. Your ratepayers will tell you, "We don't want a safety net," but trust me on this one, they do.

—"How to Get Great Rates"

- Will treatment be done differently, probably because of a regulatory change?

Finances:

- Is the system "broke" or, does it have completely adequate reserves of several types?
- Are costs going up markedly because of changes to the system or operations?
- Is the debt load high or will the system soon take on new debt?

Ratepayers:

- Are they "rich" or "poor?"
- Are they very uniform users of the service or do some use a lot and others use none?
- Are they very accepting of new (increased) rates or do they want to fight them?
- Do some use the service in ways that could and should be changed (water wasting, late payments) through pricing structures?

The rates you adopt should fit the needs of the system and ratepayers. Rates need to be appropriate.

What Stephen Covey famously advised people to do applies equally to utilities, “Start with the end in mind.” Others have stated in various ways that if you can clearly identify the problem, you are half-way to solving it.

The rates you adopt should fit the needs of the system and ratepayers. Rates need to be appropriate. Once you have a good idea of what “appropriate” is for your system, you can figure out what level of math that will require. If it’s easy math, you can jump right in. If it’s hard math, you better find good help.

Your city council or RWD board and staff – and your customers may need an attitude adjustment in how everyone views the water or wastewater utility.

Utilities are first – and always are “businesses”. Businesses must cash flow properly or they will go out of business. Utilities are not like restaurants, toy stores and tire shops in that, when those businesses go out of business, their former customers either do without or they find alternatives. But if your water utility stops pumping water through its pipes to its customers’ homes and businesses, their water supply alternatives may be poor to down right awful. You owe it to your customers to all but guarantee that once you start serving them you will be able to continue serving them. This guarantee takes a lot of money, planning and execution. You need to bring your customers’ attitudes around to accepting this fact, which leads us squarely to customers.

Customers think the bill they pay is the only important thing. That is because they just assume the utility service

You owe it to your customers to all but guarantee that once you start serving them you will be able to continue serving them.

will continue even without rate increases – surely you can do more with less... again. Fortunately, most customers do not want to spend hours “watch-dogging” you. They have busy lives. But some are prone to distrust you. If it even looks like you have set rates unfairly (too high) to some of your customers, those who have the wherewithal and attitude to sue, will sue. When that happens you will probably win, but even the winner loses.

Finally, the open meetings/open records law can be a pain to comply with. But if you disregard it, your attitude is in for a serious adjustment. Frankly, this law is a floor that you should never even approach. You should conduct your system’s business so openly, fairly and graciously that your ratepayers admire your conduct and attitude.

All of this should tell you that you need to step back and look at the big picture. What does the system need? What do the ratepayers need, and want? What is doable? What are you able to do? The Association can help you do this assessment and there is no charge for the service. It’s all part of being involved and engaged to work with the KRWA team.

If, after this reflection, you decide that the needs of all concerned are simple, just follow “Larry, the cable-guy’s” advice and “git ‘ur done.” The next couple of articles will show you how to do that. The Kansas Rural Water Association can help, too. If the needs are greater, it’s going to take more math and savvy. That will be covered in a subsequent article.

Tune into the next article to learn how to calculate flat rates and their cousins, minimum charges.

Carl Brown is President of Carl Brown Consulting, LLC, specializing in water, sewer and storm water system rate analysis and asset management as well as training nationwide; and GettingGreatRates.com, home of many rate setting tools. Contact: (573) 619-3411; carl@carlbrownconsulting.com



SUPPORT ASSOCIATE MEMBERS

When a city or rural water district needs products or services,

SHOP ASSOCIATES FIRST

For a current directory, with contact, e-mail addresses and Web site information for Associate Members, check out

www.krwa.net (under membership)



316-262-3322
cell 316/655-4959
fax 316/201-1998

Ground Water Associates, Inc.

EXPERTISE IN WATER & WELLS

1999 N. AMIDON ST., STE. 218
WICHITA, KANSAS 67203

ROBERT L. VINCENT, C.P.G., P.Hg.
GROUND WATER GEOLOGIST

P.O. Box 3834
WICHITA, KANSAS 67201