

RATES PROGRAM RESULTS

Are your rates fair and adequate? Analysis of data for 79 utilities shown here should give you some clues. First, a summary.

Your utility needs adequate and fairly structured rates. Fairness must start with classification of a utility's cost-to-serve, one function of rate analysis. Determining adequacy requires cost and revenue projections into the future, another function of rate analysis. One way to gauge the value of rate analysis is to calculate its return on investment (ROI) rate. That is, at what rate the investment – the analyst's fee – generates higher revenues. Through the "RATES Program," each dollar of fees utilities paid for rate analysis increased revenues by \$337. Stated another way, the average ROI was 33,733 percent.

Now, the fuller story.

"RATES" Results

Ratepayers want fair rates. They deserve fair rates. Deliver adequate funding and fair rates and that is a "win" for the utility and a "win" for ratepayers.

\$158,078,835	Projected 5-year Revenue Increase, All Utilities Combined
\$2,000,998	5-year Average Revenue Increase per Utility Analyzed
\$5,932	Average Fee (Cost) per <u>Utility</u> Analyzed
1.80	Average Number of Utilities Analyzed for Each Client (mostly towns)
\$10,650	Average Fee per <u>Client</u> for Analysis
33,733%	Average Five-year Return on Investment (ROI) for Rate Analysis
\$337	Extra Revenue Dollars Generated by Each Fee Dollar Paid to GGR

The Association wants you to have win-win rates and do it economically and dependably. To accomplish that they teamed up with GettingGreatRates.com (GGR). We call that joint effort the "RATES Program."

This is the RATES Program in a nutshell:

- ❖ Association staff do basic rate calculations and rate setting assistance for free. Most years that is all you need.
- ❖ When the situation is more complex, and with your approval, the Association would refer you to me for needs scoping and a proposal. Our rate analysis work is not free. But Association member systems get a 25 percent discount off our regular fees. Our regular fees are usually in the lower third of our comparable competition, so it is likely that going through the program will get you this service for cheaper than the next best alternative.

Consider the following data, as of June 30, 2020.

Table 1 summarizes the results of GGR rate analyses where it is reasonable to calculate return on investment (ROI).

- ❖ Line 1, if all our clients follow our rate setting advice and keep it at for five years, they will collectively increase their revenues by almost \$160 million over their current rates. Sure, some have or will fall off the wagon, but our follow-up shows most stick with it pretty well.
 - ❖ Two-million dollars is the average per-utility revenue increase over five years. A few comments about that:
 - ◆ On average, five-years is about the useful life of such financial and rate projections.
 - ◆ Fees needed to get the \$2 million averaged \$5,932. Compare that to any other investment vehicle.

Table 2 breaks out extra revenues needed by utility type. All types needed some. Some needed a lot. Consider that data, then move on to Table 3.

The average utility we help has about 3,000 connections. Over the years they have ranged from 90 up to 65,000.

After 330 total rate analyses to-date, nearly half of our clients are second and third timers. That holds for RATES

Table 2: RATES Program Returns by Utility Type

Utility Type	Analyses	Revenue Increases		
		5-year Total, All Utilities	5-year Average per Utility	Annual Average per Utility
Water	38	\$69,160,749	\$1,820,020	\$364,004
Sewer	29	\$59,200,519	\$2,041,397	\$408,279
Stormwater	1	\$2,834,567	\$2,834,567	\$566,913
Electric	3	\$13,307,281	\$4,435,760	\$887,152
Trash	7	\$13,165,660	\$1,880,809	\$376,162
Landfill	1	\$410,058	\$410,058	\$82,012

We feel good about helping those folks, but we are sad it got so out of control. Lawsuits lead to – surprise – a loser, and a bigger loser:

- ❖ Win or lose the suit, the utility will lose ratepayer trust. Trust is valuable.
- ❖ If the plaintiff wins, they will be mad. If the plaintiff loses, they will be madder. Mad customers are bad for business.

The better alternative is to set rates that are demonstrably adequate and fairly structured. You should

make it clear to ratepayers that the rates were calculated fairly. And make it clear to those who still do not like those rates that, while they could sue, they would lose.



The extra revenue for another five years or so is available to pay for things the utility needs.

Program participants, too. That is part of the reason why we have analyzed 81 utilities’ rates through the program but only had 32 different clients.

Now, a downer. Sometimes somebody wants to sue their utility over rates. Or they make threats. It is critically important that rates are calculated appropriately in disagreement situations. To achieve that, we always do our calculations using the same cost-based methodology, regardless of which “side” we are on. We have supported clients in seven lawsuits and rate disputes through the RATES Programs.

Take-home Message

Your utility needs adequate and fairly structured rates. You arrive at those rates through analysis. You do not need analysis very often. Usually, the Association can give you all the rate setting help you need. When you need more help, we are there. When we help utilities, they normally can recover our fee out of their first five days or so of those extra revenues. The extra revenue for another five years or so is available to pay for things the utility needs.

Call the Association. Tell them your situation. They will see to it that you are helped by them, us, or whoever is appropriate.

Table 3: Basic RATES Program Client Data

3,169	Average Connections or Customers Served per Utility
88	Total Utilities Analyzed, Including Non-ROI Projects
40	Unique Clients (Cities, Districts), Including Non-ROI Projects
13	Clients That Have Returned at Least Once, so Far
9	Utilities Where Lawsuits, rate disputes, and Other Situations Where ROI Calculation is Not Relevant
6	Analyses Underway Now

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