

# To Charge, or Not to Charge? (Multiple Minimum Charges)

*Author's Note: I am a rate analyst, not an attorney. I offer no legal advice on this issue. Rather, this discussion is about the fairness of assessing multiple minimum charges versus meter size-based minimum charges.*

It is common practice for water utilities to assess a minimum charge to each apartment unit in a complex, each commercial unit in a strip mall and similar “extra” units beyond the location’s meter.

## Don't Do It!

“Back in the day” when I worked for an agency administering State Revolving Fund loan applications, I promoted assessing multiple minimum charges. In my defense, it was agency policy, so I was just doing my job. But it is an unfair and risky practice.

Still, utilities do it for some logical reasons:

- ◆ More units generally mean (marginally) more costs.
- ◆ Bill calculation is simple.
- ◆ Boosting revenue is the main reason for multiple minimums.
- ◆ In most cases, collecting multiple minimum charges from one customer is a sure thing. Collecting from, say, 100 apartment residents is not.

Multiple minimum charges have their upsides. What are the downsides?

- ◆ They are not fair, and
- ◆ You might get sued and maybe lose.

Ah, the pesky lawsuit issue.

Now, I need to clarify one thing. If the utility’s pipes are plumbed to 100 individual apartment units, strip mall units, or mobile home park pads, and you send a bill to each location, you do not have one owner-customer. You have 100 individual customers. Bill every customer and assess the appropriate minimum charge to each.

But if there is one property owner for the complex, you should plumb to the property owner’s meter and let the property owner recover costs from their renters as they see fit. If a renter does not pay the property owner, that is the owner’s business.

Let us agree, multiple minimum charges are unfair. But is there a good alternative? There are two:

1. Assess a level minimum charge to all customers, or
2. Assess meter size-based minimum charges.

Let’s start with Alternative 2 first. As meter size goes up, the surcharge to the minimum charge goes up. (By the way, you should use the same strategy for system development fees, too.) It is a simple concept, but the math is difficult. Forego the math and you risk a lawsuit. (Ah, lawsuits again.) To get it right, you or better yet, a rate analyst, should do this:

- ◆ Estimate the long-term capital cost of the utility,
- ◆ Estimate the portion of that cost that is associated with peak flow capacity, then
- ◆ Divvy all, or more likely only part of that cost based on the sustainable peak flow capacity of different meter sizes and types. You probably have heard it said, “The meter is your cash register.” Meter-based minimums are yet another use for the cash register.

This structure requires each customer, regardless of meter size, to pay one share of basic fixed costs – billing, administration, that sort of thing. The smallest sized meter would also pay one “share” of capacity cost as a surcharge to the basic minimum charge. But a big meter with, say, 25 times more peak flow capacity than the small meter would pay 25 shares of capacity cost as its surcharge. (Share proportions for a few meter sizes are shown in the following table.) Thus, the full minimum charge for a four-inch meter usually comes in at four to ten times higher than the charge for a small meter.

This structure is mathematically fair. And reasonable cost estimation and accurate distribution of those costs helps you get “buy-in” for those fees. You want “buy-in,” you don’t want lawsuits.

Cost-to-serve calculations and rate structures can get complicated. Thus, I recommend making the rate structure only as complex as required by the customer base and situation. Thus, Alternative 1 is the better choice for most systems.

If the customer base is simple – there are few of them and most are served by small meters – keep the rate structure simple, too. Just assess a level minimum charge to each meter. Do not worry about recovering capacity costs on a sliding scale because that will not net much extra revenue anyway. Just recover fixed costs with a level minimum charge and variable costs with unit charges.

## Two final thoughts

Those who deal with rate setting should learn some basics about it. A good starting place is to read the “Rate Setting Best Practices Guide,” available free at <https://gettinggreatrates.com/Freebies>. And if you do not know that your rates are fair and adequate (hint – most are neither), contact Greg Duryea at the Association to talk about it. If your rates are in pretty good shape, Greg can help you make them better. If they need a lot of work, he will refer you to me and, if you are willing, I will help you through the Kansas RATES Program <https://krwa.net/TECHNICAL-ASSISTANCE/Rate-Reviews>. Either way, we will get you to appropriately fair and adequate rates.

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**AWWA Safe Operating Flow by Meter Size**  
This data is excerpted from Table VII.2-5, page 338, American Water Works Association Manual M1, Principles of Water Rates, Fees and Charges, Seventh Edition. This table calculates the meter equivalent ratio, which is used for calculating peak flow capacity-based minimum charges and system development fees.

Meter Size, in Inches	Meter Type	Maximum-Rated Safe Operating Flow, in Gallons per Minute	Meter Equivalent Ratio (Capacity Shares)
Five Eighths	Displacement	20	1.0
Two	Displacement	160	8.0
Three	Singlet	320	16.0
Four	Singlet	500	25.0