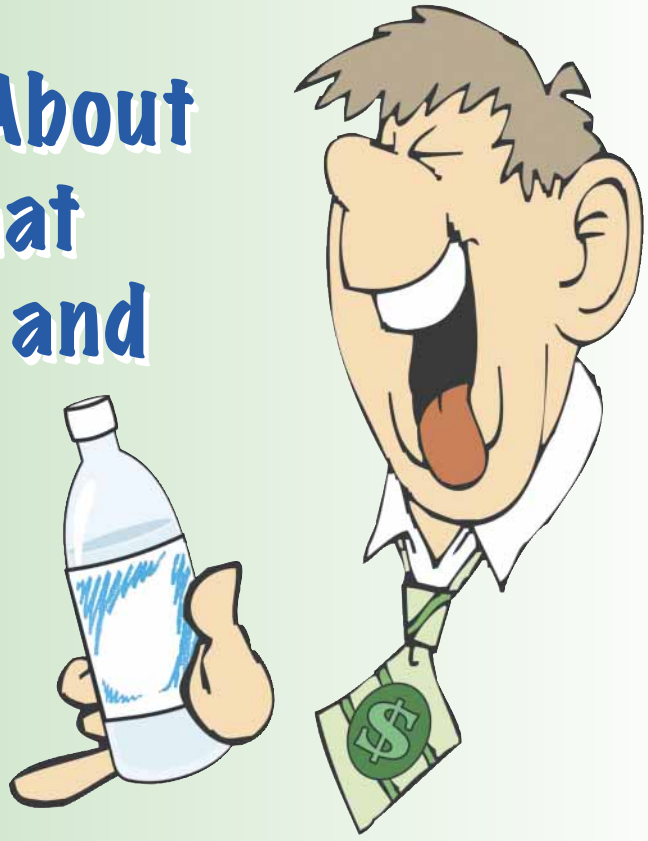
By Linda Windler, Thoroughbred Computer Systems, Inc.

Computer Corner

Did Ya Hear the one About the Water System That Reduced Their Rates and Made More Money?



It sounds like the opening to a joke, but, it's no joke. Some water systems have increased revenue by reducing rates. The tale of one such water district will be revealed the end of this article.

Helping customers with utility billing, as our company does, includes assisting with setting up rates and, when needed, assisting with adjusting rates. The first step is determining how much revenue is required to keep the system financially healthy. And the second step is one of analysis: What to do to meet that goal?

Often the software systems used to calculate monthly bills will also have built-in tools for rate analysis. The built-in tool with all the needed data on current practices is frequently overlooked. Before spending a lot of time and money with outside consultants, one may wish to see if the utility program already in use and chock-full of customer data has such a tool. The software vendor should be able to help with this. There may be ways of comparing what a typical month is currently earning in revenue and setting up scenarios for increasing income by increasing the minimum monthly charge, increasing the usage per unit of water charge, or changing the structure between these two elements. Many possibilities can show what change will bring about the desired result with such analysis.

Obviously, a water system charges for water usage. But, the other thing a system charges for is the availability of water. Some might refer to this fee as a Minimum Charge, Monthly Charge, Service Charge, or an Availability Charge. They all boil down to the same thing; they are charging for the service to be available over a period of time, almost always one month.

Those who refer to this charge as 'Availability' really hit the nail on the head. Without that guaranteed monthly income from each benefiting customer, a city or water district might be hard-pressed to afford the infrastructure that makes water available. A couple living in a small town might announce they will be spending the next three months taking a grand tour of Europe and other stops around the globe. And as such, they may request that their meter be shut off and their monthly billing cease during that time. But, if a water main on their street breaks, even though they are one of those who will benefit by repairing the infrastructure when they return, the city must pay for the repair without that household

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contributing the Minimum, i.e., the Availability. That customer would reap the benefit of the infrastructure that allows them to come home and turn on a faucet to take a nice shower after their journey, even though they, in this example, did not contribute anything to the 'kitty' during that time.

While some towns allow customers to opt-out of being billed with no more trouble or expense than making a phone call to the clerk, others require more official notification. And, to offset some of the city's risk and cost in turning off, locking, or pulling a meter and the administrative effort that goes with it, some towns impose a disconnect or reconnect fee, or both. Such fees can also take a little of the sting out of the example of the world travelers, who, while they are no longer paying into the monthly Availability/Minimum Charge, still leave the city with the expense of maintaining infrastructure that benefits those globe-trotting homeowners. Monthly Minimums are generally established to cover the system's "fixed costs" – such as debt service, insurance, auditing fees, etc.

Kansas water districts have a great system in place, that is the requirement to own a Benefit Unit or membership. Not all water districts in all states operate that way. In Kansas, a district sets a 'buy-in' cost known as a Benefit Unit. It may be set at $1,000, or it may be $4,000 or more. The governing board decides that for the water district. That is not to say that the cost of the benefit unit will be the only expense incurred for joining the water district. But, it is an essential element to the success of water districts in Kansas. The owner of a Benefit Unit agrees to the rules of the water district, including the guarantee of meeting the water district's monthly charges. So, a tour of Europe or not, water usage or not, they will be responsible for their monthly requirement as established by the board. Failure to meet that requirement can result in forfeiture of their Benefit Unit, i.e., the denial of membership in the system and water availability.

While the words 'Availability Charge' do an excellent job of describing what the money goes to, the words 'Minimum Charge' are also descriptive. As it is just that, a Minimum amount an individual will be charged for a cycle, usually a month, for being a patron of the water system for that period. And, whether the client uses any water or not, they will be charged at least that Minimum amount.

The amount varies drastically, but the amount and the name are not all that varies about these charges for time. Some may charge $40 per month Minimum, while others may charge $10. The Minimum Charge stands alone for some systems, entirely separate from the usage. In those cases where the Minimum Charge and usage have NO relationship, each patron will be charged for the Minimum plus for ALL the water they use. In other words, whether the patron uses ANY water or not, they will be charged that minimum amount. But, if they do use any water, they will be charged for the water by measurements of single gallons, tens of gallons, hundreds of gallons, or thousands of gallons.

The point to having a Minimum is that not all the costs a water system incurs have to do with how much people use. The city or the district does not determine how much they will pay their clerk or the maintenance personnel based on how much water is used. The cost of heating and air conditioning the office does not depend on clients' water usage. There are scores of monthly expenses for a city utility or a water district that have nothing to do with how much water people use.

And, then there are those irregular expenses that also have nothing to do with how much water people use. Take a main break, for example. Those costs must be covered to keep the system in service. With that in mind, what is charged for a Minimum must consider how much money must be collected to meet these needs and then divide that by the number of patrons.

No water with the monthly minimum

There are numerous advantages to having a Minimum that does not allow for water usage. If a water system has to go without reading the meters for one or more months during the winter due to freezing conditions, they can estimate the usage and always charge the Minimum. And whether they have estimated low or high, the customer won't be over or under billed in the long run. If the estimate was really high, the clerk might be forced to see that the account gets the same reading, i.e., a Minimum, no usage charge bill, until the meter catches up with the over-read. If the read was too low, then whatever usage

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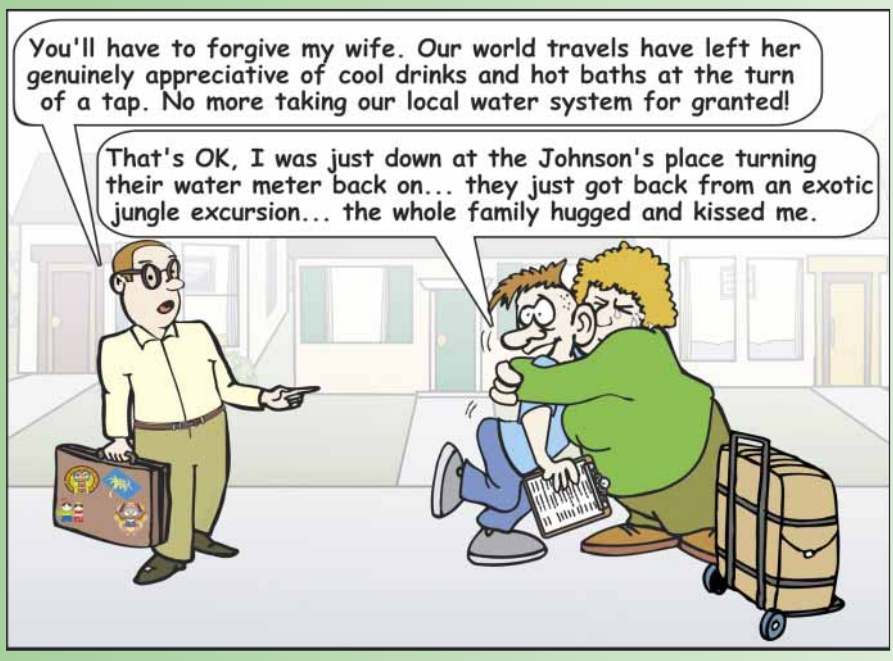

the estimate did not account for in the winter months will be caught up within the thaw allowing a certain amount with the monthly Minimum.

Allowing free water with monthly minimum

Meanwhile, other cities and water districts set a Minimum but allow a certain amount of water for the mandated basic charge. It still holds that if the client uses NO water, they will be charged the Minimum. But, in this other way of structuring charges, the client can use a certain amount of water for no additional cost above the Minimum.

The most common formula is allowing up to 1,000 gallons of usage at no additional charge beyond the Minimum, in other words, not charging any additional money until the person's usage goes beyond 1,000 gallons. Usually, most patrons will use at least 1,000 gallons. Some patrons may even use no water month after month. But in a system that allows up to 1,000 gallons for the Minimum, they will pay the same amount as someone who used 12,000 gallons, one each month, over a year.

When a new patron asks, "How much is charged for water?" and answer can be misleading, "The first 1,000 gallons of usage is $20". A more correct response would be, "There is a monthly Minimum charge of $20 which allows up to 1,000 gallons of usage before the per gallon (or per tens of gallons, or hundreds, or per thousand gallons) charge kicks in. The Minimum, in that case, is $20 and up to 1,000 gallons may be used for free before any additional fees apply.

If they don't use that, they may feel cheated. Even if the customer does no more than grumbles to himself, feeling maltreated, his displeasure may come up as an issue someday when he has a leak and announces, "I shouldn't have to pay anything on this leak; I've been banking water for years by being over-charged!"

These hard feelings run deeper still when the allowed, uncharged for water is set at an even higher amount before charging per usage. While the most common is: one thousand gallons allowed, giving up to two, three, four or even five thousand gallons away before charging per usage is not unheard of. We have even seen those that go up to 10,000 gallons and even a 15,000 gallons given away.

The patron who only manages to use 500 gallons a month in a water system that allows up to 3,000 gallons free with the Minimum may feel abused. After all, the goal of a public utility is to provide good service to the community with rates as reasonable as possible. The utility needs to have an adequate income that will allow the utility to keep up with that good service now and into the future. But unlike the private sector, the idea is not to make a killing. So, the utility is out to serve ALL their patrons fairly and equitably. Suppose that set Minimum rate is set high enough to allow a 'gift' of x number of gallons to higher users over lower. Does that not point to the lower user subsidizing the rest as he may be paying the same amount each month for his 500 gallons as someone else does for 3,000 gallons?

In this day and age of concern about conserving resources like water and energy, it would seem more likely we would want to reward the conservationist rather than encourage those who might tend to be more wasteful.

Back to that wintertime scenario. If a water system allows 5,000 gallons of water for their $35 Minimum, and they have months in the winter where they estimate the bills, if they estimate anyone's bill at less than a 5,000 usage, then that customer may be upset that he did not get the benefit of the free 5,000 gallons. But, on the other hand, if they make a blanket practice of advancing everyone's meter by 5,000 gallons during a cold snap,

then they are likely to end up with accounts with meter readings estimated so far ahead of what the meter is actually reading that when the thaw comes, and they do readings for real, there are scads of new readings smaller than last month's that will need to have months of the same readings entered until they finally catch up.

This creates multiple problems, not the least being trying to figure water loss that has any resemblance to reality.

The fact is that every scenario mentioned in this article has happened, as has the recent story of the water district that has increased its revenue by reducing its rates. In the past, they had allowed 3,000 gallons to be used without any other charge other than the Minimum. This meant that whether someone used no water or carelessly left the garden hose running too long and chalked up 3,000 gallons they didn't even really need to use, the charge to the customer was the same.

This water district knew that increasing the Minimum and the rates again would be controversial. So, instead, they ran scenarios using the tools and the data the utility billing software provided. As a result, they reduced the Minimum and left the charge for water used alone. The only change they made was to eliminate the free 3,000 gallons. Instead of increasing any prices, they changed the rate structure. They chose to reduce the Minimum charge and not change the per usage charge. Instead, they now charge for ALL usage, rather than giving any water away. This made for a more fair and equitable way of serving ALL their customers. The district announced to customers that they were reducing the Minimum, which they did. But now, customers pay for every thousand they use, and the district has improved their monthly income by several thousand dollars, and they are meeting their targeted revenue goal.

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