

The **RATES** Program is Making a Difference



A little more than a year ago, five state rural water associations, including Kansas Rural Water, started up “RATES Programs”. The program’s page can be accessed by visiting www.gettinggreatrates.com and clicking on the Kansas link. I want to take this opportunity to share with readers the return on investment that the communities I worked with in the RATES Program have realized.

For those not familiar with the program, “RATES” stands for Rate Analysis and Training for Environmental Systems. Rate analysis determines where utility rates should be set and periodically reset so they

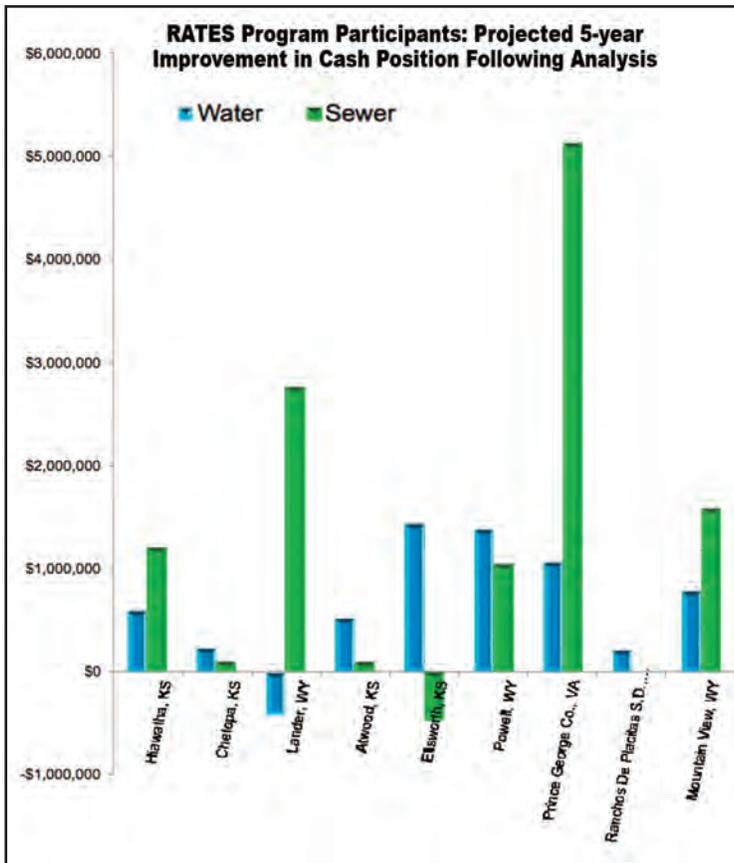
Rate analysis determines where utility rates should be set and periodically reset so they will be both fairly structured and adequate to pay all costs for a long period of time.

will be both fairly structured and adequate to pay all costs for a long period of time. Believe it or not, most water utilities’ rates, and those of many other utilities, are too low and they are unfairly structured. The RATES Program solves that problem.

As the adjacent table shows, rate analyses have been completed for nine cities and districts so far. They have generated some eye opening statistics. What have we learned from the nine completed projects?

- ◆ These systems averaged 1,592 connections.
- ◆ Most had both water and sewer analyzed, for which they paid an average fee of \$9,807. That fee varied a lot based upon the simplicity or complexity of each project.
- ◆ In order to generate the net rate revenue increases indicated, the average rate increase for each customer will be \$21.78 per month. That varies a lot, too.

RATES Program Project Status as of October 10, 2014					
Participant	Users	5-year Improvement in Cash Position		Fees Paid to CBC	Participant's Return on Investment*
		Water	Sewer		
Hiawatha, KS	1,573	\$592,780	\$1,207,225	\$8,894	20,238%
Chetopa, KS	621	\$239,092	\$104,251	\$8,456	4,060%
Lander, WY	3,540	-\$401,135	\$2,755,503	\$13,052	18,038%
Atwood, KS	740	\$524,501	\$101,718	\$9,311	6,726%
Ellsworth, KS	1,133	\$1,429,394	-\$466,386	\$10,449	9,216%
Powell, WY	3,034	\$1,382,820	\$1,049,061	\$9,897	24,571%
Prince George Co., VA	2,998	\$1,065,307	\$5,114,863	\$12,697	48,674%
Ranchos De Placitas S.D., NM	91	\$222,363	NA	\$5,457	4,075%
Mountain View, WY	600	\$784,828	\$1,586,018	\$10,048	23,595%
		\$5,839,950	\$11,452,253	\$88,261	19,592%
Total Gains Over 5 Years:		\$17,292,203			
Averages	1,592	\$648,883	\$1,431,532	\$9,807	19,592%
<p>* Return on Investment is calculated for the five years following the initial rate adjustments. Five years because that is the normal useful life of a rate analysis and then the system should start over. It also assumes each client will increase rates in the out years as recommended. That is usually 4% annually. Inflation is usually assumed at 4%, too, so these two are almost a wash. The amount of increased net revenues came from each rate analysis model that clients adopted rates from or said would be adopted.</p>					



- ◆ Spread over five years, the normal useful life of most rate analyses, it will cost each customer of these systems an average of \$0.10 extra per month to know that their rates are fairly structured.
- ◆ The average five-year increase in net revenues will be \$2,080,415.
- ◆ The average return on investment rate will be 19,592 percent. Beat that Wall Street!
- ◆ The average payback period; the time it will take these systems to get their investments in analyst fees back from the extra net revenues generated by rate increases, will be 1.72 days. That varies a lot. The slowest payback was Chetopa, KS at 8.99 days and the quickest was Prince George County, VA at 0.75 days.

Numbers on a page are good, but it is easier to get a sense of the scale of extra net revenues these systems will enjoy from the adjacent bar chart.

Note that two cities in the chart above actually needed to lower one of their utility’s average rates. Rate analysis is not just about boosting revenue. It’s about fair rates and knowing and proving that they are fair. But when water and sewer revenues are added together, even those cities needed to increase total rate revenues.

Other analysis projects and expert support for rates lawsuits are underway now. Soon they will join the ranks of those with demonstrably adequate and fair rates. Well, not the lawsuit cases – those seem to drag on forever.

It is likely, indeed almost certain, that your rates are generally too low and unfairly structured. You should find out if that is the case and if so, fix it. Contact the Kansas Rural Water Association or the rate analyst to find out if higher and fairer rates are in your future, too. Remember, KRWA provides basic rate analysis at no cost. KRWA has helped many systems make some basic changes in rate structures to help their bottom line. KRWA staff and I all have first-hand experience working with public water systems – and because of those decades of experience, it’s intuitive in just glancing at costs to gain an idea if some of the expenses are realistic, or appropriate. That’s right, in a rate review, we analyze costs first to make sure that the charges being paid are going towards expenses that are appropriate. Again, the RATES Program is about having fair rates and knowing and proving they are fair.

Don’t Forget the Training Part of RATES

The program’s rate analyst will be leading a rate setting roundtable discussion and conducting a rate setting workshop at the KRWA Annual Conference & Exhibition March 24 in Wichita, KS. Attend both and you are bound to learn useful tips about how to set your rates. Conference program materials will be in the mail and posted on www.krwa.net just after January 1. It will do you good to attend.

RATES Program Projects Presently Underway		
System	Users	Analysis Project
Montgomery Co. S.D. #2, KS	1	Sewer rate lawsuit
RAD Water Users, Coop, NM	1	Water rate lawsuit
Crawford Co. Cons. RWD 2, KS	1	Sewer rate dispute
Cody, WY	4,115	Electric
Thermopolis, WY	1,400	Water
Chetopa, KS	730	Electric
Dinwiddie County Water Authority, VA	3,200	Water and sewer
Manhattan, KS	18,000	Water, sewer, stormwater, state of the utilities study

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