

Rate Setting Values

Utilities – water, sewer, electric and others – do things for us. In return, we pay fees or rates to support those utilities. Consequently, utilities should deliver “values” to us.

But utilities are not just machines. Most importantly, there are the people who operate and maintain the machines, those who plan for, and manage the machines, and those who set rates to pay for the machines. And that is just the values starting place.

You, as a utility rate setter, or rates calculator, or services provider deliver values. Strive to make them excellent



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values. Also know there are other values that may not be your “job” to deliver. Somebody else must deliver those. Delivering value is a team sport. Consider these values.

1. Adequate rates: This one is the first among equals. A utility must pay its bills, meaning, be self-supporting and sustainable. In truth, most utilities are not fully self-supporting in the United States. Most have been built with at least partial grant or subsidized loan funding from federal and state sources. And some utilities do not have to be sustainable in the forever sense. Some truly are only needed temporarily. But job one of a rate setter should be to fully fund the utility with available sources, so customers can count on it being there serving them and supporting the investments they have made in their homes and businesses.
 - a. Asset management: Rates can be calculated and set to achieve lots of outcomes. But if your utility’s assets are not being managed well, rate setting can devolve into “rearranging chairs on a ship that is going down.” Asset management and great rate setting go hand in hand. More on that in the future.

Values? Think Boy Scout and Girl Scout creeds. Those are the kinds of values utilities should strive for.

**What values are you providing your customers?
Make them excellent! That probably will not make
you rich. But it will make your life rich with
satisfaction.**

2. Fair rates: Fair rates are not needed all the time, everywhere and in every situation. Rate setters should set fair rates because it is the right thing to do. Even if they do not want to treat people fairly, fair rates buy the utility public support. Utilities, and governance generally, need public support to achieve sustainability.
 - a. Cost-to-serve rates: Fair rates do not necessarily need to be in a cost-to-serve structure. But if a community is to agree upon what “fair” is, knowing what the cost-to-serve structure would be is a good starting place. If cost-to-serve rates do not place an onerous hardship on difficult-to-pay customers, cost-to-serve rates are the gold standard of fair rates.
 - b. However, sometimes cost-to-serve rates result in quite high bills for difficult-to-pay customers. At some level of payment difficulty, the community may want to give difficult-to-pay customers a pricing break, so they can get the water they need to stay alive and the wastewater services they need to stay healthy. Consider that your contribution to “promoting the general welfare.”
3. System serviceability has two aspects:
 - a. A utility should provide service commensurate with the level of funding it receives. If customers are willing to pay relatively high rates, they should get a high level of service, and vice-versa.
 - b. The other aspect is the ease of operation and maintenance of the system. Hopefully, the technology chosen was quite appropriate for your situation and it was designed and built well. Regardless, operations staff should be able to fine tune it to be quite serviceable. I, for one, have seen great operators do amazing things with their systems – they make them hum.
4. System effectiveness: Utility service should happen consistently at a given level with very few service “outages.” Most of those outages should be on a planned basis to maintain and improve the system, not to fix things that break. Remember asset management?
5. System efficiency: Service should happen with little wasted effort, work, expense, overhead, etc. Effectiveness and efficiency tend to fight one another. Effectiveness should be the primary goal. You must have that. Efficiency should be added to the mix as much as possible. Again, if you are doing excellent asset management, the whole system will be quite efficient.

Above, I ticked off some things that the Kansas Rural Water Association is all about. Call on them not just when things are going bad, but also when you want to make them to go great. And I strive to do my part on the rate setting side.

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*Carl Brown is President of GettingGreatRates.com, which specializes in water, sewer and other utility rate analysis. The firm also serves as the RATES Program rate analyst for the Colorado, Kansas, New Mexico, North Dakota, Virginia and Wyoming rural water associations.
Contact: (573) 619-3411; carl1@gettinggreatrates.com*



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