

Three Things to do Before a Rate Change

<https://www.rcap.org/managerial-financial/three-things-to-do-before-a-rate-change/>

Written by: Jean Holloway

Your water utility needs more money to operate. Costs are rising; there hasn't been a lot of growth in the customer base; everything is just more expensive and the money coming from rates isn't enough. The answer seems simple – raise the water rates and fees. BEFORE you do that, there are three things to do first.

First, examine your collection rate. What portion of your total billing do you collect each period before the next billing comes out? If you are collecting less than 95 percent of what you bill in that same billing period, it ends up costing all those who do pay on time. Delinquency rates of more than five to 10 percent are an indication of less-than-optimum collection strategies and fees. There will always be people who are on every delinquent list, and those aren't likely to change very much. But, if your delinquency rate shows a steady rise over time, chances are you're not charging enough for being late or being disconnected and re-connected. Tighten up on those collection procedures and fees to bring your collection rate above 95 percent.

Second, take a look at the amount of water for which you aren't getting paid. A small system doesn't need a fancy water audit to determine whether it's losing billable gallons. A few calculations and estimates can give a pretty close indication of whether there is a problem. Compare one year's water production records to one year's billable gallons records. There will certainly be some difference because, after all, water pipes always contain some water at any given time. But if that difference is significant, more than 20 percent, start thinking about events during the year that could have resulted in some non-billable water. Did you have a major fire (or more than one)? Did you flush hydrants? If so, how many times? How long did you flush on the average? Did you have any significant leaks that lasted for more than a day? You can estimate how much non-billable water these events used with some simple calculations if you know your approximate flow rates and the duration of these events.

For example, if you flushed hydrants for an average of 15 minutes each and you have 50 hydrants with an average flow rate of 50 gpm (gallons per minute), you can do the math to estimate the amount of water used. Deduct all those estimates from the non-billable total and strive to reduce "unaccounted for" water to around or below 10 to 15 percent of total water produced. Anything above that is wasted treatment costs for water that isn't bringing in any revenue.

Third, and finally, if your rate structure includes a gallon "allowance" included in a minimum bill or customer charge, make sure that gallon amount isn't so high that you're giving away water and discouraging conservation in the bargain. The gallon allowance should be high enough to protect any single person household users but low enough to eliminate "free" water. It's best not to include any "free" water at all in the minimum bill, but if you must, keep it to a reasonable level such as 3,000 gallons per month or 9,000 per quarter. Even then it may be beneficial to calculate your minimum charge according to the number of gallons included in that minimum times the rate per 1,000 gallons. Sometimes simply eliminating a gallon allowance can raise revenue enough without the need for an actual rate increase. The allowance is usually just a temporary fix, however.

These three analyses alone may eliminate the need for a rate increase, or at least reduce the amount of the increase that is needed to keep the utility sustainable.

This article was submitted by RCAP's Southeast Region, SERCAP. To learn more about SERCAP visit sercap.org.