

KEY PERFORMANCE INDICATORS

ELECTRIC

Revenue per kilowatt-hour

Comparisons show the average level of rates. A utility should be primarily concerned with rates in its own region. APPA also provides a state summary to each member system so that a utility can compare its average rate levels with each individual utility in the state.

Financial Ratios

There is no “right” level for financial ratios. To a great extent they depend on the utility’s financial philosophy, i.e. its attitude toward financing projects (through issuing debt or through current rates), reserve margins and investments. Comparing financial ratios with industry averages shows the utility the effects of its various financial policies.

Operating Ratio

A lower operating ratio means that the utility has a higher percent of its revenue left after paying operation and maintenance expenses. A generating utility - which typically has more debt - would tend to need a larger margin of revenue in order to make principal and interest payments on the debt. A utility’s reserve policies also can affect the operating ratio. A utility’s decision to increase its reserve level – to hedge against fuel price fluctuations, for example – probably would result in a lower operating ratio for that year, as payments to reserves are not expenses.

Net income per revenue dollar

Measures the amount of income remaining - after all expenses, depreciation, interest payments, and taxes - for each dollar of revenue received. This is a difficult measure to compare between utilities because utilities differ in how they treat taxes and transfers to the general fund. Many utilities do not include transfers to the general fund as an expense item; instead they are treated as a return of capital. If a utility categorizes a payment to the local government as a tax, however, it would be counted as an expense. In using this measure, a utility should be aware of its own practices regarding taxes and transfers.

Public power utilities argue that they need to set rates high enough to produce a certain level of net income - that is, at least a small margin is needed for emergencies and unplanned events, or the utility could easily slip into the red for the year. On the other hand, if rate levels are producing a large net income per revenue dollar, the current ratepayers are in effect producing excess profits for the utility. These excess profits may be used to invest in the utility system, and the utility should then consider whether current ratepayers are too heavily financing investments that will benefit future ratepayers. If these excess profits are used to make a transfer to the general fund, the utility should make sure that the transfer is at a reasonable level. (See APPA’s report on payments in lieu of taxes for typical transfer levels.) If the transfer is too high, the ratepayers are, in effect, paying for other city services out of electricity revenues.

Uncollectible accounts per revenue dollar

Measures the percentage of earned revenue that is not collected by the utility. If the level is unusually high, the utility should review its collection policies and practices.