

## Quelling the Ratepayer Revolt

By Carl Brown

The “Commentary” piece in the March/April 2010 issue of *UIM* discussed utility resilience. If there is a short list of public services that should be resilient, water utilities must be on that list. What service is more critical than water?

The resilience commentary discussed financing of infrastructure construction with “other people’s money.” Using other people’s money works well (for the user) so long as that money keeps flowing, but it puts the utility in jeopardy. Future cash flow from the federal government is starting to look risky, at best.

Any discussion of utility resilience must lead to a discussion of user rates. In case you missed it, ratepayers and tax payers are seething these days. In recent newspaper headlines around the country, water and sewer rate increases have been treated with ... well, let’s just call it “disdain.” If you recently proposed a water or sewer rate increase you may have been named in such a headline. The rate increase made all the sense in the world, to you. To your ratepayers ... well, let’s just say they said “no.” At that point you had a choice to make:

- A. Do the rate increase anyway,
- B. Do a smaller, inadequate increase,
- C. Forget it, or
- D. Do more “education” and try again.

The newspaper article about you probably ended badly because you let the ratepayers or the media frame the argument. That must change.

First, recognize that you are in good company. These stories are playing out all over, at all levels – sometimes fairly, sometimes not. Second, recognize that, while the outcome of your rate increase is in doubt, the story’s ending should not be. Confused? That will pass.

Your rate-setting job needs to include these steps, completed honestly and openly, in this order:

1. Gain consensus (or something close to it) on service and rate structure goals for the system,
2. Determine how the system needs to be run, and what the cost will be, to satisfy the service goals,
3. Determine how high rates need to be set and how they need to be structured to satisfy the already-decided service and rate goals,
4. Make the case to the ratepayers about the required rates, and
5. Adjust rates as “directed” by the ratepayers.

**Step 1:** Before doing any rate setting, discuss with the ratepayers what kind of service they want. It’s going to boil down to: “We want healthful water with good pressure, 24/7.” Still, you can’t just assume that. Your ratepayers need to be involved in that discussion so they can “own” that goal set. They need to know that this kind of service is not a given, it’s a choice.

Also talk about what makes a rate structure “fair” in the ratepayers’ eyes. It probably will boil down to: “Whatever costs each user causes the system to incur, each user needs to pay those costs back.” This one is harder for ratepayers to put their finger on, but they need to be involved.

**Step 2:** Decide how to run the system. This statement sounds strange. After all, wasn’t this issue decided when the decision was made to build the system? Probably. But, you may have to run the system cheaper if your ratepayers really don’t want to

pay the extra cost needed to get good service. Think about what you would have to cut to keep the rates lower.

**Step 3:** Crank the numbers on rates. If a small, inflationary increase is all the system needs and the current rate structure is considered to be fair enough, the system clerk, finance director or manager should do this number crunching. If big rate structure changes are needed, you need help. Such issues typically pop up every few years. By having a specialist do this once-every-several-years analysis, you can assure that it is done correctly and you can assure your ratepayers that you did not “fiddle” with the numbers.

**Step 4:** Make the rate adjustment case. The word “case” is used intentionally. In the minds of your ratepayers, the proposed rates are on trial. The ratepayers are both the judge and prosecutor. A strong advocate (you or your rate analyst) must convince the ratepayers that the numbers are sound, the rates will be fairly structured and they will not seriously harm anyone. In other words, the proposed rates are innocent. If the rate increase is going to be small, there is lots of reasonable doubt so you don’t need to mount much of a defense. However, if the rate increase will be large, you need a rate-setting “Johnnie Cochran” on your side.

Ratepayer reluctance to pay more will happen. You just don’t want it to turn into refusal. When ratepayers say they don’t want to pay more, you need to give them service alternatives that don’t require you to perform utility management magic. Ratepayer refusal takes you back to Step 2.

Assuming your numbers are good and you present the case well, ratepayer reluctance will yield to financial reality. You will not be viewed as a manager run amok because the facts of this business case were out of your hands – it costs what it costs.

**Step 5:** Adjust rates. Using the formula described above, the final step is not difficult. It is even anti-climactic, if done right. If your ratepayers say, “We want healthful water with good pressure, 24/7 and rates that are fairly structured,” you adopt the calculated rates. If they opt for lesser service, you adopt appropriate lesser rates. Pretty easy.

If you are thinking, “It’s not really that easy,” you’re right. There is more to it. Visit [www.gettinggreatrates.com](http://www.gettinggreatrates.com), click on the “Products” link and download the free “Ratepayer’s Survival Guide” to start learning more. And give the guide to your ratepayers – they need it.

- How do alternatives A through D from earlier stack up?
- A will lead to your failure.
  - B and C will lead to utility failure, slowly or quickly. That is certainly not resilience.
  - D will lead nowhere, if you don’t have a destination in mind and the determination to get there.

Follow steps 1 through 5 and you will almost certainly get adequate and fair user rates. Your utility will run well, maybe even resiliently. You will be the focus of no more disdainful articles. And, the ratepayer revolt will be quelled.

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