

IS A RATE STUDY REALLY WORTH THE MONEY?

Consider this example: An older water system has kept its rates low, with no increases over the last 10 years, but inflationary pressure and increased maintenance costs have reduced cash reserves to the bare minimum and the system is barely “breaking even.” Large capital expenditures will soon be needed to ensure a safe and reliable supply of water for the system’s customers. The bottom line is that a significant annual revenue increase is needed, and soon. Additionally, the manager has found that a hiring a qualified consultant to perform a rate study will require a significant amount of the meager cash reserves they currently have on hand. The manager is unsure - rates will already be increasing as a result of the capital expenditures. **Is spending the additional money for a rate consultant justified?**



“A rate study gives you the answers to these questions and a roadmap to the revenues needed for the system.”

The initial cost of conducting a rate study may seem daunting to utility managers or governance, especially for a system dedicated to keeping costs as low as possible and when the solution seems as easy as increasing current rates by whatever percentage will result in the desired revenues. However, much like an iceberg, the most visible benefit of a rate study - the revenue increase - represents only small portion of the benefits that a typical utility receives. These benefits ultimately help the utility deliver what customers want - a safe and reliable water supply at a fair cost with no surprises. **These benefits include:**

Gives You a Plan

A rate study will not just give you a number to plug into your tariff, it will also give you a plan going forward, based on your system’s capital needs over the next five years. Costs to run the system will inevitably go up, and investment in the system - whether cash or debt funded - will be needed. Instead of reactive increases, a rate study provides you with a plan for responding to these cost pressures, helping to avoid large increases that would result in rate shock. **When are increases needed and how much do rates need to increase?** A rate study gives you the answers to these questions and a roadmap to the revenues needed for the system.

Evaluates the Current Rate Structure and Impacts of Increases on Customers

A basic rate study includes an evaluation of your current rates. ***Do your tiers still make sense based on current consumption patterns and best practices? Is the proportion of revenue collected through your fixed charges appropriate, or should they be raised or lowered?*** A rate study will give you the ability to evaluate the impact of potential changes on revenues and your customer’s bills.

Instead of impacts of any proposed increase on a mythical “average” customer of your system, **GDS consultants provide an analysis of increases at the actual usage levels of your system, allowing you to assess what the real effect on your customers’ bills will be and ensures that the increase is fairly borne by all users of the system and no customer groups are receiving unexpectedly large increases.**



Outside Evaluation of your Systems Financial Condition

A rate study includes evaluations of your debt service coverage levels, capital reserves, and other capital needs of the utility and incorporates them into the rate recommendations, enhancing your utility's long-term financial sustainability and ensuring you will meet any internal or external targets needed. In addition to providing more stability, the resulting rates also could potentially allow the utility to obtain lower-cost funding for system projects.

Allows Utility Staff to Focus on Their Jobs...Running the Utility

When you are paying for a rate study, you are not just paying for a report and recommended rates. Having experienced consultants, familiar with what is required, financial modeling of utility systems and analysis of model results keeps your team from spending time away from their other responsibilities at the utility. Many studies we perform require 40+ hours of work from GDS consultants who have extensive experience in preparation of rate studies. Performing in-house studies can take even longer and ultimately cost more than hiring an outside consultant.

Gives You an Expert to Rely On

Rate increases - much like home buying or legal proceedings - can be complex and involve numerous stakeholders, some with differing goals and levels of involvement. In a rate increase, everyone - from boards of directors to utility staff, largest customers to the smallest - will have questions about the process, why any increase is necessary, and what the impact will be on them. GDS consultants help with answering these questions and can assist with messaging around the increase to ensure all stakeholders are apprised of the circumstances and understand why any increases are needed to ensure the safety and reliability of the system.

Additionally, sometimes GDS consultants recognize opportunities related to our other work in the industry, such as potential eligibility for grants or low-cost debt funding through entities such as state revolving funds, or lower cost alternatives for services than the utility is using. Although recognition and discussion of these opportunities is outside the official scope of a rate study, GDS consultants are always on the lookout and raise them with clients when discovered.

Enhances Your Decision-Making Ability

Looking to hire additional field personnel or make a capital investment? Every rate study performed by GDS provides the system with an easy-to-use and update model that can be modified by the utility in order to determine the rate impacts and ultimate bill impacts. These models, provided in Microsoft Excel, remain the property of the utility without any subscription or license needed. In the case more complex adjustments are needed, we are only a call away. ■



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If you have any questions or want to talk to someone about a rate study for your utility, please contact Chuck Loy, in the GDS Austin, Texas office.

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