

FULL COST PRICING

By Randy Hellbusch, Circuit Rider

NeRWA gets many requests from many water systems to assist with rate setting. One of the first things we usually discover is that the water system is being subsidized in one way or another. I am referring primarily to municipal systems. Rural Water systems basically have no other revenue stream to tap into. Very few municipal systems actually rely on water revenues only to run their water system. Funds are many times transferred from another account, i.e. electric, general, etc. Imagine that you are an electric customer in a community, but have no water service. Is it fair that part of your monthly electric bill is being used to subsidize water users? In the current economic climate, these funds historically being robbed to help out the water system are also becoming strained. It is becoming increasingly more essential that all utilities become self supporting. This is where we come to the term FULL COST PRICING.

On the surface, this sounds fairly simple and obvious. Take the annual O&M, plus Debt Service. That appears to be the amount of revenue we need to generate. But let's take a closer look. If we are generating just enough to cover annual operating costs and make our loan payment, what happens when a well goes down, the tower needs painting, meters need replacing, pump controls fail, etc.? In reality, what we usually see is the old: "let's take it out of the general fund, there is money in there!" This approach doesn't show much fiscal responsibility. Every time money is transferred out of another account something suffers, whether it is streets, parks, library, electric; the money transferred usually was meant for another purpose. That isn't the biggest reason for FULL COST PRICING however.

The main point I want to impress on you is that when we look at rates and revenues, we need to be thinking ahead. We need to assure enough money is being generated to cover our O&M costs and Debt, but we also need to look at Sustainability factors. The components of a water system aren't designed to last forever. Many of them require periodic maintenance or replacement. We need to be sure that when that time comes we are prepared financially to keep our system running and that our customers are getting the service and clean water they deserve and expect. Sadly, the good old days of "well, we will just get a grant if we need one" are over.

I have attended many board and council meetings and have learned that one of the hardest things to sell decision makers on is the need for a reserve. I can't count the times I have heard, but we aren't in this for a profit. This is very true, however, if your system needs repairs and the money isn't there to do the work. It is your rate payers who suffer in the end. The general public is much more acceptable to small rate increases more frequently than for a huge jump in rates because the system wasn't prepared and didn't set the money aside. If you would like assistance in being sure your system is generating the proper revenue to remain sustainable give us a call. We would be glad to help.