

A Better Way to Get the Right User Rates

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Rate analysis: a thorough examination of all issues that will affect the system for a substantial period, usually five to 10 years, in order to arrive at "great rates."

Rate study: a set of calculations done to arrive at rates that will be adequate for at least one year. It may or may not include other attributes of a rate analysis.

Rate study is a subset of rate analysis.

Author's Note: The following includes some generalizations. Generalizations are sometimes wrong. They are not used here to disparage anyone. They are used only to educate while using fewer words.

To successfully acquire user rate study or analysis services to fix your rates problem, you need a good acquisition process. Here are some ideas about how to undertake such a process.

The Rates Problem

If you are involved in rate setting for a utility, you should consider its current rates, fees and policies:

- Are they supporting solid reserves?
- Is equipment being replaced and refurbished on a good schedule?
- How will upcoming capital improvements affect rates?
- Is the customer base growing or shrinking rapidly?
- Does the system buy or sell at wholesale?
- Are there rumblings about the legality or fairness of the rates?

In short, can you *prove* that you have great rates—adequate, fair, and appropriately simple or complex? If not, the guidance and data provided by a rate study or, better yet, a rate analysis will help you do that.

How Rate Setting Guidance is Commonly Acquired

Stand-alone rate studies are rare. Most of those are solicited using a process called "Qualifications Based Selection" (QBS) and are awarded to engineers or other professionals. It is certainly not always the case, but it is common for engineers, accountants, and investment bankers, among others, to take on rate study projects as a marketing strategy to get work in their professional field. This can be a good thing for the client if the service provider is also a rate analyst. If not, it can lead to adopting inappropriate rates, fees and policies

A Better Way

Rate analysis is more complete and useful than a rate study but it need not cost more. Therefore, the following refers to rate analysis.

To get a rate analyst, and the right one, you need to use the right solicitation and selection process. Here's the basic framework:

- The would-be client (you) should identify potential service providers **who are rate analysts**. You would not hire a lawyer to design a water tower or a power transmission line. You should not hire a non-analyst to do rate analysis.
- Do not tie rate analysis to other services. If you do, you will disqualify most rate analysts.
- Solicit **identified analysts** by a brief phone call. You should tell the analyst that you want to end up with rates that are adequate, fair and appropriately simple or complex. Also tell them your guarantee requirements (you will not pay them if you are not satisfied). Then let the analyst lead most of the conversation to follow. During this call the analyst will get the information they need to scope the project and make a proposal.
- One or more analysts will propose services and fees.
- Consider proposal(s), diligently call references of the top one or more candidates (no one knows a rate analyst better than their past clients), review guarantees and choose the analyst that best fits your needs.

Other parts of this process are outlined in the booklet called the “Rate Analyst Guide,” available for FREE download at gettinggreatrates.com/ggr/freebies/rag.pdf.

Results You Can Expect

This process is far simpler, quicker, surer, and more personal than the arm’s length strategy of most QBS processes. That befits the nature of this work. It is not designing concrete and steel or discerning the law. It is setting people’s rates. That is personal.

This process almost guarantees that you will get the right rate analyst and the right rates.

Fees you pay will probably be about one-third to one-half those you would pay using the standard QBS process.

Try this improved approach next time. You’ll be glad you did.



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Rate analyst test: Ask them how they make money.

Rule of thumb: A rate analyst earns at least 50 percent of their revenue from rate analysis work.

An Even Better Way

The big problem for would-be clients: few have ever done this before. They have no feel for how to do this successfully and they really only have one chance to get it right. For precisely this reason five state rural water associations have set up RATES Programs.

The RATES Program is a supervised approach to rate analysis acquisition and delivery. Association staff monitors how the analyst (currently the author) prices and performs services. If the analyst is in jeopardy of failing to live up to program standards, he gets fired. Without such monitoring a poorly performing or even a failing analyst or non-analyst can “run amuck,” undetected for years.

RATES Program Results

- Rate analyst acquisition is simple and sure.
- You will be satisfied with the outcome or you don’t have to pay anything.
- You will not be blamed (too much) for the rate increase that is almost certain to come because you don’t want to raise rates, but the analyst says it really is needed.

Visit gettinggreatrates.com/ to see if your state has a RATES Program. And visit gettinggreatrates.com/ggr/testimonial.pdf to read what a recent participant had to say about their experience with the

