

CAUTIONS AGAINST RATE COMPARISONS

There are many reasons why people compare water and sewer rates, fees and charges among utilities and among communities. Customers want to know that they are not overpaying, elected officials want to boast if their communities' rates are relatively low or be able to justify why their rates might necessarily be higher, utility managers use rates as a performance benchmark, economic developers highlight lower rates to attract industries, etc.

While these comparisons all have their merit, there are many reasons why you should exercise caution when comparing rates with your neighbors. All utilities have different operating parameters and these parameters come to bear on the cost of service. For example, some wastewater utilities may face more stringent discharge regulations than a neighboring utility 10 miles down the road. Or, one system may be growing much faster than other nearby systems and must charge higher rates to pay for the growth. Alternatively, a system might be losing customers due to changes in the local economy, which can have a big impact on total revenues. In addition, of course, larger systems will be able to operate under different economies of scale than larger systems. Thus, it should never be assumed that rates are directly comparable in every community.

Problems arise when people assume that all utilities are the same and that they should therefore have the same rates.

In 2006, the Mayor and the Town Manager in the Town of Belhaven, NC, came to a very public disagreement about whether Belhaven's water rates are too high. Their disagreement was over results of recent survey by the NC League of Municipalities and the UNC Environmental Finance Center which showed that, indeed, rates in Belhaven were relatively high to most other systems' across the State. The Town Manager tried to show that when you compare Belhaven to a select group of utilities with similar characteristics, rates in Belhaven were comparable. The Mayor, who was elected on a platform of lowering rates in Belhaven, argued that the Town Manager should compare to all other system and that it is misleading to pick a select group of utilities.

To help demonstrate that rates can vary along with the cost of service in a given community, the UNC EFC developed a set of interactive **Rates Dashboards**

(<http://www.efc.unc.edu/RatesDashboards/index.html>), which compare utility rates across the State. The Rates Dashboards make it easy to compare utilities with similar characteristics such as utility type, number of customers, groundwater versus surface water, etc. More directly, the Rates Dashboards show how utility revenues compare to expenditures so that even if a utility has relatively high rates, if they are still spending more than they are collecting, the Dashboards will indicate a problem. Also included on the Dashboards are a measure of the strength of the conservation pricing signal sent by a particular rate structure and the affordability of rates compared to income levels in each community. At this time Rates Dashboard are only available in North Carolina and Georgia and, shortly, in Virginia, utilities across the country are encouraged to see how their rates stack up to systems in those states with similar characteristics.

Footnotes:

1. "Electric, water and sewer rates debate continues in Belhaven". Washington Daily News. 11 May 2006.