Questions from Rate Advisory Committee Meetings

Consolidated Working Groups

Question asked by: Dana McGinnis

Date question asked: September 23, 2021

Date question answered: October 19, 2021

Question: On the flat revenue projections, it's pretty concerning growing and of course not making any money but isn't it true even on an accounting basis that you can amortize those costs and you need to charge enough so where those new hook ups are actually positive from the first year. Won't it work that way on an accounting basis? So in other words you aren't charging enough for those hook ups if you are just breaking even

Answer: The utility business model is to make fixed cost investments to serve the needs of their customers, and then to recover the cost of those investments over time. It is not realistic to expect customers to make a significant up-front payment to pay for the cost of the infrastructure built on their behalf. Utilities charge customers for the variable cost of serving them each month, as well as a small contribution to the fixed costs of infrastructure. Over time, the utility earns a return on their investment and recoups that investment.

When the system grows to meet the needs of new customers, we do see revenue growth. But that revenue growth is predicated on rates that are almost 8 years old, and the cost of infrastructure has increased. Also, a significant amount of growth can strain a utility's capital structure (i.e., cash liquidity and debt availability).