

New Mexico RATES Program Description

The New Mexico RATES Program is for water, sewer and other utilities.

[GettingGreatRates.com](http://www.gettinggreatrates.com) (GGR), under the direction of the [New Mexico Rural Water Association](#) (the Association), will perform comprehensive rate analyses for utilities (you).

While doing that, GGR will satisfy the performance standards that follow. By the way, utilities that have already used the program are achieving these [results](#), among others.

Through the Program, GGR discounts its regular fees to Association member systems by 25 percent. The regular fees of GGR normally place in the bottom third of its comparable competition. Including the discount, you are not likely to get such a comprehensive rate analysis for lower fees. This is a supervised program. The Association is going to make sure that you are satisfied with the service. Otherwise, the Association will terminate GGR's participation.

Your procurement policy may require you to request proposals from other service providers. In that case, you should use the process laid out in the "Rate Analyst Guide" located here <http://www.gettinggreatrates.com/freebies/freebies.shtml>. The guide includes a model "Request for Qualifications and Proposals" to make the process work better for you.

RATES Program services for your system will be tailored to the needs of your system. But, your project will probably unfold like this:

1. Call the Association, or call GGR at (573) 619-3411, to talk over your situation. If your rates do not need analysis right now, Association staff will take care of you appropriately.
2. If your rates do need analysis now, and you desire it, GGR will scope your

project and propose services. If your system is a member of the Association, you will get the 25 percent discount. (If the utility is not a member, join. The discount will pay for several years of membership. Then you will get a great rate analysis, the discount AND the great benefits of having your system be a member of the Association.)

3. GGR will prepare a service and fee proposal for you, much like the sample attached. The proposal package will also include GGR's references, a sample rate analysis report package and a copy of Mr. Brown's book, "How to Get Great Rates." The book will come in handy in future years as you make inflationary increases and deal with other rates-related issues.

"Comprehensive rate analysis" means that everything that might affect rate and fee calculations, or that might be affected by rates and fees, is considered when doing rate calculations. In addition, GGR uses a cost-based mathematical approach. The resulting rates largely "sell" themselves because the facts are laid out for all to see.

GGR's Credentials:

- Mr. Brown has produced over 250 rate analyses, and counting.
- He has trained thousands of rate setting practitioners.
- GGR models use actual data, not just concepts, to arrive at "cost to serve" rates. If you prefer another structure, GGR does that, too. With real data in the model, almost any structure can be created.

See GGR's [references](#) for more.

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4. To accept one or more services from the proposal, just call or e-mail GGR. Unless you desire otherwise, GGR will use its proposal, your acceptance and the performance standards from the RATES Program as the “contract.”
5. With your acceptance, work will start by acquiring data and information. Most of this is described in the “Data Needs Sheet,” attached. You may not know what some of this data is or how to get it. Do not be concerned. GGR will guide you through everything.
6. Following your desires and using your input, GGR will perform the analysis work.
7. Once the analysis is essentially complete GGR will e-mail you a proposed final report and analysis package. We may go back and forth a time or two until the report suits you.
8. You and GGR will arrive at a final report and rate recommendations, much like the reports on this Web page <http://www.gettinggreatrates.com/freebies/freebies.shtml>. Using the report, you should present rate recommendations to your board or council and answer their questions, if you feel up to it. Otherwise, you should have Mr. Brown do that presentation. Or, it may be sufficient to have Mr. Brown participate by speaker phone during your meeting – whatever works for you.
9. The board or council will settle upon new rates and fees and adopt an ordinance or rule to make them effective. This is called the “initial” rate adjustment. Now you’re off and running with new rates.
10. As the year following the initial rate adjustments progresses, you should track the system’s financial performance. If it performs much like the analysis had predicted, and it probably will, no changes will be needed for the rest of that year. Otherwise, call.
11. At budget preparation time for the next fiscal year, you should compare the system’s financial performance with the projections in the analysis report. If you are on track you should raise all rates and fees incrementally as recommended in the report (so keep it handy). If you are NOT on track, follow Chapter 9 of Mr. Brown’s book to make the adjustments. If you are not sure of anything, just call GGR.
12. Finally, about five years into the future, after several rounds of incremental rate increases, the rate structure will become skewed again. It will then be time to start this process all over with a new rate analysis – Step 1 above – to true up the rates again.

An important part of the RATES program is the “training” piece. Rate analysis only goes so far. YOU must do the work of adjusting rates, developing budgets, planning and executing equipment repair and replacement and planning and executing capital improvements. To help you do these things well, GGR, in cooperation with the Association, will conduct rate setting and related workshops for utility managers and decision-makers. Attend if you can. We think you, and your ratepayers, will be glad you did.

Now it’s time to find out if your rates are where they should be and, if not, what it would take to get them there. It’s time for Step 1 above.

Rate Analyst Performance Standards

As verified by the Association, GGR will serve you to at least the following standards:

1. GGR will copy to the Association all important submittals made to you. This includes at least the following: the service and fee proposal, invoice(s) and the final rate analysis report package. This enables Association staff to monitor the performance of GGR and the RATES Program to assure that you are being well-served.
2. GGR will respond promptly to your requests. Proposals will be offered within one week of request, usually the same day. Analyses and reports will be turned around promptly.
3. If you have specific goals you want to achieve with your system(s), GGR can develop rates to achieve them, if that is actually possible. However, GGR is able to develop appropriate rates for system(s) given no guidance at all, too.
4. Generally, rate analysis work should not be paid for on an hourly basis. Hours worked can be fudged. (GGR does not fudge hours, but some might. It is prudent to not even give a service provider that temptation.) Lump-sum fees cannot be fudged. Therefore, unless you request otherwise, GGR's fees will be on a lump-sum basis for each package of service. For example: \$XX for the water rate analysis, \$YY for the sewer rate analysis, \$ZZ for each visit made to your location to present the analysis results and recommendations, etc.
5. Association member systems get a 25 percent discount on GGR's normal rates and fees. GGR will not "jack up" fees in an attempt to recoup the discount.
6. GGR provides the following guarantee:

"You will be satisfied with our work or it is free."

After 250+ analyses, no client has invoked this guarantee so far.

7. As a part of GGR's proposal to you, the firm will give you copies of one or more rate analysis reports similar to the report you will end up receiving.
8. GGR will provide you with a reference contact list of all clients for the past five years (no cherry picking) with enough information so you can tell which clients were facing situations like yours. This will make reference checking easier for you.
9. Unless you request something different, a GGR rate analysis for you will include the following:
 - o A projection of rates; incomes; costs; capital improvements; equipment repair, refurbishment and replacement needs (R&R); and all other issues that could markedly affect the system's rates and finances. Except for R&R, projections cover 10 years.

Rate Analyst Performance Standards

- Capital improvement projections that include an estimated schedule of when they need to be done, what they will cost in future dollars and how they will likely be paid for, with debt service calculated appropriately. If you have such a schedule, that will be used. If you do not, working with you, GGR will develop one. These capital improvement costs will be incorporated into your analyses and rate calculations.
 - If you desire an R&R schedule (recommended), R&R needs will be projected at least 20 years into the future. If you already have an R&R schedule, GGR will use that. If you do not, GGR will help you develop one. The schedule will include all R&R needs, their estimated costs, inflation of those costs over time and a present value calculation of the annual annuity (savings amount) needed to pay for all of those costs. In plain language, these calculations will show you how much you need to save each year in order to pay for all future R&R needs. This savings deposit will be incorporated into the rate calculations.
 - If future rates will be structured as flat rates (very rare) or “proportional to use” rates, there are options concerning billed volume data. For all other rate structures, rate and income projections will be based upon billed volumes of each customer for each billing period of the test year(s), assuming such data is available from your billing program. That is almost always the case. If such data is not available, GGR can arrive at billed volumes in other ways. The point being, GGR will always use the most appropriate available usage data so the most reliable income projections can be made.
 - Data needs and instructions are more thoroughly covered in the following “Data Needs Sheet.”
10. If you desire, GGR will present its results and recommendations to your board, council or commission, and to the public so everyone can understand why rates and fees should be adjusted as recommended. Quite importantly, GGR will demonstrate how rate adjustments will affect various ratepayers. This demonstration normally shows that the recommended adjustments, usually increases, will not be as hard to absorb as most ratepayers fear. This smooths the way to enabling your utility to serve ratepayers well.

Proposal for Water and Sewer Rate Analyses Dona Ana Mutual Domestic Water Consumers Association Las Cruces, New Mexico

Purpose and Need

This proposal describes the need, responsibilities, timing, investment and other issues for rate analyses (later referred to as “analyses”) of the water and sewer utilities for the Dona Ana Mutual Domestic Water Consumers Association, Las Cruces, New Mexico (later referred to as “you”). These analyses will be performed by GettingGreatRates.com (later referred to as (me” or “I”). To adequately fund current operation of your utilities, build and maintain reserves, fund capital improvements and related debt service, and establish rates that are fair to all ratepayers, you need to analyze your rates and fees, set them appropriately and periodically reset them. The services proposed are intended to support you as you satisfy those needs.

Expected Results

With the completion of the analyses:

1. You will discover at what level your utilities need to be funded to accomplish needed utility development, refurbishment, repair, maintenance and operation, very importantly including coverage of debt payments that will soon begin.
2. You will have the “proof” you need to convince board members, ratepayers and property owners why rates and fees should be set as modeled.
3. You will set new user charge rates and fees that will fund the utilities at the proper level while charging ratepayers fairly structured rates.
4. You will have the “proof” you need to show funding agencies and the lending market why your utilities deserve the grants, loans and loan terms you desire and that your income will comfortably allow you to make debt payments to them.
5. You will successfully comply with your permit to dispense water, NPDES permit and other requirements from the regulatory and funding agencies.

Firm Revenues, Qualifications and References

Firm revenues, qualifications and references are detailed in the document called “Qualifications and References,” attached and available at <http://gettinggreatrates.com/ggr/freebies/ReferenceList.pdf>. The list includes all rate analysis clients since 2009.

GettingGreatRates.com has one office in Jefferson City, Missouri but we operate nationwide. Our work focuses almost exclusively on rate analysis and rate setting. Carl Brown, President will conduct these analyses in their entirety. He has been doing rate analysis work since 1993. For most of that time he has also been teaching practitioners all over the U.S. on rate analysis and rate setting, writing the rate setting book called, "How to Get Great Rates" (I mailed a copy to Jennifer Horton today) and designing rate analysis software.

GettingGreatRates.com serves as the rate analyst for the New Mexico RATES Program <http://gettinggreatrates.com/ggr/consulting/NMRATES.pdf>. New Mexico Rural Water Association (NMRWA) members qualify for a 25 percent discount on all fees.

You may expect your analysis results package to look much like the rate analysis report packages attached and others that can be found at the bottom of this Webpage <http://gettinggreatrates.com/ggr/freebies/freebies.shtml>.

Form of Agreement

This proposal and your acceptance (probably by e-mail message) of one or more service packages is all the agreement I need.

Guarantee

In the unlikely event you feel I am not fulfilling the commitments in this proposal, simply tell me what you feel the problem is. I will do my best to make it right by you. If I still am not able to satisfy you, notify me by mail or e-mail. I will cease the services in question at that point, you will owe me nothing for those services and I will refund any payments you may have already made for those services. This has been my guarantee policy from the day the company was formed. No client has invoked this guarantee to date and I don't plan to have you be the first.

Scope of Services That You May Select or Decline, at Your Option

The following service packages are intended to satisfy your rate analysis and rate setting needs.

- Service package 1 is analysis of your water utility's usage and other fee adjustment needs¹.
- Service package 2 is the same as service package 1 except it is for the sewer utility.
- Service package 3 is for on-site visits². Each visit will be one instance of this service package.

You may add or drop service packages at any time.

¹ This analysis will include output from modeling of your current financial situation and several proposed rate scenarios that depict rate structures and other variables you may want to consider. All potentially productive scenarios that you or I conceive will be modeled and reported to you.

² I generally recommend one on-site visit to present the completed analyses and recommendations and to answer questions at a public board meeting, especially when I analyze more than one utility.

Approach and Timeline

For most of my clients, rate analysis and eventual rate adjustments take about six months from start to finish. Most of that time is consumed by clients taking a long time to gather data. My record completion time was two and one-half weeks for the Town of La Cygne, Kansas. If you promptly send me the required data and information and you quickly make some interim decisions about likely preferred rate structures and such, we can meet your goal of having new rates ready by October 1, 2015. However, I must stress again that you will need to produce data quickly. To accomplish that I suggest you begin now gathering the data and information called for in the attached "Data Needs Sheet."

Rate analysis is an iterative, non-linear process, not describable in a step by step way. However, for most of my clients it can be broken down into several groupings of work that tend to proceed as follows:

1. I will call your contact person, probably the day I am notified that I will be doing the analyses, to discuss data needs and get the contact started on initial data retrieval.
2. Your staff will assemble and send to me data and information, most of which is described in the "Data Needs Sheet," attached. I will guide your staff through the entire process. Where data is missing I will create estimates or help you to create estimates. Initial data retrieval will be accomplished early on, preferably within a couple of weeks, but some data will be acquired throughout the project.
3. I will analyze this information and build your rate analysis models, coordinating with your contact person. Jointly, we will arrive at a set of financial goals for your utilities. Key model building will be complete about two months into the project, if you move quickly. Some modeling will continue through nearly the end of the project. Once models have been built, "what-if" scenarios will be run to find the optimum mix of rate and fee levels and structures, funding options, reserve levels, etc. to suit the needs of each of your utilities.
4. During the last half of the project I will examine as many scenarios of your possible future as it makes sense. I will share with you all that are potentially useful.
5. You will likely choose to consider adopting rates and funding levels from perhaps the two most promising scenarios for each utility. Final output will include a cover letter, a report of my analyses and recommendations (which is largely a step by step action plan) and copies of the analysis scenarios that interest you.
6. If you choose service package 3, I will present my final analysis results and recommendations to your board in person. While there I would also like to meet with staff to discuss how to effectuate needed changes to billing, equipment replacement scheduling, etc. If you opt for no on-site visit, I will prepare your staff to present my recommended rates and fees to the board at no additional cost.

7. As you draft proposed amendments to your ordinances and budgets to effectuate the rate, fee and other changes, at your request I will review those changes to assure that they accomplish what you intend to accomplish.
8. The board will consider and pass ordinance amendments to effectuate new rates, fees, budget revisions and other changes. From this point forward your utilities will be headed to a better financial future.

Use of Electronic Technology

I do almost all analysis work electronically. I strongly prefer, whenever possible, to receive all data and information electronically, generally transferring it by e-mail attachment. I prefer to receive numerical data in a spreadsheet format and textual material in a word processor format. When I return material to you that you need to manipulate further, such as a revised ordinance, I will return it electronically in a format you can conveniently use. You will receive my analysis reports, the analyses and my recommendations electronically as PDF documents.

Work Coordination

Early on you will probably want to have me communicate primarily with your director, billing clerk and perhaps your managers. This stage is primarily a data gathering and modeling function. When we approach the reporting out stage you may want to have me begin communicating with others in preparation for developing rate, fee and policy decision recommendations and staff actions.

Investment

I have verified that Dona Ana Mutual Domestic Water Consumers Association is a member of NMRWA at this time. That being the case, following are your complete investments for my services, materials and travel costs, based upon the service descriptions above:

- **Service package 1**, full fees for user charge analysis of the water utility total \$8,697, less the New Mexico RATES Program discount of \$2,174 yields a **net fee of \$6,523**
- **Service package 2**, full fees for user charge analysis of the other utility total \$8,697, less the New Mexico RATES Program discount of \$2,174 yields a **net fee of \$6,523**
- **Service package 3**, on-site visits – full fee of \$2,477, less the New Mexico RATES Program discount of \$619 yields a **net fee of \$1,858 per visit**

If you choose service packages 1, 2 and one visit from package 3, the group of services you most likely need, the total investment will be \$14,904, including a total New Mexico RATES Program discount of \$4,968.

Once the project gets started you may add or drop service packages as your needs become clearer.

Proposal Acceptance

This proposal is effective through October 1, 2016 if you choose at least one service package by June 30, 2015. Once you tell me what service packages you desire and you provide data to work with, I will immediately start to produce the analyses.

If my part of the project has not been completed by October 1, 2016, all fees for service packages not yet completed will be subject to escalation by agreement with you. Aside from lagging performance on your part there is no reason this project will not be completed in just a few months. I hold open the possibility of requesting escalated fees for lagging performance for these reasons. If the analysis is drawn out for a full year I will end up having to gather updated data and doing almost completely new analyses, nearly doubling my work. More importantly, it appears almost certain that you will need to increase your revenues, increase at least some rates and restructure all rates. Therefore, a delay will exacerbate some serious rate problems that you have. I want to help you solve problems, not watch them grow, so I might seek to escalate fees as a tool to accomplish that.

Action item: If you accept this proposal call me to tell me what services you desire, or give me the same information in writing by e-mail message.

Payment

I will first invoice you for the total project amount upon your acceptance of this proposal. If you pay this initial invoice within 30 days of the invoice date ("pre-payment") you may deduct an additional five percent from the invoice amount. **For packages 1, 2 and one visit from package 3, that discount would amount to \$745.18.**

If you choose not to pre-pay, I will re-invoice you for one-half of the project dollar amount after 90 days from proposal acceptance and the balance when I submit the final report package. You shall promptly pay the full amounts of those invoices. If you request and pay for services but later cancel those services, I will refund those fees to you. If I cancel any services in this proposal (I have yet to do such a thing), you will owe me no fees for those services and I will refund any fees you have already paid for those services.

In Closing

I am looking forward to the opportunity to conduct your rate analyses so you can get your rates and finances set on a good course.

Best regards,
GettingGreatRates.com



Carl E. Brown
President

Data Needs Sheet

The following instructions are for water and sewer rate analysis data but they also apply to other utilities and fee for service operations, with just a few “tweaks” for units of measure and such.

First, we need to decide on your “test year.” The test year will be the one-year period from which you will pull most of the data we need. It is usually most convenient to use your last completed fiscal year. If you closed out that year more than eight months ago, contact us about using a different one-year period.

Documents, data and information we need and comments about them:

- Volume usage file saved in Excel: See “More About Usage Data” on page 2 for details.
- Rates and fees table or ordinances: Rates, connection fees, charges, etc. paid by customers and properties. If rates changed during the test year, give us the before and after tables and include the date the new rates and fees became effective.
- Policies and ordinances: If they are on-line, give us links.
- Agreements with special customers and service providers: If you have any special “deals” – rates, fees, demand surcharges, etc. paid by special customers (or you); or discounts, waivers and limits on future rate increases, we need to know those.
- Balance sheets: One for the test year, one for the year before that.
- Detailed income and expense statements: Itemized incomes collected and expenses paid during the test year.
- Equipment replacement schedule for the next 20 years (if you have one): Estimated equipment replacement needs, timing and costs. If you prefer, visit <http://www.gettinggreatrates.com/freebies/freebies.shtml> and click the “ReplacementScheduler” link to download the spreadsheet, enter your data and send that to us.
- Capital improvement plans (CIP) for next 10 years: Estimated capital improvement needs, timing, costs and how you plan to pay those costs. Give us your “wish list,” too.
- Master metered flows: Volume produced (water) or volume received at or discharged from the treatment plant (sewer).

- A description of things that will change: For example, if you plan to add a new operations employee two years from now, we need to know the total cost of that position – salary, benefits, etc. If you plan to enter into a new water purchase agreement in three years, give us the details of that deal. If a big customer is mad about their rates or if they have talked about suing the utility, we must know about that.

More About Usage Data

You Have and Will Need Simple Rates:

The usage data you need to find and give to us is dependent upon your current rate structure and the rate structure we will end up recommending to you. Consider this simple rates situation.

Your sewer utility assesses a level unit charge of \$5.00 per 1,000 gallons, regardless of the total volume used. Especially for sewer utilities, for several reasons, we favor level unit charges so it is almost certain we will recommend a different unit charge amount for you, but it will still be a level unit charge. In such a case, we only need the total volume billed to all customers for the entire test year. We don't need the volume used by each customer each billing period. If this description fits your rate setting needs, usage data will be easy for you to acquire. You just need to send us the total billed volume for the test year plus a listing of the number of customers you had during the test year of the different meter sizes or customer types, such as residential, commercial, etc. We usually recommend meter size-based minimum charges so that is why we need meter size counts.

Likewise, for small water utilities with uniform users, no usage allowance and no pressing need to encourage water conservation, we also favor level unit charges. They are simple for you to understand, calculate and explain to your customers and they are accurate for us to model. All other things being equal, simple is better than complex.

Unfortunately, in most cases, simple rates are not as fair as they should be, so usage data is usually a bit more complex to get. In the following descriptions, find your situation and gather data accordingly.

You Have Complex Rates and Your Billing Program Shows Rate Classes in a Standard Report:

Almost always, we need every customer's usage volume for every billing period of the test year. We also need to know what rate class to apply to each volume data point. The format of this data file is mostly dependent upon how your billing program will export it.

Usually billing programs have a standard report that is a total data dump of all customer data for a specified time period. Often called a “register” report, this is the best option for getting us the data we need because it shows, in table form, all the billing data for each customer for each billing period. The preferred format for data files is a report showing each billing period and the volume billed on separate rows, and the identifying information on each of those rows. The report may look like this:

Columnar Formatted Data

Rate Class	Customer Name	Customer Number	Meter Size in	Bill Date	Meter Reading	Volume used
			Decimals		Date	
100	John Jones	10001	0.750	1/1/2015	12/15/2014	5,000
100	Jane Smith	10002	0.625	1/1/2015	12/15/2014	1,000
200	Good Eats Café	10003	1.500	1/1/2015	12/15/2014	10,000
100	John Jones	10001	0.750	2/1/2015	1/15/2015	5,500
100	Jane Smith	10002	0.625	2/1/2015	1/15/2015	900
200	Good Eats Café	10003	1.500	2/1/2015	1/15/2015	9,900
100	John Jones	10001	0.750	3/1/2015	2/15/2015	6,000
100	Jane Smith	10002	0.625	3/1/2015	2/15/2015	1,100
200	Good Eats Café	10003	1.500	3/1/2015	2/15/2015	11,000

There will be more data in such a report than this but the data shown above is what we need out of that report.

If your billing program is unable to provide information in the format above, we can use data files that has the data for one customer’s use on one row, with the customer’s identifying information or rate class in a column or several columns, the months billed shown in separate columns and the volume used each month shown in those columns. Using this format will take longer to analyze since we will need to reorganize the information to the columnar format. The Row Formatted Data spreadsheet will look something like this:

Row Formatted Data

Rate Class	Customer	Meter Size	Bill Dates and Volumes Used					
			1/1/2015	2/1/2015	3/1/2015	4/1/2015	5/1/2015	6/1/2015
100	John Jones	0.75	5,000	5,500	4,000	6,000	7,000	7,000
100	Next Cust	0.75	More volumes					
and so on for each customer for each month								

It is critical that the “100” (rate class designation) shows up on each row of John Jones’ bill data. Using the example above, you would also need to tell us, probably by e-mail message, which rate class “100” is so we can calculate the bill amounts that John Jones would have been billed and compare bills of customers in this rate class with the new rates we would recommend.

You will probably be able to tell us that the “100” rates in the rate ordinance are the in-town residential rates, the “200” rates are the in-town commercial rates, “300s” are out of town residential, etc. We will look them up in the ordinance(s) you send us and get all usage data associated with the rates paid for that usage.

If your billing program includes a report like the above examples, do the following:

1. Select that report option you want,
2. Set the “test year” that you want the extracted data to cover,
3. Specify that the report be exported to Excel, if that is an option (it almost always is). If not, in the “Save as” box, elect to save it as a tab delimited text file, and
4. E-mail the file to us.

You Have Complex Rates and Your Billing Program Does Not Show Rate Class in a Standard Report:

Some billing program’s “register” reports do not show the rate class that each bill is subject to. If yours is like that, you will need to do as described in the subsection immediately above but make a spreadsheet file for each rate class separately, naming each something like, “In-town Res Rates,” “In-town Com Rates,” etc. So using the example above, you will have all the “100” rate class customers’ data in one spreadsheet file, all the “200s” in another file and so forth. And, of course, tell us what the “100s” rates are, what the “200s” rates are, etc.

Your Billing Program Does Not Report Data as Shown Above:

Your billing program has all the data we need. But it may not be set up to “spit out” the needed data in a format that is usable, like the formats shown above. Not to worry. Do this:

1. From your billing program, export the data we need to whatever report you can,
2. Copy and paste that data into a spreadsheet and e-mail the file or files to us.

That’s a pretty quick rundown of what can sometimes be a complex task. If you have questions about anything, call before investing time gathering data. We don’t want you to waste your time gathering data that is not needed or doing it in a way that is time consuming.