Financial Management Strategy Bulletin 4
Revenue Enhancement Strategies

Opportunities
In addition to adjusting the current fixed and variable rates charged for water service and gallons, utilities are using and considering additional business lines all together. These new business lines leverage assets already “owned” by the utility and develop others where utility core competencies exist. Commonly cited assets were real estate, facilities, employees, and even the utility’s brand name. In addition, there were a few water utilities that are part of combined utilities providing wastewater, stormwater, power, and/or gas. Those utilities had a few more opportunities for business ventures and synergies between two or more utility services. For example, the Orlando Utilities Commission provides chilled water services to commercial customers (http://www.ouc.com/en/commercial/electric/oucooling.aspx). Those in the industry commonly call this “strategic business planning.”

Challenges
There are risks in any new venture. Utilities cautioned about simply viewing a new business as additional revenue to the utility. For example, selling bottled water may be desirable from a branding standpoint but can have low profit margins and can be a net drain in terms of net revenue. Additionally, utilities felt that their boards and/or public would assume that if there were additional revenues coming into the utility from another business line that rates should actually be decreased. Additional business lines for additional revenue might run counter to “revenue neutrality” goals. Utility representatives said a strong business case would be necessary to demonstrate a clear purpose of a new revenue stream, its costs, benefits, value to customers, and long-term viability.

Other utility representatives felt like the costs and revenues associated with an additional, identifiable business line would be targeted by their parent organization (e.g., city government). The costs of these programs could be more easily cut and their revenues more easily assigned as general government revenues.

One utility representative felt that the inherent culture of the water utility industry presented a barrier to new utility business ventures. This representative noted that the utility industry is a relatively stable environment and attracts employees that thrive in this environment. New ventures may require a cultural shift and could potentially alienate current employees. In April 2011, the Harvard Business Review published the “Failure Chronicles,” noting that great failure can be an important component to great success. If and when utilities proceed into a competitive, unregulated market, it will be important for them to fully assess the market, the full associated costs, and their own tolerance for failure.

One utility representative noted that they had scoped out the market and found that the business venture did not necessarily make financial sense at that point in time, but he now knew at what point it
would. He was laying the groundwork to proceed under the right circumstances. Conducting appropriate studies, including a business case analysis as part of a strategic planning study, is critical to make sure that such efforts are viable.

Stories from the Front-Line/On-the-Ground Application
Some of the revenue enhancement strategies included:

Renewable Energy. Unlike the Orlando Utilities Commission, many water utilities do not operate in conjunction with an electric utility. Despite this, there were many examples of how water utilities could earn revenue from a power-generating asset. A few utilities sold hydropower. For example, Denver Water currently has seven hydropower plants at various facilities, with a total capacity of 26.3 Megawatts. Others were assessing the value of their methane for power generation. One utility was looking into covering 160,000 acres of farm land with solar panels and will decide whether or not to run the solar farm or simply lease the land.

Ranching. In order to gain access to the associated groundwater, El Paso Water Utilities owns large tracts of land. The utility earns revenue by leasing the surface area for ranching. The Contra Costa Water District leases some of its land for grazing.

Fleet maintenance: The Orlando Utilities Commission has gained additional revenue by contracting with the city to service police vehicles at its fleet garages.

Advertising. A few utilities had considered allowing advertisements on their property to earn additional revenue. For example, Kentucky Fried Chicken (KFC) approached one utility requesting to advertise their hot wings on the utility’s fire hydrants (Figure 1). Another utility had considered allowing Maker’s Mark to advertise on their water tower. Those utilities considering such a venture cautioned for a strict policy regarding advertisers. If the utility is not clear about who they will and will not allow to advertise, they could violate the first amendment of the constitution if they turn an advertiser down in the future.

Cell towers. Many participating utilities leased space on their water towers for cell phone service providers to erect cellular antennas.

Lab services. In search of additional revenue, a few utilities mentioned that they contracted their laboratory facilities and personnel to nearby utilities that did not have the same capacity.

Service line insurance policies. Several utilities in the group are pursuing offering service line repair and “insurance” for private water lines. They are exploring this option because it is related to existing utility skills and responsibilities. Customers are requesting the service because of the risks they face when

Figure 1. Photo from the Associated Press that shows a KFC fire hydrant in Indiana.
something goes wrong on their property. Many utilities are now seeing that their public responsibility extends, at least in terms of public relations, beyond the property line or meter, all the way to the tap.