



## Why the Price is Right (But the Rate is Wrong) ©

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Hardly a day goes by when I don't see a utility announce it plans to change its prices. But utilities rarely use the word "prices" in those announcements. Instead, they speak about [rates](#), [rates](#), [rates](#). And for utility communicators, that's wrong, wrong, wrong.

I revisit this topic periodically (like [here](#) and [here](#)), but the flurry of utility price announcements suggests it's time to revisit it again. Certainly there's no shortage of pressure pushing utility prices upward. Many utility communicators I speak with say they will be changing prices once a year, on average, for the foreseeable future.

Even though natural gas prices are low by historic standards, many gas and electric utilities have been investing heavily to expand, replace and strengthen their networks in recent years. Outlays for infrastructure are only partially offset by lowered costs for natural gas.



Let's think about this from the customer's point of view. Before they buy gasoline, they check the **price per gallon**. When they go shopping, they consider the **price of steak or chicken**. When it comes time to buy a car, they can select a dealer who offers **no-haggle prices**.



So "prices" are part of most consumers' vocabularies. Yet I find that most utilities continue to use the term "rates" when describing what they charge for a unit of electricity, gas or water.



And the news media, following the lead of utilities, use “rates” almost universally. It’s a short word that fits easily in a headline. But then again, so is “prices.”

The imprecision is magnified when you consider how few people really know anything about a utility’s preferred unit of measure: kilowatt-hours of electricity, therms of natural gas or hundred cubic feet of water. A gallon of gas and a quart of milk they get. But kilowatt-hours, therms or hundred cubic feet, not so much.

## How One Utility Made the Change



One of the few utilities I know that consistently uses the word “price” to describe the cost of its electric service is a former employer, Salt River Project. In fact, a recent check of the [SRP website](#) showed the utility lists a suite of price plans for residential and business customers. Bravo!

*Credit: Salt River Project*

I once asked an SRP spokesperson about the organization’s use of the word “price” instead of the more common “rates.” I was told, “At one point, over 15 years ago, our general manager decided we were going to call the people we serve **customers**, not ratepayers, and what we were charging customers were called **prices**, not rates.” Pretty straightforward.



Consumers become wary when they see unfamiliar terms. Each day they see the word “prices,” but only once a month do they see the term, “rates” — when they open their utility bill. On the other hand, any day of the week they can watch the long-running TV game show, “[The Price is Right](#).”

We can hardly blame customers when they fixate on a utility's "rates" when what really gets their goat is their monthly **bill** — the amount of money they pay each month for electric, gas or water service. **Calls to lower rates are really calls to lower their bills.** And bills, as we all know, are the product of price times usage, plus taxes and fees.



Other industries have found different terms to describe what they charge for their services. Cable companies promote their [price plans](#). Consumers shopping for home, health or life insurance review [quotes](#) from competing providers.

Aside from utilities, virtually the only other organizations that consistently use the word "rate" as a noun are the Internal Revenue Service (regarding its [mileage reimbursement rates](#)) and the Federal Bureau of Investigation reports on the incidence of violent crime. Terrific — do you want your electric, gas or water service lumped in with criminals and the IRS?

## **"Rates" to "Prices" Takes Time, But It Can Be Done**

Replacing "rates" with "prices" continues to take a while to catch on. There may be internal or external factors to work through. A spokesperson from another utility told me, "We tried using the word 'prices,' but the news media kept referring to 'rates.' Customers went to our website and saw we used the word 'prices' in our news releases, but they got confused: Is the price increase we discussed in our news release the same as the rate hike the media reported? Or were they going to face two separate increases: one signified by the word, 'rates' and another signified by the word 'prices'? After about 18 months, we gave up and went back to using 'rates.' "



Notwithstanding that example, the switch from "rates" to "prices" can be as simple as an executive determination that that's the way we're going to talk to our customers. We don't need a cross-functional team or an outside consultant. We just need to take a step back from our comfort zone, think about using customer-friendly language and then make the change.

This happened recently with a client. The client was placing an ad for a demand-side management (DSM) professional. “DSM” is a well-known term within the utility industry. But to the non-utility world, the research I have seen says the term is meaningless. After reviewing the copy, I suggested replacing “demand-side management” with “customer programs.” There was some back-and-forth discussion, but eventually a decisionmaker stepped in and said we were going with “customer programs.”



**One aspect of introducing new terms like “prices” or “customer programs” would be to have desk-side briefings with news reporters where you explain why you’re changing your vocabulary.** You could explain the shift as an effort to make it easier for customers and other critical stakeholders to understand your communications.

You may have to have these desk-side briefings several times. You also should reach out to editors as well, since they write the headlines and prepare the graphics. The need for repetition shouldn’t be a surprise. After all, utilities have used the word “rates” for more than a century. “DSM” has been with us for two generations, more or less. One conversation is not going to overcome the institutional memory of reporters, editors and customers.

Yes, utility prices have various components. Aside from taxes and fees, there are costs to build and operate the system, costs to purchase energy, costs for energy conservation and costs for other items that don’t fit neatly into the “base rates” or “fuel cost” categories. Many utilities have several price options for their customers. Why not follow SRP’s example and refer to those options as **“price plans”**?

When I switch smart phones, I can choose from a variety of price plans. When buying an airline ticket, most airlines give you several price options. Maybe it’s me, but when I hear words like “price plans” or “price options,” I feel I have a meaningful choice among several options. I can make the choice that best suits my needs. **The act of choosing one plan over another creates shared responsibility between the consumer and**

**the supplier.** If I choose badly, that's on me — provided the supplier fully disclosed the parameters of the plan and didn't hide fees or riders.

But when I hear the word “rates,” it feels like something stiff and foreign is being imposed on me, with no ability to customize it to my needs. It's like trying to fit into someone else's shoes — it might work, but probably not.

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