

# STAFF WORKSHOP

TO EXAMINE REGULATORY POLICIES AND PRACTICES  
IN THE WATER AND WASTEWATER INDUSTRIES

On behalf of the NAWC

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**February 1, 2023**



# NAWC

NATIONAL ASSOCIATION  
OF WATER COMPANIES



**4.5 billion**  
gallons of drinking  
water delivered daily



**73 million**  
Americans Served



**100,000 miles**  
of pipe maintained

## WHO IS NAWC?



**Robert Powelson**  
President & CEO,  
NAWC

- Former FERC Commissioner
- Former PA PUC Chair
- Former NARUC President
- Former Chair, NARUC Water Committee
- Former President, local county Chamber
- Former Advisor to FERC Commissioner
- Former Advisor to PA PUC Chair
- Assisted with the implementation of Pennsylvania Act 11



**April Ballou**  
General Counsel & VP  
State Regulatory Affairs



**Donald J. Morrissey**  
President  
Aquarion Company



**Susan Hardwick**  
CEO  
American Water



**Martin Kropelnicki**  
CEO  
CA Water Service  
Group



**Karine Rougé**  
CEO  
Veolia NA



**Robert Nicholson**  
President  
San Gabriel Valley  
Water Company



**Andrew Gere**  
President & COO  
San Jose Water  
Company



**Chris Franklin**  
CEO  
Essential Utilities

# WATER: A NECESSITY OF LIFE

- Only utility service physically ingested
  - Cannot compromise on water quality
  - No room for error on safety and reliability
- Service largely taken for granted BUT customers expect high level of reliability
- Heavy environmental regulation
- Key role in society: health, sanitation, fire protection
- 85% of clean water and 99% of wastewater controlled by municipal systems
  - Public water systems have inconsistent regulation as those systems are not Commission-regulated



# CHALLENGES FACING WATER INDUSTRY

- Increasing cyber and physical security threats
- Aging infrastructure
- Increasingly stringent quality standards
- Emerging contaminants/lead service lines
- Affordability concerns
- Threats to supply / extreme weather
- Aging Workforce
- Rising Customer Expectations
- Most Capital-Intensive Industry
- Industry fragmentation

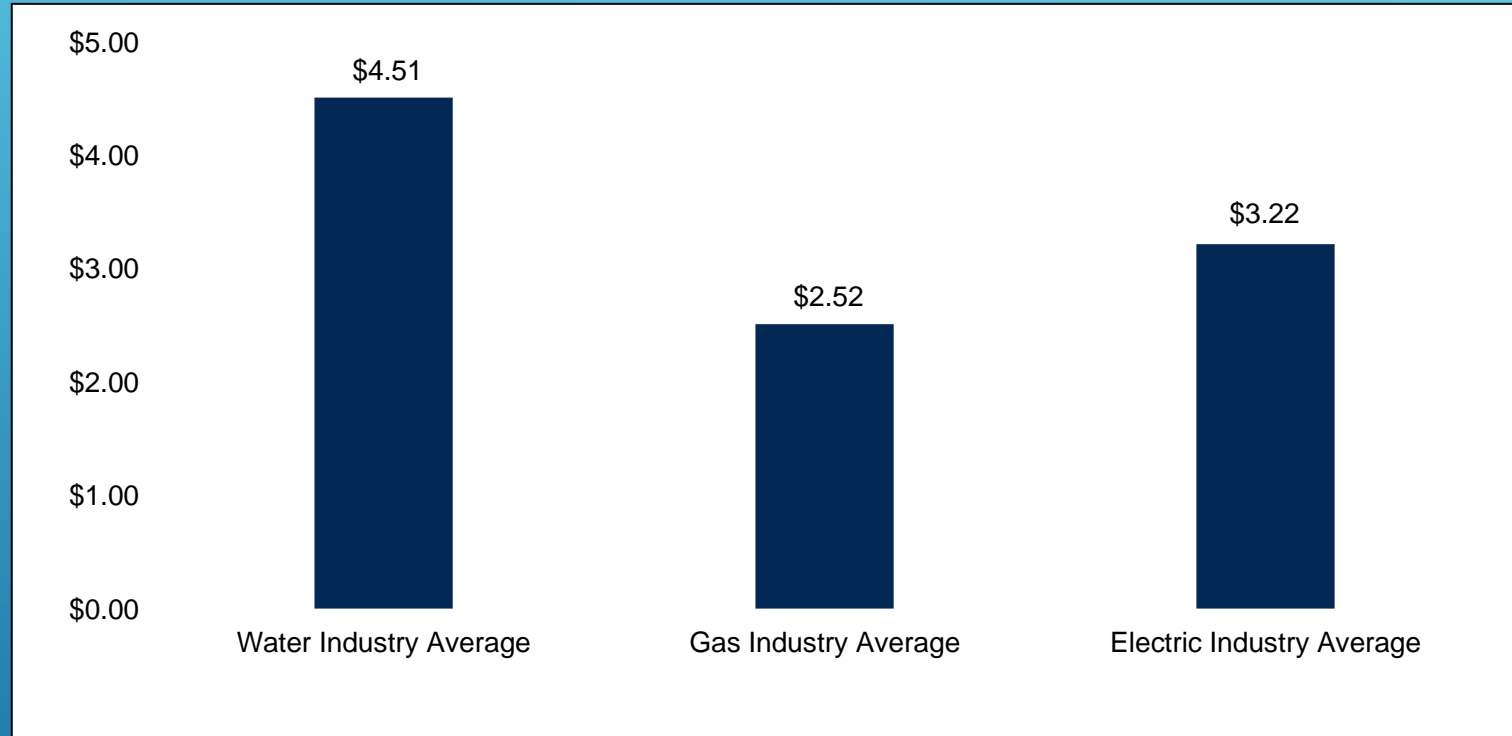
The logo for the National Association of Water Companies (NAWC) features the acronym "NAWC" in large, bold, white capital letters. The letters are set against a dark blue rectangular background. Above this background, there is a light blue wavy shape that resembles a stylized water surface or a wave. The entire logo is positioned in the bottom right corner of the slide, with several white diagonal lines extending from the top right towards the logo.

**NAWC**

NATIONAL ASSOCIATION  
OF WATER COMPANIES

# Water Industry: Most Capital-Intensive Utility

Capital Invested per \$1 of Revenue

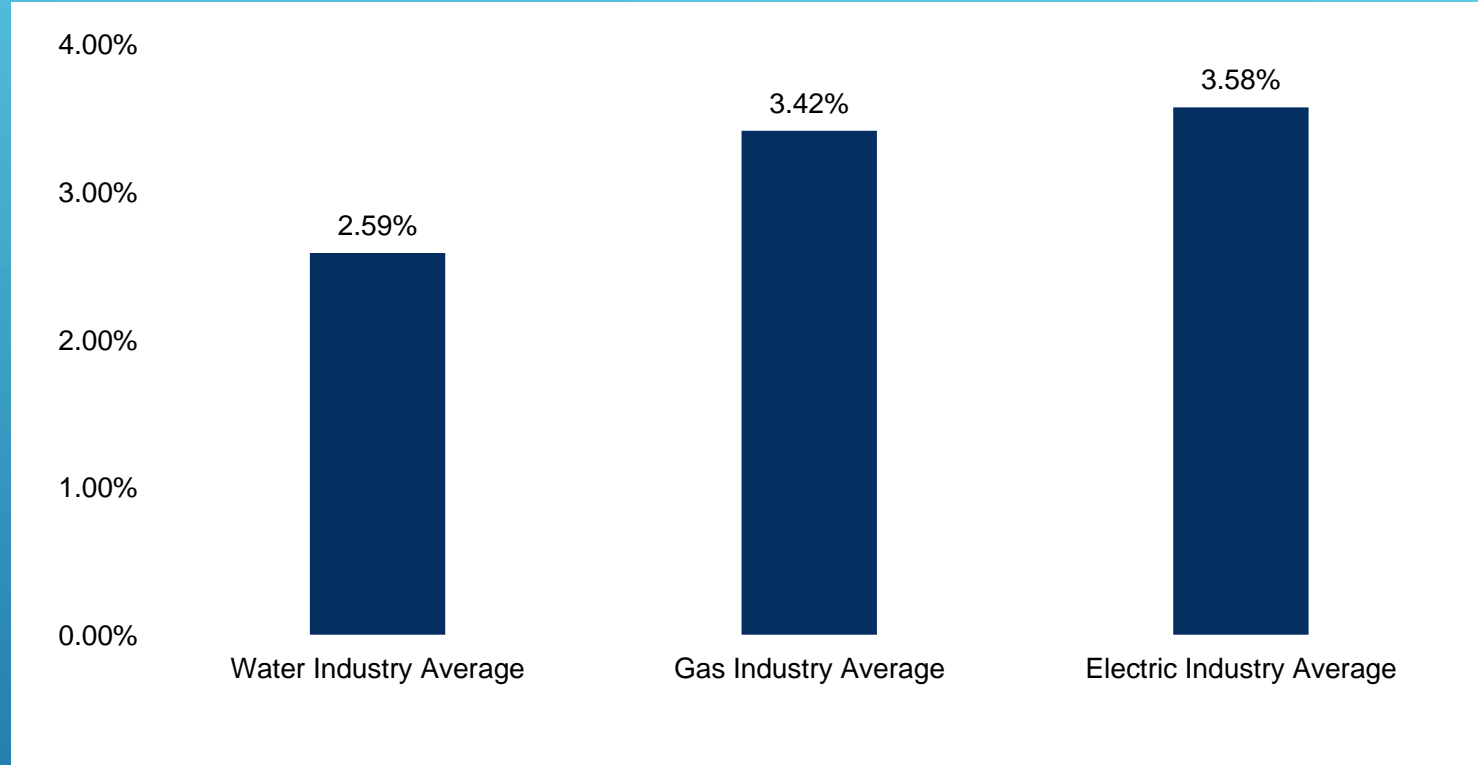


EPA Rules require large investment in treatment plants

Substantial investment needed for supply and distribution system

More capital per revenue than all other utilities

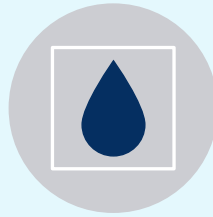
# Water Industry: Lowest Utility Depreciation Rates



Replacement cost much higher than historic cost (\$10/ft vs >\$200/ft)

High capital needs + long capital recovery = negative cash flow, not attractive to many investors

# NAWC MEMBER PRIORITIES



Water Equity



Focus on the Customer



Never Compromise on Providing Safe and Reliable Water



Invest in Communities



Develop Partnerships and Encourage Water System Consolidation



NATIONAL ASSOCIATION  
OF WATER COMPANIES

It is important to price water service at a level that is affordable, but that also accurately represents the cost of treating and delivering the water, so that utilities have access to capital to maintain high-quality service.

**Water equity** means that everyone should have access to water that is safe, reliable and affordable.

### 3 PILLARS OF WATER EQUITY





# NEVER COMPROMISE ON SAFETY



## Water Quality is a Serious Challenge for Millions of Americans

- 45 million Americans drink water that violates health standards
- Water quality violations disproportionately impact communities of color and rural Americans
- Source water faces new threats from emerging contaminants like PFAS

### HOW WATER COMPANIES CAN HELP

Systems run by water companies are significantly less likely to violate federal drinking water standards compared to systems run by local governments.

## REGULATED WATER UTILITIES

### Deliver Cleaner and Safer Drinking Water

- Greater compliance** with federal drinking water standards<sup>1</sup>
- 24% less likely** to have a health violation of the SDWA compared to government-run systems<sup>2</sup>
- Fewer EPA enforcement actions** than all other water system operators<sup>3</sup>

EPA records show that investor-owned utilities have a near-perfect record when it comes to avoiding health-related violations of the federal Safe Drinking Water Act.

– “Data Shows IOUs Are Cut Above in SDWA Compliance,” American Water Intelligence

# NEVER COMPROMISE ON RELIABILITY

To ensure reliable service, NAWC members focus on:

- **Advance utility planning**

- Long-term infrastructure replacement plans
- Develop security plans for cyber and physical attacks
- Engage in physical hardening to withstand extreme weather events
- Plan for short- or long-term supply issues

- **Investing in infrastructure**

Encouraging incremental and consistent investment in water infrastructure increases system reliability, and keeps rates stable by allowing necessary costs to be incurred gradually.



## Enable Urgent Capital Investments in Infrastructure

The 10 largest NAWC member companies invest more than **\$3.9 billion annually**.<sup>4</sup> These are dollars coming from the private sector and not out of a municipal budget.

4. Based on data from annual reports and 10-K filings from 10 largest NAWC members.

# FOCUS ON THE CUSTOMER

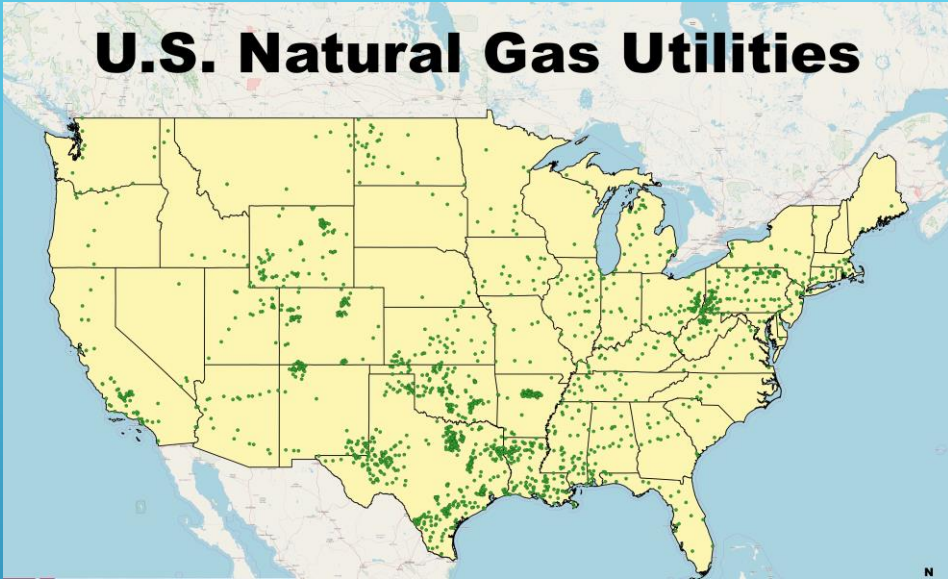
Address affordability concerns by implementing proven programs that include:

- **Promote sensible water use habits**
  - Conservation, sensible irrigation practices, etc.
- **Support a permanent federal low-income water assistance program (like LIHWAP)**
- **Encourage utility customer assistance programs**
  - Budget billing, voluntary funding assistance
- **Permit consolidated rates and consolidated revenue requirements**
  - Keeps rates affordable while still maintaining the fiscal sustainability of utilities

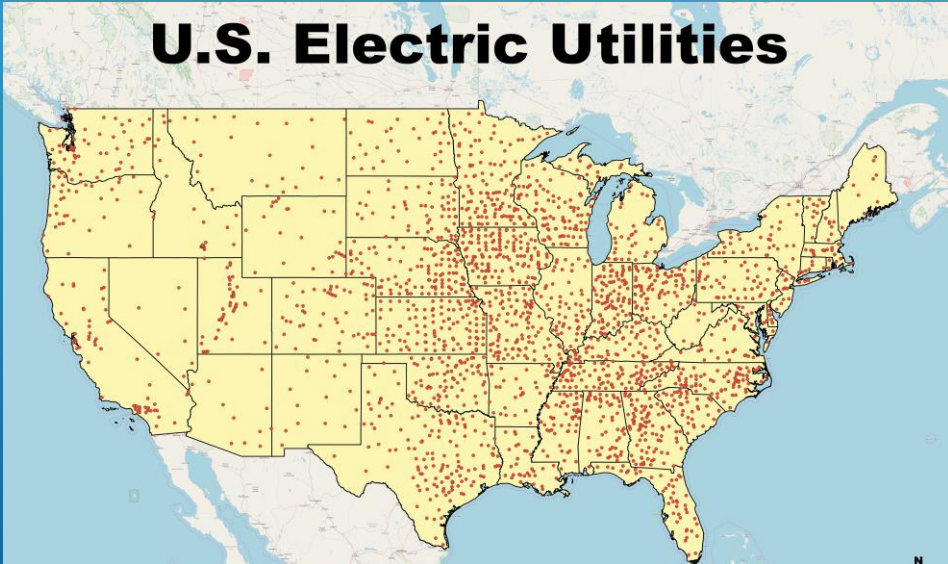


# WATER SYSTEM FRAGMENTATION

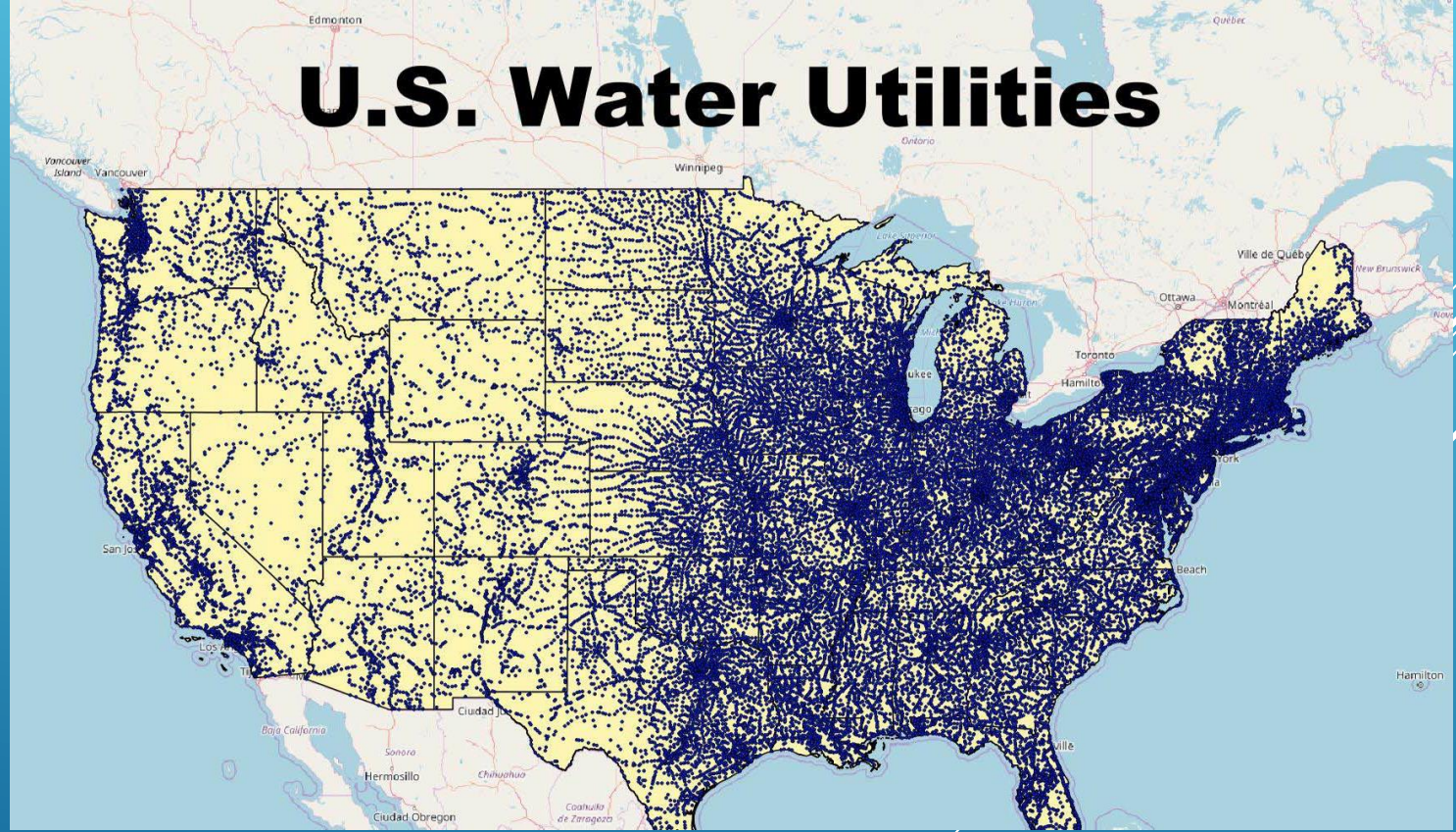
## U.S. Natural Gas Utilities



## U.S. Electric Utilities

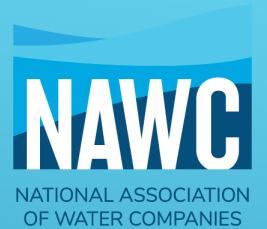


## U.S. Water Utilities



US water industry is highly fragmented with more than 45,000 public water systems

# SMALL SYSTEMS: BY THE NUMBERS



- ▶ More than 45,000 water systems in the country
- ▶ More than 90 percent are small, serving fewer than 10,000 people
- ▶ **Annual Health Violations**
  - ▶ **26 percent** of systems with a service population under 500 have violations
  - ▶ In 2018, small and very small water systems made up **85 percent** of all systems that the EPA labels as serious violators
- ▶ According to EPA data, small systems account for a disproportionate percentage of capital improvement needs in relation to the population served
- ▶ **Cost per connection**
  - ▶ For a system of less than 100 residential connections, the cost per connection for outstanding capital needs can top **\$19,000**
  - ▶ For systems of 3,300 to 10,000 residential connections the cost per connection can be over **\$4,000**
- ▶ **Annual Revenue**
  - ▶ The median annual revenue of systems serving fewer than 500 people is about **\$25,000**

# BENEFITS OF WATER SYSTEM CONSOLIDATION

- ▶ **Economies of scale**
  - ▶ Buy commodities, equipment, and other goods at lower average prices
  - ▶ Borrow money at lower interest rates
  - ▶ Set more progressive rates for greater affordability
  - ▶ Attract and promote higher quality employees than small systems
- ▶ **Higher quality employees**
- ▶ **Better water quality and compliance rates**
- ▶ **Improved operating efficiencies**
  - ▶ Average annual O&M per customer connection
    - ▶ 34 customer connections = ~ \$250 per customer
    - ▶ 20,000 customer connections = ~\$70 per customer
- ▶ **Greater capacity to offer customer assistance programs**

“Consolidating the American drinking water sector to about **6,000 utilities with a minimum sustainable size of about 20,000 connections** would deliver better health, greater efficiency, lower prices, and long-term sustainability.”

# CONSOLIDATION POLICIES BY STATE: LEGISLATIVE

14 STATES have passed legislation to incentivize water system acquisitions

Date	State
1997	California
2013	Illinois
2013	Missouri
2015	New Jersey
2015	Indiana
2016	Pennsylvania
2018	North Carolina
2018	Maryland
2018	Iowa
2019	Ohio
2019	Texas
2020	Virginia
2020	West Virginia
2021	Kentucky

**Number of private water utilities in PA:**

- 333 in 1983
- 55 in 2022

# REGULATORY APPROACHES TO INCENTIVIZE CONSOLIDATION

- ▶ **Expand focus beyond distressed systems**
  - ▶ Focusing consolidation efforts only on troubled systems is problematic
  - ▶ Once systems are distressed customers suffer and it is harder to find a willing buyer
- ▶ **Create regulatory certainty**
  - ▶ Establishing clear rules around acquisitions provides the certainty needed to incentivize these sales
- ▶ **Streamline acquisition process**
  - ▶ Creating an efficient regulatory process incentivizes consolidation and keeps transactional costs low
  - ▶ Developing mandatory timelines for Commission action can help
- ▶ **Expand the toolbox of incentives**
  - ▶ Acquisition Adjustments, Acquisition Surcharges, ROE Bumps
- ▶ **Lower/no enforcement penalties for acquiring systems**
  - ▶ Creating safe harbors for utilities that acquire troubled systems is important

States like PA, CT, AZ have policy statements that set forth regulatory mechanisms to encourage water system consolidation

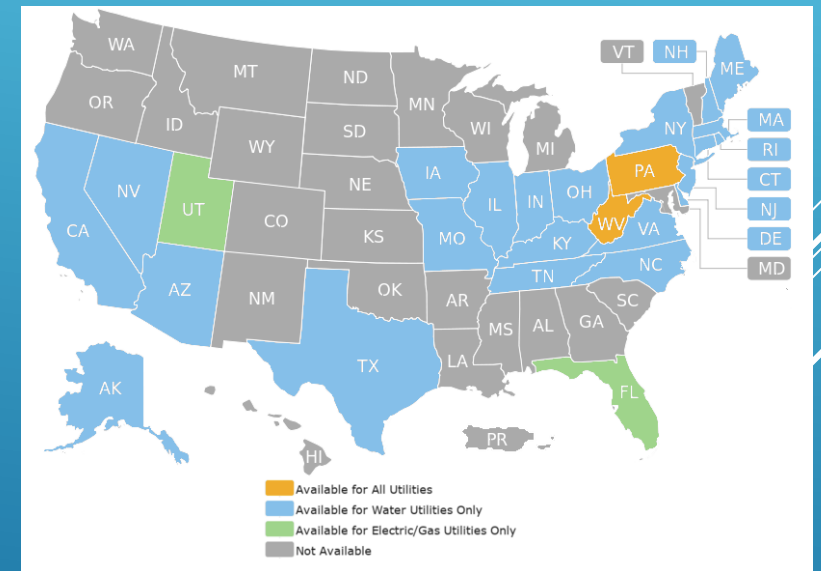


# Constructive Regulatory Mechanisms

Important tools used by regulators to address the unique needs of the water industry

## ■ NARUC Best Practices Resolutions:

- Infrastructure Surcharge Mechanisms
- Future test years
- Consolidated tariffs
- Revenue adjustment mechanisms
- Streamlined rate case process
- Mediation and settlement
- Fair rate of return
- Policy to encourage consolidation of small systems
- Support for a federal low-income assistance program



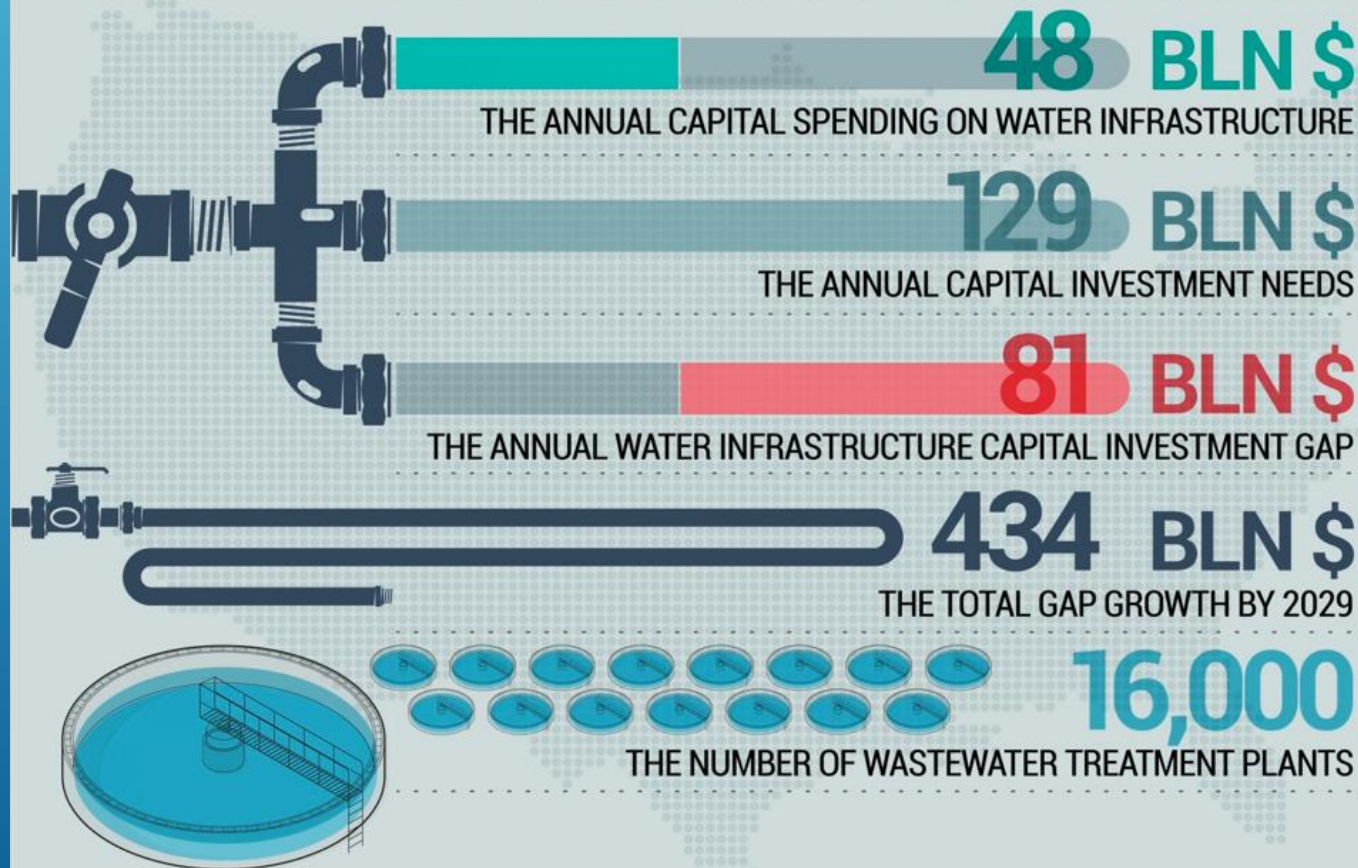
Availability of Infrastructure Surcharge Mechanisms

# Constructive Regulatory Environment = Drives Economic Growth

## THE US WATER INFRASTRUCTURE GAP



Source:  
**ASCE**  
American Society of Civil Engineers



# The Regulatory Compact



A fair return authorized and a fair “opportunity” to earn it

THANK YOU

