Reflections on The Business of Water

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National Association of Water Companies (NAWC)

- Trade association representing all aspects of the private water service industry
- Nearly 73 million Americans receive water service from a privately owned water utility or a municipal utility operating under a public-private partnership
- Private water companies own 16% of the nation’s community water systems.
- Key member services include regulatory, governmental and water service solutions
- http://www.nawc.org
Water – a Necessity of Life

- Water is only utility service that is physically ingested
- Must be safe regardless of cost
- Water is subject to stringent standards of quality
- Water utilities and water customers demand a high level of reliability

» The essential nature of water service is intrinsically related to **quality** and **reliability**
U.S. Water Industry Fragmented

- Too many
  - More than 52,000 community water systems*

- Too small
  - 78% of the water systems serve less than 3,300 people*

- Too inefficient
  - Less than 1% of the water systems serve more than 100,000 people*

*Source: EPA Factoid Drinking Water and Groundwater Statistics for 2007
Water Compared

- Only utility that has not been deregulated
- Least expensive to consumers
- Fragmented Industry – Needs economies of scale
- Environmentally regulated – no Federal agency like FERC or FCC
- No substitute except for delivery
- Key role in fire protection

And the only one humans cannot live without
Water Industry is the Most Capital Intensive Industry

- EPA Rules require large investment in filtration plants
- Immense investment needed for distribution system and road repair
- More capital per revenue than all other utilities

Source: 2009 AUS Utility Reports
Depreciation Rate in the Utility Sector
Water Industry has the Lowest

- Historic cost recorded is lower than replacement cost
- Water industry has longest capital recover period, which is viewed negatively by Wall Street

Source: 2009 AUS Utility Reports
Regulatory Incentives for Consolidation/Infrastructure Improvements

- Pennsylvania policy on acquisition incentives
- CT, NJ, IN, OR, PA, and WA have mandatory takeover laws for severe cases
- Commodity Cost Adjustment Clauses (water, power, property tax)
- Distribution System Improvement Charge (DSIC): DE, IN, IL, NH, PA, OH, MO, CT, NY, CA - pilot basis for California-American Water Company’s Los Angeles District
- Single-tariff pricing (Rate Consolidation)
- Test Year Utilized