Fragmentation in the Water Industry and Regulatory Impacts

Daniel Phelan
Research Associate
National Regulatory Research Institute
Water Industry Fragmentation

- 54,000+ water systems

- Small water companies may not be as advanced, capable of addressing infrastructure, regulatory, and security issues as larger companies

- How do commissions and companies deal with these challenges?
Research Areas

- Summary of fragmentation
  - Types of water companies, private, local governments, etc.
  - Water resources map, geological maps of watersheds

- Concerns of companies based on size

- Industry support for small companies

- Commission support for small companies
# Overview of Systems

<table>
<thead>
<tr>
<th>System Ownership</th>
<th>Population Served</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&lt;=500</td>
</tr>
<tr>
<td>Public</td>
<td>7,602</td>
</tr>
<tr>
<td>Public-Private</td>
<td>559</td>
</tr>
<tr>
<td>Private</td>
<td>19,827</td>
</tr>
<tr>
<td>Total</td>
<td>27,988</td>
</tr>
</tbody>
</table>
Struggles of Small Water Companies

- Economies of scale, financial stability, technical proficiency, reliable infrastructure

- Large majority of systems with a history of significant noncompliance with drinking water standards

- 1996 Safe Drinking Water Act intended to address the issue

- Relatively small customer base challenged to afford rates required to upgrade, replace, and maintain infrastructure
Regulatory Challenges

- Regulatory knowledge, regulatory difficulty

- Small water companies may be discouraged by a lengthy, difficult rate application process

- Traditional ratemaking is aimed at large-scale utilities, with large-scale infrastructure/resources
Streamlining the rate application process
- Simplified rate applications
- Electronic filing procedures
- Annual reporting included in rate application
- Combining water and wastewater revenue requirements

Increasing engagement with small water utilities
- Direct commission staff involvement, including site visits
- Multi-stakeholder engagement
• Automated mechanisms
  ○ Simplified rate of return mechanisms
  ○ Cost of living adjustments

• Capital and finance challenges
  ○ Emergency infrastructure funds
  ○ Use of CIAC when unsustainable rates may result

• Policy measures that may promote consolidation
  ○ Laws in six states – CT, IL, IN, MO, NJ, PA – that allow purchase price to be included in the rate base, provided it represents Fair Market Value