



Fragmentation in the Water Industry and Regulatory Impacts

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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

System Ownership	Population Served				
	<=500	501-3,300	3,301-10,000	10,001-100,000	>100,000
Public	7,602	10,188	4,323	3,419	367
Public-Private	559	524	127	54	6
Private	19,827	2,849	504	399	58
Total	27,988	13,561	4,954	3,872	431



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



Regulatory Considerations

- **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



Regulatory Considerations

- 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