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New NRRI Paper Examines Rate Mechanism to Address Water Systems' Infrastructure and Investment

Affordability, Accessibility and Maintenance are Key Water System Challenges

WASHINGTON (September 24, 2021) — A new paper from the National Regulatory Research Institute examines a method increasingly used to encourage regulated water companies to acquire smaller, distressed water and wastewater systems, known as the fair market value rate mechanism.

In *A Review of State Fair Market Value Acquisitions Policies for Water and Wastewater Systems*, author Kathryn Kline looks at key elements of FMV policies, identifies differences between its application to small system versus medium and large municipal systems and explores the regulatory challenges for each of these types of systems. An overview of states' current FMV acquisition policies and provisions are also included.

More states have adopted or are considering adopting FMV policies in response to challenges faced by water and wastewater systems driven by increasingly stringent water quality standards, limited technical and managerial expertise in smaller companies and the need for investment to replace aging infrastructure.

"Providing safe and reliable drinking water to customers is a complex and capital-intensive task. There are many small and municipal utilities that do not have the financial capability of doing so. In that case, public policy has recognized the importance of consolidation with larger investor-owned water utilities," said Illinois Commissioner Maria S. Bocanegra, chair of the National Association of Regulatory Utility Commissioners Committee on Water. "Fair market value provides a regulatory mechanism for facilitating such consolidation and improvement in the potability of water. Kline's paper provides the background that regulatory commissions need to evaluate whether FMV is the right mechanism for them to employ."

Kline, a senior research associate at NRRI, also provides mechanisms to support struggling water systems (e.g., new technology, alternative rate financing) and concludes with a discussion of the imperative of ensuring both water accessibility and affordability when considering potential FMV acquisitions.

A Review of State Fair Market Value Acquisitions Policies for Water and Wastewater Systems, can be downloaded at https://bit.ly/NRRI_FMV.
(Expanded URL, https://pubs.naruc.org/pub/ED8E5710-1866-DAAC-99FB-B70190F3D64A)

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