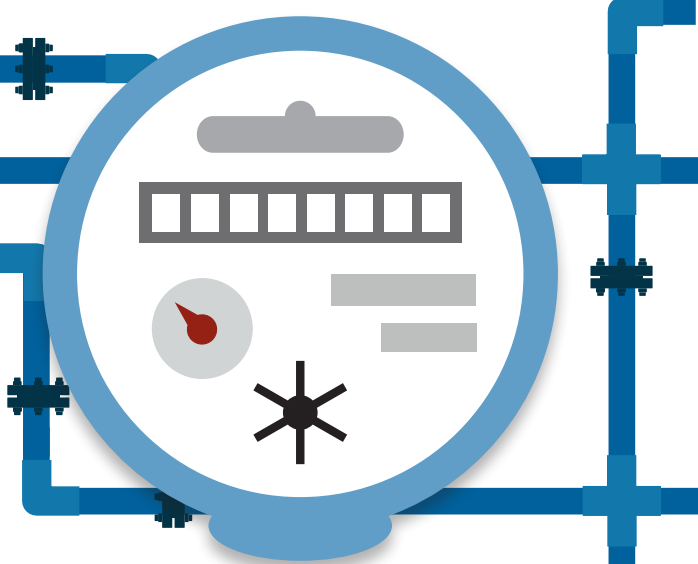


THE TRUTH ABOUT HOW WATER RATES ARE SET

How water rates are set and why they differ among public and private utilities



Private water companies never set their own rates.

Each state has a public utility commission, which sets water rates for private water utilities in the state through a process called a rate case.

- The job of the state commission is to ensure that privately owned water utilities have rates that are both fair and warranted.

There is more oversight of private water utilities than public water utilities.

Only private water utilities must go through the rate case process.

- The rate case process requires the release of supporting documentation and open public hearings to allow customers, elected officials, and other stakeholders to participate.
- A rate case requires a private utility to prove its costs are justified and its rates are fair for a given system.

Private water rates are regulated by state utility commissions based on the true cost of service and necessary investment.

Rates are a reflection of water utility investment.

- Rate increases cover costs such as water main repair and replacement, water hydrant maintenance, and water treatment facility updates.
- Utilities that proactively invest to maintain their system will typically have higher rates than a utility that defers investment in favor of lower rates.

Private water companies have a strong record of regulatory compliance.

According to an analysis of EPA data, publicly operated water utilities are 24% more likely to violate the Safe Drinking Water Act than privately operated utilities.¹

- The authors of the analysis argue that, because rate increases are politically problematic for local officials, it is difficult for public utilities to generate the revenue necessary for upgrades and routine maintenance. Thus, public utilities are more likely to miss or delay crucial investments, thereby generating more violations of federal safe drinking water standards.

Direct comparisons of water rates across communities are misleading and do not tell the full story.

Experts agree it is impossible to make comparisons of rates from one municipality to another.²

- There are dozens of factors that influence water rates, including investment needs, water source location and availability, service area density and elevation, and water treatment needs. As a result, it is extremely challenging to fairly and accurately compare the rates of different service territories.

Direct comparisons of government-owned utilities to privately owned utilities are further complicated by other cost and revenue factors.

It is unfair to make comparisons between privately run utilities and those run by municipalities.

- A government-owned utility receives revenue support through resident property taxes and other federal and state grants, while a private utility does not receive such subsidy support. This “subsidy” significantly decreases customer rates for public utilities, making them appear lower than private utility rates.

¹David Konisky, Georgetown University and Manny Teodoro, Texas A&M University, “When Governments Regulate Governments,” Nov. 2014

²Beecher and Kalmbach, Michigan State University, “2010 Great Lakes Water Survey,” 2011; Houtsma, “Water Supply in California: Economies of Scale, Water Charges, Efficiency and Privatization,” Mount Allison University, 2003; University of Delaware Institute for Public Administration, “Water Rates in Delaware and Surrounding States,” 2014