Water/Wastewater Utilities: Increasing Concerns for Advocates

Wired Group

Reducing the Cost of the Energy Transition

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Wired Group Background

- Formed in 2012 by former for-profit electric utility employees
- Business: Identify unnecessary, premature, cost-ineffective, and inappropriate capital spending by for-profit utilities
- Staff: engineers with electric distribution, gas distribution, and water/wastewater infrastructure and operations experience
- Experience: Testified in scores of utility proceedings in 21 states on behalf of consumer, business, and environmental advocates
- Perspective: Regulatory & ratemaking features that do not balance shareholder and customer interest will be exploited to shareholder advantage, resulting in avoidable spending and rate increases

For more information please visit www.wiredgroup.net or contact Paul Alvarez, President, at palvarez@wiredgroup.net

Preview

- US water/wastewater industry overview
- Challenges facing government-owned W/W utilities
- Acquisition issues (shareholder over customer interest)
- Investment issues we have encountered so far
- Ideas for Advocates

Industry overview

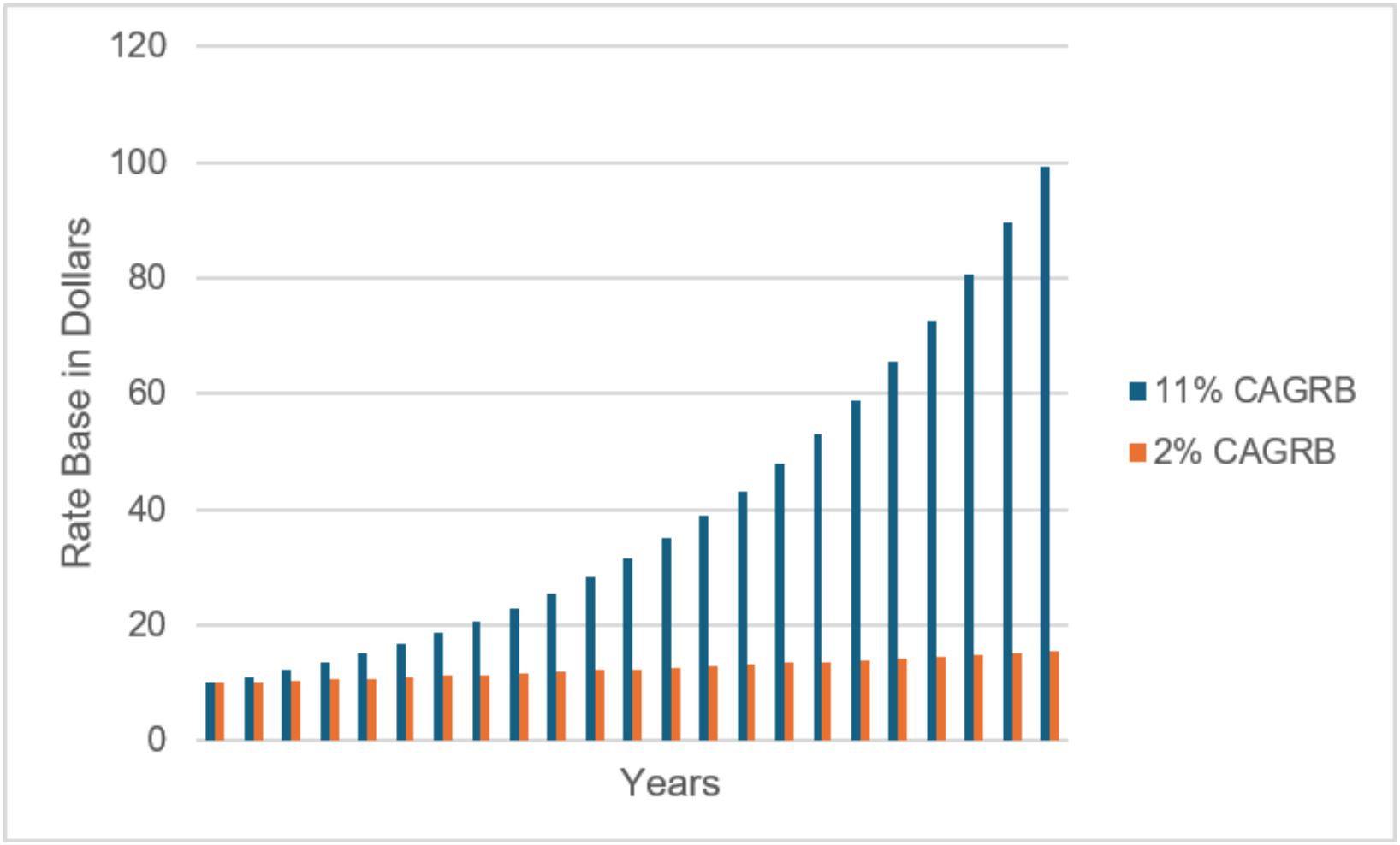
- Thousands of small W/W utilities, most government-owned, serve about 90% of the US population
- Largest for-profit W/W utilities (data from Q3 presentations)

	Annual Revenue ($ Billions)	Target CAGRB*
American Water Company	$5.14	8-9%
Essential Utilities (Aqua)	2.48	Not disclosed
California Water Services Group	1.01	11%
H2O America	0.84	13%
American States Water	0.76	11.3%
Middlesex Water Company	0.24	11.4%

Blackrock Utilities and Infrastructure Trust is the largest single shareholder in every one of these companies, owning 12-20% equity. (Sister firm Blackrock Private Equity is 19th largest such firm globally.)

* Compound annual growth in rate base (including acquisitions)

What 11% CAGRB Looks Like:



Government-owned W/W Utility Challenges

- Government-owned utilities hate rate increases
- History of under-investment to keep rates low
- Can result in crises and prompt ‘rescue’ mentality
- Premiums paid by acquirors also attractive as a solution to broader government funding needs
- Typically lack economies of scale and expertise

Government W/W Utility Acquisition Issues

- Hempling: Only a state can grant a monopoly. Local governments do not own that right and therefore cannot sell that right
- Yet both sellers and buyers assume such ownership, motivating for-profit companies to pay a premium over book value to purchase government utilities
- In many states, such premiums ("fair market value" paid in excess of book value) are added to utility rate bases. This motivates both sellers *and buyers* to inflate sales prices
- Recovering these premiums in rates essentially
  - Means that customers are paying a premium to be acquired
  - Constitutes double cost recovery, as customers have already paid for the assets

For-profit Utility Over-Investment* Observed

- Replacing water lines, sewers, and meters faster and more frequently than necessary
- Replacing water lines & sewers instead of considering alternatives (like repairs or life-extension technologies)
- Expanding capacity more than necessary and earlier than necessary (treatment plants)
- Premature and overkill PFAS technologies
  - EPA deadline is 2029 but extension to 2031 under consideration
  - Technologies evolving rapidly/cheaper options will likely be available
- Rate case materials and documentation not available/not in order

* After capital expenditures to avert pending crises are placed into service

Ideas for Advocates

- Avoid the need for acquisitions in the first place. Endorse state efforts to strengthen local/government utilities
  - State “Expertise Pools” and SWOT Teams local utilities can access
  - Group purchasing pools in which local utilities can participate
  - Consolidation of small utilities into larger regionals (allows Staff and expertise upgrades, economies of scale)
- If acquisitions are unavoidable, improve acquisition processes
  - Oppose rate basing of acquisition premiums/support outlawing such premiums using Hempling and double cost recovery arguments
  - Petition Commissions to competitively bid right to serve areas as monopolies

Ideas for Advocates (Continued)

- Water/Wastewater Rate Cases
  - Establish minimum filing requirements that provide a running start on discovery
  - Secure reasonably prompt data request response times (10 business days is most common)
  - Secure more resources for needed expertise. In most of our clients' states, either
    - Utilities pay experts' invoices as rate case expenses*
    - Advocates funded from charge on utility customer bills

* Known in many states as intervenor compensation funds

Thank You!

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