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Municipal vs. investor-owned water utility rates examined in study

WASHINGTON, DC, Feb. 14, 2011 -- A study commissioned by the California Water Association (CWA) on the differences in water rates of municipal and investor-owned water utilities will be featured today at the Winter Committee Meetings of the National Association of Regulatory Utility Commissioners (NARUC) here, according to CWA Executive Director Jack Hawks.

"We are pleased to be on NARUC's program, because state regulators get the same question our member utilities are asked regularly: 'why are investor-owned water utility rates different from municipal-owned water utility rates?' This study makes it clear that comparisons of investor-owned water utility rates and government-owned water utility rates are difficult and misleading because you are comparing apples and oranges," Hawks said.

According to Hawks, CWA commissioned the study by Chris Aldinger, a certified public accountant from Peasley, Aldinger & O'Bymachow, in order to have a clearly researched and straightforward assessment of the reasons why investor-owned water utilities' rates are different from government-owned water utility rates. Aldinger, who has spent his career handling accounting issues for both regulated and municipal water utilities, was able to explain why the different accounting practices and ratemaking approaches used by utilities lead to differences in customers' water utility rates.

The study's basic premise is that all water rates are based upon the utility's annual revenue requirements. Although all water utilities' revenue requirements are affected by the same factors -- sources of water, quality of water sources, condition of the physical system, number of customers, and financial considerations, such as financing costs and access to taxes and grants -- there is a critical difference in the way investor-owned water utilities and government-owned water utilities calculate revenue requirements.

Municipally-owned water utilities typically use a "cash needs approach," which results in rates that are intended to recover the cash required for that year. Investor-owned utilities typically use a "utility approach," which matches the cost of service to the time frame when the customer is receiving the service. The bottom line: simple comparisons between investor-owned water utility and municipal-owned water utility rates can yield misleading results.

"The general public may not want to delve this deeply into the complexities of rate design and water rates, but some people, particularly community leaders, are genuinely interested in understanding their water rates. We hope this study will prove useful to them, and to our members, who work every day to provide high-quality water utility services at competitive, reasonable rates," Hawks said.

The study can be found at <http://www.calwaterassn.com/currentissues.htm>.

California Water Association represents 125 investor-owned water utilities regulated by the California Public Utilities Commission, including California American Water Company, California Water Service Company, Golden State Water Company, Park Water Company, Apple Valley Ranchos Water Company, San Gabriel Valley Water Company, San Jose Water Company, and Suburban Water Systems, among others. CWA provides a forum for sharing best management practices; a means of promoting sound water policy by regulatory agencies and legislators; and opportunities for educating the public on water resource protection and efficient use.

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