

CALIFORNIA WATER ASSOCIATION '18

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President & CEO
National Association of Water Companies

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WORDS TO LIVE BY...

“If we operate safely, ethically and with excellence, and we do it as a team, the revenue targets and regulatory outcomes will flow from that.”

-Thomas Farrell, President & CEO, Dominion Resources

TOP 3 ISSUES FACING THE WATER SECTOR

▶ **Infrastructure Investment**

- ▶ Constructive regulatory environment
- ▶ Alternative ratemaking mechanisms (DSIC, FTY)

▶ **Industry Fragmentation**

- ▶ Role of Fair Market Value legislation

▶ **Water Accountability**

- ▶ NJ and Indiana lead the way



AGING INFRASTRUCTURE: BY THE NUMBERS

- ▶ 240,000 water main breaks each year in the US[^]
 - Over 2 trillion gallons of treated drinking water wasted as a result
- ▶ 1 million miles of pipes across the country are nearing the end of their useful life
 - 1/3 of water mains nationwide will require replacement by 2040*
- ▶ \$1 trillion in infrastructure replacement needed over the next 25 years*

**American Society of Civil Engineers (ASCE):
2017 Infrastructure Report Card**

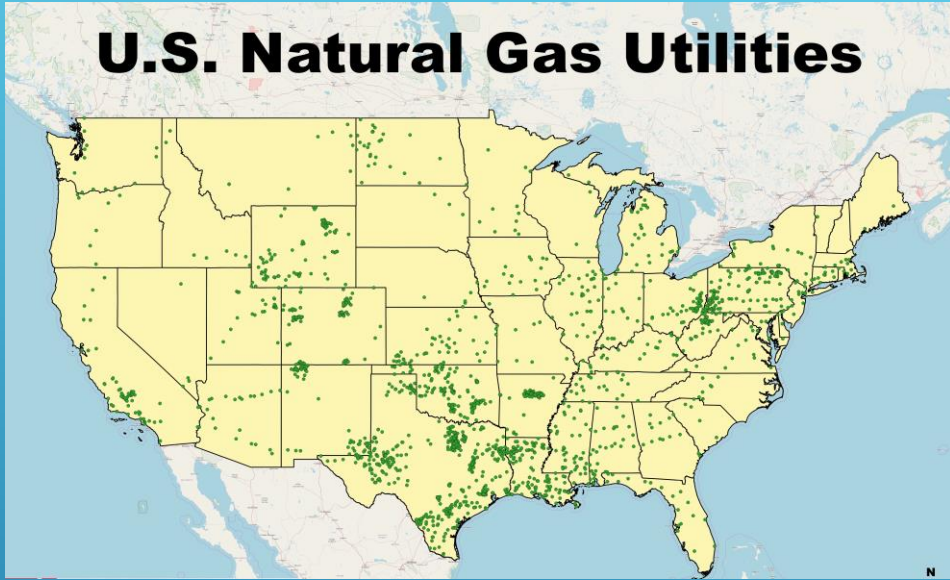
US drinking water infrastructure received a “D” grade

* According to ASCE

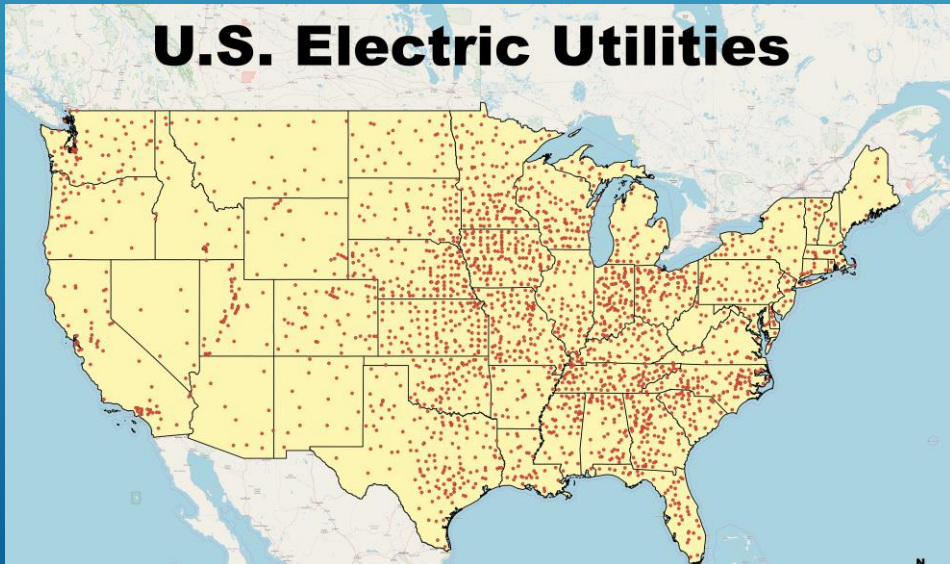
*According to American Water Works Association (AWWA)

WATER INDUSTRY FRAGMENTATION

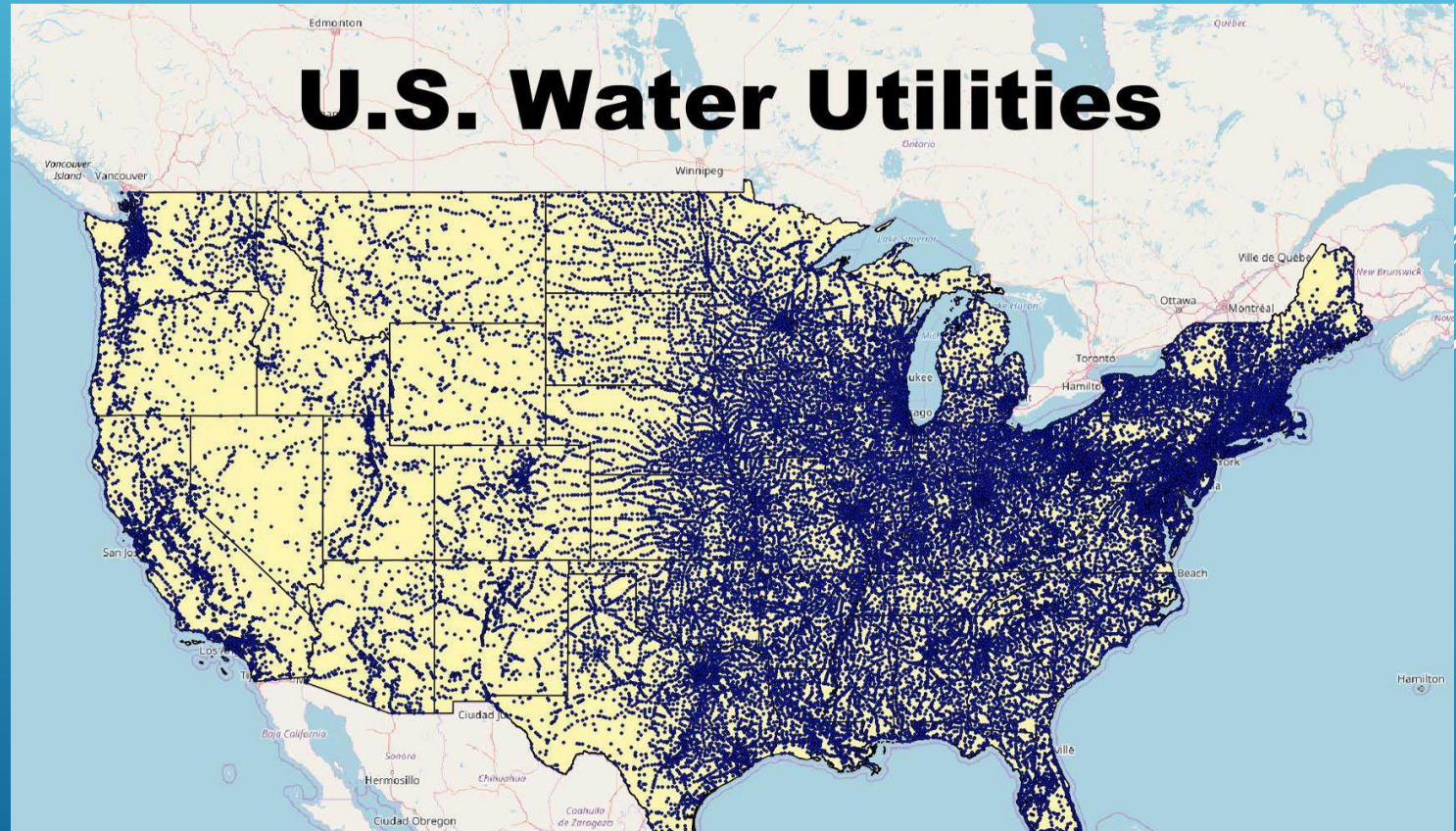
U.S. Natural Gas Utilities



U.S. Electric Utilities



U.S. Water Utilities



AFFORDABILITY: BPC REPORT

- The enormous need for investment in America's water infrastructure has resulted in increasing rates for water system
 - Between 2012 and 2016, water rates increased nationally by about 7% a year
- A recent report from the **Bipartisan Policy Center** (BPC)* identified several factors that can help address water affordability challenges including:
 - Partnerships with the private sector
 - Sound asset management
 - Strategic infrastructure investment
- The BPC Report acknowledges the significant role the private sector noting that partnerships and regionalization can promote affordability by:
 - Lowering operating costs
 - Improving service
 - De-politicizing rates
 - Providing necessary capital for infrastructure improvements.

WATER AFFORDABILITY

- Low water rates should not always be seen as a badge of honor.
 - The BPC report notes that “rates have historically been set too low due to political pressure, concerns over affordability, and limited understanding of all life-cycle O&M costs by utilities.”
- Asset Management Plans play an important role in affordability
 - By adopting asset management plans and strategically investing in water infrastructure, the large rate spikes that put so much pressure on family budgets can be minimized.

“With their economies of scale and service efficiencies, private companies can bring savings in water system O&M costs of 15 percent to 30 percent, according to one estimate.”

THANK YOU

