

Water Rates 101

How are water rates determined? To provide some much-needed clarity on an often murky topic, here are six key facts.

1

Private water and wastewater providers don't set their rates – state commissions do.

To ensure that the private water and wastewater providers' rates are fair and realistic, state public utility commissions set rates through a process called a rate case.

2

Private water and wastewater providers are subject to greater oversight than public utilities.

The rate case process only applies to private water and wastewater providers, who are required to:

- Release documentation
- Hold public hearings
- Prove that rates are fair and costs justified

3

State commissions set rates based on true costs of service and investment.

Proactive investment in system maintenance means paying for vital upgrades to infrastructure. Although this increases rates, the alternative is to put public health at risk by ignoring or delaying this important work, which includes:

- Water main repair and replacement
- Fire hydrant maintenance
- Treatment facility maintenance

4

Private water and wastewater providers have a better track record for water quality compliance.

Private water and wastewater providers are 24% less likely to violate federal drinking water standards than local government-run utilities, according to EPA data.¹ This may be because rate hikes are politically unpopular, making it harder for public utilities to raise the money needed to maintain a reliable water infrastructure.

5

Direct comparisons of water rates don't tell the whole story.

Experts agree that it's almost impossible to do an accurate, 1-to-1 comparison between service areas,² due to a number of factors that influence rates, such as:

- Investment needs
- Water source location and availability
- Water treatment needs
- Service area density and elevation

6

Cost and revenue factors make it even harder to compare.

Government-owned utility bills may seem lower, but that's because local taxes and grants are subsidizing those low rates. Private water and wastewater utilities don't receive that support, so in the end, customers are paying roughly the same amount.

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

² Beecher 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