



## CALIFORNIA WATER SERVICE

1720 North First Street  
San Jose, CA 95112-4598 Tel: (408) 367-8200

June 16, 2017

The Honorable John Shimkus  
Chair, Subcommittee on Environment

The Honorable Paul Tonko  
Ranking Member, Subcommittee on Environment

c/o Elena Brennan  
Legislative Clerk, Committee on Energy and Commerce  
2125 Rayburn House Office Building  
Washington, DC 20515

Re: Questions for the Record following Hearing on Nation's Drinking Water Infrastructure

Dear Chair Shimkus and Ranking Member Tonko:

Thank you for inviting me and the National Association of Water Companies (NAWC) to testify before the Subcommittee on Environment during its May 19, 2017 hearing on H.R. \_\_\_\_, Drinking Water System Improvement Act and Related Issues of Funding, Management, and Compliance Assistance Under the Safe Drinking Water Act.

Again, I commend you and the Subcommittee for highlighting the challenges facing the country's drinking water systems and the solutions that will help ensure all Americans have safe, reliable, and high-quality water utility service for generations to come. California Water Service (Cal Water) and NAWC's other member companies stand ready, able, and willing to work with all levels of government to help overcome these challenges.

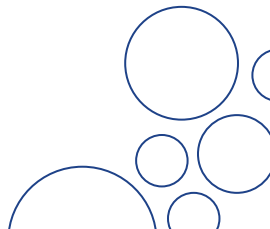
Enclosed you will find NAWC's responses to the additional questions for the record you submitted. If you have any questions, please do not hesitate to reach out to me. We look forward to continuing to work with the Subcommittee and Congress on the critical issues associated with the nation's water infrastructure.

Sincerely,

A handwritten signature in black ink that reads "Martin A. Kropelnicki".

Martin A. Kropelnicki  
President & CEO

Enclosure





**Answers to Questions for the Record Following a Hearing Entitled  
“H.R. \_\_, Drinking Water System Improvement Act and Related Issues of Funding,  
Management, and Compliance Assistance under the Safe Drinking Water Act”  
Conducted by the Subcommittee on Environment, House Energy and Commerce Committee**

On May 19, 2017, the Subcommittee on Environment of the House Committee on Energy and Commerce convened a hearing entitled “H.R. \_\_, Drinking Water System Improvement Act and Related Issues of Funding, Management, and Compliance Assistance under the Safe Drinking Water Act,” at which Martin A. Kropelnicki, President & CEO of California Water Service Group and President of the National Association of Water Companies (NAWC), testified on behalf of NAWC about the ways the private water sector can help address the nation’s drinking water infrastructure challenges. Chairman Shimkus submitted further questions for the record, and this document provides NAWC’s responses.

**The Honorable John Shimkus, Chairman, Subcommittee on Environment**

**Question: Many of the groups on this panel were part of EPA’s report on Effective Utility Management. Do you have specific recommendations on what Congress should do, if anything, with that report?**

Congress can take several steps that will help further the implementation of Effective Utility Management (EUM) and, at the same time, help address the significant drinking water infrastructure challenges the country is facing. First, as a general rule, applicants for public funding of drinking water projects should demonstrate that they have fully accounted for the long-term costs of their projects, including any risks inherent in construction, operations, and/or maintenance, and have selected the delivery model that provides the best long-term value to the water supplier’s customers. For a community to maintain and improve the condition of its infrastructure, and to ensure its long-term safety and reliability, water utilities should be expected, at a minimum, to manage their assets based on a process where adequate repair, rehabilitation, and replacement are fully reflected in management decisions and fully accounted for in water rates. Failing water systems should not be subsidized without

an expectation of financial and operational viability and a process to ensure that federal funds are targeted in a way to ensure they are being used efficiently and cost-effectively.

Second, especially in situations where water suppliers are unable or unwilling to operate their systems in accordance with the principles of EUM, Congress could take steps to further prioritize and incentivize partnerships between failing water systems and owners or operators that have a strong track record of providing safe, reliable, and high-quality service to their customers. For example, Congress should establish a more robust legal “safe harbor” for water suppliers that assume the responsibility of owning and/or operating failing and noncompliant water systems. Oftentimes, the legal and financial liabilities of distressed systems, which can range from the hundreds of thousands to millions of dollars, serve as a “poison pill” to prospective operators or owners. A more robust legal “safe harbor” would prevent new operators or owners from being held liable for the previous misdeeds of others and, in the process, open the doors to significant amounts of capital being invested into the nation’s drinking water infrastructure.

Finally, in order to increase the level of private investment in our drinking water systems, Congress should explore the possibility of creating a tax-based incentive for private water companies that enter into consolidation or partnership arrangements with noncompliant systems. In those cases where the noncompliant system is publicly owned, the federal government is already not receiving any income tax revenue from the water system. It may make sense to extend that income tax benefit to a private water company that assumes responsibility for the noncompliant system, either for a certain number of years or until the failing system is brought into compliance. In the short-term, such an incentive would be revenue neutral, and over the medium- and long-term, it would be a revenue enhancer. In addition to creating an incentive for more partnerships and consolidations, this approach would help to address some short-term affordability questions and free up additional capital to be invested into the water systems.

In summary, what is needed to address the nation’s drinking water infrastructure challenges is a willingness to explore innovative solutions such as partnerships and incentivized consolidation. While many communities continue to clamor for more federal funding, more funding is not going to solve this

growing crisis. In many cases, water system failures – be they related to water quality, reliability, or both – are not solely due to the absence of funding, but rather are directly attributable to the failure of proper governance, poor decision-making, and lack of stringent oversight.

**Question: If Congress should do nothing, what should utilities do to facilitate action?**

One of the most important steps any utility can take to help ensure that it is able to provide its customers with safe, reliable, and high-quality service is to manage its assets in such a way that adequate repair, rehabilitation, and replacement are fully reflected in management decisions, including water pricing. In 2003, the EPA established its Four Pillars of Sustainable Infrastructure, one of which was full-cost pricing. Nearly a decade and a half later, thousands – if not tens of thousands – of water utilities across the country have water utility rates that do not reflect the actual cost of operating, maintaining, and upgrading their systems.

Quite simply, full-cost pricing of water utility service is the single most important element of any strategy to improve the nation's drinking water infrastructure and compliance with the country's water quality standards. Full-cost pricing helps to ensure the financial viability of water suppliers, which then enables the supplier to undertake needed maintenance of and upgrades to its facilities, both of which play a critical role in the supplier's ability to provide safe and high-quality water to its customers.

This transition to full-cost pricing should, however, be accompanied by adequate financial support to assist economically distressed communities and low-income households. In this regard, Congress may wish to consider providing relief directly to fixed- and low-income customers. Currently, federal funds flow directly to water utilities, which enable them to charge lower rates to all of their customers, including those who are not facing any type of economic hardship. A more efficient approach may be to transfer funds directly to challenged and low-income customers, similar to the Low Income Home Energy Assistance Program for gas and electric customers.