

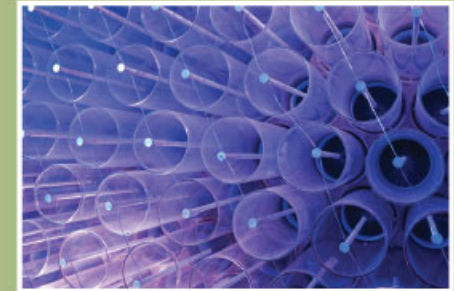


**ILLINOIS
AMERICAN WATER**

**Importance of Rate Structures in Supporting
Water Conservation and Water Utility
Sustainability**

Before the Wells Run Dry

**Metropolitan Planning Council - Openlands
October 13, 2009
Karla Olson Teasley
President – Illinois American Water**





Impacts of Implementing Conservation Under Traditional Rate Design

- **Reduced Demand = Reduced Revenue**
- **Most capital needs remain unchanged**
- **Maintenance of existing facilities and fixed costs (e.g., labor) remain the same**
- **Necessitates review of rate structure**

Innovative rate design can unlock the economic and environmental benefits that can be achieved through water/energy conservation.



Aging Infrastructure Investment Remains Critical

REPORT CARD for AMERICA'S INFRASTRUCTURE

★ HOME ★ REPORT CARDS ★ STATES ★ CATEGORIES ★ SOLUTIONS ★ TAKE ACTION ★ NEWSROOM ★

Drinking Water America's drinking water systems face an annual shortfall of at least \$11 billion to replace aging facilities that are near the end of their useful lives and to comply with existing and future federal water regulations. This does not account for growth in the demand for drinking water over the next 20 years. Leaking pipes lose an estimated 7 billion gallons of clean drinking water a day.

WATER AND ENVIRONMENT
DRINKING WATER
2009 GRADE **D-**

Wastewater Aging systems discharge billions of gallons of untreated wastewater into U.S. surface waters each year. The Environmental Protection Agency estimates that the nation must invest \$390 billion over the next 20 years to update or replace existing systems and build new ones to meet increasing demand.

WATER AND ENVIRONMENT
WASTEWATER
2009 GRADE **D-**

The combined water and wastewater infrastructure needs over the next 20 years approach **\$1 trillion**

20 Year Capital Needs	
Drinking Water ²	\$335 Billion
Clean Water ³	\$331 – 453 Billion

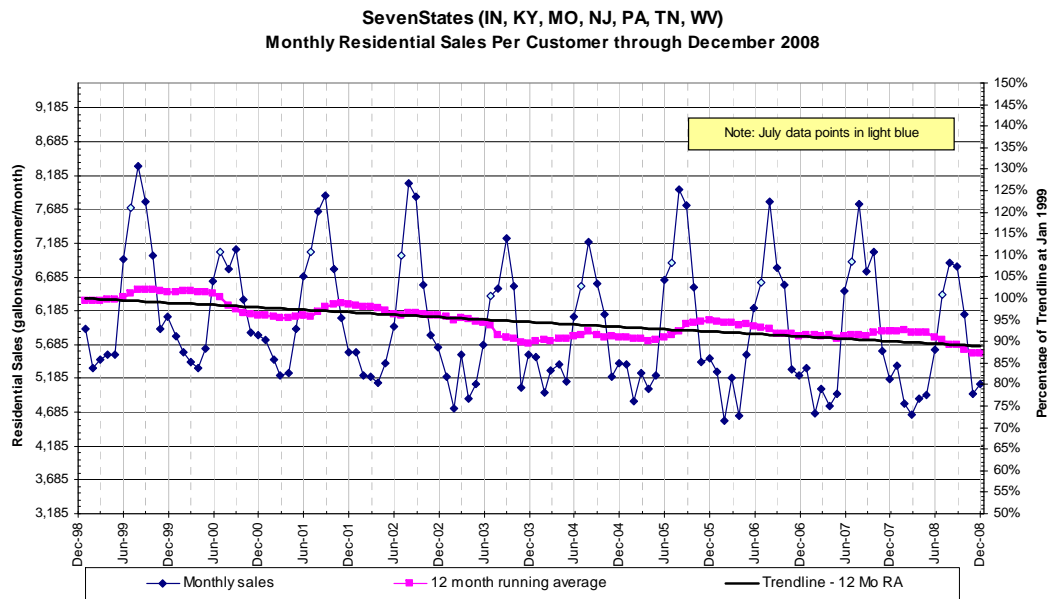
1. American Society of Civil Engineering: 2009 Infrastructure Report Card
2. U.S. Environmental Protection Agency's 2007 Drinking Water Infrastructure Needs Survey and Assessment
3. 2002 USEPA Clean Water & Drinking Water Infrastructure Gap Analysis



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Water Use is Trending Down



Although average water use per customer is declining, capital investment per customer will continue to rise, leading customers to ask:

“Why is my water bill increasing when I am using less water?”



Elements of An Effective Rate Design

- **Sustainable** – produces revenues that cover the full cost of providing service
- **Transparent** – allows customers to make informed decisions about water use
- **Emphasizes Value**
 - Reliable, high quality service
 - Resource allocation and sustainability



How do we Advance an Effective Rate Design Concept?

- **Common Issues**
- **Investor-owned water utilities**
 - Accrual accounting
 - Full cost pricing
- **Government-owned water utilities**
 - Cash needs accounting
 - Non-utility sources of funds



What Can We Do Now?

- Major tariff redesign will take time and study
- However, some short-term actions could be:
 - Remove residential volume water use discounts
 - Install water meters at all customer connections
 - Conduct water audits and leak detection surveys as part of comprehensive planning for infrastructure renewal
 - Expand public education and communication about water conservation and the value of reliable water and wastewater service
(American Water Works Association and U.S. EPA WaterSense Program are resources)



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Before the Wells Run Dry We Must:

- **Establish the true cost of water service**
 - Proper price signals will result in prudent choices
- **Reflect the cost of supply depletion so alternatives such as water reuse can be properly compared**
- **Vastly increase our public education and communication programs**



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THANK YOU