NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES RESOLUTION 2014-7

Water/Waste-Water Industry Earnings Gap Myth

Whereas, rates established for investor owned public utilities that provide essential electric, heating and water and waste-water service should provide the utilities an opportunity to earn a rate of return that is reasonably sufficient to assure confidence in the financial soundness of the utility and its ability to provide quality service; and

Whereas, public utilities carry the responsibility to invest prudently, provide safe and reliable service, and take reasonable action to take precautionary measures to address business risk and economic forces, as necessary; and

Whereas, the regulated, investor owned public water and waste-water industry has reported earned returns on equity that are similar to the allowed returns on equity and the earned returns on equity for natural gas and electric industry for the 12 months ending June 30, 2014, as reported in AUS Utility Reports, September 2014. Moreover, other reports demonstrate that the regulated, investor owned public water and waste-water industry have earned adequate returns on equity in prior years as well and have consistently paid increasing dividends to shareholders;[[1]](#footnote-1) and

Whereas, market-to-book ratio is an indicator of how investors view the value of an enterprise, and the market-to-book ratio of water and waste-water industry is the highest market-to-book ratio among water and waste-water, natural gas, and electricity utility industries, indicating that shareholders recognize the value of water and wastewater utilities that are subject to regulatory review and traditional ratemaking principles (Source AUS Utility Reports, September 2014); and

Whereas, recent analyses show that regulated water and waste-water public utilities and their affiliated holding companies provide their investors with returns that are comparable to or exceed the returns shareholders expect from investments of similar risk, demonstrating that reports of a pervasive “earnings gap” with regard to the water and wastewater utility industry are overstated; and

Whereas, traditional ratemaking principles provide a sound framework for setting rates that give public utilities the opportunity to earn a rate of return that is reasonably sufficient to assure confidence in the financial soundness of the utility and its ability to provide quality service; and

Whereas, traditional ratemaking principles that balance investor and ratepayer interests promote public acceptance and understanding of pricing of essential services and promote equity between shareholders and ratepayers; and

Whereas, traditional ratemaking principles provide important incentives to investor owned public utilities to manage operations to achieve efficiencies and control costs by requiring regulatory review, upon the public utility’s request, of utility costs before price increases can occur; and

Whereas, NARUC adopted a resolution dated July 24, 2013 referring to a purported “earnings gap” between authorized and actual rates of return of water and wastewater utilities.

Now, therefore, be it resolved, that an “earnings gap,” if it exists, is not an appropriate or relevant measure of utilities’ financial health, ability to raise capital, or ability to provide safe and reliable service; and

Be it further resolved, that the traditional regulatory process provides utilities an opportunity to earn an authorized rate of return, but such process does not guarantee utilities that they will achieve that return; and

Be it further resolved, that the traditional regulatory process promotes efficiency, cost control, and reasonable rates by providing appropriate incentives to utility management to control costs permitting utilities to achieve reasonably sufficient returns within the revenue requirement periodically established at the utility’s request.

Be it further resolved, that NASUCA authorizes its Executive Committee to develop specific positions and to take appropriate actions consistent with the terms of this resolution. The Executive Committee shall advise the membership of any proposed action prior to taking such action, if possible. In any event, the Executive Committee shall notify its membership of any action taken pursuant to this resolution.

Submitted by the NASUCA Water Committee

Approved: November 18 , 2014

San Francisco, California
Abstained: Michigan

1. Aqua America paid increased dividends every year for 22 years, see *Aqua America Dividend History,* <http://ir.aquaamerica.com/dividends.cfm>, accessed May 15, 2014); American Water reports “price appreciation including dividends” of 192.9% over the last five years (as of August 2014) *Investor Presentation*, September, 2014 at page 6, and has had steady dividend growth since 2008 at page 6, <http://ir.amwater.com/Cache/1500063512.PDF?Y=&O=PDF&D=&FID=1500063512&T=&IID=4004387>accessed September 11, 2014); The York Water Company paid dividends each year for 199 years, *The York Water Company Announces the 574th Dividend,* April 22, 2014 (<http://www.yorkwater.com/press/pr.dividend.574.pdf> , accessed May 15, 2014); and Connecticut Water Service has paid increased dividends for 44 years, Connecticut Water Dividend History (<http://www.dividend.com/dividend-stocks/utilities/water-utilities/ctws-connecticut-water-services/#dividend-growth-history> , accessed September, 2014). [↑](#footnote-ref-1)