

Changing Customers' Expectations in the Water Industry by Scott J. Rubin

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Good morning. It's a pleasure to be here with you this morning.

[slide 1 – title]

That's our topic. I've been asked to come here to talk to you about what water customers want. Before we get too far into this, I want to make something clear. Yesterday, in the opening session, we heard two distinguished scientists tell us that the public is stupid. They don't understand, we were told repeatedly. They don't understand science, math, technology, energy production, nuclear power, or economics. Now, I'm not nearly as bright as those distinguished scientists, but I've spent the better part of the last dozen years helping the public and their representatives when they have problems with their utilities. And, believe me, it would take me a lot longer than 10 minutes to give you the full benefit of all that I have learned from utility customers over the years. They may not know all the fancy buzzwords, but boy do they understand what's going on.

So, in the interest of fairness, I'll try to present my views of what water customers want – in language that even us experts can understand. In fact, I think I've got it down to one word.

[slide 2 – water customers want]

Water customers want SPAM. That's it. Now isn't that simple?

What? You experts don't understand? You know, SPAM. That stuff that's not quite pork, not quite ham? You see, I think this is why David Letterman's ratings are slipping. The public doesn't want Big Ass Ham, they want SPAM! Trust me on this, I'm an expert, too.

Wait a minute. See, this is why I write this stuff down. Sorry for the confusion. Wrong SPAM.

[slide 3 – spam?]

The SPAM I'm talking about is an acronym for what I think water customers want: Safety, Participation, Affordability, and Management. Glad we're back on track here.

[slide 4 – safety]

Safety is far and away the most important thing to water customers. About three years ago, Bob Hurd conducted a scientific, random survey of water customers for the American Water Works Association Research Foundation. The results of his research were published in the *Consumer Attitude Survey on Water Quality Issues*. If you haven't read this report, get a copy

and read it. It is very enlightening about what water customers want and, as importantly, what water utilities don't understand about their customers.

Over 1200 water customers were asked what was the most important thing their water utilities could do for them. The number one answer – by far – was safe, clean water. 74% of the customers said this was the most important thing the water utility could do. No other response got more than 6% of the votes – and that was providing water at a reasonable price.

The safety of the water supply – protecting public health – *is* the job of the water utility and its regulators. It is far more important than anything else and must not be compromised. Period.

But life is never that easy. Tough choices have to be made when you produce water. My engineering friends tell me that it's technologically possible to produce water that is risk free. It wouldn't taste all that great and your water bills would be thousands of dollars a year, but it is possible. And not very practical. So we have to make some tough trade-offs and difficult decisions. And that's where my "P" – participation – comes in.

[slide 5 – participation]

It's the public's health and the public's money that we're playing with, so how about giving the public a say in what happens to them? Again, the AWWARF survey sheds some light on this. They asked water customers how much input the public should have into major water utility decisions. Over half the customers said they wanted a lot more input, and another third said they wanted a little more input. Only 15% said it was okay the way it was now.

Let me say that again. Only 15% of the water customers said the way things were done now was okay. They want to be more involved and have a say in the process that determines what kind of water they get and at what cost.

Here's where I have a little problem with my friends in the water industry – if I have any left. The survey did an interesting thing. In addition to asking water *customers* what they thought, the researchers also asked water utility *officials* what *they* thought the customers would say. The water industry thought that only about 15% of the customers would want a lot more input. The industry thought that most customers would say things are just fine the way they are now. Does anyone else see a problem here?

Customers want a chance to participate, and they're not likely to get it from the voluntary actions of water utilities.

[slide 6 – affordability]

One of the things they'll want to help decide is the cost of water. Once you get past the safety issue, customers will tell you that the cost of water is important. They understand the trade-offs that so baffle policy-makers and us so-called experts. They know that if their water bill goes up, that's money they won't have to spend on something else – little things like medical care, food, shelter, and heat.

There's no consensus about what makes water affordable. But let's say, just so we can toss around some numbers, that the water bill should be no more than 2% of a household's income. Remember, in most places, the sewer bill is at least as high as the water bill, and you have to pay both in order to keep water service in the house. So we're really talking about 4% of household income for water *service*. That's about what the typical household pays for energy and a good bit more than the telephone bill.

So, how are we doing?

I hate to be the bearer of bad news, but we're doing lousy. This chart is from a study that I did a couple of years ago on affordability of water in Pennsylvania. This is the data just for investor-owned water companies and it's looking pretty bad. The percentages vary by system size, but overall, somewhere between 10 and 20% of water customers are already paying more than 2% of their income for water.

We've got trouble. A lot of people already are paying a high percentage of their income for water. As Jan Beecher explained yesterday, the cost of water is increasing faster than the rate of inflation. But incomes – particularly for the poorest members of our society – are flat or declining. The affordability problem will become much worse and your commissions and utilities will be asked to help do something about it.

I started talking about this issue several years ago, and a lot of people thought I was crazy. Well, in the last year, in the State of Maine the PUC, at the urging of the Public Advocate, started a generic investigation into the problems of low-income water customers. Just last Friday, the New Jersey Ratepayer Advocate spoke to the NAWC chapter in that state about her concerns with low-income water customers. I believe that other commissions and consumer advocates will be considering similar actions in the near future.

Affordability cannot be ignored in the water industry.

[slide 7 – management]

The final ingredient in my SPAM is management. Water customers want assurances that their utilities are professionally managed, with a focus on the customer. It's that consumer orientation that gives the customers confidence that their water is safe to drink, that smart decisions are being made, and that costs are being controlled.

Do customers believe that now? No, they don't. I turn again to the AWWARF survey. I know this is a little hard to read, but here's what we've got. Water customers were asked to rank, on a scale of 1 to 5, how much their utilities cared about various issues. At the bottom of the ranking are the customer-focused issues – informing the customer and caring about the customers themselves. The number one thing that customers think utilities care about? Making money. Half of the customers gave this a 5 and, overall, the average ranking was above 4.

Water customers think that water utilities care more about making money and their image than they do about providing safe water, protecting the watershed, or keeping customers informed about what's going on.

Water utility management has a long way to go.

There you have it. That's what water customers want – SPAM.

But there's one problem. Have you ever tried to go to the meat counter and buy SPAM? You know, talk to the butcher and say, "I'd like some of those SPAM ribs." "Is your SPAM fresh-cut?"

You can't do it, can you? That's right.

[slide 8 – SPAM/CAN]

It's a basic food rule: You can't get SPAM without the CAN. And it's a basic rule here, too. Water customers can't get SPAM without the CAN.

[slide 9 – CAN]

The CAN I'm talking about is another acronym: Commission Action Needed. Water customers can't get what they need – safe water; the chance to participate in major decisions; water that they can afford; and responsive, customer-focused management – from their often unresponsive, investor-focused monopolies without some help from you, the regulators.

[slide 10 – Commissions]

Here are a few suggestions for how you can help customers get the SPAM that they so richly deserve.

Do not set rates without considering the quality and safety of water service. Enough said. You can't determine what rate is just and reasonable if you don't know the quality of the product that's being provided.

Expand the ability of customers to participate in major water utility decisions. Move toward an integrated resource planning process that includes participation by a broad range of stakeholders, including a cross-section of customers.

Protect low-income water customers. I know, utilities will scream and moan that it's not their job to provide a social welfare program. If you'll pardon my use of another meat phrase – baloney! Utilities enjoy the privilege of being monopolies. They are legally insulated from competition because they provide an essential, *public* service. They are allowed to use the *public* rights of way; they have the *public* power of eminent domain. Your commissions exist to regulate them because of the strong *public* need to ensure that their services are provided fairly and their power is used to serve the public good, rather than to achieve private gain. Along with all of those rights that utilities enjoy come some responsibilities – and that includes the responsibility to ensure that this essential public health service is available to everyone.

So, do not fall into the trap of saying that utilities are private businesses and cannot have public functions thrust upon them. Every dollar they make comes from their performance of a public function and they should be required to perform that function in the fairest manner possible.

Finally, look at how utilities treat their customers. Look at it in rate cases. Look at it in complaint cases. Look at it in management audits. Is there a customer focus – or were the customers in the survey right: all the utility cares about is making money?

Well, that's my humble advice for today: Forget all those fancy cuts of meat and go for the SPAM. Water customers everywhere will thank you.