

# The Effects of Electric and Gas Deregulation on the Water Industry

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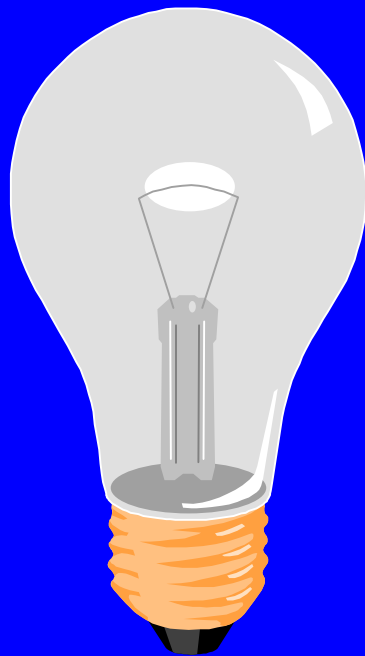
# Upcoming Studies

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- ◆ Beecher for NAWC
- ◆ Rubin for AARP
- ◆ Beecher and Rubin for AWWARF

# Electric Industry

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# Reasons for Restructuring

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- ◆ Marginal cost < average cost
- ◆ Industry concern with declining rates and economic excess capacity
- ◆ Wholesale competition

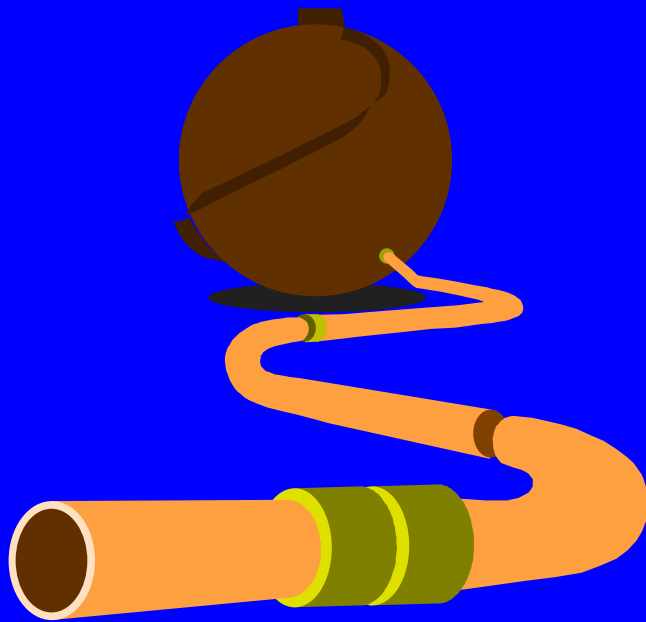
# Status of Restructuring

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- ◆ Wholesale competition
  - PURPA, 16 USC § 824a-3
- ◆ Retail competition
  - 66 Pa. C.S. § 2801, *et seq.*

# Natural Gas Industry

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# Reasons for Restructuring

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- ◆ Joint purchasing with electricity
- ◆ Spread between electricity and gas prices
- ◆ Tax avoidance

# Status of Restructuring

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- ◆ Wholesale competition
  - Widespread for more than 10 years
- ◆ Retail competition
  - For large consumers, widespread for more than 10 years
  - Legislation proposed
    - » SB 943
    - » HB 1068
  - Utility pilot programs



# Effect on the Water Industry

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# Water Utilities as Energy Consumers

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- ◆ 78 million KWH/day
- ◆ 9% of O&M costs
- ◆ Options
  - Electricity
  - Natural gas
  - Self-generation
  - Conservation and demand management

# Water Utilities as Acquisition Targets

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- ◆ DQE - AquaSource
- ◆ Northern States Power -  
Southern States Utilities
- ◆ Enron - Wessex
- ◆ Philadelphia Suburban -  
Consumers
- ◆ GPU (or Enron) - Saur?

# Water Utilities as Competitors

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- ◆ Billing
- ◆ Metering
- ◆ Call center / customer service

# Restructuring the Water Industry?

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- ◆ Marginal cost  $>$  average cost
- ◆ Increasing cost industry
- ◆ Product not fungible
- ◆ Physical limitations on moving product
- ◆ Privatization
- ◆ Public - private partnerships
- ◆ Mergers and acquisitions