



OLR RESEARCH REPORT

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METROPOLITAN DISTRICT COMMISSION WATER RATES

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You asked about the current rates that the Metropolitan District Commission (MDC) charges its customers and how they compare with Connecticut Water Company's (CWC) rates. You also wanted to know (1) what makes water rates increase, (2) the role commission members and non-members have in rate-setting and the process of converting a non-member town to a voting member town on the MDC board, (3) whether the Public Utilities Regulatory Authority (PURA) (formerly known as the Department of Public Utility Control, or DPUC) controls these rates, (4) how the state regulates water companies, and (5) what other options Connecticut residents have for obtaining water.

SUMMARY

The MDC water rates are generally lower than those of private water companies, such as CWC. The surcharge for non-member towns (NMT) served by the MDC, however, increased significantly in January 2013. According to MDC's assistant district counsel, numerous factors contributed to the increase, including a loss in revenue due to decreased water consumption that adversely affects NMTs, a necessary shift to a more stable source of revenue to cover fixed operating and maintenance costs, an aging water infrastructure system, and the fact that member towns already pay a special sewer service surcharge that is not imposed on non-members.

While member towns are represented on the commission and have voting rights to approve rate adjustments, NMTs have no such representation. However, NMT residents are able to attend public hearings and provide input during the budget and rate-setting process. The conversion of a NMT to a member town would require either an amendment to the special act that chartered the Metropolitan District, or approval from all of the member towns according to the procedures set forth in the charter.

PURA does not regulate the rates of municipal or regional water authorities such as the MDC. Rather, the rates are established through a change in the MDC ordinances, in accordance with the District's charter. PURA does regulate the rates of private, investor-owned water companies, including CWC. It may deny rate increase requests if the proposed rates fail to meet certain statutory criteria.

Connecticut residents may be somewhat limited in their water supply options. The water industry is a natural monopoly, so switching to a competitor may not be possible, and the ability to drill a well on one's property could be restricted by Department of Public Health (DPH) regulations. MDC customers in NMTs can, however, attend public hearings concerning the budget and water rates and voice their input, as rates are adjusted on an annual basis. Furthermore, customers can take advantage of energy efficiency options as suggested by the MDC, the Department of Energy and Environmental Protection (DEEP), and the U.S. Environmental Protection Agency (EPA), which could help to reduce an individual's water consumption.

WATER RATES

Overview of the Regional Water Authorities

The Metropolitan District Commission (MDC) is a municipal corporation chartered by the Connecticut General Assembly by Special Act 511 of 1929 (which also serves as its charter) to provide potable water and sewerage services on a regional basis. It is one of the state's three regional water authorities – in addition to the South Central Regional Water Authority and Southeastern Connecticut Water Authority – each of which was created by the legislature by special act and which also established their governance and rate-setting authority.

The MDC currently serves eight member municipalities – Bloomfield, East Hartford, Hartford, Newington, Rocky Hill, West Hartford, Wethersfield, and Windsor. MDC also serves portions of other towns in the region, including East Granby, Farmington, Glastonbury, and South Windsor. These towns are considered NMTs.

Under the MDC's charter, the legislative bodies of the member municipalities, the governor, and legislative leaders appoint a 29-member board of commissioners. Although New Britain is not a member town, it has a special representative on the Commission with limited voting authority concerning water issues. In the case of the South Central Regional Water Authority and Southeastern Connecticut Water Authority, policy boards (consisting of representatives from each municipality the authority serves) choose five-member governing boards.

Establishment and Adjustment of MDC Rates

Each regional water authority's governing body establishes and adjusts its rates according to procedures or requirements specified in its charter. For example, MDC sets water rates as part of its annual budget process. Every fall, MDC's finance board has budget meetings with officials of member municipalities. The finance board and the MDC water bureau hold a public hearing, as required by the MDC charter, on the proposed budget and any water rate changes. (Rate changes take the form of a revision to MDC's ordinances.) MDC must publish notice of the time and place of the hearing twice in a local paper. After the hearing, the finance board approves the budget and the water bureau approves the rate change. MDC then notifies the public in a general circulation newspaper for three consecutive days. In early December, the MDC board adopts the budget, which it subsequently distributes to officials of member municipalities.

Most Recent Budget and Rate Cycle: Notice and Public Comment.

According to the MDC, during the most recent budget and rate-setting process, the public hearing notices were published twice in the *Hartford Courant*. The notices also were posted on the MDC website, along with the agendas and minutes from all MDC meetings, and hand-delivered to the town clerks in the member municipalities. Additionally, the following MDC governing bodies held meetings:

1. Board of Finance (public budget hearing);
2. Water Bureau (public hearing for water rates and water ordinances);
and
3. District Board (final consideration of budget).

MDC also included an insert explaining the rate changes with all first quarter 2013 bills.

What Goes Into the Rates. According to the MDC counsel, the Commission is responsible for developing and maintaining an appropriate financial rate structure that ensures adequate and consistent funding of operating expenses. The process of establishing the rate structure includes the following elements:

1. exploring efficiencies and cost-cutting measures;
2. reviewing other water utility rates in the area;
3. discussing rates with member town officials and stakeholders;
4. soliciting customer input through properly noticed public hearings;
and
5. considering and adopting the final budget and rate structure (by the MDC Water Bureau, Board of Finance, and Board of Commissioners).

Current Water Rates

Water utilities generally charge customers a water use rate (based on how much water the customer consumes during a certain billing period) and a basic service charge (a flat monthly or quarterly charge to cover billing, customer service, and other fixed costs). There may be additional fixed charges for capital improvements. Table 1 provides the per capita estimates of water rates for the MDC and CWC divisions. Estimates are based on a typical residential customer who uses 18,000 gallons per quarter (about 50 gallons per person per day).

Table 1: Selected Per Capita Estimates of Water Utility Rates in Connecticut

<i>Company (Division/System)</i>	<i>Water Use Rate (per 100 cubic feet) ¹</i>	<i>Water Use Rate (per 1,000 gallons)</i>	<i>Total Per Capita Quarterly Water Use Estimate</i>	<i>Basic Service Charge (quarterly, 5/8" meter size)</i>	<i>Total Per Capita Quarterly Estimate (water use plus Basic Service Charges)</i>
Metropolitan District Commission	\$2.50	\$3.34	\$60.16 ²	\$40.44	\$100.60
MDC (non-member towns)	\$2.50	\$3.34	\$60.12	\$146.19 ³	\$206.31
CWC (Ellington Acres)	NA	\$4.12	\$74.18	\$24.09	\$98.27
CWC (Unionville)	\$2.94	\$3.93	\$70.67	\$28.83	\$99.50
CWC (Middlebury)	NA	\$5.55	\$99.81	\$14.59	\$114.40
CWC (Crystal)	NA	\$5.34	\$96.19	\$28.83	\$125.02
CWC (Gallup Brookside, SDC, Bay Mountain, Mason's Island)	\$4.93	\$6.59	\$118.58	\$28.83	\$147.41
CWC (Main Division)	\$5.49	\$7.34	\$132.12	\$28.83	\$160.95
CWC (Mansfield)	\$4.28	\$5.72	103.00	\$62.31	\$165.31
CWC (South Coventry)	\$6.32	\$8.42	\$151.63	\$30.64	\$182.27
CWC (Mansfield – Pilgrim Hills, Pinewood, and Redwood Farms)	NA	\$6.90	\$124.18	\$62.31	\$186.49

Sources: Metropolitan District Commission rate schedule, Connecticut Water Company rate schedule, and PURA website

¹ For comparison purposes, water use rates based on 100 cubic feet (one ccf) were converted to equivalent rates on a per 1,000 gallon basis using a conversion factor of 1.33688. One ccf of water equals approximately 748 gallons.

² Member towns are also subject to a "special sewer service charge" of \$2.40 per 100 cubic feet of water used. This amount is not included in the table.

³ In addition to the \$40.44 basic surplus charge, this amount includes a \$105.75 quarterly non-member town surcharge.

Recent Increases and Reasons for Cost Shift to MDC NMTs

In January 2013, the MDC water consumption charge increased for all customers from \$2.43 to \$2.50 per 100 cubic feet. The quarterly water Customer Service Charge (CSC) also increased from \$39.54 to \$40.44 per quarter. The NMT surcharge increased from \$39.30 to \$105.75.

According to MDC's attorney, the increased NMT surcharge was due primarily to the repurposing of the CSC and NMT revenues to also cover the additional costs for fixed operating, maintenance, and debt expenses

associated with water operations. These costs previously were covered by revenues from the sale of water. They were shifted to the CSC and NMT surcharge because of a decline in water revenues as a result of conservation efforts and economic and market factors. The attorney also noted that the CSC and NMT charges provide a more stable revenue source than the water use charge because they are not subject to the same environmental and economic factors that affect consumption. The attorney noted the following additional reasons for the NMT rate increase:

1. rates were artificially low from the outset;
2. member towns were carrying much of the costs and burden related to the special sewer service charge that covers bonding for the [Clean Water Project](#) (a \$2.1 billion project mandated by state and federal environmental officials to reduce sewage overflow into the Connecticut River);
3. the water infrastructure system was aging;
4. lower water consumption was resulting from a greater emphasis on conservation, including an increased installation of higher efficiency appliances that use less water; and
5. ratings agencies were pressuring the MDC to provide for a more stable source of income to pay back construction and infrastructure bonds.

MDC's website further notes that loss of revenue due to reduction in water consumption adversely impacts non-member towns disproportionately since NMTs are spreading those costs over only 7,800 customers, while member towns are spreading their increased costs over 110,000 customers.

The [Hartford Courant](#) published an article which discussed some of these reasons and compared the previous and current MDC rates for member towns and NMTs.

GOVERNMENT REGULATION OF WATER AUTHORITIES

Municipal and Regional Water Utilities

DPH, DEEP, and PURA (an agency within DEEP) all have roles in regulating water utilities. PURA is the only one of the three that regulates rates, and it does so only for private water companies. MDC's rates are determined according to the procedure outlined in its charter, as described above. No state agency regulates municipal or regional water utility rates.

DPH is responsible for ensuring the purity and adequacy of water supplies. It has jurisdiction over all suppliers that serve more than two customers or 25 individuals. DPH is the lead agency for water supply planning and regulates the disposal of water supply lands. It also regulates water treatment plant operators.

DEEP is the primary enforcer of water pollution laws. It is responsible for issuing water diversion permits required to increase water production or produce water from a new source. DEEP is also involved in aquifer protection activities.

Private Water Companies

PURA is statutorily charged with regulating the rates and services of Connecticut's investor-owned water companies, including CWC. PURA "balances the public's right to safe, adequate and reliable utility service at reasonable rates with the provider's right to a reasonable return on its investment." PURA regulates water company rate adjustments in accordance with state law.

Under this law, PURA must determine whether the rates proposed by a utility are "just, reasonable and adequate" and whether the service it is providing is adequate to the "public convenience" and "necessity," among other considerations. In addition it requires PURA to set rates to be "sufficient, but no more than sufficient," to allow utilities to (1) cover their operating and capital costs, (2) attract needed capital, (3) maintain their financial integrity, and (4) provide adequate protection for public interests. PURA is also bound by federal case law, which, among other things, bars states from setting rates so low that they result in a confiscation of the utility's property.

PURA must conduct an investigation of a proposed rate change to determine whether it meets the statutory standards. If it finds that the proposed rates are more or less than "just, reasonable and adequate" or that they are inconsistent with the principles of the law, PURA must prescribe rates that meet these standards.

PURA issues a draft decision in rate adjustment cases. If PURA denies a proposed rate increase or grants an increase that is smaller than the one sought, utilities have several options. They can (1) seek to modify PURA's draft decision, (2) ask it to reconsider its final decision through an administrative procedure, or (3) appeal the final decision to the courts (C.G.S. §§ [16-19](#) and [16-19e](#)).

OLR Report [2008-R-0197](#) provides further discussion of PURA's rate-setting authority. OLR Report [2010-R-0333](#) discusses contributing factors to changes in CWC and other private water company rates.

OPTIONS FOR MDC CUSTOMERS

The MDC holds public hearings toward the end of each year to consider public input regarding its budget and rates. Although only member towns are represented on the commission and may vote, NMT residents are welcome and encouraged to attend these hearings and provide input.

Some NMT residents may have the option to drill their own well. It is likely, however, that most do not have that option because of DPH and other zoning regulations that restrict the proximity of wells to public water supplies. Customers generally do not have the ability to switch to a different water company because the water supply industry is a [natural monopoly](#) (a situation occurring where extremely high capital investments are required to enter a market, giving the firm that initially has the largest share of the market a sizeable advantage over potential future competitors). For example, although there are three different water authorities that serve the town of South Windsor (MDC, CWC, and Manchester Water), each authority serves only an exclusive area of that town. A customer could not switch from MDC to CWC unless he or she physically moved to the area of South Windsor that CWC serves.

Expanding MDC Membership

The process for a NMT to become a member town, with representation and voting rights on the MDC Board of Commissioners, is outlined in the MDC charter. If a NMT votes to adopt the charter, all member towns must ratify the NMT before it becomes incorporated in the Metropolitan District. Under the charter, the MDC may agree to certain terms of incorporation with a prospective member town before approving that town's incorporation into the District. For example, such terms may include a temporary service charge in addition to the regular member town rates for a period of time. After that period expires, the current water rates in the new member town must be uniform with the rates in the rest of the District. Alternatively, the General Assembly could amend the charter to include additional municipalities in the District.

Water Conservation

Customers may be able to take advantage of certain energy efficiency options to reduce their water bills. MDC offers [several tips on its website for reducing water use](#) both inside and outside the home. Additionally, it provides information on "[xeriscaping](#)," which "emphasizes the use of

drought-tolerant plants and special gardening techniques.” DEEP provides a chart with several [water saving options](#), as well as a list of additional [water conservation tips](#). The EPA has created a partnership program called [WaterSense](#), which bring together a variety of stakeholders to, among other things, provide consumers with easier ways to save water through labeling of more efficient products and services.

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