

# PRIVATIZING NC'S WATER, UNDERMINING JUSTICE

## Executive Summary

### ***Background***

Access to clean water and sanitation has been declared a human right by the United Nations, yet water resources are increasingly being transferred to private ownership. In North Carolina, where privatization mostly affects small, rural water systems, this practice has had a number of impacts on vulnerable neighborhoods and households.

Large corporations are displacing many “mom-and-pop” water companies as the owners and operators of small NC systems, often initially set up by owners to serve a mobile home park or new housing development. The North Carolina Utilities Commission and its Public Staff (established to advocate to the Commission for the “using and consuming public”) encourage private acquisition of “troubled” systems, assuming that companies can invest in and repair failing infrastructure better than municipalities. They set rates to ensure companies receive a certain rate of return on investment, and increasingly approve single-tariff pricing or “rate consolidation,” in which almost all customers of a company statewide pay the same rates. Mechanisms are lacking to monitor how the funds from rate increases are distributed in system improvements, sometimes forcing low-volume (often low-income) users to subsidize improvements for higher-volume users.

Current policies also allow landlords of multifamily residences (such as mobile home parks) to readily acquire a “Certificate” (see Chapter 1 for more detail) to resell water or wastewater services obtained from municipal sources at increased cost, but these agreements lack requirements to ensure that residents are not overcharged for water and wastewater, and do not assure water quality and affordability in these neighborhoods.

### ***Consequences for NC communities***

**1. Affordability of water and wastewater** can be a significant challenge for low-income residents. Though water rates are rising worldwide for both private and publicly owned systems, privately-owned utilities’ rates are higher on average than those of publicly-owned utilities for the same sized system. The cost of water and sewer for people with the lowest income levels approaches or exceeds the U.S. Environmental Protection Agency’s threshold for affordability of water and sewer, while those in higher income brackets spend a much smaller proportion of their income for those services. Rate structures that encourage conservation (after leak detection and repair), and that do not disproportionately burden low-volume users, should be more widely used in NC, but most private companies in NC use single-block or flat rate structures.

**2. Customer service and water quality** concerns arise with some private companies, but customers have limited ability to hold companies accountable for responding quickly and effectively. *Water service and water quality* are often already poor in “troubled” systems that are in need of infrastructure improvements or chronically out of compliance with the Safe Drinking Water Act standards, so when private companies purchase and operate these systems and are slow to respond to concerns, residents may suffer from unsanitary conditions. *Unclear billing* and failure to provide accessible payment options have led to water cutoffs for many customers. *Notifications* of rate increases and water quality alerts do not reach all customers due to insufficient notification efforts, poor timing, or language barriers.

**3. Transparency** is lower for private companies than for municipal systems. Companies may limit disclosure of operating information to protect access to operating strategies and to reduce costs associated with customer notification and interaction. Without full disclosure of information on operations, customers can’t act to protect their interests.

**4. The regulatory failure to protect consumers’ interests** has been evident in the decisions and recommendations of the NC Utilities Commission and Public Staff. Allowing substantial and widespread rate increases with inadequate justification, as well as limited

enforcement of record-keeping requirements may indicate the Commission’s lack of independence from utility interests, and Public Staff’s lack of advocacy for customers. During early 2010, for example, Public Staff recommended rates that were only slightly reduced from water utilities’ proposed increased rates.

### **Examples**

- *Northgate community, Fuquay Varina:* For years, residents of Northgate neighborhood were not notified of TCE contamination in their community well. Since Aqua NC took over their system, they’ve responded slowly to prevent TCE contamination, and offered residents little support for hookup to nearby municipal water supply.
- *Carolina Trace, Sanford:* Residents have protested Utilities, Inc. rate increases due to persistent problems with line breaks and boil advisories, but felt the Utilities Commission and the Public Staff did not listen to their concerns.
- *Wildcat Creek neighborhood, Chapel Hill:* Chronic water contamination led to extended boil-only advisories in a neighborhood receiving water from Aqua NC. Residents complain that the company fails to notify them about health hazards and upcoming rate increases.

### **Challenging the myths of privatization**

**Myth 1: Privatization increases economic efficiency and cost-savings for municipalities and customers.** The purported economic efficiency of private companies is based on the principle of free market competition, but water utilities are intrinsically monopolies in their service areas. To minimize costs, private companies may forego maintenance, system improvements and water conservation programs, or significantly reduce staff. In many cases, individual household bills increase after privatization of a system. If privatization truly creates cost-savings, it benefits the company, not customers.

**Myth 2: Privatization improves service and brings increased technical expertise.** In fact, communities whose water systems are transferred to private hands often lose expertise in the form of staff layoffs, and have decreased opportunities for public involvement in decision-making. Due to proprietary operating information, large private companies are less likely than municipal or small private systems to share expertise with neighboring systems.

**Myth 3: Privatization injects more capital to finance needed infrastructure improvements and transfers risk to the private sector.** The capital invested by private utilities in system improvements is actually lower than for publicly owned ones for systems of similar size. Most private companies do not take on financial risk without support from governments through loans or profit guarantees.

### **Recommendations**

Clean Water for NC has identified specific changes that are needed in order for state laws and Utilities Commission policies to be truly protective of North Carolinians’ rights to safe and affordable water. These include:

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| <ul style="list-style-type: none"><li>• Rates that don’t disadvantage low-volume users, low-income neighborhoods</li><li>• Prohibit new water franchises when systems can connect to public system, encourage connection to existing public systems, following Alabama model</li><li>• Affordability considerations when setting rates for low-income residents,</li></ul> | <ul style="list-style-type: none"><li>• Clear billing and requirements for customer notification,</li><li>• Enhanced funding for publicly owned water system improvements,</li><li>• Use of a price index to determine reasonableness of rates,</li><li>• Enhanced opportunities for public participation in decision-making.</li></ul> |
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