

March 23, 2011

Testimony re: H.B. 87

Given by Stewart Flaherty, Blendon Township Trustee

4433 Smothers Rd. Westerville, OH 43081

Key Points:

1. The local water companies were founded so the developers could sell houses in their new subdivisions. Local governments were often unable to provide water and sewer services. Without these essential services, the developers would not make a profit. The developers chose to build water and sewer plants to open their developments faster than waiting for local governments to provide the necessary infrastructure.
2. Many of the early easements and agreements with local governments allowed the counties to take over the system after 50 years. This was not a charitable move, as the plants and infrastructure would need serious replacements and upgrades.
3. The companies were created as profit centers, not as public service companies. When the opportunity for the developers to sell their private water companies, they did so to for profit corporations. The goal of these companies is to make money for the investors by selling a product. It is not the same goal as a government owned utility providing necessary services to the taxpayers.
4. The profit motivation (increased returns to shareholders) is inherently at odds with the consumers' best interests.
5. The profit motivation (increased returns to shareholders) is inherently against customer water conservation efforts. This is stated in American Water's Annual report:

“Our Regulated Businesses are heavily dependent on operating revenues generated from rates we charge to our customers for the volume of water they use. **Declining usage due to conservation or economic environment contribute to regulatory lag and will have a negative impact on our long term operating revenues** if we are unable to secure appropriate regulatory treatment to offset the usage decline.” (Page 45)

6. As reported 2/25/2011, 2010 revenue increased by 10%. Earnings per share were \$1.53 and expected to increase to \$1.65 to \$1.75 per share in 2011 (10 – 14% increase). Recent analysis of average growth rate for the S&P500 developed a range of values — most of which were in the mid-single digits (below 10%). As a general rule of thumb, the typical annual growth rate for EPS is generally between 5% and 8 %.

Operating cash in 2009 increased by 30%. All within the current rate structure, without the benefit of the applied for large rate increase which was deemed “necessary” for the company to successfully continue.

7. American Water reported in their annual financial reports from 2006 to 2009:

”In connection with the preparation of our consolidated financial statements as of December 2006, we and our independent registered public accountants identified the following material weaknesses in our internal control over financial reporting.....Inadequate controls over financial reporting processes.....Inadequate controls over tax accounting and accruals...” (Page 46)

8. They further state that **“such deficiency could result in misstated consolidated financial statements affecting results of operations, financial position, cash flows and disclosures that would result in a material misstatement of the consolidated financial statements that would not be prevented or detected.”**(Page 139) These were the very records used to request the prior granted rate increases as well as the current requested rate increases. PUCO was basing their review on numbers that the company admitted might not be correct.
9. The current law provides no incentive to the company to work with the consumer on future rate increases. The company can afford to pay the most expensive lawyers and lobbyists to push rate increases through the system because they will not impact their profits. The consumers will bear all the costs. Should they try to fight the rate increases, they end up paying more for their water. Even when the documented numbers used by the company are admitted to be suspect, the consumers do not have the expertise or resources to battle the experts. And once again, even if they do, they lose in higher water rates in the future.

The shareholders bear none of the expense or risk of fighting rate increases. House Bill 87 would share the cost of rate increase discussions. It would aid the taxpayers and consumers.

10. Water is a necessity. It is best provided in a government owned approach where the costs are born by the taxpayers, but the consumers are not burdened with the extra charges for corporate profits.