January 26, 2018

Jean Rodgers, PhD, PE
Chairman of the SASB Standards Board
Sustainability Accounting Standards Board
1045 Sansome Street, Suite 450
San Francisco, CA 94111

Re: Comments on the Sustainability Accounting Standards Board "Water Utilities & Services" exposure draft dated September 2017

Dear Dr. Rodgers:

The American Water Works Association (AWWA) and the National Association of Water Companies (NAWC) appreciate the opportunity to comment on the Sustainability Accounting Standards Board's "Water Utilities & Services" exposure draft dated September 2017.

Concerns remain regarding SASB processes

Although AWWA and NAWC wish to work collaboratively with organizations working on the important issue of sustainability as it relates to the water utility sector (and with other sectors to the extent there is overlap), we remain seriously concerned about SASB's content and process of developing its standards, and believe that there is inadequate representation and oversight by the sectors impacted by the standards. We made comments to this effect in January 2016, July 2016, and in a multi-association letter in May 2017. Although this comment period is focused on the standard's content, we continue to remain concerned that SASB standard setting process for the water utility sector does not have representation of the expertise of the water sector. The lack of this representation during the development process could cause the information generated in SASB disclosures to be misleading or irrelevant. It could also lead to excessive use of staff and other limited resources to track and report information that may not be reflective of actual measures of sustainability in this sector. To assure the accuracy of items contained within the SASB Water Utilities & Services standard, a workgroup which includes representation from water utilities and service providers, along with investors and other stakeholders must be formed. This group must meet to discuss:

- The merits of various portions of the proposed standard to carefully weigh the value of the information generated in terms of understanding sustainability against the cost and complexity of tracking and reporting that information.

- Work through concerns surrounding the ambiguity of much of the information currently proposed to be in the proposed standard, as it is our opinion that the current proposed standard would generate inconsistent information.
- Discuss the sources of background and supporting information to assure that top tier information is used. It is our opinion that many of the references currently provided may be useful, but do not represent the sector's best available resources. For example, the section on rates and charges references a single paper instead of *AWWA's M1 Principles of Water Rates, Fees and Charges*, which represents thousands of hours of work from highly respected sector professionals and constant refinement through seven editions.

Our recommendation is that SASB should not issue a final standard until these items have been discussed in this setting and concerns have been adequately resolved. Although public comment and consultation is useful, and we appreciate the opportunity to provide comments, public comment as the only meaningful opportunity for the sector to be involved is simply not sufficient to ensure high-quality standards. Recognize, for example, that efforts within AWWA, NAWC and other groups to develop and improve benchmarks, best practices, and standards have been ongoing for years to decades, and that rushing to a finished product without sector representation would be a mistake on SASB's part as it would greatly reduce the standard's credibility.

We also appreciate the clarifications within SASB's final rules of procedure that SASB standards are not accredited by the American National Standards Institute and are not currently portrayed as being consensus based. This is further reinforced by SASB's recent withdrawal of its ANSI standards-setting accreditation.

Overarching concerns within the Water Utilities & Services Draft

1. **Confusion across water services.** The differentiation among different water uses and entities within these standards remains confusing and unclear. Some topics, such as drinking water quality, water scarcity, and end use efficiency are directed towards drinking water utilities. Others, such as effluent quality management and portions of network resiliency are directed towards wastewater utilities. The complexities of other water services, such as storm water and water reuse, appear to be largely overlooked. In most instances, which measures are meant to be applied to which services is not explicitly stated. Many entities in the water sector provide only one of these services, whereas many other entities provide two or more of these services. The geographic service areas covered by one service may not match the service areas covered by other services, which could lead to confusing and potentially misleading disclosures out of context. SASB should clearly identify which metrics apply only to specific water uses and which ones are intended to span across multiple uses, so that the omission of metrics that do not apply does not get misinterpreted as errors.

2. **Some references are significantly out of date.** There are several references to out-of-date versions of reports and other reference materials. For example, the 2013 AWWA Benchmarking Performance Indicators for Water and Wastewater Utilities is referenced several times throughout the document. The current version of this reference is the 2017 version. SASB should check all its references to identify whether they are the current versions, and recheck all web links. We recognize that the standard may not be able to

immediately update all references as those references continue to evolve after the issuance of the standard. However, they should be up to date at the time the standard is released.

3. **Aggregate versus itemized information.** As mentioned in previous comments, it remains unclear whether registrants are to provide information for all their utilities in aggregate, or for each individual utility. For many metrics, measures such as information about violations could be confusing or misleading when spread across independent utilities, which may be subject to different regulatory requirements, managed under the same company. Conversely, individual utility information could lead to very complex disclosures for entities that operate many utilities. This point must be clarified.

4. **Infrastructure owners versus operators.** Additionally, it is unclear whether disclosure should be provided by the owner of the infrastructure or its operator. There are many arrangements in the U.S. (and elsewhere) where the utility infrastructure is owned by one entity and operated by another entity. If both entities report items like energy use and violations, whether through these disclosure standards or some other venue, some metrics may end up being double counted. Therefore, the responsibility for reporting in these circumstances should be clarified.

Specific concerns within individual metrics

IF103-03 Discussion of strategies to manage effluents of emerging concern.

This entire section, especially subpoint .13, seems to largely miss the mark on major utility concerns in effluent management. Many wastewater utilities are focused on the reduction of nutrients to reduce environmental impact and to utilize the nutrients to create beneficial biosolids. However, this trend appears to be entirely overlooked.

Additionally, a "contaminant of emerging concern" is generally in that category because there is not yet sufficient evidence to determine whether or not those substances are of human health concern, whether or not they occur in effluent, and whether or not it is feasible to either remove them with treatment or to prevent them from entering the system in the first place through pre-treatment requirements. Therefore, many of the items requested in subpoint .13 may not be possible to complete. We recommend that this section be completely rewritten to focus on disclosing the largest known and likely concerns in effluent quality at that utility and to describe how they are being addressed.

Water Scarcity Description

The statement in water scarcity's description that "raw water purchases account for water supply systems' single largest expense" is unsupported and false in most circumstances, and the statement should be removed. There are some instances where this can be true, such as a consecutive system that purchases all of its water from a wholesaler or when water rights must be leased on a recurring basis. In many cases, however, raw water itself does not have a direct cost, but rather the infrastructure, human capital, electricity, treatment chemicals, and other items needed to run the utility are the largest expenses. *The inclusion of this statement is one example*

demonstrating the lack of sector-specific knowledge and expertise currently in the standard, and why a workgroup including sector experts is needed.

IF103-04 Total fresh water sourced from regions with High or Extremely High Baseline Water Stress and percentage purchased from a third party.

This measure may be appropriate for sectors that have substantial ability to choose their locations and sources. For example, a bottling company or a heavy industrial user planning to build a new facility could actively choose lower water stressed areas over higher stressed ones. The water utility sector, however, must provide services to the public in their service territories and cannot simply relocate to a lower stress area. Utilities actively manage sources to increase available supply, reduce demand (when appropriate), operate cost effectively, and provide resiliency. However, areas likely to face high water stress have no choice but to utilize sources in higher stress areas, as it is usually not possible for a utility to relocate to a lower stress area. Therefore, this metric can be misleading. With a few notable exceptions, long distance transport of large amounts of water is not feasible. SASB should rewrite these metrics to focus on development of supply adequacy for the intended uses as well as preparedness for drought, flood, and other potential disruptions, rather than using this index. One potential approach could be to discuss the plan and ability to meet demand during dry years and during multiple years of dry conditions.

IF103-07. Number of (1) acute health-based, (2) non-acute health-based, and (3) non-health based drinking water violations.

> **Subpoint .33:** This section states that WHO guidelines should be used when US regulations do not apply. However, there are other jurisdictions that have stringent requirements that are designed to be protective of public health, which should be used when reporting from those jurisdictions. Although it may not be appropriate to create a comprehensive list of such jurisdictions, Canadian provincial regulations are one example. SASB should modify this statement to include other jurisdictions where protective regulations are in place as acceptable benchmarks for disclosure.

IF103-08. Discussion of strategies to manage drinking water contaminants of emerging concern.

> **Subpoint .38:** As non-US operations will not be subject to MCLs, MRDLs, or TTs, this subpoint should include local equivalent regulatory values the description.
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> **Subpoint .40:** This section references the Third Contaminant Candidate List and the Draft Fourth Contaminant Candidate List. The Final Fourth Contaminant Candidate list was issued on November 17, 2016 and should replace both CCL3 and the draft CCL4 in this section. As mentioned in previous comments, CCL compounds are only those that have been identified for future research on health effects, occurrence, treatment, economic analysis, and opportunity for risk reduction. The CCL list is not designed to be immediately actionable, and many CCL contaminants may eventually be found to not need regulations or other EPA actions.

Subpoint .42: As previously mentioned in earlier comments, the Unregulated Contaminant Monitoring Rule (UCMR) does not apply to all utilities and is neither opt-in nor opt-out. All U.S. public water systems serving greater than 10,000 persons must participate, and a representative subsample of smaller public water systems is chosen by EPA. The monitoring methodologies and substances to monitor for are prescribed by EPA. All UCMR data becomes public after the appropriate quality checks. UCMR is a tool to develop occurrence data to further the research and regulatory agenda. We recommend that SASB eliminate this subpoint, or modify it to simply identify which utility or utilities of the registrant are subject to UCMR. There also appears to be a theme that UCMR substances will all or nearly all become regulated, whereas experience to date demonstrates that many UCMR substances will ultimately be found to not meet one or more of the requirements for regulation, such as limited occurrence.

Subpoint .43: It is unclear what information SASB seeks to have utilities disclose on this point. Individual utilities cannot predict which emerging contaminants are most likely to come under regulation, because the necessary requirements for regulation (demonstration of health risk, demonstration of occurrence, and demonstration of meaningful opportunity for risk reduction) have not been established by the regulatory community for most of such substances. As those items are developed, it is likely that many will receive what is known as a "negative determination" from EPA, stating that EPA does not intend to proceed with a regulation. Any attempt to state the most likely items to be regulated before this point is speculation. Although there may be some ways that a utility could identify most contaminants that EPA is working on in some capacity, because many will not ultimately be regulated, we recommend that the most appropriate measure for SASB is to limit this point to items that have either a proposed EPA rule or positive regulatory determination. Equivalent state or foreign actions in area they operate would also be appropriate. An option for utilities to include additional items if circumstances warrant it could be added.

Water Affordability & Access Description

This description contains the statement that "water utilities that use rate mechanisms that inhibit access to water, or that are prohibitively expensive to low-income populations, may see community opposition. In extreme situations community opposition can lead to privatization." This statement is confusing and does not appear to be supported by evidence, and we recommend that it be deleted for the following reasons:

1. Utility rates are generally approved by either a state Public Utility Commission (or equivalent) for privately owned utilities or a local government or utility board for publicly owned utilities. "Rates to inhibit access to water" would not be proposed nor implemented as the utility's mission is to provide service to their customers, not to prevent access to their service. Utilities are usually bound by state or local law to provide service within their service territories provided basic requirements (such as payment for services provided and an appropriate connection to the utility's distribution system is maintained) are met.
2. The statement that "In extreme situations … can lead to privatization" is inconsistent with experiences in the U.S. and does not make sense in the context currently used. First,

since the SASB standard is intended to apply to U.S. companies that are traded on stock markets, the utilities that they own are already privatized. Additional, whether founded or unfounded, public opposition is often *against* privatization rather than for it. AWWA represents both publicly and privately-owned utilities, and NAWC represents privately owned utilities. *This is another demonstration as to why SASB needs to convene a workgroup with water sector participation to work on this standard before finalizing it.*

TA11-12-01. Average retail rate for (1) residential, (2) commercial, and (3) industrial customers.

At present, this metric does not account for the complexities of water utility rate structures. Because this metric is in the "water affordability and access" section, additional information is necessary to understand whether the rate structure provides features designed to promote affordability, such as a lifeline rate feature and/or features designed to promote conservation while stabilizing revenue, such as inclining block rate structures. SASB should replace this metric with an alternate that includes information on these features. AWWA's M1 Principles of Water Rates, Fees and Charges (currently in 7th edition) is an authoritative resource on the complexities of water utility ratemaking. Although the Brattle Group paper referenced is one useful resource, it is far from comprehensive on these utility ratemaking issues. Additionally, TA11-12-01, TA11-12-02, and TA11-12-03 do not contain information on customer assistance programs that are designed to help customers with affordability issues. This information would be especially important in understanding affordability concerns at a utility. Recognizing that some states have restrictions on what types of assistance programs are allowed, and in some instances utilities are prohibited from providing the same service at different prices to different customers, contextual information on what is offered versus what is allowable could also be useful.

TA11-12-02. Typical monthly water bill for residential customers.

This section requires clarification. It currently states that this metric is for the first 10 CCF (7,480 gallons) per month, which is approximately 250 gallons per day. Depending on factors such as climate, local uses, state of customer's efficiency, and others, a typical residential customer may use well above or below 10 CCF in a month. Therefore, we recommend changing the metric's name to "Typical monthly water bill for first 10 CCF for residential customers" for clarity, as it represents a "typical" bill at a fixed volume, rather than the actual typical bill in that utility. It should also be clear whether this metric would apply for each service individually (such as drinking water and wastewater) or all services combined. In many instances, those services are provided by different entities.

IF0103-12: Water Pipe Replacement Rate.

Not all water main infrastructure projects require complete replacement to significantly extend service life. Depending on the pipe material, age, and other system characteristics, it may be preferable to rehabilitate some mains rather than completing total replacement. We recommend modifying the metric to include rehabilitations that substantially extend the main's life. Additionally, to avoid confusion with customer-owned portions of service lines and customer-

owned premise plumbing (all of which could be called "pipes"), we recommend that the name be changed to "Water Main Replacement Rate".

IF0103-13: Volume of non-revenue real water losses

Including the volume of non-revenue real water losses is one reasonable metric from the AWWA M36 Water Audits and Loss Control Programs (currently in fourth edition) methodology and AWWA's Free Water Audit Software. Real losses impact both financial and environmental sustainability, and tools exist within those methodologies to identify cost-effective investments to reduce real-losses.

However, apparent losses are another key contributor to financial sustainability. Apparent losses are derived largely from measurement error, such as from customer meters that require replacement or repair. If real losses are requested, it is appropriate to pair that request with apparent losses. In the description, there should be a discussion of percentage of unmetered customers, as unmetered customers make quantifying both types of loss more difficult and less accurate.

We appreciate that SASB has avoided the reporting of real and apparent losses as a percentage of volume supplied to the distribution system. Percentage-based expressions of water loss can be misleading and unreliable measures of utility performance because they are greatly affected by changing volumes of customer consumption, cannot distinguish among the specific components of non-revenue water occurring in a distribution system, and reveal nothing about water volumes and associated costs (the two most important factors in assessing water waste within a distribution system.

IF0103-14. Water treatment capacity located in FEMA Special Flood Hazard Areas or foreign equivalent.

At present, this metric is misleading because it does not factor in mitigation measures. Activities such as elevation of critical equipment, flood barriers / sea walls, wet proofing, early warning systems, and others substantially reduce the risk to equipment (and likelihood of sustained disruptions) due to being in a SFH. We recommend that SASB either modify this metric to include only equipment not protected by one or more major mitigation measures, or add a second metric related to mitigation measures.

IF0103-16. Number of service disruptions, (2) population affected, and (3) average duration

> **Subpoint .84:** The "total duration (in minutes)" of a disruption should be replaced with a metric of disruptions less than and greater than four hours, consistent with AWWA's benchmarking and the former *Qualserv* program. This is necessary because the exact time that a disruption begins is often not known and therefore it cannot be calculated accurately to the minute.

IF0103-17. Discussion of efforts to identify and manage risks and opportunities related to the impacts of climate change on the distribution network.

> **Subpoint .90**: The reference to the "U.S. EPA Climate Ready Water Utility Initiative" should be updated to the "U.S. EPA Creating Resilient Water Utilities Initiative." EPA changed the name of this initiative in December 2016.

Thank you for the opportunity to comment on this matter. Please contact Adam Carpenter at AWWA by 202-628-8303 or acarpenter@awwa.org with any questions and to coordinate any future follow-up actions.

Sincerely yours,

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cc: Bryan Esterly, Infrastructure Analyst, SASB

About AWWA: AWWA is an international, nonprofit, scientific and educational society dedicated to providing total water solutions assuring the effective management of water. Founding 1881, the Association is the largest organization of water supply professionals in the world. Our membership includes nearly 4,000 utilities that supply roughly 80 percent of the nation's drinking water and treat almost half of the nation's wastewater. Our over 50,000 total memberships represent the full spectrum of the water community: public water and wastewater systems, environmental advocates, scientists, academicians, and others who hold a genuine interest in water, our most important resource. AWWA unites the diverse water community to advance public health, safety, the economy, and the environment.

About NAWC: The National Association of Water Companies (NAWC) is the voice of the private water industry. Founded in 1895 by a handful of small water companies, today the NAWC has members located throughout the nation, ranging in size from large companies owning, operating or partnering with hundreds of utilities in multiple states to individual utilities serving a few hundred customers. The range of our members' business includes ownership of regulated drinking water and wastewater utilities and many forms of public-private partnerships and management contract arrangements. Every day nearly 73 million America – almost one in four – receive water service from a privately-owned water utility or a municipal utility operating under a public-private partnership. The mission of the NAWC is to promote the value of the private sector as a provider of quality, sustainable water services and innovative solutions.