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Re: Comments on SASB’s Water Utilities and Services Industry Exposure Draft Sustainability Accounting Standards

The Association of Metropolitan Water Agencies (AMWA) has followed and commented on the work of the Sustainability Accounting Standards Board (SASB) staff since the first draft standards for water utilities were released in December 2015. The “Basis of Conclusions” document that SASB published with the Exposure Draft standard is a helpful document because it provides a detailed explanation for the changes to the provisional standards. Moving forward, SASB should work to provide this kind of document for any edits to its standards.

AMWA commends SASB for clarifying in its governance documents that these standards are being developed under the authority of its technical board, rather than as consensus-based standards under the American National Standards Institute accredited process. This issue of how SASB was originally portraying its standards development process was of significant concern to our members, as noted in a letter submitted with several other organizations to Dr. Jean Rogers on May 1, 2017.

Our comments are divided into several sections – the first section is general comments, subsequent sections are organized by sustainability topic areas.

General Comments

The purpose of the sustainability accounting standards is to help investors understand sustainability risks. In general, if a risk assessment approach for the water utility sector does not account for existing sustainability risk frameworks, policies and enforcement mechanisms governing the construction, operation and maintenance of that infrastructure, then it is an invalid approach. For example, the section on the management of wastewater effluent includes a quantitative metric that is measurable and aligned with current frameworks (i.e., the number of incidents of non-compliance with water quality standards) and a qualitative metric (discussion of strategies to manage effluents of concern) that utilities likely are familiar with, or employing to address emerging risks.

- Units of measure – SASB should use MGD or acre-feet in its water utility standards as these

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are the units of volume currently used in the water sector in the United States (U.S.). U.S. utilities do not use cubic meters.

- Industry-level sustainability topics – AMWA recommends that SASB change the name of the water scarcity topic to either: “water supply risk”, “water resources risk” or “water resources management”, as noted in our comments below. AMWA also recommends that SASB update the text describing resiliency to, “Network resiliency, and vulnerability to the impacts of climate change, and other extreme natural events, such as earthquakes and fires.”
- Activity metrics – SASB describes activity metrics as contextual information that would be useful to investors and not otherwise be apparent. AMWA recommends that SASB include some reference to combined sewer overflows (CSOs) and stormwater systems as activity metrics. These are absent from the accounting standards but relevant for the sustainability of water or wastewater utilities that have combined sewers or stormwater conveyance and drainage responsibilities.

The metrics should also recognize that for some wastewater utilities that serve industrial users, the volume of wastewater that undergoes pretreatment by industrial/commercial facilities is a useful activity metric, since a failure in pretreatment might represent substantial environmental and/or financial liabilities for the utility.

- In general, the activity metrics and discussion for several topic areas could more clearly specify whether the metric applies to drinking water, wastewater or stormwater infrastructure, distribution systems or conveyance systems. This is particularly relevant for the topics of distribution system efficiency (could be revised to address distribution and conveyance system efficiency) and network resiliency and impacts of climate change.

Effluent Quality Management

The discussion and analysis of strategies to manage effluents (IF0103-03) should also include describing any problems with utility pretreatment customers meeting pretreatment standards and strategies to manage the performance of these customers.

A description of a pretreatment program for industrial users as an additional sustainability topic could be an opportunity for a wastewater treatment plant to demonstrate risk management. For example, more details might be needed if the industrial pretreatment is for hazardous substances or if the volume from said pretreatment facilities represents a significant portion of the load.

Water Scarcity

SASB’s accounting metrics for Water Scarcity: IF0103-04.18 and IF0103-04.19 and IF0103-05 are not adequate because these quantitative metrics that do not accurately reflect the complexity of what

would constitute scarcity for a utility. It seems that what SASB is trying to address is water supply risk, which is not as simple as how much precipitation falls over a utility's service area. This metric ties closely to consideration of the resilience of the water supply (rather than resilience of the network) and therefore SASB should frame the discussion about water supply risk to more than simply water stress. SASB should also consider supply risk in the context of safe yield, source water redundancy and vulnerability to extreme weather (i.e., prolonged drought or massive flooding). AMWA recommends that SASB rename this topic to something more suitable, such as: "water supply risk"; "water supply vulnerability"; or "water resources management", particularly since the third accounting metric under this topic is "strategies to manage risks associated with the quality and availability of water resources".

Recommending that baseline water stress be ascertained from the Water Resources Institute (WRI) Aqueduct tool, which uses simple measurements of per capita rainfall or per capita runoff, provides little information about the actual risk of baseline water stress. While a utility may be located in a water-scarce area (i.e. in most of southwest of the United States), this does not necessarily equate to a high risk to the water supply, as would be suggested from the WRI tool. Specifically, the tool does not take into account the risk management and water supply planning efforts of many cities (particularly larger metropolitan areas in the U.S.).

The use of the WRI tool may be relevant if a company wants to start a new factory and source water on its own from a "high stress" area, but should not be used for sustainability accounting. For example, the tool indicates that Israel's water stress level is equal to that of its Middle Eastern neighbors, yet Israel is acknowledged as a leader in water management, with a reliable supply in the desert, largely because of a commitment to one of the highest per-capita reuse and conservation rates in the world.

AMWA reiterates its comments submitted in our letter to SASB on January 19, 2016, i.e., that public water systems are a public service and thus, drinking water utilities exist first and foremost to: provide fire protection services to a community, protect public health and provide for the economic and social well-being of a community. Thus, caution must be exercised when applying the WRI Aqueduct tool to water systems with a public service mandate, in contrast to applying the tool to private companies working in a market-driven environment.

The approach for measuring this stress as outlined in IF0103-04.18 and IF0103-04.19 does not account for the underlying nuances, agreements and regulations that govern water supply and water access in the U.S. and worldwide. Similarly, the suggestion that the total volume of recycled water delivered (IF0103-05) is a metric that would help to determine water scarcity risk oversimplifies the diversification approach that many well-run utilities take to address potential supply risks. There is no one-size-fits-all metric for how utilities measure this resource.

AMWA recommends that SASB consider measures such as governance (both for the utility and for the states that oversee how water is apportioned for supply) and utility supply portfolio. AMWA

recommends that SASB consider information that utilities use to assess water resource vulnerability in the sector-wide Effective Utility Management (EUM) framework (<https://www.amwa.net/effective-utility-management-initiative>). Specifically, the section on Water Resource Adequacy in the 2014 document entitled [Moving Toward Sustainability: Effective and Sustainable Practices for Creating Your Water Utility Roadmap](#) would provide some helpful guidance.

Water affordability and access

SASB is trying to address issues of equity (access) and affordability, yet the measurements of average water rate (TA11-12-01) and typical monthly bills (TA11-12-02) oversimplify a complicated issue. Average water rate and typical water bills for a community do not assess whether the water is affordable for that community. This is a complex issue that the water sector has been working to address for many years, and depends on several household and community factors that can change frequently and rapidly, particularly in times of economic stress at any level. For example, some utilities consider an affordability index, such as the percentage of customers at or below mean household income (MHI) paying more than 2% of their income on water services, and/or a break down of this information into different percentiles (such as the lowest 25% or 50% of the MHI).

There are several papers that make recommendations for how to measure affordability or address these issues. There are two in particular that AMWA recommends SASB consult for additional insight: a 2014 [report](#) from EPA's Environmental Financial Advisory Board with recommendations to EPA on a draft financial capability framework, and the 2017 U.S. Water Alliance National Briefing Paper, [An Equitable Water Future](#).

End use efficiency (TA 11-13-01)

It is unclear what SASB is trying to account for in using the term "end use efficiency" as it's not a term commonly used in the water utility and services sector. Similarly, decoupled rates and lost revenue adjustment mechanisms (LRAMs) are by-and-large, not used in water utility ratemaking. The Brattle paper referenced by SASB in the exposure draft is mainly about regulated utilities in the electric and gas sectors and states that decoupled rate mechanisms and LRAM isn't practiced in states other than AZ, CA, CT, NY and NV, so it is curious why SASB would include this as a metric in its standards.

Is SASB trying to ascertain how water utilities are incentivizing conservation through rate structures, or to determine how utilities can promote revenue stability? A more holistic approach to reduce financial risk would be for SASB to consider a metric that measures revenue resilience. As with affordability, this is a complex issue that has been studied and discussed within the water sector for the last several years. AMWA recommends the work of the UNC Environmental Finance Center (e.g., <https://efc.sog.unc.edu/project/alternative-water-pricing-models>) for water-utility specific approaches to promoting revenue stability.

Network Resiliency

A discussion and analysis related to the resilience of water infrastructure (IF0103-17) – from stormwater conveyance systems to wastewater transmission lines to drinking water distribution systems. The discussion metric should also include management of risks related to extreme natural events- including 100-year storm events, extreme prolonged drought and earthquakes. The discussion could include the plans systems have in place to address any of these extreme events and provide continuity of services.

Conclusion

Overall, AMWA believes that this exposure draft standard is much improved from the original draft released in 2015, because it better reflects actual water utility operations and management practice, particularly with regard to the water quality metrics outlined in the draft exposure standard. However, other metrics, such as those described in our comments, are less relevant to actual utility practice and sustainability as currently drafted and AMWA recommends that SASB revise the latest exposure draft to more suitably reflect best practice. AMWA appreciates the opportunity to comment. If you have any questions, please contact Erica Brown, Chief Strategy and Sustainability Officer, at brown@amwa.net.

Sincerely,



Diane VanDe Hei
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