

EFAB Water Affordability Charge

October 2023

Problem Statement

After many decades of relatively inexpensive water services, affordability has become a major issue and communities are increasingly examining ways to assist households facing challenges in paying for their water service bills, including customer assistance programs (CAPs) and innovative rate design/structures. These programs historically serve to help economically disadvantaged customers pay their utility costs or reimburse the utility for customer nonpayment. However, many utilities are limited by state and/or local laws and regulations – or perceptions about such legal limitations – that restrict their ability to utilize these programs in various ways. In addition, even where CAPs are in place, participation in these initiatives is often relatively low, as is the adoption of innovative rate structures that could directly address affordability. EPA looks to support communities in their affordability efforts and asks for EFAB’s recommendations in ways the agency could accomplish this goal.

Objectives

This charge will include the following five elements and asks the Board to make recommendations to EPA related to each objective.

- (1) **CAPITAL PROJECTS:** The agency asks EFAB to conduct a high-level exploration of types of capital projects that could address local water service needs that are innately less burdensome on local ratepayers. For example, large-scale water use efficiency measures as an alternative to a more expensive new pipeline. This objective will not involve a comprehensive study of such alternatives, but will address how consideration of infrastructure investment choices can be broadened to include unconventional options that are more affordable for the whole community while still solving for the water infrastructure challenges (e.g., water supply, treatment, stormwater capture, etc.). The deliverable would ideally include a survey of the types of capital projects that have already been shown to have substantial promise as alternatives and supplements to conventional water systems, such as green stormwater infrastructure and technologies aimed at reducing system leaks.
- (2) **CAP BARRIERS:** EPA asks EFAB to identify and analyze common state and/or local legal barriers (and possibly other types), including perceived barriers, to adoption of CAPs and other affordability measures, and provide recommendations for EPA to address these. For example, few states explicitly preclude CAPs; instead, they establish broad restrictions on how ratepayer funds can be used, which can provide some room for flexibility. Having a more precise understanding of the 3-5 primary types of barriers will provide a foundation for EFAB’s recommendations to address affordability challenges.

- (3) **RATE STRUCTURE/DESIGN:** EPA asks the Board to identify and analyze options for rate structure/design to help households who would be adversely affected by significant rate increases for water services, focusing on what can be accomplished within the bounds of existing legal requirements or restrictions (where those exist). Options might include, but would not be limited to, lifeline rates, income-based rate structures, senior assistance plans, host community rate structures, payment restructuring programs, and customer charge waivers. This analysis would be integrated with Element 2 above involving the legal limitations on consumer assistance programs
- (4) **SRF SUBSIDIES:** EPA asks EFAB to research the possible flow of SRF funds, through rate structures or other mechanisms, for additional subsidization to ratepayers that would experience a financial hardship because of an increase in rates necessary to fund capital infrastructure projects.
- (5) **EPA SUPPORT:** EPA asks EFAB to provide recommendations on ways that EPA could support legal arguments and develop supportive policy for providing customer assistance and provide leadership in guiding program implementation. These recommendations would recognize that EPA's role is not directive but limited to providing resources and guidance that could be useful to states in navigating affordability issues.

EFAB Mission Fit

Per the charter, EFAB is tasked with the following:

- Developing new and innovative environmental financing approaches and supporting and encouraging the use of cost-effective existing approaches.
- Assessing government strategies for implementing public-private partnerships, including privatization, operations and maintenance issues, and other alternative financing mechanisms.
- Developing innovative investment models and market-based approaches that increase the long-term resiliency of infrastructure.

By focusing on customer assistance programs, this EFAB charge will help achieve these goals by making water more affordable and rate structures more cost-effective and sustainable.

Type of EFAB Engagement

EPA seeks the council of experts in the water and financial industries, understanding EFAB members have expertise in both areas. The agency will rely on EFAB's expertise to provide recommendations on how to meet communities' financial needs while addressing affordability issues in the sector. EFAB capacity can provide immediate, actionable solutions that will increase customer affordability.

Approach

For a final product resulting from this charge, EPA requests that EFAB submit a report containing recommendations for each objective. EPA requests that EFAB engage relevant stakeholders such as utilities, the SRF program, and customer advocates to explore the benefits of CAPs and determine the sustainability of these programs. If the charge is approved, the Board will have one year to complete the work as outlined.