Each issue, we ask members of the *On Tap* Editorial Advisory Board to answer a drinking water-related question. We then print as many responses as space permits. The opinions expressed are not necessarily those of NESC.

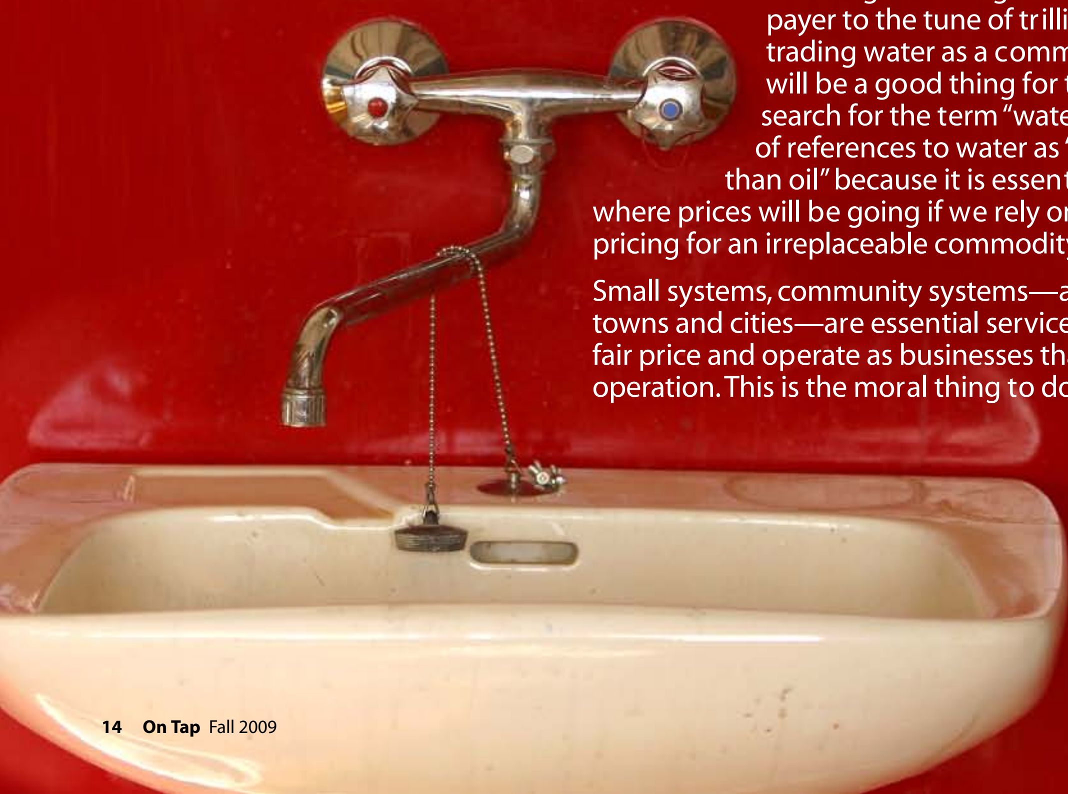
People make money from virtually every natural resource—oil, gas, timber, gold. Over the past several years, investing in water has become more and more prominent, and the trend appears to be growing. While it's been commonplace to invest in commodities, most, if not all, of them only make life better. Water, on the other hand, is essential to life.

Q: ***Therefore, do we have a moral obligation to supply people with drinking water at the lowest possible price, overriding the Wall Street impulse to make a profit? Or does investing in water offer benefits that may not be obvious?***

Water Is More Important than Profit

Our moral obligation is to provide safe drinking water to people at a fair price, not necessarily the lowest possible price. Public drinking water supply systems are an essential service that must be adequately funded by the population relying on them. Let's not introduce the smoke and mirrors of commodity trading into the important mission of providing safe drinking water to the public.

In this age of failing financial markets subsidized by the taxpayer to the tune of trillions of dollars, I have little faith that trading water as a commodity on the Wall Street market will be a good thing for the general public. A quick web search for the term "water as a commodity" yields all kinds of references to water as "blue gold" and "more valuable than oil" because it is essential to life. It's not hard to guess where prices will be going if we rely on the financial market to establish pricing for an irreplaceable commodity such as water.



Small systems, community systems—all public water systems in our towns and cities—are essential services that need to provide water at a fair price and operate as businesses that are transparent in their cost of operation. This is the moral thing to do.

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Regulations Are the Same

Privately owned water companies are subject to the same public health and environmental regulations as any other public water system. In Washington State, regulatory oversight by the Washington Utilities and Transportation Commission (WUTC) includes companies serving more than 100 customers or having charges that exceed an average of $471 per customer per year. The amount a private water company in Washington State is allowed to charge for water must be approved by the WUTC. In theory, a company is only allowed a reasonable return on investment. Hence, you would expect that one would neither make a significant return on investment, nor significant loss by investing in a private water company, or at least in states that highly regulate these companies. One difference between investing in a private water company versus a municipal bond for water projects, is the latter is tax-exempt.

Privatized water companies are not going away, and the trend in recent years appears to be toward privatization. I have seen more examples of better operated and maintained systems that have been privatized in recent years than not, probably because profit is driven by how much the company invests. Homeowners and governments, on the other hand, may elect not to invest in water infrastructure upgrades or approve rate increases. I have also not seen any data that shows water rates are statistically higher for privatized companies, particularly when all other factors (age and condition of the system, type of treatment, number of people served) are normalized. Therefore, I do not have any moral dilemma or any other issue with privatized water companies supplying drinking water, given that they are heavily regulated. It makes logical sense for a water company to make a reasonable return on investment in our capitalist society.

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Balancing Profit and the Public Good

It's hard to argue with the concept of selling water for a profit. After all, capitalism is based on making a profit at whatever you do. In this case, there are as many arguments against it as for it. Selling drinking water, for example, has always been a viable business.

Consumers want water at the lowest cost, which too often means neglecting maintenance and growth, resulting in a system that needs extensive resources (money) to bring it back to a healthy state. No profit = increasing problems = need for higher rates.

The proper balance is to charge rates so that there are funds to cover improvements, repairs, and some growth without having a catastrophic rate increase mandated by public health risk brought about due to lack of system upgrades. In other words, the system needs to generate a profit that is then turned around and used for the good of the system. This is not an easy thing to do, requiring the balancing of generated funds with the public benefit of lower rates. Extensive replacement and expansion of a system that the public cannot see makes it difficult to explain the need for rate increases.

Nearly everyone agrees that water rates are extremely cheap, considering how important it is. Our way of life depends upon a constant safe source of water. Often, you hear about the concern with providing subsidies to low-income users. This is another example of the public good outweighing profit. The argument is that water is necessary to life and must be made available to all users regardless of the expense. This usually shifts the cost burden to larger water users to support the cost of providing low-cost water to the needy. Whether you feel this is proper, or not, the burden cannot be shifted onto the water system so that it operates at a loss. A water system operating at a loss will soon be out of compliance and unable to provide a safe, reliable supply of water. A profitable system means a healthy, viable system.

Should you be able to make a profit selling your water? Of course. It should even encouraged, as long as the needs of the public and the environment can be met.