



**SouthWest
Water Company®**

December 7, 2012

Dear Customer:

As you know, SouthWest Water Company has, unfortunately, undergone rate increases in recent years. With water becoming an increasingly precious resource and with water and wastewater systems continuing to age, studies are showing that SouthWest Water is not alone in being required to raise water rates as we spend millions of dollars to repair, replace, and upgrade pipes, wells, and wastewater systems.

In a nationwide study of residential water rates in 100 city water systems (municipalities) over the last 12 years, *USA Today* found that "prices at least doubled in more than a quarter of locations and even tripled in a few."

USA Today went on to say, "...a resource long taken for granted (water) will continue to become more costly for millions of Americans. Rates haven't crested yet, because huge costs to upgrade or repair pipes, reservoirs and treatment plants loom nationwide."

According to the same article published on September 29, 2012, the city of Austin has raised water rates by more than 95 percent since 2000. Austin is not alone. The city of San Antonio raised water rates by more than 85 percent, and the city of Dallas raised water rates by more than 75 percent in the same time period.

The city of Austin increase is in addition to dramatic increases in property taxes, which also support water and wastewater infrastructure. SouthWest Water does not have the benefit of collecting taxes.

Aging water infrastructure in Texas is a significant factor in increasing costs. According to the 2012 Texas Water Plan, produced by the Texas Water Development Board, "The capital cost of the 2012 State Water Plan is about 23 percent of the \$231 billion in total costs for water supplies, water treatment and distribution, wastewater treatment and collection, and flood control required for the state of Texas in the next 50 years."

In fact, municipal (city) water providers are expected to need nearly \$27 billion in state financial assistance to implement the strategies in the 2012 Texas Water Plan.

Studies show that investor-owned utilities, such as SouthWest Water, are an excellent resource for residential water and wastewater services. In Texas, these utilities are among the most regulated by numerous state agencies.

According to the October 2012 issue of *American Water Intelligence*, a publication that provides analysis of the American water industry, investor-owned utilities "have consistently been head-and-shoulders above municipal (city) utilities and smaller, local water companies when it comes to avoiding health-related drinking water violations."

Growing numbers of customers are relying on private companies for water and wastewater services. The National Association of Water Companies reported in 2011 that nearly 73 million people are served with help from a private water company.

A *Wall Street Journal* article on October 8, 2012, reported: "More and more communities have shifted control of public water utilities to private companies in recent decades." The article cited "shrinking public revenue, looming costs for long-overdue capital improvements and a widening perception that private operators run systems more efficiently" as reasons for the shift to private (investor-owned) companies.

There is no denying that water is expensive. And with persistent drought in Texas and aging water and wastewater infrastructure, the cost to provide water and wastewater services isn't going to decrease. As we have communicated previously, SouthWest Water has invested more than \$70M over the last six years to improve water delivery, wastewater treatment and customer service in Texas.

SouthWest Water Company is firmly committed to providing clean, safe, reliable water and wastewater services at fair rates to its customers throughout Texas. We look forward to serving you for many years to come.

Sincerely,

A handwritten signature in black ink that reads "Charles W. Profilet, Jr." The signature is written in a cursive, flowing style.

Charles W. Profilet, Jr., P.E.
Managing Director, Texas Utilities
SouthWest Water Company