

# T.A.M.E.R.

*Texans Against Monopolies' Excessive Rates*



P.O. Box 1590  
Chandler, Texas 75758  
Phone 903-849-4689

Email: [tamertxinfo@gmail.com](mailto:tamertxinfo@gmail.com)  
Website: <http://www.tamertx.org>

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Dear Ratepayer:

SouthWest Water Company (SWWC) has been steadily increasing its water rates. It has also undertaken various public relations efforts aimed at blunting opposition to those increases. Most recently, SWWC wrote you on December 7<sup>th</sup>. That letter quoted articles from *USA Today* and the *Wall Street Journal*, and it tossed out some “infrastructure” numbers attributed to the Texas Water Development Board. The theme of the letter was that SWWC’s rate increases have been moderate, in line with national trends and driven by drought and the need to replace aged water-supply infrastructure. The SWWC letter leads one to believe that the relatively lower rates charged by cities are possible because of taxpayer subsidies.

SWWC’s letter was full of errors and self-serving conclusions that are impossible to verify or have no relevance to your water rates.

SWWC relies on a *USA Today* article to say that Austin rates for (apparently) 7,500 gallons/month increased 96%, San Antonio’s rates increased by 85% and Dallas’s rates increased by 75% between sometime in 2000 or 2001 and the end of 2012. There are two problems with the use of these statistics. First, the *USA Today* article looked at rates for only one consumption level: for households using, on average, 7,480 gallons/month. That is not an unusual usage, *but it is roughly 36% more than is typical* of SWWC’s Texas customers (5,488 gallons/month, 2010 data). Second, it evaluated rates based on ¾-inch meter connection when, in fact, most residential connections are 5/8” in diameter. If *USA Today* had used the meter size that is more representative of the average consumer in Austin, it would have reported only a 75% increase in Austin water rates from 2000 to 2012.

And, SWWC did not tell you that its rates increased even more in a shorter time frame. SWWC became responsible for imposing rates on Texas ratepayers in July of 2004.<sup>1</sup> Between then and the end of 2012, Blue Mound residents’ rates increased 113%. SWWC maintained a rate-hike fight initiated by its predecessor with ratepayers in rural subdivisions, and TCEQ-sanctioned rates there (e.g. at Beachwood Estates and Callender Lake) increased 93% by the end of 2012. At the end of 2012, an Austin resident consuming 8,000 gallons/month of water paid \$32.32; an SWWC ratepayer in nearby Hornsby Bend paid \$91.99 – *184.6% more*. In January 2013, Monarch’s<sup>2</sup> rates are already authorized to increase, while City of Austin rates will drop in February.

SWWC’s letter told you Austin’s taxpayers subsidize the City water utility’s rates. *This simply is not true*. While it is true that property taxes in some cities help support water and wastewater infrastructure, Austin has a

<sup>1</sup> Southwest Water Company SEC Form 10-K , 2008, United States Securities and Exchange Commission, Form 10-K. Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

<sup>2</sup> Monarch is SWWC’s principal Texas utility. It has roughly 2/3s of SWWC’s Texas ratepayers.

stand-alone water and sewer utility. In fact, the Austin water and sewer utility routinely subsidizes taxpayers; it returns roughly 8.2% of its gross revenue to the City.<sup>3</sup> Generally, municipal utilities are revenue generators for municipalities' general funds.

The *Wall Street Journal* article SWWC cited in its letter is a “pro-and-con” piece with, as you may imagine, advocates who are hardly neutral. The only source the *Journal*, itself, cited was the National Association of Water Companies, another hardly-neutral source of information. *American Water Intelligence*, which SWWC's letter cites as saying investor-owned utilities have been better than other utilities at “avoiding” health-related drinking water violations, bills itself as “the new magazine for America's water business” – an improbable source of balanced analysis.

SWWC's invocation of Texas Water Plan estimates of *50-year future* infrastructure costs (e.g., flood-control dams) may have a grain of reason in it, somewhere, but those estimates have no discernible relationship to your *rate increases during the past decade*.

In the end, it may be that water and sewer rates have to rise over time. But, SWWC and its predecessors have used the past decade or so to exact increases that were much higher than the increases imposed by municipal utilities. Its (Monarch's, actually) second-half 2012 rate for 5,000 gallons of water was higher than that of 99.4% of the state's municipal utilities.<sup>4</sup> There are doubtless multiple reasons why IOU rates are higher than are municipal rates, but at least one reason is that IOUs lavishly reward their top executives: during the most recent recession, SWWC's top Texas executive received \$572,497 (2008) and \$321,528 (2009) in total annual compensation<sup>5</sup> – to administer a utility with fewer than 34,000 water ratepayers and fewer than 13,000 (mostly duplicative) sewer ratepayers.<sup>6</sup>

Don't let SWWC's PR efforts confuse you. Keep your eyes on the trustworthy numbers.

Sincerely,

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<sup>3</sup> Fox, M., *Austin Energy Financial and Performance Review; Analysis of Transfers from Municipal Utilities to General Government (May 9, 2011)*;

<http://www.austinenergy.com/about%20us/newsroom/Reports/2010NavigantGeneralFundTransferReport.pdf>

<sup>4</sup> Texas Municipal League, Residential and Commercial Water Costs (2012).

<sup>5</sup> SWWC, SEC Form 10-K (amendment no. 1), April 28, 2010. Later years' compensation figures are not publicly available.

<sup>6</sup> Cities of 90,000-100,000 residents – say, Pearland or Odessa -- would have roughly this many water ratepayers.