

Baseline Data and Affordability

Regulatory Impact Analysis

Background:

The Safe Drinking Water Act (SDWA), as amended in 1996, places a significant responsibility upon the Environmental Protection Agency (EPA) to realistically assess the capabilities of and resources available to those who could be affected as a result of any future drinking water rulemaking. Preparation of Economic Impact Assessments required by the Regulatory Flexibility Act (RFA) and the Small Business Regulatory Enforcement Reform Act (SBREFA) must also be based on a clear picture of the baseline characteristics of the water supply industry and its customers as it currently exists before the effects of new regulations can be calculated. Similarly, the Unfunded Mandates Reform Act (UMRA) analyses can only be conducted once the availability and magnitude of existing state and local government resources are known. As specific examples, there are now requirements in the SDWA to represent incremental costs and benefits and to perform capacity assessments. These and other needs will be addressed through the development and maintenance of a drinking water baseline profile. This baseline profile will be used as a foundation for all of the EPA's rulemaking and implementation efforts and will be updated periodically to reflect major new rulemakings.

The Agency is also required under Section 1415 of the SDWA to determine whether the Best Available Technology (BAT) for each of four size classes of water systems serving fewer than 10,000 people is affordable as a general rule, nationally, or whether a variance technology should be evaluated.

Summary of Activities:

Development of Baseline Requirements Document:

This is a working document that will guide development of all data bases. Eventually, information from this document will be incorporated into the Regulation Manager's Handbook. This document will: 1) describe all the technical, financial and management characteristics for which baseline information must be developed to measure any possible impacts from subsequent Federal regulatory activities; 2) specify which workgroup is responsible for gathering and maintaining the data; 3) indicate data gaps where additional research is needed; 4) indicate potential sources of information to fill the gaps.

Development of Baseline Data Pool:

This effort builds from the previous effort by actually developing the data sources to fill the gaps already identified. In this phase of operations actual databases available through the Census and elsewhere will be obtained, downloaded, formatted to suit our analytic needs and tested for statistical accuracy and overall reliability. A major element of this data pool has already been established from the 1995 Community Water System Survey.

Development of Affordability Determination for BAT:

This document will serve as the basis for determining the affordability of small system BAT for each of four system size classes nationally. (This document is not guidance for site-specific affordability determinations, which is the responsibility of primacy agencies within the State.) Conceptually, the current thinking at this time is to equate what is "affordable" for water systems customers with what is reasonable in light of what they pay for similar goods or services. We are thinking of using gas and electric utility costs for comparison purposes, and perhaps cable television. We would then adjust the upper limit of what was affordable for drinking water by taking a number of factors into consideration, such as: 1) how

the water utility's cost, revenue and capital investment structures differ from those of other utilities and service providers; 2) how the value of the commodity (drinking water) to the consumer differs from that provided by the other utilities.

Information on actual water costs to customers of small systems will be taken from the Community Water System. To be affordable, the BAT proposed must result in household costs that are less than this upper bound when added together with what these households are currently paying.

Development of State Resource Model:

Before EPA can gauge the impact of its regulations on State Primacy Agencies, we must first define their current capabilities and resource levels in terms of existing program demands. In this effort, EPA will analyze the State Resource Analysis Computer Program previously developed and make necessary adjustments to improve its accuracy.

Schedule:

Product Calendar Year Quarter

Baseline Requirements Document	3rd quarter of 1997
Baseline Data Pool	4th quarter of 1998
Draft BAT Affordability Determination	4th quarter of 1997
Final	3rd quarter of 1998
State Resource Model	2nd quarter of 1998

Questions for Discussion:

1. What do you think of the concept, generally, of comparing drinking water costs to those of other utilities in order to determine an "affordable" upper bound for drinking water costs?
2. Where affordable BAT is concerned, do you think the electric and gas utilities make a good model for cost comparisons? How about cable television or bottled water costs? Are there any others EPA should be considering?
3. EPA is proposing to make reasonable adjustments to what it considers "affordable" based on: 1) how the financial profiles (cost, revenue and investment structures) of other utilities differ from the financial profiles of drinking water systems; and, 2) how the value of the products provided by the other utilities differs from the value of drinking water. Do these adjustments, at least in concept, make sense?
4. Would anyone familiar with the State Resource Analysis Computer Program developed by ASDWA and EPA like to comment on the model's strengths and weaknesses?