THE RIGHT TO SERVE (VER 1.0)

What is it? *The right to serve will provide the regional entity with protection from competition for the services it provides and within the geography defined by its obligation of service. The right to serve is a fundamental condition that, with the obligation to serve, and regulated price of service (i.e. rate making), forms what is often called a "regulatory compact". That "compact" is a fundamental condition that allows municipal and public utilities to operate in the public interest.*

How it Fits in the Regional Plan? *Think of the right to serve as the promise that the members are making to the regional entity in exchange for the entity's promise to guarantee service to its members (i.e., obligation to serve) at board-regulated prices/rates.*

A PROPOSED STARTING POINT FOR DISCUSSIONS:

Element of the Right to Serve	**Specific Provisions**
Regional Entity is the Sole Provider	• For all services described in the Obligation to Serve • Within the service area described in the Obligation to Serve • For all current and future drinking water demands
Members Grant Exclusivity to the Regional Entity, and will not…	• Apply for new Water Use Allocation Permits from the State of Iowa, or expand existing permits • Construct new drinking water treatment facilities, or expand existing drinking water facilities • Alter the flow or quality of source water to the intake points managed by the regional entity including all surface and groundwater resources • Alter the flow of drinking water into or though the transmission and storage facilities owned or managed by the regional entity • Acquire, contract for, or otherwise procure any portion of their drinking water supplies any party other than the regional entity. *See exceptions below.*
Exceptions	• Members who currently own and operate water production facilities may continue to operate those facilities under the following conditions:

Element of the Right to Serve	Specific Provisions
	○ All drinking water produced and delivered by said facilities, including any source water used in production, must be limited to the member's own distribution system. • Members may engage in and maximize demand management practices to reduce average-day and max-day demands.

THINGS TO CONSIDER:

Just as members must rely on the regional entity's obligation to serve, the regional entity needs assurance that it can recover the operating and capital costs it incurs (to meet its obligations).

Competition exposes the regional entity to various economic risks, perhaps the most important of which is the risk of what is called "stranded investment." Investments may become stranded when the regional entity makes sizeable investments in new drinking water production capacity with limited assurance that it can recover the costs over long asset lifespans. Without a strong right to serve to mitigate this risk, the regional entity may be reluctant to make large investments; weakening its ability to meet its obligation to serve.

Another economic risk involves economies of scale. If members engage in or opt for competing water supplies, reduced demand makes regional supplies relatively more expensive (per unit) for everyone in the region. For a simple example: assume a regional facility has an annual cost of $1,000 and demand is 500 units, resulting in a cost per unit of $2.00; if demand on the facility were to decline by 100 units due to some members taking part of their supplies from another provider, the cost per unit for all other members rises to $2.50.

The strength of the right to serve granted to the regional entity should be relative to the obligation to serve. Thus, if the obligation to serve is intended to be strong, then the right to serve should be strong as well. If the members are expecting to get all their water production, on demand, from the regional entity (i.e. strong obligation), then the entity needs sufficient protections from competition to allow for construction of capacity in anticipation of those demands. What needs to be avoided is a framework that *requires* the entity to make investments (strong obligation to serve), but makes payment for the facilities *voluntary* (weak right to serve) or otherwise avoidable.