
Fitch: Flint, Chicago Lead Lawsuits Pressure Water Sector.

Fitch Ratings-New York-04 March 2016: Lawsuits filed against the city of Flint, MI and the city of Chicago could have a broad, long-term impact on the entire US water sector, Fitch Ratings says. Utilities are stepping up education efforts to bolster public confidence while also evaluating their existing treatment protocols to ensure ongoing water quality. Significant investment in service line replacement also may be forthcoming over the near term, particularly if the Environmental Protection Agency materially alters existing rules.

Various lawsuits filed against Flint and certain government officials allege that the water residents were using was unsafe. The city had changed water sources and the lawsuits state that the newer source had higher corrosive properties that eroded the pipes, leading to highly elevated lead levels in the water. Separately, certain Chicago residents filed suit against the city within the last several days alleging that repairs by Chicago to its water system allowed dangerous levels of lead to enter the drinking water supply and that the city did not sufficiently notify residents that they may have been exposed.

The EPA currently regulates drinking water exposure to lead based on its Lead and Copper Rule, which seeks to minimize lead in drinking water primarily through corrosion control of lead pipes. If corrosion control is not effective the rule can require water quality monitoring and treatment, corrosion control treatment, the removal of lead lines and public education. The EPA is considering strengthening the rule sometime later this year or next. In light of these lawsuits and the heightened public focus on possible lead contamination, Fitch expects any proposed rule revisions will likely move the industry toward removing all lead service lines.

Reprioritizing and accelerating lead pipe replacement would add significant additional capital needs to the sector and could compete with other critical infrastructure projects, including developing sufficient long-term water supplies and replacing aging infrastructure components other than lead lines. Some sources estimate over 6 million lead service lines exist across the US. Many of these are located in the Northeast, Midwest and older urban areas. We believe the capital costs to replace these lines could exceed $275 billion. The EPA’s latest survey estimated the entire sector needs $385 billion in water infrastructure improvements through 2030 and this estimate includes the costs to only partially replace lead pipes. Either level of capital cost would likely be manageable for the sector as a whole if it is spread out over a time frame like the one in the EPA survey. However, implementation over a shorter time span may create stress for individual credits.