



**Missouri's Senate Interim Committee on Utility Regulation and
Infrastructure Investment**

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Testimony of

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My name is Richard Sobolewski and I have worked at the State of Connecticut's Office of Consumer Counsel ("OCC") for the past 30 years. The Office of Consumer Counsel (OCC) is an independent state agency with statutory responsibility to represent customers of Connecticut's five regulated utilities – electric, gas, water, telephone, and to some extent, cable television, primarily in matters that go before the Public Utilities Regulatory Authority (PURA), and to serve as the State Broadband Office. The OCC is authorized to participate on behalf of consumer interests in all administrative and judicial forums and in any matters in which the interests of consumers with respect to public utility matters may be involved.

I have served in a number of accounting, financial and analytical positions within the OCC, holding my current position which oversees the office's technical staff and outside consultants since 2002. I have participated in over 200 utility rate proceedings involving Connecticut's water, electric, natural gas and telecommunications companies and have led the

OCC's efforts on many issues including decoupling, utility mergers and acquisitions, performance based ratemaking plans, simplified rate applications for small water utilities and a uniform rate of return methodology. I was OCC's representative in the collaborative legislative process that drafted Connecticut's Water Infrastructure and Conservation Adjustment and Revenue Adjustment Mechanism for water utilities. I am a member of the American Water Works Association, have served on NARUC's Rate School faculty and have been an active participant in the National Association of State Utility Consumer Advocates' gas, water and tax and accounting committees.

I am very proud of my lengthy service as a utility ratepayer advocate. Utility service touches everyone's lives, so I have always worked enthusiastically to ensure that all residents and businesses receive high quality service at fair and reasonable prices. While I work on cases that cover all of the State's utilities, I am extremely proud of the OCC's work in helping develop the initiatives Connecticut has taken to improve the regulatory framework within the water utility industry.

In the late 1980's there were nearly 70 water companies regulated by the State of Connecticut's Department of Public Utility Control. Since that time, many water systems that were facing large capital expenditures due to new water quality regulations and infrastructure replacement needs. As a result, many water systems were sold or transferred to larger and more viable companies. Now only ten water companies remain regulated by in the State of Connecticut's PURA.

Water Infrastructure and Conservation Adjustment (WICA)

These remaining water companies continue to face drastic capital expenditure requirements to fund aging infrastructure replacement, not only in their legacy systems but in the

systems they acquired in recent years. In 2007, the State of Connecticut passed the Water Infrastructure and Conservation Adjustment (WICA). This dramatically changed the rate of infrastructure replacement by the state's water utilities.

The WICA legislation created a new supportive ratemaking process to encourage incremental investment in water system infrastructure replacement. The new process while encouraging new utility investment, created a rate mechanism that would grant the recovery of the revenue requirements associated with the approved infrastructure projects in a more timely manner, in between rate cases. The legislation was developed through a collaborative process involving the water utility industry, utility regulators and consumer advocates.

As a result of the legislation, water companies would accelerate the replacement of aging infrastructure, which would improve system reliability by replacing undersized pipes or failing mains, and reducing water lost to leaks and main breaks. The collaborative process ensured that appropriate customer safeguards were built into the legislation limiting the annual rate impact and ensuring that the water company was not in an overearning position as a result of WICA. Additionally, there was no rate shock when the Company did file a rate application because rate levels had gradually increased over time and the amount of the requested rate increase was significantly below historic rate requests.

Connecticut's WICA process requires that water utilities that wish to utilize the rate mechanism, must file an application with PURA that performs an infrastructure assessment report (IAR) that contains a detailed inventory of the company's water distribution system and demonstrates the company's specific system needs. As part of the IAR the applicant must also develop a water main replacement prioritization model and propose a multi-year schedule of projects. Once approved by PURA, the utility may begin the systematic replacement of mains,

service lines, hydrants and other water and energy conservation projects. In a generic proceeding, PURA developed criterion for ranking and scoring projects which included the following factors:

- Main Break History and Impact.
- Pipe Age / Useful Life – age, material, location, and expected life.
- Material Integrity – known issues with materials, unaccounted for water losses, leaks.
- Critical System Impact - impact on customers of potential failure.
- Water Quality Issues
- Hydraulic Capacity – pressure & volume complaints/operational issues, fire flow adequacy.
- Scheduled Work Coordination – with state or town projects with potential for restoration/paving savings.
- Other (To be Specified by the Applicant) - Unique customer or community considerations or other mitigating or unanticipated factors or conditions.

Twice annually, the utility may then file for an adjustment to the WICA surcharge that appears on all customer water bills, for the costs of completed projects. The WICA adjustment is calculated as a percentage of existing rates, based on the original cost of completed eligible projects multiplied by the applicable rate of return, plus associated depreciation and property tax expenses related to eligible projects and any reconciliation adjustment calculated as a percentage of the retail water revenues approved in its most recent rate filing for the regulated activities of the water company. By statute, the surcharge is capped at 5% annually and a total of 10% between rate cases.

To date, six of Connecticut's eight largest investor owned water companies have implemented WICA. These companies have all substantially increased their investment in infrastructure replacement. This has resulted in reducing water main breaks and leakage, and has significantly reduced the level of lost and unaccounted for water. The WICA process continues to evolve, with minor tweaks to the original statute. One extremely positive result is that the WICA process has led to far fewer rate cases. This has saved customers millions of dollars in rate increase requests and associated rate case expenses, has improved the water company's financial condition, improved service quality and has resulted in expedited infrastructure replacement. In the last two years, the OCC has negotiated several rate settlements for "no overall bill increases" that roll the existing WICA surcharge into base rates for water companies that are reaching the WICA cap. These have resulted in extended rate stay-outs and a continuation of infrastructure replacement investment.

The Statute as authored and implemented by PURA provided a significant level of consumer protection and on-going regulatory oversight that were built into WICA process, including:

- The company has to demonstrate the needs of their system through the initial Infrastructure Assessment Report and following the prioritization mode, and then the priority list for eligible projects is subject to review with each filing for a surcharge.
- Allows the company a means to re-prioritize projects based on changed needs and to address State and municipal road projects.
- All costs for completed WICA projects are reviewed and subject to a prudence test by PURA before a surcharge is approved.
- The company must also submit an Annual Reconciliation Report (ARR) to the Authority on or before February 28th of each year to reconcile the WICA charges

or credits applied to customer bills in the prior year.

- If the Authority determines that a water company over-collected or under-collected the WICA adjustment, the difference between the revenue and costs for eligible projects will be recovered or refunded, as appropriate, as a reconciliation adjustment over a one-year period.
- Provides a means to protect ratepayers from potential overearnings.
- Utilizes a transparent and open hearing and approval process which includes customer notice.

Connecticut's WICA has resulted in a win-win situation for all stakeholders. It has resulted in a comprehensive review, planning and rate recovery mechanism that has benefitted the companies, customers and the state's municipalities served by investor owned water companies. I would urge the State of Missouri to follow a collaborative process similar to that utilized in Connecticut and work toward a comprehensive ratemaking mechanism that encourages infrastructure investment, with timely regulatory oversight and allowed rate recovery of completed projects, as well as appropriate customer protection.

Revenue Adjustment Mechanism (RAM)

In 2013, through a collaborative process, Connecticut enacted a revenue adjustment mechanism (RAM) for its investor owned water utilities. The RAM Statute had broad support from the water industry, numerous environmental groups, PURA and the OCC. While providing revenue stabilization for the authorized level of revenues for the water companies, the Statute was recognized as providing significant environmental and energy conservation benefits, as well as building in customer safeguards from overearnings and revenue overcollection.

The RAM for the water industry followed similar adoption of decoupling in electric and natural gas utility rate cases by PURA as well as the statutorily mandated adoption of full decoupling contained in Conn. Gen. Stat. §16-19tt. With the passage of the RAM legislation in 2013 Connecticut's water companies who utilize the RAM no longer benefit financially by selling additional water, as water company revenues are capped at what was approved in a company's most recent rate proceeding. Water companies with RAM are only allowed to collect the revenue level authorized by PURA, regardless of weather or customer growth. If water utilities do not collect the allowed annual revenues the company is allowed to surcharge or defer recovery of the revenue shortfall. If a surcharge is applied, it is done so in the following year.

To ensure fairness, customers are entitled to a refund if a water company sells a level of water that exceeds that allowed in its last rate case. Additionally, there is an earnings sharing mechanism with the customers if an over-collection results in the company exceeding our PURA authorized rate of return. Once a water company utilizes the RAM it must continue to do so until its next rate proceeding.

Currently, seven of Connecticut's eight largest water companies utilize the RAM. The RAM is consistent with Connecticut's water, environmental and energy policies. It has allowed the state's water companies to encourage water conservation initiatives and be indifferent to the sale of additional levels of water. In the 3 years since the passage of the RAM, water companies utilizing the mechanism have been able to avoid filing full rate cases with PURA and some have provided refunds for excess revenues and overearnings.

CONCLUSION

I appreciate this opportunity to present my comments to you today on the successes of the initiatives that have taken place in Connecticut on water utility ratemaking and water system infrastructure replacement. As a long-time consumer advocate, it is not often that I support ratemaking adjustments or bill surcharges. However, the collaborative process in Connecticut and generic proceedings before PURA ensured that both the WICA and RAM legislation were structured properly upfront. Now as the WICA process has continued to develop and water revenues are trued-up to their allowed levels, Connecticut has enjoyed a period of a dramatic increase in infrastructure replacement, limited rate case activity and improved financial viability of our water companies. It truly has been a win-win situation for all sides. I hope that my testimony contributes to the process in a meaningful way.

Thank you.