

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

Testimony

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My name is Eric Thornburg and it is my privilege to lead Connecticut Water Service, Inc. (CTWS). CTWS provides high quality drinking water and world class customer service to families and communities in 76 cities and towns across New England. We serve over 400,000 people.

This is my 34th year in the drinking water profession, having served with water service providers in Pennsylvania, Indiana and Missouri, prior to joining CTWS in 2006. I am also a past President of the National Association of Water Companies (NAWC), the organization representing private and investor owned water utilities nationwide. Our member companies serve over 73 million people across the United States.

I am passionate about the drinking water profession. Water touches everything that we care about. It provides for the health of our families, their safety through fire protection, the economic development of our communities and the quality of life enhancements that come through its natural beauty. Water truly changes everything.

Water utilities have a unique responsibility in sustainably managing water resources, while providing for public health and safety. This requires the efficient and effective management and stewardship of the water infrastructure that serves customers today. It also includes the systematic replacement of these systems as they reach the end of their useful lives. This will allow future generations to likewise enjoy this precious resource.

There are a number of unique facts about water utilities and the infrastructure our communities rely on for public health and safety:

- There are over 50,000 drinking water utilities nationwide. Most are small, with over 75% serving less than 3,300 customer connections.
- Water utilities are highly capital intensive, requiring considerable investment in plant and equipment to produce safe and adequate drinking water service. Water and waste water systems are more than twice as capital intensive as electric and gas utilities.

- Aging infrastructure is a major issue for our nation. Water utilities have a significant challenge in this regard. Eighty percent (80%) of our systems can be found in the buried assets that convey the water from the source to the tap. Much of this pipe was installed during the growth of suburban America after the conclusion of World War II. This pipe must now be replaced.
- Experts refer to this as the “replacement era”! We have over 700,000 miles of water mains in the nation. Each year, water utilities should be replacing at least 1-2% of these assets in order to achieve a 100-year replacement cycle. The capital needs will keep coming year after year for decades.
- With the deteriorating state of buried pipe across the US, there are over 240,000 water main breaks and two trillion gallons of treated water lost every year at an estimated cost of \$2.6 billion.
- The U.S. Environmental Protection Agency (EPA) and the Government Accountability Office (GAO) estimate the current water infrastructure funding gap to be as high as \$1 trillion through 2050. Over 65% of that is needed to replace water mains reaching or past the end of their useful life.
- In addition to the EPA and GAO assessments, the American Society of Civil Engineers (ASCE)—gave the U.S. water and wastewater infrastructure a “D minus,” as part of its infrastructure report card. According to the ASCE, if left unchecked, these conditions could cost businesses \$147 billion and cost households \$59 billion. ASCE also notes that under a worst-case scenario, the U.S. could lose nearly 700,000 jobs by 2020.

In response to this significant challenge, the National Association of Regulatory Utility Commissioners (NARUC) passed a resolution in 2013 that recognized the important role of innovative regulatory policies in facilitating the efforts of water and wastewater utilities to address their significant infrastructure investment challenges.

Founded in 1889, NARUC is a non-profit organization dedicated to representing the State public service commissions who regulate the utilities that provide essential services such as energy, telecommunications, power, water, and transportation.

NARUC’s resolution stated that the traditional cost of service ratemaking, which has worked reasonably well in the past for water and wastewater utilities, **no longer adequately addressed the challenges of today and tomorrow.**

Public Utility Commissioners from across the United States recognized that the traditional cost of service model is not well adapted to a no or low growth, high investment utility environment and was unlikely to facilitate the necessary year over year investment in infrastructure replacement.

NARUC emphasized that **alternative regulatory mechanisms** would enhance the efficiency and effectiveness of water and wastewater utility regulation by **reducing regulatory costs** while providing the predictability and regulatory certainty that supports the attraction of debt and equity capital at reasonable costs.

It is against this backdrop that the States of Connecticut and Maine passed legislation that has materially changed the manner in which utilities replace infrastructure. In 2007, Connecticut passed the Water Infrastructure and Conservation Adjustment (WICA) (see Appendix). Maine passed the Water Infrastructure Sustainability Charge (WISC) in 2013.

Infrastructure Adjustments

The legislation in Connecticut was designed to enhance the state's capital supportive climate in order to promote investment in water systems. This capital would accelerate the replacement of aging infrastructure, improve system reliability, replace undersized pipes, and reduce the amount of water lost to leaks, while fostering economic development and creating high paying, skilled jobs. The legislation was developed with consultation from the state's consumer advocate to ensure there were appropriate customer safeguards incorporated into the process.

Connecticut's WICA requires water utilities conduct an infrastructure assessment report (IAR) that demonstrates the system needs and develop a water main replacement prioritization model and file them with the Connecticut Public Utility Regulatory Authority (PURA). Once approved by PURA, the utility may proceed with the systematic replacement of pipe, service lines, hydrants and other assets that promote water and energy conservation. WICA also covers the necessary improvements for systems acquired by larger utilities in order to improve water service to the acquired customers. This feature of the legislation was designed to create a further incentive for larger water systems to acquire smaller, poorly capitalized utilities that struggle to finance the necessary infrastructure replacement.

Maine's WISC goes one step further and covers all water infrastructure including wells, tanks, and water treatment plants that require replacement. Both states have seen significant increases in the rate of asset replacement since these tools have been put in place.

Connecticut's criterion for ranking projects was established through a generic docket before PURA and has been established to include the following factors:

- Main Breaks – break history and outage 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.

Once the work is completed, the utility can then file for an adjustment to the WICA surcharge that appears on all customer water bills.

The WICA adjustment is calculated as a percentage, 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.

The surcharge can be modified twice a year and is capped at 10%. Typical adjustments for Connecticut Water are 1 – 3 % per year. In the eight years our program has been in use, we have averaged less than 5 customer complaints per year regarding the surcharge.

Since its inception, Connecticut Water has replaced **99.7 miles** of pipe with an average age of just over **75 years**. We have seen a **19.2% reduction in unlined cast iron pipe** in service. We have reduced the **galvanized steel pipe by 80.2%**. A reduction of **56.5% of the pipe less than 4 inches in diameter** has also been achieved. Notable improvements in water quality, main break, leakage reduction, and improved fire flows are already evident.

My company is now replacing **15 miles of pipe per year**, which is approximately 1% of our piping inventory. Prior to the implementation of WICA, we were replacing no more than 4 miles per year, which is roughly a 375-year replacement rate. Many of the municipal utilities in our state which are not regulated by PURA lag considerably on their replacement cycles because of the reluctance to seek rate cases to recover the costs. This simply defers the problem for the next generation or until an operational or water quality crisis forces the investment. The tragedy that occurred with the water system in Flint, Michigan is just one indicator of what can occur when there is a lack of capital and investment in a water system.

Additionally, we have not had to file a General Rate Case (GRC) since 2010. Without WICA, we would have filed at least two general rate cases to recover the annual capital outlays of approximately \$12-15 million per year.

A typical rate case costs Connecticut Water about \$800,000 and spans six months, which is one of the shorter statutory periods in the United States. By contrast, Missouri takes 11 months – significantly longer and costlier. Maine’s GRC process typically takes 4-6 months, but the WISC program has likewise changed the frequency of such filings.

Importantly, the cost of rate proceedings is recovered from customers in nearly all states, Missouri included. In Connecticut and Maine, our legislators and regulators agreed that rather than burdening the state agencies limited staff and utilities committing their staff, paying the attendant legal costs and hiring rate case experts with frequent full rate case proceedings, customers should benefit from the saving that could be realized through additional investment in the infrastructure that serves them. The era of GRC’s is coming to an end and customers, communities, and the environment are the winners.

Additionally, the Connecticut Department of Economic Development reviewed our annual pipeline replacement program to better understand its economic impact. They determined that our program directly created 157 fulltime construction or related jobs in the state; a great additional benefit for our economy.

There are significant and important consumer protections built in to the process as well 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.
- 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 Department 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 department 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.

The process is all conducted in hearings open to the public and customer communication is required (See attached letter in Appendix). An explanation of the charge is provided on each customer’s bill and there are regular communications to customers about the projects and the benefits of the WICA program. It has been a great tool for addressing the infrastructure challenge.

Besides Connecticut and Maine, the following states have varying versions of the infrastructure surcharge in use:

1. Illinois
2. Indiana
3. Ohio
4. New York
5. Pennsylvania
6. New Jersey
7. Delaware
8. New Hampshire
9. Tennessee
10. Arizona
11. North Carolina
12. Nevada
13. Rhode Island
14. Missouri*
15. West Virginia**

****Missouri passed the Infrastructure System Replacement Surcharge (ISRS) in 2003, which is narrower than other mechanisms and only applies to St. Louis County. My understanding is that the mechanism is currently in jeopardy due to a drop in the County's population, which of course has not lessened the need for infrastructure investment.***

***** The West Virginia PSC encouraged West Virginia American Water to file for a DSIC mechanism. The case is currently pending.***

I would urge the State of Missouri to support the use of capital supportive mechanisms like WICA and WISC that hold utilities accountable for delivering sustainable asset management plans. It's a low cost approach to incenting infrastructure investment without taxpayer dollars or subsidies. That makes it a win for customers and communities, while making Missouri more competitive with other Midwest states.

Water Revenue Adjustment Mechanism (WRAM)

If you stop and think about it, water utilities have traditionally benefited financially by selling more water. I suspect we would all agree that this runs somewhat counter to common sense and in conflict with a number of broader public policy goals. Water is a precious natural resource and by its very nature limited. The production and distribution of water is also very energy intensive by its nature, so reducing water demands can support energy conservation goals.

I grew up in St. Louis and fully understand how fortunate some parts of Missouri are in regards to water supply. At the same time, our customers, regulators and those of us in the profession all recognize that the right thing to do is to use water wisely and efficiently. It makes long term sense to sustainably manage the resource and to be a good steward of it.

Historically however, if we encouraged customers to use less water, our organizations suffered financially. Water utilities, in addition to being highly capital intensive, also have a high proportion of fixed costs. Small incremental reductions in sales can result in acute financial pressure on the water utility. In response, you find that they must reduce capital outlays, defer maintenance and/or make other financial adjustments to operations in order to compensate for the loss of revenues.

As supply constraints increase and the cost of treating water continues to rise, water utilities have an increasing responsibility to encourage the wise use of this precious resource. The use of more efficient plumbing fixtures and appliances, such as low-flow toilets and showerheads, among other factors, will support a drop in per capita consumption over time.

At the same time, when utilities act as responsible stewards of water resources, they increase the financial pressure on themselves as fixed costs must still be recovered despite decreasing sales volumes. One solution to this challenge is the concept of "decoupling" rates from sales volumes, which can help address both the need to more efficiently use water while keeping the utility financially sound. The electric power industry has experienced similar issues with regard to demand side management programs designed to better control the need for new generating capacity or the use of high priced fuels.

In Connecticut and Maine, we partnered with Regulators, Consumer Advocates, business organizations, customers and the environmental community to make a dramatic step in the evolution of drinking water regulation in New England. As a result, our company is no longer in the business of selling water! We are in the business of providing drinking water service.

With the passage of the legislation authorizing a Water Revenue Adjustment Mechanism (WRAM) in Connecticut in 2013 (See Appendix for PA 13-78), we no longer benefit financially by selling water. Our revenues are capped at what was approved in our most recent rate case. We only recover those revenues as approved by the CT-PURA in our most recent rate case, regardless of weather or customer growth. To ensure fairness, customers will get a refund if we sell too much water. Further, there is an earnings sharing mechanism with the customers if an over-collection results in the company exceeding our PURA authorized rate of return.

Conversely, we are permitted to apply a surcharge on customer bills to recover the minimum allowed annually by our regulators. That surcharge is applied the following year.

In the 3 years since the passage of the WRAM, we have surcharged customers about 2 to 4 %. At the same time, we are seeing a gradual reduction in our overall system water delivery. The current trend line is a year over year reduction in delivery of about 1.5%. This is occurring through customer education, appliance replacement, better technology and a general conservation ethic that is evident among our customers. This will translate over time into dramatic savings in source development, pumping, storage and stress on the natural environment.

Given the strength of this program, we have instituted a pilot customer water conservation promotion. If a customer who enrolls in the program uses 10% less water in 2016 than they did in 2015, we will give them a \$30 credit on their bill. So far, among the 5,000 customers who

signed up for the program, about 40% have achieved the goal and they have saved over 9 million gallons through the first 6 months of 2016.

The WRAM bill had broad support from PURA and the Connecticut Office of Consumer Council (OCC), with supporting testimony submitted by the Connecticut Department of the Environment and Energy (DEEP), Rivers Alliance of Connecticut, Sierra Club, Connecticut Fund for the Environment, and the Nature Conservancy. It was also a priority for the League of Conservation Voters. It was recognized as providing significant environmental and energy conservation benefits. At the same time there were customer safeguards built into the process and the opportunity for customers to further benefit in the long term with reduced water demands allowing for the delay or avoidance of additional supply development.

In addition to Connecticut and Maine, California, Nevada, Indiana and New York have instituted varying forms of WRAM's for water utilities. According to the Brattle Group, 27 states have similar mechanisms in place for electric utilities and 30 states for natural gas.

Prospective Test Years

In a rising-cost industry with heavy capital investment requirements, the use of historic test years almost assures there will be no return on or recovery of capital that is invested during the test year and thereafter until the utility files another rate case. Any return on such investments could therefore be delayed for a number of years. This discourages necessary investment during these periods and skews construction and investment timing based on artificial test year issues rather than system needs and efficient construction planning processes.

Due to regulatory lag, strictly historical test years can virtually ensure that the utility does not earn its allowed rate of return, thereby increasing risk and the cost of capital.

From a regulatory and public policy perspective, the touchstone for test years should be whether they produce rates that are prospectively relevant, that is, that the rates most accurately reflect the costs during the period the rates are most likely to be effective.

A "best practice" in this area would provide the utility with the obligation to identify the most prospectively relevant test year and the choice to use that test year in a rate proceeding. The utility would have the choice of utilizing a historic, current or future test year and would have the burden of demonstrating the propriety of that choice in the rate proceeding. The use of future test years would have additional filing and proof requirements associated with them to assure that any projections are reasonable. Any party could of course challenge the utility's choice of test year.

Connecticut allows utilities to utilize the most recent 12-month period, which synchronizes rates and investment quite well.

According to the Brattle Group, 19 states have adopted a future test year in regards to water utility rate recovery.

Acquiring Troubled Water Systems

With over 50,000 water systems in the United States, there is a clear need for consolidation. According to the Missouri Department of Natural Resources, there are 1,426 community water systems across the state.

In order to meet the significant capital requirement challenges water utilities face, the achievement of scale is paramount. One regulatory tool that states can utilize is allowing for an acquisition adjustment in water rates.

An acquisition adjustment provides for the difference between depreciated original cost and a purchase price to be recovered by the acquiring utility through the rates it charges, offset by the cost savings of the combination or utility plant investment avoided.

Pennsylvania and Connecticut and other states explicitly allow acquisition adjustments for small and/or troubled systems, subject to certain conditions, and at least four states, Illinois, Indiana, Pennsylvania, and Missouri, have enacted law that specifies an appraisal process for determining the fair market value. In addition, Connecticut allows for an acquisition surcharge to be imposed on customers of acquired systems if there are significant costs incurred to bring the system into compliance after neglect and artificially low rates by the prior owner.

A basic "best practices" principle regarding water system acquisitions could be stated as follows:

"If and to the extent a business combination produces identifiable savings, service improvements or other benefits to customers, shareholders should have the opportunity to recover and earn a return on the investment required to produce those benefits."

In this concept, the difference between depreciated original cost and a fair market purchase price represents the investment necessary to produce benefits and would be treated similarly to other investments the utility makes to provide cost effective, reliable service.

Methods to achieve this goal could include acquisition adjustments to rate base or the ability of the utility to retain quantified savings resulting from the combination equivalent to a return of and on the investment necessary to produce the savings.

My company has acquired 40 water systems in 10 years, partially due to the fact that we have an opportunity to make our case before the PURA for the inclusion of the premium in rates.

Customer rates and service are also lower and better than they would have otherwise been under the prior ownership. This is an important regulatory tool that should be available to meet the small water utility challenges state's face.

Rate Consolidation

Connecticut has a goal of achieving standard tariff pricing for each utility. Rate Consolidation or single-tariff pricing has been recognized as the norm for electric, natural gas and telephone utilities. These utilities often serve large territories where the costs of service can be substantially different from region to region within the service territory.

For example, costs of service for urban customers will be different from rural customers and differing geographic terrains impose different costs. Yet all customers in a particular class enjoy the same rates. This has allowed these industries to spread the benefits of economies of scale to all of their customers and to mitigate rate shock effects and affordability concerns.

Although Single-Tariff Pricing has at times been controversial for water utilities, it should nonetheless be recognized as a "best practice" — especially in view of the challenges facing the industry in the future. The inability to charge uniform rates inhibits the acquisition of troubled utilities, can result in rate shock or unaffordable rates to customers in certain areas, and significantly increases the complexity and cost of regulatory proceedings, all to the detriment of customers, the utility and sound public policy.

The states of Pennsylvania, Florida, Idaho, Arizona, California, Delaware, Kansas, Louisiana, Massachusetts, Montana, New Hampshire, New Jersey, North Carolina, Ohio, Oregon, South Carolina, Texas, Washington, West Virginia, Indiana, Illinois, Iowa, and Missouri have all adopted this approach in varying forms.

Conclusion

It's been my honor to appear before you here today. I hope that my testimony contributes to the dialogue in a meaningful way. I would close by stressing the need for Missouri to embrace more capital supportive regulatory constructs. Water is the one utility service that is ingested by the public. The actions your utilities take today, investing in critically needed infrastructure will impact the cost of water for future generations. Your investor owned utilities stand ready to make these investments, and they do not need tax dollars to do it. All that is needed is for the Missouri legislature and the various stakeholders to work together and adopt and tailor the tools that are already proven in other states. The status quo does not work and will result in higher costs for future generations and perhaps the loss of trust in the safety and reliability of their water service and supply.

Thank you very much!

Appendix

Connecticut General Statutes

Sec. 16-262v. Water company infrastructure projects: Definitions. For purposes of this section:

(1) “Eligible projects” means those water company plant projects not previously included in the water company’s rate base in its most recent general rate case and that are intended to improve or protect the quality and reliability of service to customers, including (A) renewal or replacement of existing infrastructure, including mains, valves, services, meters and hydrants that have either reached the end of their useful life, are worn out, are in deteriorated condition, are or will be contributing to unacceptable levels of unaccounted for water, or are negatively impacting water quality or reliability of service if not replaced; (B) main cleaning and relining projects; (C) relocation of facilities as a result of government actions, the capital costs of which are not otherwise eligible for reimbursement; (D) purchase of leak detection equipment or installation of production meters, and pressure reducing valves; (E) purchase of energy efficient equipment for water company operations; (F) capital improvements necessary to comply with flow regulations adopted pursuant to section 26-141b; and (G) reasonable and necessary system improvements required for a water system acquisition approved by the authority.

(2) “Authority” means the Public Utilities Regulatory Authority.

(3) “Infrastructure assessment report” means a report filed by a water company with the authority that identifies water system infrastructure needs and the company’s criteria for determining the priority for eligible projects related to infrastructure.

(4) “Pretax return” means the revenue necessary, after deduction of depreciation and property taxes, to produce net operating income equal to the water company’s weighted cost of capital as approved by the authority in the company’s most recent general rate case multiplied by the new original cost of eligible projects.

(5) “Reconciliation adjustment” means the difference between revenues actually collected through the water infrastructure and conservation adjustment and the amount allowed under the WICA for that period for the eligible projects. The amount of revenues over-collected or under-collected through the adjustment will be recovered or refunded, as appropriate, as a reconciliation adjustment over a one-year period commencing on April first.

(6) “Water company” means a water company, as defined in section 16-1, that has filed for approval an individual infrastructure assessment report to support a request for a WICA adjustment.

(7) “Water Infrastructure and Conservation Adjustment (WICA)” means an adjustment applied as a charge or credit to a water company customers’ rates to recover the WICA costs of eligible projects.

(8) “WICA costs” means the depreciation and property tax expenses and associated return on completed eligible projects.

(9) “WICA revenues” means the revenues provided through a water infrastructure and conservation adjustment for eligible projects.

Sec. 16-262w. Water company rate adjustment mechanisms. (a) The Public Utilities Regulatory Authority may authorize a water company to use a rate adjustment mechanism, such as a water infrastructure and conservation adjustment (WICA), for eligible projects completed and in service for the benefit of the customers. A water company may only charge customers such an adjustment to the extent allowed by the authority based on a water company’s infrastructure assessment report, as approved by the authority and upon semiannual filings by the company which reflect plant additions consistent with such report. The authority, in consultation with the Office of Consumer Counsel, shall conduct the proceeding in accordance with the provisions of section 16-18a.

(b) On or before ninety days after June 19, 2007, the authority shall initiate a generic docket on what shall be included in a water company’s infrastructure assessment report and annual reconciliation reports and the criteria for determining priority of eligible projects. The authority shall provide public notice with a deadline for interested parties to submit recommendations on the report contents and criteria. The authority may hold a hearing on the generic docket but shall issue a decision on the docket not later than one hundred eighty days after the deadline for interested parties to submit their recommendations on the report contents and criteria.

(c) The water company shall file their individual infrastructure assessment report with the authority and such report shall identify the water system infrastructure needs and a water company’s criteria for determining priority for eligible projects related to infrastructure. The authority shall address such criteria in its docket initiated pursuant to subsection (b) of this section. Criteria may include, but shall not be limited to, (1) age, material or condition of the facilities; (2) extent and frequency of main breaks or interruption of service; (3) adequacy of pressure; (4) head loss; (5) availability of fire flows; and (6) the potential of such projects to improve system integrity and reliability.

(d) The authority shall approve a water company’s individual infrastructure assessment report upon determining that the company has demonstrated through generally accepted engineering practices (1) the infrastructure projects considered for renewal or replacement are eligible projects; (2) such projects will benefit customers by improving water quality, system integrity or service reliability; (3) they adhere to the criteria established for determining priority for infrastructure projects; and (4) there is a sufficient level of investment in infrastructure. The authority may hold a hearing to solicit input on a water company’s individual infrastructure assessment report provided a decision on the assessment is made not later than one hundred eighty days after filing. Any such report not approved, rejected or modified by the authority within such one-hundred-eighty-day period shall be deemed to have been approved.

(e) Notwithstanding the provisions of section 16-19, upon authority approval of a water company’s individual infrastructure assessment report, the water company may charge the WICA for eligible projects in addition to such water company’s existing rate schedule pursuant to

subsection (f) of this section and the procedures and customer notification requirements in subsections (g) and (h) of this section.

(f) The WICA adjustment shall be calculated as a percentage, 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 pursuant to subsection (j) of this section as a percentage of the retail water revenues approved in its most recent rate filing for the regulated activities of said water company.

(g) A water company may impose the WICA adjustment for eligible projects as a charge or credit on customers' bills at intervals of not less than six months, commencing on either January first, April first, July first or October first in any year. No proposed WICA charge or credit shall become effective until the Public Utilities Regulatory Authority has approved such charges or credits pursuant to an administrative proceeding. The authority may receive and consider comments of interested persons and members of the public at such a proceeding, which shall not be considered a contested case for purposes of title 4, this section or any regulation adopted thereunder. Such administrative proceeding shall be completed not later than thirty days after the filing of an application by a water company or within a time period as otherwise established in the generic docket conducted pursuant to subsection (b) of this section. Any approval or denial of the authority pursuant to this subsection shall not be deemed an order, authorization or decision of the authority for purposes of section 16-35. Notwithstanding the provisions of this section, if the authority has not rendered an approval or denial concerning any such application within the established timeframe, the proposed charges or credits shall become effective at the option of the company pending the authority's finding with respect to such charges, provided the company will refund its customers any such amounts collected from them in excess of the charges approved by the authority in its finding.

(h) Water companies shall notify customers through a bill insert or other direct communications when the adjustment is first applied and the WICA charge or credit shall appear as a separate item on customers' bills.

(i) The amount of the WICA applied between general rate case filings shall not exceed ten per cent of the water company's annual retail water revenues approved in its most recent rate filing, and shall not exceed five per cent of such revenues for any twelve-month period. The amount of the adjustment shall be reset to zero as of the effective date of new base rates approved pursuant to section 16-19 and shall be reset to zero if the company exceeds the allowable rate of return by more than one hundred basis points for any calendar year.

(j) On or before February twenty-eighth of each year, a water company shall submit to the authority an annual reconciliation report for any WICA charges applied to customers' rates through December thirty-first of the previous calendar year. Such reconciliation report shall identify those projects that have been completed, demonstrate that the WICA charges are limited to eligible projects that are in service and used and useful as of the end of the calendar year, and include any other information required as a result of the generic docket conducted pursuant to subsection (b) of this section. The company shall indicate in its report any significant changes in the extent of infrastructure spending, the priorities for determining eligible projects or the criteria established in the infrastructure assessment report. In addition, the reconciliation report shall compare the WICA

revenues actually collected to the allowed amount of the adjustment. If upon completion of the review of the annual reconciliation report 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 commencing on April first. The company shall refund the customers with interest for any over collection but shall not be eligible for interest for any under collection.

Sample Customer Notification for WICA

To Our Valued Customers:

Connecticut Water Company would like to advise you that the company has requested and received approval from the Department of Public Utility Control (DPUC) for a surcharge to water bills, as authorized by a Connecticut law passed in 2007, designed to encourage the replacement of water infrastructure. The program covers distribution system pipes that have either reached the end of their useful life; are worn out; are in deteriorated condition; are or will be contributing to unacceptable levels of unaccounted for water; or are negatively impacting water quality or reliability of service.

As water pipes and facilities age, it is important for water companies to continue to invest in their replacement. This ongoing effort ensures we can continue to deliver a quality product and reliable service to our customers. Eligible projects completed and included under the Water Infrastructure and Conservation Adjustment (WICA) will improve water quality and reliability of service and help save precious water resources by minimizing distribution system breaks and leaks.

With this approval, a WICA charge may now be included on your water bills for eligible infrastructure projects that are completed and in service for the benefit of customers. These types of infrastructure projects are already eligible to be recovered in water customers' rates through a general rate case proceeding. The WICA adjustment provides for incremental, interim rate adjustments that help alleviate the spikes and customer rate shock that can occur if water companies accumulate those expenses for years until a full general rate case proceeding.

The law limits the amount of the surcharge that can be applied to 5% per year or a maximum of 7.5% between general rate case filings. In the initial phase of the program, Connecticut Water would expect our projects would represent approximately 2% per year.

The percent increase would be applied to the total bill for each customer. A typical residential customer who uses 18,000 gallons per quarter with a bill of \$XXX per quarter would see about *XXX per quarter or just over XXX per month increase* on their bill if we reached the maximum 5% annual WICA increase. This equates to an increase of *XXXX cents per day* to provide the necessary investment to maintain service and integrity of the water distribution system.

We look forward to continuing to provide you with quality water and service. Please feel free to contact our Customer Service Representatives at 1-800-286-5700 if you have any questions on the WICA charge or if we can assist you regarding your water or service. Should you still have questions or concerns after contacting our customer service staff, you may call the Department of Public Utility Control at 1-800-382-4586 (toll free in Connecticut).

Substitute Senate Bill No. 807

Public Act No. 13-78

**AN ACT CONCERNING WATER INFRASTRUCTURE AND CONSERVATION,
MUNICIPAL REPORTING REQUIREMENTS AND UNPAID UTILITY ACCOUNTS AT
MULTI-FAMILY DWELLINGS.**

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. (NEW) (*Effective from passage*) The Public Utilities Regulatory Authority shall authorize rates for each water company, as defined in section 16-1 of the general statutes, that promote comprehensive supply-side and demand-side water conservation. In establishing such rates, the authority shall take into consideration state energy policies, the capital intensive nature of sustaining water systems that minimize water losses and the competition for capital for continued investments in such systems. Such rates shall consider (1) demand projections that recognize the effects of conservation, (2) implementation of metering and measures to provide timely price signals to consumers, (3) multiyear rate plans, (4) measures to reduce system water losses, and (5) alternative rate designs that promote conservation.

Sec. 2. (*Effective from passage*) The Public Utilities Regulatory Authority shall initiate a docket to identify water and energy conservation programs, including, as applicable, measures in an approved water supply plan pursuant to section 25-32d of the general statutes, that would be eligible for recovery by any water company, as defined in section 16-1 of the general statutes, in a general rate case, provided such company implements such programs and demonstrates with information and data available to the public that the expenses for such programs were reasonable and prudent. On or before January 1, 2014, the Water Planning Council, in conjunction with the Energy Conservation Management Board, shall submit a report to the authority that identifies and recommends conservation programs for consideration by the authority in such docket or for incorporation into the Conservation and Load Management Plan developed pursuant to section 16-245m of the general statutes. The programs to be recommended by the Water Planning Council, in conjunction with the Energy Conservation Management Board, may include, but not be limited to, the use of renewable energy resources, meter equipment and technology to promote timely price signals and programs for consumers including monthly billing, water audits and leak detection programs.

Sec. 3. (NEW) (*Effective from passage*) (a) For purposes of this section, (1) "revenue adjustment mechanism" means a mechanism that reconciles in rates the difference between the actual revenues of a water company and allowed revenues, (2) "actual revenues" means the revenues received or accrued by a water company for water sales

for a calendar year, including sales for resale and approved miscellaneous charges, authorized by the Public Utilities Regulatory Authority pursuant to sections 16-19 and 16-262w of the general statutes, as amended by this act, and those revenues authorized for customers acquired pursuant to section 16-43, 16-262o or 16-262s of the general statutes, as amended by this act, since the last general rate case of the company, (3) "allowed revenues" means revenues for a water company for water sales for a calendar year, including sales for resale and approved miscellaneous charges, authorized by the authority pursuant to sections 16-19 and 16-262w of the general statutes, as amended by this act, and shall include customer growth from an acquisition approved by the authority pursuant to section 16-43, 16-262o or 16-262s of the general statutes, as amended by this act, since the last general rate case of such company, and (4) "water company" has the same meaning as provided in section 16-1 of the general statutes.

(b) (1) The authority shall not render any draft or final decision in a general rate case of a water company pending before the authority on the effective date of this section without approving a revenue adjustment mechanism for such company.

(2) After approval of a revenue adjustment mechanism pursuant to subdivision (1) of this subsection, such mechanism shall be authorized by the authority annually thereafter until such time as such company files its next general rate case. Such company shall file with the authority an annual reconciliation of actual revenues to allowed revenues that shall include a report of the changes in water demands and any measures such company has taken to promote water conservation.

(c) (1) On or after the effective date of this section, and before a water company, with actual revenues at least one per cent less than allowed revenues files for its next general rate case pursuant to section 16-19 of the general statutes, such company may request, and the Public Utilities Regulatory Authority shall initiate, a docket for a limited reopener to approve a revenue adjustment mechanism.

(2) After approval of a revenue adjustment mechanism pursuant to subdivision (1) of this subsection, such mechanism shall be authorized by the authority annually thereafter until the earlier of (A) the sixth year after the last general rate case, or (B) such time as such company files its next general rate case. Such company shall file with the authority an annual reconciliation of actual revenues to allowed revenues that shall include a report of the changes in water demands and any measures such company has taken to promote water conservation.

(d) (1) A water company may request during a general rate case filed pursuant to section 16-19 of the general statutes, and the Public Utilities Regulatory Authority shall approve, a revenue adjustment mechanism.

(2) After approval of a revenue adjustment mechanism pursuant to subdivision (1) of this subsection, such mechanism shall be authorized by the authority annually

thereafter until such time as such company files its next general rate case. Such company shall file with the authority an annual reconciliation of actual revenues to allowed revenues that shall include a report of the changes in water demands and any measures such company has taken to promote water conservation.

(e) A revenue adjustment mechanism approved pursuant to subsection (b), (c) or (d) of this section shall be implemented through a modification to the authorized rates or a rate surcharge or recorded as a deferral on the balance sheet for recovery in rates at the time of the next general rate case filed by a water company pursuant to section 16-19 of the general statutes. Any under-recovery or over-recovery of the revenue adjustment or deferred amount of the previous year shall be included in the calculation of the subsequent annual adjustment or general rate case proceeding, whichever occurs first.

(f) Concurrent with implementation of a revenue adjustment mechanism pursuant to subsection (b), (c) or (d) of this section, the authority shall establish an earnings sharing mechanism that provides for any earnings in excess of the allowed return on equity to be shared equally between ratepayers and shareholders.