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Testimony to the Environment Committee  
March 16, 2012  
RE: SB 348 AAC Water Conservation

Connecticut Water Company would like to thank the Environment Committee for raising SB 348 AAC *Water Conservation*. The bill includes important water conservation measures that will further the state's goals to improve and protect natural resources and the environment, enhance streamflows and reduce energy demands.

This initiative comes on the heels of the adoption of Connecticut's streamflow regulations, and is a logical and important 'next step' to build on those regulations and promote conservation and reduce demands on the state's water resources. Reducing demands can provide a short term benefit of additional releases into streams, and can have the long term benefit of delaying or avoiding the development of additional sources of supply to meet customers' needs in the future.

The legislation reflects a number of items identified in a 2011 OLR Report, *Legislative Options to Promote Water Conservation (2011-R-0021)* and a report on "*Water Rates and Incentives to Promote Conservation*" recently approved by the Water Planning Council (WPC). The WPC, established pursuant to PA 01-177, includes top officials of the Office of Policy and Management, Department of Public Health, Public Utility Regulatory Authority (PURA), and Department of Energy and Environmental Protection who work to "address issues involving the water companies, water resources and state policies regarding the future of the state's drinking water supply." The WPC studies and makes recommendations regarding a broad range of water utility and water resource programs and policies taking into account environmental, economic and public health considerations.

The primary recommendation in the report on water rates and conservation recently approved by the WPC is to:

*"Ensure that state policies and regulations promote and support*

- *water and energy conservation;*
- *water system sustainability and efficiency;*

*by providing for the recovery of costs for all public water systems, including authorizing appropriate rates and recovery mechanisms."*

The legislation in SB 348 is consistent with that recommendation in that it encourages adoption of rate structures that would send appropriate price signals to end users and offer programs for consumer conservation education and retrofits to promote water conservation. At the same time, it has measures to ensure that the utility will receive sufficient revenues to meet the PURA approved revenue requirements and recover authorized operating costs to maintain the level of investment necessary to sustain the system even as demands are reduced when conservation is achieved.

The bill would require that PURA authorize rates for water companies that promote conservation including:

- (1) rate designs that promote conservation, including but not limited to inclining block rates, seasonal, peak period or drought rates,
- (2) implementation of measures to provide more timely price signals for consumers,
- (3) multiyear rate plans,
- (4) measures to reduce system water losses, and
- (5) funds for consumer programs to promote conservation through education and incentives or rebates for retrofits with water efficient fixtures and appliances.

The bill further directs the Department to authorize a water conservation and sustainability adjustment (CSA) for a water company that has not recovered the allowed revenues approved by the Department and has not exceeded their allowed rate of return. The bill details the process by which the CSA would be authorized and includes a number of safeguards for the consumer, including that the company may not exceed their allowed rate of return and that a credit would be issued to customers if the company's revenues exceeded the revenue requirement.

This CSA is important as the current ratemaking construct directly links revenues to customer consumption. Because of this regressive model, a water utility is economically harmed when demand is reduced. Achieving conservation will only widen the utility's revenue gap as compared to what was approved in rates. Therefore, there is a real disincentive for the utility to further promote conservation.

However, if the water utility had the assurance that the PURA authorized revenues would be realized through the CSA, they could be more aggressive in rate designs to promote conservation, such as inclining block rates or water audit and rebate programs that help consumers reduce their water demand. Absent that protection, however, there is too much risk for the utility to embrace such measures.

While it may be within PURA's existing authority to implement such types of ratemaking now, their decisions, at least in the water sector, have not supported such measures to promote conservation. Both Connecticut Water and Aquarion Water proposed conservation adjustment mechanisms in their last general rate cases, and both were denied. Connecticut Water also requested approval of funds to offer retrofits for schools, other public buildings and hardship customers and that was denied.

As individual applications are reviewed, decisions rely on past practices and do not necessarily reflect the broader state and Department policies for water and energy conservation. That disconnect does not serve the state's utilities, customers, or the environment long term.

Consumer conservation programs clearly can work. Results from a small pilot program launched by Connecticut Company in February 2010 show just how much water customers can save with the installation of water-saving washing machines and toilets. The company had low flow toilet fixtures and front load washers installed in two single family residential homes and a multiple unit building. The results showed weekly usage drop by:

- 70 gallons per day or 21% at one property, and
- as much as 289 gallons per day or 30% at another residence.

These real measurable savings in this simple pilot demonstrate how effective such changes can be in saving water. It would be powerful for water companies to extend those opportunities to more customers, share the results, and encourage other customers to do the same - yet current ratemaking discourages that.

In addition to the water savings, the potential energy savings from water conservation are very real as well. There is a clear water-energy nexus and reducing water demands through conservation will have obvious benefits to the state in achieving its energy goals. Simply put, water is a heavy product and considerable energy is required to pump it to the heights of tanks and hills to serve customers and provide fire protection. And still more energy is needed for its treatment and disposal.

The Alliance for Water Efficiency reports that nationally 13% of the electric load is related to the production, distribution, customer use and consumer disposal of water. Formalizing policies and PURA ratemaking practices to support water conservation can therefore further the state's energy conservation goals. Reducing water demands will reduce the demands on the state's energy grid, thereby helping minimize the need for new and/or less efficient energy sources.

Finally, the bill would expand the eligibility for Water Infrastructure and Conservation Adjustment (WICA) charges authorized under Section 16-262v of the CGS. WICA is a ratemaking tool authorized by the legislature in 2007 with support from a number of environmental advocates that allows for interim rate adjustments for PURA regulated companies for eligible projects that improve system reliability and water quality and reduce water loss through main breaks and leaks.

Since that legislation was adopted, the WICA program has been highly successful and achieved the intended goals of accelerating infrastructure replacement and creating jobs with minimal rate impacts on customers. Since 2007, Connecticut Water has invested over \$34 Million, replaced nearly 33 miles of main, and created more than 150 construction and related jobs through the WICA program. With the most recent additions completed, the cumulative total of the WICA charge is 4.15% - with virtually no customer complaints about the surcharge.

To encourage the additional conservation related investments without compromising continued investments in replacement of aging infrastructure, SB 348 would expand the cap for WICA to 10% between rate cases. The definition of WICA eligible projects would be expanded to include additional items that are key to achieving the state's energy and environmental policies including the (1) purchase of energy efficient equipment or investments in renewable energy supplies; and (2) capital improvements necessary to achieve compliance with streamflow regulations. Allowing timely recovery will encourage such investments.

DEEP included the bill in their legislative package and numerous environmental advocates stand in support of this legislation as it is evident that ratemaking tools that promote ongoing reductions in demand through conservation can reduce demands on the state's water resources, enhance streamflows and support environmental and energy goals. Further, achieving conservation may delay or avoid the need to develop new water supplies, which would provide cost savings and environmental benefits.

The proposed regulatory tools in SB 348 have the added benefit that they can streamline the regulatory process, mitigate the need and frequency of larger general rate cases, reduce agency staff and resources required for general rate case proceedings, and result in savings for customers.

This bill provides an opportunity to formally establish policies for ratemaking in water so rate case decisions will be consistent with state policies to reduce energy demands, improve and protect natural resources and the environment, and enhance streamflows.

We have some suggestions for substitute language that would slightly modify/clarify the administrative process for authorizing the CSA charge so that it more closely mirrors the existing statutory process for the WICA charge. We would welcome the opportunity to share those suggested changes with the Committee.

Again we thank you for raising SB 348 and urge the Committee's support. We stand ready to work with the Committee and stakeholders to further these efforts.

Connecticut Water Company is a private water company that serves nearly 90,000 customers or approximately 300,000 people in 55 towns in Connecticut. We have 200 employees dedicated to providing our customers and the communities we serve with quality water and service. We have long been stewards of the environment and strive to ensure that water resources are protected and water utility operations are sustainable.

*If you have questions on our testimony please contact Maureen Westbrook at 1-800-428-3985 x3055 or [mwestbrook@ctwater.com](mailto:mwestbrook@ctwater.com)*