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## OLR Bill Analysis

### sSB 807

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

#### **SUMMARY:**

This bill establishes additional conservation-related principles that the Public Utilities Regulatory Authority (PURA) and municipal legislative bodies must consider when setting water company rates. It also requires (1) PURA and the Water Planning Council to identify and recommend conservation programs and (2) PURA to implement, under certain circumstances, a revenue adjustment mechanism to let the water companies meet their allowed revenues regardless of their customers' water usage.

The bill also:

1. increases the maximum water infrastructure and conservation adjustment (WICA) from 7.5% to 10%;
2. expands the list of WICA eligible projects to include efficiency equipment, among other things;
3. allows a water company voluntarily acquiring an economically non-viable water company to receive a reasonable acquisition premium as part of a PURA approved rate surcharge;
4. exempts municipal water utilities from an annual reporting requirement to PURA; and
5. ends a requirement for the Office of Policy and Management to prepare an annual report on the Water Planning Council's goals and recommendations.

In addition, the bill allows all utility companies to pursue post-

judgment procedures against the owner of a building in receivership.

EFFECTIVE DATE: Upon passage

#### **§§ 1, 4 - CONSERVATION-BASED RATE MAKING PRINCIPLES**

The bill requires PURA to authorize water company rates that promote comprehensive supply-side and demand-side water conservation. It must also consider (1) state energy policies, (2) the capital intensive nature of supporting water systems that minimize water loss, and (3) the competition for capital to invest in water systems.

The bill requires PURA, and municipal legislative bodies setting water rates and charges for municipal water utilities, to consider:

1. demand projections that recognize conservation's effects,
2. implementing metering and measures to provide timely price signals to consumers,
3. multi-year rate plans,
4. measures to reduce system water losses, and
5. alternative rate designs that promote conservation.

To the extent that they might conflict, it is unclear what priority these new principles have in relation to the existing law's general rate making principles for PURA (CGS § 16-19e).

#### **§ 2 - CONSERVATION PROGRAMS**

The bill requires PURA to open a proceeding to identify any water and energy conservation programs that a water company has implemented and for which it could recover expenses in a general rate case. The water company must show, through publicly available information, that the program's expenses were reasonable and prudent, including measures approved in the water supply plans required by law.

The bill requires the Water Planning Council and Energy Conservation Management Board to submit a joint report that identifies and recommends conservation programs to PURA by January 1, 2014. The recommendations can include renewable energy use, meters and technology to promote timely price signals, and consumer programs such as monthly billing, water audits, and leak detection programs. PURA can consider the report in its proceeding to identify water company conservation programs or incorporate it into the Conservation and Load Management Plan it must develop by law.

### **§ 3 - REVENUE ADJUSTMENT MECHANISM**

The bill creates a revenue adjustment mechanism to allow a water company to make up the difference between the revenue allowed under its last general rate case and its actual annual revenue. The adjustment can be implemented through a rate modification (i.e., increasing present rates to make up the difference), a rate surcharge (i.e., an additional charge to make up the difference), or a balance sheet deferral that can be recovered in the company's next general rate case (i.e., raising future rates to make up the difference). (Existing law (CGS § 16-19kk) requires PURA to implement rate making procedures that (1) encourage conservation and (2) modify or eliminate any direct relationship between a utility company's sales volume and earnings, including the adoption of a sales adjustment clause.)

Under the bill, any under-recovery, over-recovery, or deferred amounts from the previous year's adjustment must be included when calculating the subsequent annual adjustment or general rate case, whichever occurs first. (The bill does not specify, but presumably, PURA would make these annual adjustments as part of the bill's requirement for it to annually authorize approved adjustment mechanisms.) The bill implements the adjustment mechanism through pending general rate cases, at a water company's request, and through general rate cases. Any company receiving the adjustment must file with PURA an annual reconciliation of actual revenues to allowed revenues, and include a report on the company's water demand changes and water conservation measures.

### ***Pending Rate Cases***

The bill requires PURA to include a revenue adjustment mechanism for any water company's draft or final general rate case pending when the bill is enacted. After approving the adjustment, PURA must annually authorize it until the company's next general rate case.

### ***Water Company Requests***

The bill requires PURA to start a limited reopener proceeding to approve a revenue adjustment mechanism for a requesting water company if the company's actual annual revenues are at least 1% less than the revenue authorized under its last general rate case. Once the adjustment mechanism is approved, PURA must annually authorize it until (1) six years after the company's last general rate case or (2) the company's next general rate case, whichever comes first.

### ***General Rate Cases***

The bill requires PURA to approve a revenue adjustment mechanism at a water company's request during its general rate case. After approving the adjustment, PURA must annually authorize it until the company's next general rate case.

### ***Earnings Sharing Mechanism***

The bill also requires PURA to concurrently establish an earnings sharing mechanism that requires a water company's earnings beyond its allowed return on equity to be split between the company's ratepayers and shareholders.

### ***Authorized Revenues***

By law, a water company's authorized revenue includes revenue approved in a general rate case and WICA. The bill additionally requires that it reflect revenue from customer growth due to a PURA approved acquisition of another water company. This requirement's effect is unclear because the bill's references to the authorized revenue used in the adjustment mechanism are specifically limited to revenue authorized in the water company's most recent general rate case.

### **§§ 6, 7 - WICA**

The law allows a water company to receive a water infrastructure and conservation adjustment to help defray the costs of funding certain infrastructure projects between general rate cases. The bill adds to the list of WICA eligible projects:

1. energy efficient equipment purchases for water company operations,
2. capital improvements needed to comply with river and stream flow regulations, and
3. reasonable and necessary system improvements required for a PURA approved water system acquisition.

The bill increases the maximum WICA from 7.5% to 10% of the company's annual retail water revenues approved in its last rate case. Under existing law, unchanged by the bill, a company's WICA cannot exceed 5% of the approved annual revenues for any 12-month period.

#### **§ 8 - ACQUISITION PREMIUMS**

Existing law allows a water company (private or municipal) to voluntarily acquire another water company (private or municipal) deemed economically non-viable by PURA. Under these circumstances, the acquiring company can ask PURA to approve a rate surcharge to cover the acquisition costs and any improvements needed in the acquired system.

The bill allows this rate surcharge to include an additional reasonable acquisition premium. The premium is calculated by adding an acquisition's costs beyond the depreciated original cost to the rate base and amortizing it as an addition to expenses over a reasonable period of time with corresponding rate base reductions. Under the bill, PURA can allow the premium when a water company shows that a proposed acquisition will benefit customers by (1) enhancing system viability or (2) avoiding capital costs or saving operating costs.

Instead of imposing all or part of a rate surcharge, the bill also

allows PURA to let the acquiring water company defer the acquisition costs' collection until the company's next general rate case. The bill allows PURA to award an acquiring water company a premium rate of return at its next general rate case if the company shows that a proposed acquisition will benefit customers by (1) enhancing system viability or (2) avoiding capital costs or saving operating costs.

#### **§ 5 - MUNICIPAL WATER COMPANY REPORTS TO PURA**

Current law requires all municipal utility companies to submit annual status reports to PURA. The bill exempts municipal water companies from this requirement. It also exempts them from PURA's authority to (1) prescribe how to keep report-related records and (2) conduct report-related examinations.

#### **§§ 9-11 - RESIDENTIAL BUILDING RECEIVERSHIPS**

Existing law prohibits a utility company from terminating service to a residential building's tenants for nonpayment if it knows that the building's owner, and not the tenants, is responsible for the bills and the tenants cannot receive service in their own names. When a building owner defaults under these circumstances, the law allows the utilities to request that the courts appoint a receiver to collect the building's rents and fees to pay the ongoing utility bills. The bill allows a utility to additionally pursue a post-judgment procedure (e.g., a wage execution) against the owner to pay for its past due and ongoing bills. This provision applies to all utility companies, including municipal utilities.

#### **COMMITTEE ACTION**

Energy and Technology Committee

Joint Favorable Substitute

Yea 18    Nay 5    (03/07/2013)