



Testimony
Elizabeth Gara, Executive Director
Connecticut Water Works Association (CWVA)
Before the Energy Committee
February 10, 2015

RE: SB-569, AN ACT CONCERNING COMMUNITY WATER SYSTEMS.

The Connecticut Water Works Association (CWVA) appreciates the opportunity to comment in *support* of **Proposed SB-569** which is intended to address concerns regarding the financial capacity and viability of small community water systems. CWVA supports efforts to provide greater regulatory oversight to ensure that new and existing small Community Water Systems have adequate financial and managerial capacity to meet water supply needs.

Small Community Water Systems

Small community water systems include homeowner's associations, condo associations, senior housing complexes, mobile homes and other developments where providing water is not the primary function but incidental activities of the owner(s). Not surprisingly, in Connecticut and other states throughout the United States, these small water systems often lack the financial, technical and managerial capacity to adequately maintain systems, make necessary system improvements and comply with rigorous state and federal public health and environmental laws.

When community water systems fail to meet their obligations to provide public water supplies, there is a process under Connecticut law whereby regulators can order another water company to acquire the system. In addition, some community water systems, recognizing that their revenues and/or infrastructure are inadequate, may pursue a voluntary acquisition agreement with a water company, which is subject to review and approval by state regulators.

Study Required by PA 13-298

Public Act 13-298 required the Public Utilities Regulatory Authority (PURA) to study the financial capacity and system viability of small community water systems that are not required to submit water supply plans. Under current law, water systems serving more than 1,000 customers are required to develop and submit comprehensive water supply plans to state regulators.

The act required the study to examine: (1) potential factors affecting the costs to maintain and operate small systems safely and effectively and (2) potential benefits of creating a financial assistance account to help them defray the costs of essential infrastructure improvements. Accordingly, PURA contracted with the consulting firm, the Townsley Consulting Group, LLC, to undertake the study which provided some key findings on the small systems, as follows:



Key findings of the 2014 Townsley Consulting Group Report

- There are 358 small community water systems that serve a population of less than 1,000 and are not owned by larger water companies which would be expected to have the technical, financial and managerial capacity to ensure system viability.
- The capital needs of the Community Water Systems could approach \$50 million over the next five years;
- The Community Water Systems are only expected to receive just over \$1 million per year under the state's Drinking Water Systems Revolving Loan Fund;
- About 18% of the Community Water Systems are not currently collecting sufficient revenues to meet their daily operational needs;
- Although the vast majority of Community Water Systems are currently providing adequate water service, most systems should be receiving more routine maintenance than they are receiving; and
- Approximately 21 of the Community Water Systems are in poor condition, not providing adequate service, and in need of substantial work.

In addition, the report recommends that the state must provide greater oversight of Community Water Systems that potentially have very high future capital requirements or that are unable to obtain adequate revenues to meet their daily operational and maintenance needs, as called for under SB-569.

Unfortunately, the process for acquisition of water systems, including the voluntary acquisitions process, is inordinately complex and imposes significant costs on water utilities and their customers and delays the resolution of issues affecting the quality of drinking water for customers. Recognizing this, the study concludes that "if the consolidation of the Community Water Systems through acquisition is to reach its potential for "voluntary" acquisitions, "streamlining" of the PURA and DPH processes needs to be implemented."

Review by WPC Small Systems Workgroup

To build on the recommendations included in the report, the state's Water Planning Council requested that the Water Planning Council Advisory Group (WPCAG) establish a work group to recommend ways of streamlining the acquisitions process and addressing other issues framed in the report. The work group is currently in the process of reviewing the processes from the creation of small systems through to the dissolution/acquisition of such systems. The group has identified a number of items that could be considered and now has to determine what will be required of the agencies (DPH and PURA) to implement such measures and what legislative changes may be necessary. The goal is to put measures in place to ensure that customers of those systems have quality water and service as well as to ensure that there is a mechanism in place to identify those systems that are failing and provide a streamlined process for takeover of those failing systems.

In addition, the group is reviewing changes to the statutes being proposed by the state Department of Public Health (DPH). Although there are significant questions and concerns with the proposal drafted by



DPH, CWWA is hopeful that these issues will be resolved so that we can move forward on this issue, either separately or in conjunction with other recommendations of the work group.

Rate Setting Proposed in SB 569

SB-569 also requires PURA to establish a cost-based, rate-setting policy for small community water systems established in the future. CWWA supports efforts to promote the adoption of rates for Community Water Systems that will ensure system viability and capacity. Too often, such systems are reluctant to increase rates and they fall into disrepair, affecting water quality and capacity. Further, these small systems may not have the governance structure or mechanisms in place to adopt rates and ensure collection from all customers on the system.

Other Rate Setting Tools to Enhance Water System Viability

As the Committee is considering rate setting policy for small water systems, we would ask that you consider an addition to the bill that would modify and improve an existing rate setting tool for the PURA regulated water companies adopted in PA 13-78. The Water Revenue Adjustment Mechanism authorized in Section 16-262y allows water companies to adjust rates as necessary to recover the previously approved revenues from the last general rate case when actual demands are reconciled with the demands projected in the last general rate case. This can have the effect of delaying the need for costly rate case filings so promoting the viability of those systems without allowing revenues beyond what was already approved by PURA at their last case.

The original law limited the duration that the adjustment mechanism could be used following a rate case but it is evident now that the tool has been put in place by several water companies, that there are circumstances where that time period could be extended or where other actions by PURA should be considered. These changes have been discussed and supported by the Office of Consumer Counsel and the staff at PURA as a way to streamline the process, build on the success of this ratemaking tool, and reduce costs for the company and their customers. The proposed changes are included in Attachment A.

Conclusion

CWWA is supportive of the goals outlined in proposed SB-569 and would be happy to work with lawmakers to draft language to achieve those goals as the language evolves and moves forward in the process. We also ask that you consider amending the bill to include the proposed changes suggested by CWWA to the existing water revenue adjustment mechanism.



Attachment A

Proposed Amendment to SB 569

Subsection (d) of Section 16-262y is repealed and the following is substituted in lieu thereof:

(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] later of the sixth year after either (A) the last general rate case, (B) the initial establishment of such mechanism by a company; or (C) the company's prior rate case is reopened and rate levels are reset by the Authority, WICA surcharges are rolled into base rates, or other authorized changes in rates pursuant to a settlement agreement or other action by the Authority. After such six-year period, the Authority may authorize continuation of the revenue adjustment mechanism for up to an additional three year period upon request by the company, with a filing to the Authority at least ninety days before the mechanism was due to be discontinued. The Authority shall act on such request within such ninety-day period in a proceeding that shall not be a contested 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.