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**Testimony of Connecticut Water Company  
Energy and Technology Committee  
March 1, 2016**

**SB 103 AN ACT CONCERNING THE RESPONSIBILITIES OF THE PROCUREMENT MANAGER OF THE  
PUBLIC UTILITIES REGULATORY AUTHORITY AND  
MINOR REVISIONS TO ENERGY-RELATED STATUTES**

Connecticut Water Company is pleased to provide comments regarding the provisions in Sections 1 and 2 of **SB 103 AN ACT CONCERNING THE RESPONSIBILITIES OF THE PROCUREMENT MANAGER OF THE PUBLIC UTILITIES REGULATORY AUTHORITY AND MINOR REVISIONS TO ENERGY-RELATED STATUTES.**

As a public water utility, Connecticut Water provides water service to more than 90,000 customers, or approximately 300,000 people in 56 towns in Connecticut. We strive to manage our costs while making investments in our water systems to ensure we provide quality water and service.

We support the intent of the changes in Sections 1 and 2 of SB 103 which would make terminology used in two separate sections of the statute more clear and ensure greater consistency in the administration of the clauses pertaining to the measurement of a company's earnings. We would ask that you consider minor revisions to the bill to further clarify the language. We would suggest that, rather than referring to the prior 6 month reporting period, it explicitly state that the measurement is based on the rolling twelve month periods ending with the two most recent consecutive financial quarters.

In addition, we would ask that you consider further revisions to subsection 2 of the bill to modify the remedy provided with respect to the Water Infrastructure and Conservation Adjustment (WICA) if a water company exceeds their authorized rate of return. The WICA charge has been a very effective ratemaking tool for private water companies to encourage timely investments in the replacement of aging water infrastructure to improve or protect the quality and reliability of service to customers. The importance of maintaining and upgrading water system infrastructure has never more evident than with the recent national media coverage about water quality issues and the impact those events have on customers and communities.

Beyond the benefits to water quality, the pipe replacement projects protect our natural resources and reduce energy and chemical needs by reducing water losses from leaks and main breaks. Having the WICA ratemaking tool allows for these improvements to be made in the system with only minimal incremental increases to customers' bills. At the same time, it delays the need for costly general rate cases to recover the costs of those investments. With WICA, private water companies across the state – large and small – have increased

their level of investments in pipe replacement and are addressing the infrastructure needs so they are not left for future generations. Our Company is scheduled to invest nearly \$18M in eligible infrastructure projects this year. The WICA charge cannot exceed 5% in any year or 10% between rate cases and PURA must review and approve each WICA charge to ensure the projects were eligible and in service for the benefit of customers.

When the WICA mechanism was originally authorized in 2007, language was included to protect customers that would reset the WICA charge to zero if a company was found to exceed their allowed rate of return. We have since seen the clear benefits of the WICA program over the nine years since it was adopted, and companies and regulators have seen its successful implementation. It seems now that remedy to reset the WICA to zero is severe and it would more appropriate to allow the company to continue their WICA program but be required to reduce the WICA charge to customers by an amount sufficient to offset any excess earnings. This approach was authorized in a recent settlement agreement with one of the smaller water companies.

There is already a process for an annual reconciliation and adjustment for the WICA charge to ensure the company does not over or undercollect from customers, so the same process could be used to determine how the customers' charge should be adjusted if earnings exceed what was previously approved. We believe the revised approach would provide the right balance of providing protections for the customers and supporting the company's continued investments in infrastructure.

We appreciate your interest and urge your support of the provisions with the suggested changes. We stand ready to work with the Committee, PURA and the Office of Consumer Counsel to get consensus of suggested revised language. Thank you.

## Proposed Substitute Language for SB 103

Section 1. Subsection (g) of section 16-19 of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2016*):

(g) The authority shall hold either a special public hearing or combine an investigation with an ongoing four-year review conducted in accordance with section 16-19a or with a general rate hearing conducted in accordance with subsection (a) of this section on the need for an interim rate decrease (1) when a public service company has, for [six] the rolling twelve month periods ending with the two most recent consecutive [months] financial quarters, earned a return on equity for the prior twelve month period which exceeds the return authorized by the authority by [one percentage point] more than one hundred basis points, (2) if it finds that any change in municipal, state or federal tax law creates a significant increase in a company's rate of return, or (3) if it finds that a public service company may be collecting rates which are more than just, reasonable and adequate, as determined by the authority, provided the authority shall require appropriate notice of hearing to the company and its customers who would be affected by an interim rate decrease in such form as the authority deems reasonable. The company shall be required to demonstrate to the satisfaction of the authority that earning such a return on equity or collecting rates which are more than just, reasonable and adequate is directly beneficial to its customers. At the completion of the proceeding, the authority may order an interim rate decrease if it finds that such return on equity or rates exceeds a reasonable rate of return or is more than just, reasonable and adequate as determined by the authority. Any such interim rate decrease shall be subject to a customer surcharge if the interim rates collected by the company are less than the rates finally approved by the authority or fixed at the conclusion of any appeal taken as a result of any finding by the authority. Such surcharge shall be assessed against customers in such amounts and by such procedure as ordered by the authority.

Sec. 2. Subsection (i) of section 16-262w of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2016*):

(i) The amount of the Water Infrastructure and Conservation Adjustment charge [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] If after any adjustments pursuant to section 16-262y, the company exceeds the allowable rate of return by more than one hundred basis points for [any calendar year] the rolling twelve month periods ending with the [latest] two most recent consecutive quarters, the authority shall reduce the Water Infrastructure and Conservation Adjustment charge by an amount sufficient to offset any returns in excess of the allowable returns.