



The Energy and Technology Committee

Public Hearing, March 8, 2018

Joint Testimony of the Public Utilities Regulatory Authority

And Office of Consumer Counsel

Testimony of Vice Chairman, John W. Betkoski, PURA

and Elin Swanson Katz, Consumer Counsel

Raised Bill No. 5345

An Act Concerning Lead Service Line Replacement

The Public Utilities Regulatory Authority (PURA) and the Office of Consumer Counsel (OCC) have reviewed Raised Bill No. 5345, which seeks to (1) allow water companies to submit lead service line replacement plans to PURA; and (2) allow the Authority to authorize cost recovery mechanisms for the replacement of customer lead service lines. PURA and OCC do not oppose this bill, but believe that the appropriate action, at this time, is to have the Authority initiate a docket and report back to the Legislature on the specific need for a lead service line replacement program as well as the contents of potential lead service line replacement plans filed for approval.

While PURA and OCC appreciate the concerns that this bill is intended to address, PURA and OCC have been provided no evidence by the water companies that identifies that the replacement of the customer owned portion of a lead service line is a problem within the State of Connecticut. To date, the extent to which service line replacement is an issue is unknown, as Connecticut's water companies have not yet presented data identifying the number of lead service lines that exist within their service territory. Additionally, neither PURA nor the OCC have received complaints or inquiries from customers who are seeking service line replacement.

It would be premature to allow rate recovery, create specific ratemaking mechanisms or design new rate tariffs to address potential issues when their scope is unknown. . This is especially true when dealing with the recovery of costs that relate to the replacement of assets that are not owned or maintained by the water utilities. Allowing water utilities to be responsible for the replacement of customer or building owner property is a departure from current law and policy that requires more study and thought to be developed in a manner that carefully balances the interests of ratepayers and individual customers while addressing the intended policy goals. A PURA proceeding with input from the OCC, the water industry, and other interested parties would be the best manner to analyze the need for a utility sponsored lead line replacement program and specific approaches to potential lead line replacement plans.

Raised Bill No. 5346
An Act Concerning the Sale of Municipal Water
Supply and Wastewater Utility Assets

The Public Utilities Regulatory Authority (PURA) and the Office of Consumer Counsel (OCC) have reviewed Raised Bill No. 5346, which seeks to create a process for determining the sale price of municipal water supply and wastewater utility assets to the State's regulated investor owned water utilities. PURA and OCC oppose the bill as it could potentially lead to the acquiring water company overpaying for the purchase of a municipal water system. This would likely result in existing customers subsidizing the costs of the purchase of the municipal system as well supporting the necessary future capital improvements to bring the system up to the quality of service level being provided by the acquiring company.

The fair market value approach contained in the proposed bill is contrary to long-standing and well-established regulatory precedents in Connecticut and most states nationally. The bill as written requires PURA to approve the sale and allow in the company's rate base (rate setting formula), the lower of the negotiated sales price or the average fair market value of the municipal water system as determined by appraisers working for the water company and the municipal water system. PURA is not allowed to

adjust the sales price if it believes it is inappropriate. Additionally, the evaluation methodology prescribed in the proposed bill is flawed as it fails to adjust the system valuation for necessary future capital improvements or other problems identified in the municipal system. While six states have recently adopted some form of fair market value methodology, the limited results of municipal system acquisitions to date illustrate that the concerns expressed above regarding the potential rate impact on existing water utility customers is valid.

PURA and OCC cannot support the fair market evaluation methodology and ratemaking approaches proposed in this bill.