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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	Case No. VEO-W-22-02
OF VEOLIA WATER IDAHO, INC. FOR)	
AUTHORITY TO INCREASE ITS RATES)	
AND CHARGES FOR WATER SERVICE)	
IN THE STATE OF IDAHO)	
)	
)	
)	
)	

DIRECT TESTIMONY OF JAMES CAGLE
FOR VEOLIA WATER IDAHO, INC

SEPTEMBER 2022

1 **Q. Please state your name and business address.**

2 A. I am James C. Cagle. My business address is 461 From Road, Paramus, NJ 07652.

3 **Q. By whom and in what capacity are you employed?**

4 A. I am the Vice President, Rates and Regulatory Affairs for Veolia Water M&S
5 (Paramus), Inc. (“VWM&S” and formerly SUEZ Water Management & Services Inc.).

6 **Q. What are your job responsibilities?**

7 A. I am primarily responsible for the management and direction of rate case filings for the
8 regulated affiliates of VWM&S. I am also responsible for oversight of certain rate
9 related compliance and reporting requirements as prescribed by the various regulatory
10 commissions having jurisdiction over the Veolia utilities.

11 **Q. Please outline your educational and professional qualifications.**

12 A. I received a Bachelor of Accountancy degree from the University of Oklahoma in 1987
13 and am a Certified Public Accountant licensed in the State of Texas. I was initially
14 employed by United Water Management & Services Inc., the predecessor of SUEZ
15 Water Management & Services Inc. as Director, Regulatory Business in October of
16 2007 and have held my current position since March 2010. Previous to that, I was
17 employed by Atmos Energy Corporation, a natural gas utility operating in twelve states,
18 as Manager, Rates and Revenue Requirements.

19 **Q. Have you previously testified before the Idaho Public Utilities Commission?**

20 A. Yes. I provided in the Company’s last rate case filing (Case No. SUZ-W-20-02). I have
21 also provided testimony in rate case and other filings before several other state
22 commissions on various regulatory issues.

1 **Q. What is the purpose of your testimony in this proceeding?**

2 A. The purpose of my testimony is to support the request of Veolia Water Idaho, Inc.
3 (“VWID” or “Company”) for an increase in its base rates for water service.
4 Specifically, I am supporting the Company’s request to establish a Distribution System
5 Improvement Charge (“DSIC”) related to the replacement and/or rehabilitation of
6 distribution system transmission and distribution (“T&D”) mains, services, hydrants,
7 valves, meters, and other infrastructure.

8 **Q. Are you sponsoring any exhibits which support the Company’s request?**

9 A. Yes. I am sponsoring: 1) Exhibit 13-1 which summarizes DSIC programs for water
10 infrastructure around the country; 2) Exhibit 13-2 which includes two National
11 Association of Regulatory Utility Commissioners (“NARUC”) resolutions; and 3)
12 Exhibit 13-3 which is a sample DSIC calculation.

13 **Q. In addition to the proposed DSIC, are there other changes to the Company’s tariff**
14 **included in this filing?**

15 A. Yes. Tariff changes include the Company’s proposed change to the Brian Water
16 Surcharge currently under review by the Commission in Case No. VEO-W-22-03 and
17 reflect the Company’s name change to VWID (Case No. VEO-22-01). Additionally,
18 certain other changes are proposed to certain pages as described in the testimony of
19 Company witness Thompson.

1 **Q. What is a DSIC?**

2 A. A DSIC is a surcharge mechanism which allows for rate increases between general rate
3 case proceedings which specifically relate to non-revenue producing investments to
4 replace aging utility infrastructure.

5 **Q. Please explain why the Company is requesting a DSIC.**

6 A. It is widely known that water infrastructure in the United States is aging and in need of
7 repair. The United States Environmental Protection Agency estimates that the 20-year
8 national water infrastructure need is approximately \$472.6 billion, and of that, \$312.6
9 billion is needed for distribution and transmission projects. Traditionally, companies
10 would invest in these types of improvements as their budgets would allow, absent
11 emergencies, and would be required to wait for cost recovery till their next base rate
12 case.

13 Some VWID mains date from the early 1900's. The Company's records
14 indicate approximately 4.2 miles of main over 100 years old, 6.7 miles between 90 and
15 100 years old, and another 9.7 miles between 80 and 100 years old. Based upon
16 standard replacement, i.e. rate cases and available funds, it could take 150 to 200 years
17 or more to replace the whole system. The replacement cycle of aging mains of the
18 system should be closer to 100 years which is more consistent with the expected life of
19 mains.

20 **Q. Can you give an example of SWID's replacement timetable?**

21 A. Yes. At the end of 2021, VWID had 1,454 miles of mains. Over the past few years,
22 the Company has averaged approximately a 0.4% replacement rate. Based solely on

1 these two years of activity it would take approximately 250 years to replace the entire
2 system. In 2020 and 2021 the average replacement cost was \$140 per foot or \$739,000
3 per mile for various vintages of mains. The Company anticipates a cost going forward
4 of around \$200 per foot (\$1,056,000 per mile) which reflects the impacts of inflation
5 as well the availability of contractors. Establishing a DSIC would allow the Company
6 to pursue a more aggressive infrastructure replacement program.

7 **Q. When was a DSIC first implemented?**

8 A. The first DSIC program was implemented in Pennsylvania in 1997. Since that time,
9 18 other states have implemented DSICs for water companies. Exhibit 13-1
10 summarizes the 18 states that have implemented a DSIC or some type of mechanism
11 that functions like a DSIC. While different states may call the program something other
12 than DSIC, when examining the details, the general philosophy and most of the
13 components are the same.

14 **Q. Has NARUC formed an opinion on this type of program?**

15 A. Yes. NARUC has by Resolution twice endorsed the mechanism: first in its 1999
16 “Resolution Endorsing and Co-Sponsoring the Distribution System Improvement
17 Charge”, and again in 2005 in its “Resolution Supporting Consideration of Regulatory
18 Policies Deemed as Best Practices”. These resolutions are provided in Exhibit 13-2.

19 **Q. Why have NARUC and so many regulatory agencies endorsed this regulatory
20 mechanism?**

21 A. The benefits of this type of mechanism are well recognized. At page 8 of the 1996
22 Order of the Pennsylvania Public Utility Commission (Docket No. P-00961036), the

1 Commission noted the significant capital requirements facing the water industry and
2 stated: "We agree with the Company that the establishment of a DSIC would enable
3 the Company to address, in an orderly and comprehensive manner, the problems
4 presented by its aging water distribution system, and would have a direct and positive
5 impact on water quality, water pressure and service reliability. For these reasons, we
6 endorse the concept of using an automatic adjustment clause to address this regulatory
7 problem for the water industry in Pennsylvania..." Similarly at page 41 of the 2006
8 Order of the New York Public Service Commission (Case No. 06-W-0131), the
9 Commission noted that such capital surcharge mechanisms "...provide for reasonably
10 prompt recovery of capital costs and depreciation expense associated with actual
11 reasonable incremental investment, help avoid abrupt bill changes of the kind that upset
12 some customers in these cases, provide for an expedited process for the review of actual
13 investments prior to the initiation or update of any surcharge, ... and are subject to
14 reconciliation so there will ultimately be no over-or under-collection."

15 Overall, the major benefits of these types of capital surcharges can be
16 summarized as follows:

- 17 • enhanced service quality,
- 18 • accelerated pace of system improvements,
- 19 • high level of customer acceptance,
- 20 • smoothing of revenue increases to customers,
- 21 • reduction of water lost in the distribution system through leaks,
- 22 • long term viability of the water system, and

- support of economic development through increased investment and employment activity.

Q. How do customers benefit from such a mechanism?

A. The customer benefits in several ways. First, the Company has a greater incentive to invest more in its infrastructure which results in faster replacement of aging infrastructure, decreasing the potential for main breaks and outages as well as maintaining or increasing fire flows and pressure which all benefit the customer in the form of quality of service. Additionally, accelerating such investments would ultimately have a positive impact on lost water which, in turn, will ultimately reduce costs of labor, repairs and the cost of water. The use of such a mechanism benefits the Customer by the implementation of smaller increases over time rather than a single larger increase at one time reducing “rate shock.” When all is considered, the states that have enacted DSIC type mechanisms seem to find infrastructure surcharge programs working well to maintain water quality and reliability for the customer, contribute to the difficult infrastructure financing solution and to efficiently assure the review and control of rates within those states.

Q. Are there customer protections?

A. Yes. Commissions have the ability to review the projects to ensure they are appropriate and there is, in most instances, a cap on the amount of increase that can happen between rate cases. DSICs in other states also require that an earnings analysis be performed to determine if a company is over earning; if a company is “over earning,” then the surcharge would stop until such time as the company is in an “under earning” position.

1 Some states also perform an annual audit of the program to review the actual projects
2 implemented by the Company.

3 **Q. How do you propose to structure this DSIC mechanism?**

4 A. As the DSIC mechanism established in Pennsylvania has been in place and proved both
5 fair and effective for well over 20 years, I am proposing to use it as a general guide
6 which provides a simple, easily administered and audited mechanism. In summary, the
7 types of eligible plant are established and a specific formula for calculating the DSIC
8 amount is utilized. This is achieved by referencing the eligible plant to the plant
9 accounts used for accounting purposes as reflected by the eligibility criteria. Provisions
10 for audit and review are outlined and an earnings test calculation method is established.

11 Since the proposed DSIC mechanism only includes investments made by the
12 Company and placed into service after its last base rate case, it is mathematically
13 impossible for the DSIC, in and of itself, to be the cause of any temporary or permanent
14 over earnings. However, it is appropriate to include a periodic earnings test calculation
15 to show that the Company will not be overearning on a regulatory basis before any
16 DISC amounts are included for the period in which the surcharge will be in effect.
17 Additionally, because retirements are included in the calculation, no depreciation
18 expense can inadvertently be included on retired assets.

19 **Q. What types of infrastructure investments would be included?**

20 A. The Company is proposing the following activities be included in the DSIC:
21 • Replace or renew water mains, valves (including short mains and valves), services,
22 meters, and hydrants serving existing customers that have reached their useful

1 service life, are worn out, are in deteriorated condition, or which negatively impact
2 the quality and reliability of service to the customer if not replaced or renewed.

- 3 • Extend mains to eliminate dead ends which negatively impact the quality and
4 reliability of service to the customer.
- 5 • Relocate or replace existing facilities as a result of governmental actions that are
6 not reimbursed, including but not limited to relocations of mains located in highway
7 rights of way as required by the Ada County Highway District or other agencies.
- 8 • The replacement of infrastructure that is needed to maintain or improve water
9 quality and system pressures and new or additional water treatment facilities, plant
10 or equipment required to meet changes in state or federal water quality standards,
11 rules or regulations.
- 12 • The replacement or improvement of infrastructure required to maintain adequate
13 fire flows.

14 **Q. Please describe the proposed DSIC formula.**

15 A. The proposed DSIC formula is as follows:

16
$$\text{DSIC Recovery Amount} = ((\text{NRB} \times \text{Pre-Tax ROR}) + \text{D}) \times \text{RCF}) + \text{E}$$

17 The abbreviations included in the formula are defined as follows:

18 NRB or “Net Rate Base as applicable to the DSIC projects” is the cost of the
19 eligible plant in service, net of associated retirements, associated accumulated deferred
20 income taxes and accumulated depreciation specifically applicable to the costs of
21 eligible plant included. In the event the replacement is the result of a relocation, the

1 associated contribution in aid of construction (CIAC) impacts are also includible such
2 that any net unreimbursed amounts are accounted for.

3 Pre-tax ROR is the overall rate of return as authorized by the Commission for
4 application in the DSIC mechanism and includes the impact of income taxes.

5 D is the annualized depreciation on the plant additions included in NRB as
6 calculated by asset class utilizing the depreciation rates last approved by the
7 Commission.

8 RCF is the gross-up factor which includes an allowance to account for the Idaho
9 Public Utility Commission (IPUC) Assessment Rate (0.0019950 in this filing) and
10 Uncollectible Accounts Expense (0.0058986 in this filing). Based upon the above
11 factors, the calculation results in the following: $1/(1-0.0019950-0.0058986) =$
12 1.0079560.

13 E is residual amount calculated (+/-) under the semi-annual reconciliation or
14 required by Commission audit.

15 The plant in service and other components of the surcharge will be included in
16 the Company's next base rate case filing and, at the implementation of rates from that
17 case, the DSIC surcharge would be zeroed out and the surcharge mechanism restarted.

18 **Q. Are there any DSIC recovery projects or amounts reflected in the current rate**
19 **proceeding?**

20 A. No. This would be a new program starting at the conclusion of this proceeding. None
21 of the projects included in the rate base as proposed by the Company through March
22 31, 2023, would be included in any future DSIC filing. However, there should not be

1 any “Gap Period” as a result of base rate case. The Gap Period represents the time
2 period between when qualified additions are reflected in base rates and the Company’s
3 subsequent DSIC filing. For example, if increased rates become effective in April and
4 that increase only includes qualified DSIC additions through the prior January, the next
5 DSIC surcharge after the rate increase would include qualified additions from January
6 through September (i.e., six months after the April effective date).

7 **Q. How would the Company recover the DSIC Recovery Amount?**

8 A. A surcharge would be applied to all metered customer’s bills where the DSIC recovery
9 amount is divided by the Company’s number of bills reflected as equivalent 5/8 inch
10 meters and surcharge amounts developed and charged based upon the customers meter
11 size utilizing the meter capacity ratios approved in the most recent base rate case filing.
12 The surcharge will be applied on a bills rendered basis.

13 On the next semi-annual submittal, a reconciliation on the over (under) recovery
14 of DSIC surcharge would be included. An earnings test, as previously discussed, will
15 be provided with the first DSIC filing and annually thereafter.

16 **Q. Do you recommend a cap on the DISC surcharge?**

17 A. Yes. As proposed, the DSIC Rate applied between base rate filings would be limited to
18 7.5% of the total revenue requirement established in the last base rate case, with a
19 provision to reset to zero as of the effective date of new base rates that provide for the
20 prospective recovery of the annual costs previously recovered under the DSIC
21 surcharge. Additionally, the mechanism establishes a provision for the DSIC to not be
22 increased or reset to zero if, in any semi-annual filing, the earnings test previously

1 discussed indicates the Company will earn a rate of return that exceeds the rate of return
2 established in the last general rate filing.

3 The DSIC percentage would be updated on a semi-annual basis after the initial
4 implementation. Eligible plant additions placed in service during the six month period
5 would be utilized in the calculation and, allowing for a period for calculation and
6 review and approval period of 45 days. Any request for a change in the DSIC rate would
7 be filed, together with full supporting data.

8 **Q. Have you prepared an example of the DSIC calculation?**

9 A. Yes. Please see page 5 of the Exhibit 13-3. The amounts included therein are for
10 illustration purposes only and do not reflect any actual amounts.

11 **Q. Does this conclude your testimony at this time?**

12 A. Yes.

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)	
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

EXHIBIT 13 TO ACCOMPANY THE
DIRECT TESTIMONY OF JIM CAGLE

Veolia Water Idaho, Inc.
Distribution System Improvement Charge
Summary of Adopting State's Mechanisms [1]

<u>State</u>	<u>Adopted</u>	<u>Items Included [2]</u>	<u>Surcharge Maximum</u>	<u>Filing Frequency</u>	<u>Reference</u>
Arizona	2013	Transmission and Distribution Mains, Fire mains, Services, including Service Connections, Valves and Valve Structures, Meters and Meter Installations, Hydrants	5%	Annual	Docket No. W-01445A-11-0310
Connecticut	2007	Mains, Valves, Services, Meters and Hydrants, Main cleaning and relining, Relocation of facilities as a result of government actions, Purchase of leak detection equipment, Installation of production meters, Pressure reducing valves, Energy efficient equipment for operations, Capital improvements necessary to comply with river & stream flow regulations, Reasonable and necessary system improvements required for a water system acquisition approved by the authorities.	10%	Semi-annual	Section 16-262v and w of CGS
Delaware	2001	Mains; Valves; Services; Meter & hydrants serving existing customers; Extending mains to eliminate dead ends which negatively impact the quality and reliability of service to customers; Relocate existing facilities as a result of governmental actions that are not reimbursed; Place in service water supply sources identified as "A list projects" in the Governor's Task Force Report (Dec 2, 1999), or added to the list by DE Water Supply Coordinating Council (by Dec. 31, 2002); Place in service new or additional water treatment facilities, plant or equipment required to meet changes in state or federal water quality standards, rules or regulations	7.50%	Semi-annual (Maximum in 1 year 5%)	Delaware Code Title 26, Section 314
Illinois	2001 Amended 2016	Collecting & impounding reservoirs; Lake, river and other intakes; Wells and Springs; Infiltration Galleries and Tunnels; Supply Mains; Power Generation equipment; Pumping Equipment; Water treatment equipment; Distribution Reservoirs & standpipes; Transmission & distribution mains; Services; Meters and Meter installations; Hydrants; Backflow prevention devices; Water main lining & related rehabilitation projects to eliminate water loss from water main breaks, as well as main extensions for water utilities that are constructed to eliminate dead ends and the unreimbursed costs recorded in the appropriate accounts that are associated with relocations of mains, services, hydrants and sewers occasioned by street or highway construction.	Average annual increase of 2.5%	Annual (Maximum in 1 year 3.5%)	Section 9-220.2 IL Statutes/ Title 83, Ch I, e, part 656, Sect. 656.10)
Indiana	2000 Amended 2014, 2015, and 2016	Distribution mains; Valves; Hydrants; Service lines; Meters; Meter installation; Other appurtenances necessary to transport treated water from the point it exits the treatment facility to the point at which it is delivered to the customer (170 IAC 6-1.1-1 Sec. 1.(a))	10%	Annual	Indiana Code 8-1-31 and Indiana Administrative Code 170 IAC 6-1.1-1
Maine	2013	Stationary physical plant assets needed to operate a water system. This definition includes, but is not limited to, water mains, storage tanks, and pumping facilities.	Small Utility [3] Medium Systems 7.50% 15%	Semi-annual	65-407 Chapter 675

Veolia Water Idaho, Inc.
Distribution System Improvement Charge
Summary of Adopting State's Mechanisms [1]

<u>State</u>	<u>Adopted</u>	<u>Items Included [2]</u>	<u>Surcharge Maximum</u>	<u>Filing Frequency</u>	<u>Reference</u>
		Large System	10%		
Missouri	2003	Eligible infrastructure system replacements, water utility plant projects that: (a) Replace or extend the useful life of existing infrastructure; (b) Are in service and used and useful; (c) Do not increase revenues by directly connecting the infrastructure replacement to new customers; and (d) Were not included in the water corporation's rate base in its most recent general rate case 18 Water utility plant projects" may consist only of the following: (a) Mains, and associated valves and hydrants, installed as replacements for existing facilities that have worn out or are in deteriorated condition; (b) Main cleaning and relining projects; and (c) Facilities relocations required due to construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the water corporation	10%	Semi-annual	Mo. Rev. Stat. 393.1000
Nevada	2014	Distribution Systems: Distribution mains Valves Hydrants Service lines Meters Meter installations Any other appurtenances which are necessary to transport treated water Production System: Wells Water treatment facilities Chemical feed systems Associated piping. Any other appurtenances which are necessary for production Transmission System: Transmission mains Storage facilities Booster stations Valves Any other appurtenances which are necessary for transmission.	n/a	n/a	NRS 704.661, NAC 704.6336, 704.6339-63435
New Hampshire	2009 Amended 2013	Service over and above an annual \$50,000 threshold (account 333) and hydrants (account 335) installed as in-kind (i.e., same size) replacements for customers; Mains and valves (account 331) installed as replacements for existing facilities that have either reached the end of their useful life. are worn out or are in deteriorated condition; Main cleaning and relining projects and relocations that are non-reimbursable (account 331); Replacement of production meters (account 304); Replacement of pressure reducing valves (accounts 309, 331)	7.50%	Annual (Maximum in 1 year 5%)	
New Jersey	2011	Water main replacement and rehabilitation Water main cleaning and lining Valve and hydrant replacement Service line replacement (from main to curb or meter pit); and/or Un-reimbursed utility relocation costs associated with relocations required by government entities	5%	Semi-annual	44 NJR 1-723(a)/ N.J.A.C. 14:9-10.1 (2017)
New York	2001/2013	Large capital projects with long construction periods with in-service dates in rate years two and beyond.Mains, services, valves, meters are reflected in future rate years of base rate case	As approved	Annual	

Veolia Water Idaho, Inc.
Distribution System Improvement Charge
Summary of Adopting State's Mechanisms [1]

<u>State</u>	<u>Adopted</u>	<u>Items Included [2]</u>	<u>Surcharge Maximum</u>	<u>Filing Frequency</u>	<u>Reference</u>
North Carolina	2013	Distribution system mains, Valves; Utility service lines (including meter boxes and appurtenances); Meters and hydrants installed as in-kind replacements; Main extensions installed to eliminate dead ends and to implement solutions to regional water supply in order to comply with primary, and upon specific Commission approval, secondary drinking water standards; Equipment and infrastructure installed to comply with primary drinking water standards; Equipment and infrastructure installed at the direction of the Commission to comply with secondary drinking water standards; Unreimbursed costs of relocating facilities due to highway projects	5%	Semi-annual	NC GS 62-133.12 Commission Rules and Regulations R7-39 and R10-26
Ohio	2003	Chemical feed systems, filters, pumps, motors, plant generators, main extensions that resolved documented problems, mMain cleaning or relining, meters, service lines, hydrants, mains, valves, unreimbursed capital expenditures made by companies for facility relocation required by a governmental entity due to a street or highway project, minimum land or land rights acquired by the company as necessary for any service line, equipment, or facility described in the above sections.	4.25%	Annual	Ohio Rev. Code § 4909.172
Pennsylvania	1997 Amended 2012	Services, Meters and Hydrants installed as in-kind replacements for customers, Mains and valves installed as replacements, Main extensions installed to eliminate dead ends and to implement solutions to regional water supply problems that present a significant health and safety concerns for customers, Main cleaning and relining projects, Unreimbursed costs related to highway relocation projects where a water utility must relocate its facilities, and Other related capitalized costs	7.50%	Quarterly	Sect. 1307(g) PUC
Rhode Island	2018	Mains, main cleaning and lining, services, hydrants, valves, short mains and valves, meters, dead-end looping, and re-location due to government requirements.	7.50%	Semi-annual (Maximum in 1 year 2.5%)	DOCKET NO. 4800
Tennessee	2014	Renewing and replacing pipes, meeting EPA requirements, supporting local economic projects including, but not limited to: a. Infrastructure and equipment associated with alternative motor vehicle transportation fuel; b. Infrastructure and equipment associated with combined heat and power installations in industrial or commercial sites; and c. Infrastructure that will provide opportunities for economic development benefits in the area to be directly served by the infrastructure.	None	Annual	Tenn Ann 65-5-103, TCA Section 65-5-103
Virginia	2017	T&D mains, valves, services, meter boxes, hydrants, dead-end elimination, solutions to regional water supply in order to comply with primary and secondary water standards	7.50%	Annual	Order No. 16-0550-P-DSIC

Veolia Water Idaho, Inc.
Distribution System Improvement Charge
Summary of Adopting State's Mechanisms [1]

<u>State</u>	<u>Adopted</u>	<u>Items Included [2]</u>	<u>Surcharge Maximum</u>	<u>Filing Frequency</u>	<u>Reference</u>
West Virginia	2017	The Parties now agree and recommend that at this time, the Commission should not establish distinct categories of utility investment eligible for DSIC rate recovery (or by omission, not eligible for it). In future DSIC cases, the Parties may take whatever positions they choose on whether a proposed investment should be eligible for DSIC rate recovery or whether one or more distinct categories of utility investment eligible for DSIC rate recovery should be established" (Case No. 16-0550-W-DSIC, Attachment A, pg. 6).	7.50%	Annual (Maximum in 1 year 3.75%)	Order No. 16-0550-W-DSIC

[1] Source:Water Distribution System Improvement Charges: A Review of Practices by Kathryn Kline, Report No. 18-01, National Regulatory Research Institute <https://pubs.naruc.org/pub/FA86A4CE-0F06-7899-27F8-D923A23EEAE4>

[2] Limited to include applicable water infrastructure.

[3]Definition of Small utility is annual revenue of less than \$250,00, Medium system between \$250,000 and \$750,000, Large System at least \$750,000.

Resolution Endorsing and Co-Sponsoring "The Distribution System Improvement Charge"

WHEREAS, The Pennsylvania Public Utility Commission and the Pennsylvania Legislature have adopted a promising and unique regulatory approach that encourages the acceleration of the needed remediation of aging water utility infrastructures; *and*

WHEREAS, The Distribution System Improvement Charge is an automatic adjustment charge that enables recovery of infrastructure improvement costs on a quarterly basis in between rate cases for projects that are non-revenue producing and non-expense reducing such as main cleaning and relining, fire hydrant replacement and main extensions to eliminate dead ends; *and*

WHEREAS, A videotape which explains this unique approach is being prepared by the National Association of Water Companies to help educate and inform other regulatory agencies and legislatures about the benefits of this unique approach; *and*

WHEREAS, The U.S. EPA within its Drinking Water Infrastructure Needs Survey has identified a magnitude of national infrastructure needs of \$77.2 billion in pending expenditures; *and*

WHEREAS, As the magnitude of need may be too great to be accomplished under traditional ratemaking methodologies; *and*

WHEREAS, The Distribution System Improvement Charge provides benefits to ratepayers such as improved water quality, increased pressure, fewer main breaks, fewer service interruptions, lower levels of unaccounted for water, and more time between rate cases which leads to greater rate stability; *and*

WHEREAS, Ratepayer protections are incorporated in the Pennsylvania approach: the surcharge is limited to a maximum of 5% of the water bill, annual reconciliation audits are conducted where overcollections will be refunded with interest and undercollections will be billed into future rates without interest recovery, the surcharge is reset to zero at the time of the next rate case, the charge is reset to zero if the company is over-earning, customer notice is provided, and all charges reflect used and useful plant; *now, therefore, be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC), convened at its 1999 Winter Meetings in Washington, D.C, agrees to endorse the mechanism as an example of an innovative regulatory tool that other Public Utility Commissions may consider to solve infrastructure remediation challenges in their States; *now be it further*

RESOLVED, That NARUC agrees to co-sponsor with the National Association of Water Companies the videotape of the Distribution System Improvement Charge as an educational tool to inform other regulatory agencies and legislatures about this promising new mechanism.

Sponsored by the Committee on Water
Adopted February 24, 1999

Resolution Supporting Consideration of Regulatory Policies Deemed as “Best Practices”

WHEREAS, A number of innovative regulatory policies and mechanisms have been implemented by public utility commissions throughout the United States which have contributed to the ability of the water industry to effectively meet water quality and infrastructure challenges; *and*

WHEREAS, The capacity of such policies and mechanism to facilitate resolution of these challenges in appropriate circumstances supports identification of such policies and mechanisms as “best practices”; *and*

WHEREAS, During a recent educational dialogue, the “2005 NAWC Water Policy Forum,” held among representatives from the water industry, State economic regulators, and State and federal drinking water program administrators, participants discussed (consensus was not sought nor determined) and identified over 30 innovative policies and mechanisms that have been summarized in a report of the Forum to be available on the website of the Committee on Water at www.naruc.org; *and*

WHEREAS, As public utility commissions continue to grapple with finding solutions to meet the myriad water and wastewater industry challenges, the Committee on Water hereby acknowledges the Forum’s *Summary Report* as a starting point in a commission’s review of available and proven regulatory mechanisms whenever additional regulatory policies and mechanisms are being considered; *and*

WHEREAS, To meet the challenges of the water and wastewater industry which may face a combined capital investment requirement nearing one trillion dollars over a 20-year period, the following policies and mechanisms were identified to help ensure sustainable practices in promoting needed capital investment and cost-effective rates: a) the use of prospectively relevant test years; b) the distribution system improvement charge; c) construction work in progress; d) pass-through adjustments; e) staff-assisted rate cases; f) consolidation to achieve economies of scale; g) acquisition adjustment policies to promote consolidation and elimination of non-viable systems; h) a streamlined rate case process; i) mediation and settlement procedures; j) defined timeframes for rate cases; k) integrated water resource management; l) a fair return on capital investment; *and* m) improved communications with ratepayers and stakeholders; *and*

WHEREAS, Due to the massive capital investment required to meet current and future water quality and infrastructure requirements, adequately adjusting allowed equity returns to recognize industry risk in order to provide a fair return on invested capital was recognized as crucial; *and*

WHEREAS, In light of the possibility that rate increases necessary to remediate aging infrastructure to comply with increasing water quality standards could adversely affect the affordability of water service to some customers, the following were identified as best practices to address these concerns: a) rate case phase-ins; b) innovative payment arrangements; c) allowing the consolidation of rates (“Single Tariff Pricing”) of a multi-divisional water utility to spread capital costs over a larger base of customers; *and* d) targeted customer assistance programs; *and*

WHEREAS, Small water company viability issues continue to be a challenge for regulators, drinking water program administrators and the water industry; best practices identified by Forum participants include: a) stakeholder collaboration; b) a memoranda of understanding among relevant

State agencies and health departments; c) condemnation and receivership authority; and d) capacity development planning; *and*

WHEREAS, The U.S. Environmental Protection Agency’s “Four-Pillar Approach” was discussed as yet another best practice essential for water and wastewater systems to sustain a robust and sustainable infrastructure to comprehensively ensure safe drinking water and clean wastewater, including: a) better management at the local or facility level; b) full-cost pricing; c) water efficiency or water conservation; *and* d) adopting the watershed approach, all of which economic regulators can help promote; *and*

WHEREAS, State drinking water program administrators emphasized the following mechanisms which Forum participants identified as best practices: a) active and effective security programs; b) interagency coordination to assist with new water quality regulation development and implementation, such as a memorandum of understanding; c) expanded technical assistance for small water systems; d) data system modernization to improve data reliability; e) effective administration and oversight of the Drinking Water State Revolving Fund to maximize infrastructure remediation, along with permitting investor owned water companies access in all States; f) the move from source water assessment to actual protection; *and* g) providing State drinking water programs with adequate resources to carry out their mandates; *now therefore be it*

RESOLVED, That the National Association of Regulatory Utility Commissioners (NARUC), convened in its July 2005 Summer Meetings in Austin, Texas, conceptually supports review and consideration of the innovative regulatory policies and practices identified herein as “best practices;” *and be it further*

RESOLVED, That NARUC recommends that economic regulators consider and adopt as many as appropriate of the regulatory mechanisms identified herein as best practices; *and be it further*

RESOLVED, That the Committee on Water stands ready to assist economic regulators with implementation of any of the best practices set forth within this Resolution.

Sponsored by the Committee on Water

Adopted by the NARUC Board of Directors July 27, 2005

Veolia Water Idaho, Inc.
Proposed Sample DSIC Calculation
January 1, xxxx to June 30, xxxx
To be Effective October 1, xxxx

	<u>1/1/xx to 6/30/xx</u>
Eligible Investment (page 2)	\$3,890,000
Less: Accumulated Depreciation (page 2)	68,325
Less: Deferred Tax (page 2)	<u>(9,104)</u>
Eligible Net Investment	3,949,221
Pre-Tax Rate of Return (page 3)	<u>9.85%</u>
Pre-Tax Return on Investment	388,998
Add: Depreciation Expense (page 2)	<u>83,350</u>
Revenue Recovery	472,348
Revenue Factor (page 3)	<u>1.007956</u>
DSIC Recovery Amount	476,106
E (Residual amount +/- semi-annual reconciliation)	<u>0</u>
Total DSIC Recovery Amount	<u><u>\$476,106</u></u>

Note: This schedule is for explanatory purposes.

Veolia Water Idaho, Inc.
Proposed Sample DSIC Calculation
January 1, xxxx to June 30, xxxx

	1/1/xx to 6/30/xx	Retirements	Plant to be Depreciated	Depreciation Rates	Depreciation Expense
Mains	\$3,100,000	\$75,000	\$3,025,000	1.82%	\$55,055
Services	600,000	30,000	570,000	2.19%	12,483
Meters	300,000	5,000	295,000	5.36%	15,812
Eligible Investment	<u>\$4,000,000</u>	<u>\$110,000</u>	<u>\$3,890,000</u>		<u>\$83,350</u>

Accumulated Depreciation

Half Year Convention					(\$41,675)
Retirements [1]					110,000
Total Accumulated Depreciation					<u>\$68,325</u>

Note: This schedule is for explanatory purposes.

[1] In the retirement of utility plant, Plant in service is credited and accumulated depreciation is debited in the same amounts.

Veolia Water Idaho, Inc.
Proposed Sample DSIC Calculation
Accumulated Deferred Income Taxes
January 1, xxxx to June 30, xxxx

Accumulated Deferred Income Taxes

Eligible Investment	\$4,000,000
MACRS Rate for First Year Water Plant	<u>4.00%</u>
Tax Depreciation First Year	40,000
Book Depreciation	<u>83,350</u>
Tax Depreciation Greater Than Book	(43,350)
Deferred Taxes at 25.74% (composite rate)	<u><u>(\$9,104)</u></u>

Note: This schedule is for explanatory purposes.

Veolia Water Idaho, Inc.
Proposed Sample DSIC Calculation
Pre-tax Rate of Return and Revenue Factor
January 1, xxxx to June 30, xxxx

Approved Capital Structure and Cost Rates

	Capital Structure Ratio	Cost Rate	Weighted Cost of Capital	Pre-Tax Rate of Return
Long Term Debt	44.43%	3.99%	1.77%	1.77%
Common Equity	55.57%	10.80%	6.00%	8.08%
Total	100.00%		7.77%	9.85%

1) capital structure and ROE per current authorized return Docket No. _____

Revenue Factor

Dollar of Revenue	1.0000000
Uncollectibles Expense	0.0058986
IPUC Assessment	0.0019950
Income Before Federal Taxes	<u>0.9921064</u>
Revenue Factor	<u><u>1.0079560</u></u>

Rates per Final Order in Docket No. _____

Note: This schedule is for explanatory purposes.

For purposes of this example, the as-filed capital structure and cost rates were utilized.

Veolia Water Idaho, Inc.
Proposed Sample DSIC Calculation
Calculation of DSIC Surcharge
January 1, xxxx to June 30, xxxx

Meter Size	AWWA Meter Ratios	Monthly 5/8th Equivalent Bills	Weighting	Monthly DSIC Charge [1]	Bi-monthly DSIC Charge
5/8"	1	311,672	311,672	\$0.22	\$0.44
3/4"	1.5	712,298	1,068,446	0.33	0.66
1"	2.5	141,950	354,876	0.54	1.08
1-1/2"	5	29,453	147,264	1.08	2.16
2"	8	31,109	248,871	1.74	3.48
3"	15	3,132	46,987	3.25	6.50
4"	25	538	13,440	5.42	10.84
6"	50	73	3,649	10.84	21.68

Billed Meter Size	VWID Bi-monthly	Eagle Monthly	Eagle New Monthly	Total Monthly Equivalents
5/8	146,526	18,164	456	311,672
3/4	344,696	22,346	559	712,298
1	70,396	1,142	18	141,950
1 1/2	13,744	1,924	41	29,453
2	14,739	1,596	34	31,109
3	1,559	15		3,132
4	241	56		538
6	34	5		73

[1] Total DSIC Revenue Requirement Recovery Amount / Total monthly 5/8th equivalent Bills X AWWA Meter Ratio