



House of Representatives

General Assembly

File No. 345

January Session, 2025

Substitute House Bill No. 6777

House of Representatives, March 31, 2025

The Committee on Energy and Technology reported through REP. STEINBERG of the 136th Dist., Chairperson of the Committee on the part of the House, that the substitute bill ought to pass.

AN ACT CONCERNING WATER UTILITY SYSTEMS AND WATER QUALITY AND TREATMENT SURCHARGES.

Be it enacted by the Senate and House of Representatives in General Assembly convened:

- 1 Section 1. (NEW) (*Effective July 1, 2025*) (a) As used in this section:
- 2 (1) "Authority" means the Public Utilities Regulatory Authority;
- 3 (2) "Eligible project" means a water company project, whether
- 4 completed in a single year or a multiyear project, that (A) the authority
- 5 determines is a major addition, upgrade, improvement or replacement
- 6 of a critical element of water infrastructure necessary to meet state or
- 7 federal drinking water regulations adopted or amended after December
- 8 16, 2021, (B) has not been authorized by the authority for inclusion in a
- 9 water company's rate base, and (C) is not subject to the provisions of
- 10 section 16-262w of the general statutes;
- 11 (3) "Perfluoroalkyl and polyfluoroalkyl substances" or "PFAS" has the
- 12 same meaning as provided in section 22a-255h of the general statutes;

13 and

14 (4) "Water company" has the same meaning as provided in section 16-
15 1 of the general statutes.

16 (b) Upon the filing of a request for approval by a water company
17 pursuant to subsection (c) of this section, the authority may authorize
18 such water company to recover, on an annual basis, expenses incurred
19 to date for any water company project determined to be an eligible
20 project. Notwithstanding the provisions of section 16-19 of the general
21 statutes, the water company may charge such costs as a water quality
22 and treatment surcharge in addition to such water company's existing
23 authorized rates and charges at the time of filing such request with the
24 authority.

25 (c) (1) Any water company seeking to impose a water quality and
26 treatment surcharge pursuant to this section shall file a request for
27 approval of such surcharge with the authority containing a water
28 quality and treatment assessment report. Such report shall identify any
29 proposed eligible project planned for completion by the water company
30 not later than five years from the date of such filing that meets the
31 requirements for an eligible project and adheres to the criteria set forth
32 in subdivision (2) of this subsection.

33 (2) Criteria for any such project shall include, but not be limited to,
34 (A) compliance with applicable state or federal drinking water quality
35 standards or other standards met by such project; (B) the nature and
36 extent of water treatment required to meet such water quality standards;
37 and (C) water source development, system consolidation, treatment or
38 other acceptable means necessary to comply with action levels
39 determined by the Commissioner of Public Health or applicable state or
40 federal water quality standards for PFAS, lead or other contaminants.

41 (d) The authority shall approve a water company's request for
42 approval filed pursuant to subsection (c) of this section and such
43 company's water quality and treatment assessment report upon a
44 determination that such company has demonstrated (1) the

45 infrastructure projects considered for renewal or replacement are
46 eligible projects; (2) the projects considered for addition, upgrade,
47 improvement or replacement provide public health benefits by
48 improving water quality for customers; and (3) the projects adhere to
49 the criteria specified in subsection (c) of this section for determining
50 priority for eligible projects. The authority may hold a hearing to solicit
51 input on a water company's water quality and treatment assessment
52 report, provided the authority's decision on the assessment is made not
53 later than one hundred eighty days after the company files the water
54 quality and treatment assessment report with the authority.

55 (e) (1) Such water quality and treatment surcharge shall be calculated
56 as a percentage based on the actual cost of an eligible project as
57 authorized by the authority multiplied by the applicable rate of return
58 as approved in the water company's most recent general rate case
59 proceeding, plus associated income tax, depreciation and property tax
60 expenses related to eligible projects and any reconciliation adjustment
61 calculated pursuant to subsection (h) of this section as a percentage of
62 the retail water revenues approved in the water company's most recent
63 general rate case proceeding pursuant to section 16-19 or 16-19a of the
64 general statutes.

65 (2) Any such water company may apply the water quality and
66 treatment surcharge approved by the authority for an eligible project as
67 a charge on customer bills at intervals of not less than twelve months,
68 commencing on either January first, April first, July first or October first
69 in any year.

70 (f) (1) No proposed water quality and treatment surcharge shall
71 become effective unless the authority has approved (A) the water
72 quality and treatment assessment report concerning such proposed
73 surcharge pursuant to subsection (d) of this section, and (B) the amount
74 of such surcharge in an administrative proceeding. The administrative
75 proceeding shall be completed and a decision shall be rendered by the
76 authority not later than sixty days after a water company files an
77 application to approve such surcharge.

78 (2) In connection with such administrative proceeding, the water
79 company shall provide the authority with an updated water quality and
80 treatment assessment report along with its filing for a water quality and
81 treatment surcharge that details any significant changes in the extent of
82 capital spending on water quality projects planned to be completed
83 within the ten years following the date of such filing. The water
84 company shall also provide a detailed capital spending plan to the
85 authority for each such eligible project for the three years following the
86 date of such filing.

87 (3) The authority shall receive and consider comments of interested
88 persons and members of the public at the administrative proceeding,
89 which shall not be considered a contested case for purposes of chapter
90 54 of the general statutes, this section or any provision of the regulations
91 of Connecticut state agencies. Any approval or denial of the authority
92 pursuant to this subsection shall not be deemed an order, authorization
93 or decision of the authority for purposes of section 16-35 of the general
94 statutes.

95 (g) The amount of any such water quality and treatment surcharge
96 charged between general rate case filings shall not exceed fifteen per
97 cent of the water company's annual retail water revenues approved in
98 its most recent rate filing, and shall not exceed seven and one-half per
99 cent of such revenues for any twelve-month period. The amount of the
100 adjustment for any eligible project shall be included in new base rates
101 and the surcharge shall be reset to zero as of the effective date of new
102 base rates approved pursuant to section 16-19 or 16-19a of the general
103 statutes. Following the reset of the surcharge in a general rate case, the
104 company may continue to collect through the surcharge costs incurred
105 for any eligible project, including additional costs in multiyear projects.
106 If, after any adjustments pursuant to section 16-262y of the general
107 statutes are made, the company exceeds the allowable rate of return for
108 the rolling twelve-month period ending with the two most recent
109 consecutive financial quarters, the authority shall allocate any excessive
110 return in accordance with any earnings sharing mechanism applicable
111 to the company's base rate revenues.

112 (h) On or before February twenty-eighth of each year, any such water
 113 company shall submit to the authority an annual reconciliation report
 114 for any water quality and treatment surcharge applied to customer rates
 115 through December thirty-first of the previous calendar year. Such
 116 reconciliation report shall identify the costs incurred on any eligible
 117 project, demonstrate that the water quality and treatment surcharge is
 118 limited to eligible projects and include any other information required
 119 by the authority. In addition, the reconciliation report shall compare the
 120 water quality and treatment surcharge revenues actually collected to the
 121 applicable authorized water quality and treatment revenue
 122 requirement. If, upon completion of the review of the annual
 123 reconciliation report the authority determines that such water company
 124 overcollected or undercollected a water quality and treatment
 125 surcharge, the difference between the revenues actually collected and
 126 the applicable authorized water quality and treatment surcharge
 127 revenue requirement shall be recovered or refunded, as appropriate, as
 128 a reconciliation adjustment over a one-year period commencing on
 129 April first. Any such water company shall refund its customers with
 130 carrying costs calculated at the water company's authorized overall rate
 131 of return, as determined in its most recent general rate proceeding, for
 132 any such overcollection. No such water company shall recover any
 133 carrying costs for any undercollection.

134 (i) Each water company shall notify customers through a bill insert or
 135 other direct communication when a water quality and treatment
 136 surcharge is first applied. Such water quality and treatment surcharge
 137 shall appear as a separate item on customer bills.

This act shall take effect as follows and shall amend the following sections:		
Section 1	July 1, 2025	New section

Statement of Legislative Commissioners:

In Subsec. (b), "Upon the filing of a request for approval by a water company pursuant to subsection (c) of this section," was added for clarity and internal consistency; Subsec. (c)(1) was rewritten for clarity;

in Subsec. (d), "request for approval filed pursuant to subsection (c) of this section and such company's" was added for clarity; in Subsec. (e)(2), "approved by the authority" was added for accuracy and technical corrections were made throughout the section for adherence to standard drafting conventions.

ET *Joint Favorable Subst.*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

Agency Affected	Fund-Effect	FY 26 \$	FY 27 \$
DEEP/PURA ¹	CC&PUCF - Cost	395,841	395,841

Note: CC&PUCF=Consumer Counsel and Public Utility Control Fund

Municipal Impact: None

Explanation

The bill results in an additional annual cost to the Public Utilities Regulatory Authority (PURA), beginning in FY 26, of approximately \$395,841, associated with the establishment of a process and approval of various water companies to recover expenses for certain projects that meet state or federal drinking water regulations.

PURA would require two additional full-time staff to complete the requirements contained within the bill. The new positions would include: one full-time Utilities Examiner 2, with an approximate annual salary of \$113,000 (plus 94,083 in fringe benefits) and one full-time Associate Research Analyst, with an approximate annual salary of \$103,000 (\$85,758 in fringe benefits). The new staff would be responsible for assisting with the establishment of the approval process, assisting with the water quality and treatment assessment reports, and surcharge calculations.

¹The fringe benefit costs for employees funded out of other appropriated funds are budgeted within the fringe benefit account of those funds, as opposed to the fringe benefit accounts within the Office of the State Comptroller. The estimated active employee fringe benefit cost associated with most personnel changes for other appropriated fund employees is 83.26% of payroll in FY 26.

Rate Payer Impact Statement

The bill authorizes a specific mechanism for cost recovery outside of a rate case and allows a surcharge up to 15% of the water company's annual retail water revenues to be collected. This could result in increased costs for rate payers, as it is anticipated that water companies will recover costs for eligible projects. Based on an average monthly residential bill (of approximately 6,000 gallons per month) and the currently authorized revenue requirement of the largest existing water companies, (assuming the companies max out the 15% surcharge) a monthly rate payer increase of approximately \$5 to \$12 would be incurred. However, if the full 15% surcharge is not realized, the monthly increase to rate payers would be less.

The Out Years

The annualized ongoing fiscal impact identified above would continue into the future subject to inflation.

OLR Bill Analysis**sHB 6777*****AN ACT CONCERNING WATER UTILITY SYSTEMS AND WATER QUALITY AND TREATMENT SURCHARGES.*****SUMMARY**

This bill authorizes the Public Utilities Regulatory Authority (PURA) to allow PURA-regulated water companies to recover their expenses for certain projects the authority determines are necessary to meet state or federal drinking water regulations. To do so, it establishes a process for water companies to apply for, and PURA to approve, these expenses the company incurs between rate cases. If approved, the water company may recover them through a separate line item on customers' bills, a water quality and treatment surcharge that the bill establishes.

EFFECTIVE DATE: July 1, 2025

ELIGIBLE PROJECTS

Under the bill, eligible projects are those that PURA determines are major additions, upgrades, improvements, or replacements of critical elements of water infrastructure that are necessary to meet state or federal drinking water regulations adopted or amended after December 16, 2021. To be eligible, a project may not be covered by either the water company's rate base or a water infrastructure and conservation adjustment (see BACKGROUND). Eligible projects may be completed in a single year or over multiple years.

PURA APPROVAL

The bill establishes a process through which a water company may request authority to recover its expenses for eligible projects and PURA may approve it. The water company may not impose the surcharge to recover its expenses unless PURA has approved (1) a water quality treatment assessment report, which the company must file, and (2) the

surcharge amount.

Water Quality and Treatment Assessment Report

Before imposing the surcharge, the water company must file with PURA a report that identifies any eligible projects meeting the following criteria that the company plans to complete within five years of filing:

1. compliance with state, federal, or other drinking water quality standards;
2. the nature and extent of water treatment required to meet these water quality standards; and
3. water source development, system consolidation, treatment or other means necessary to comply with state or federal water quality standards on perfluoroalkyl and polyfluoroalkyl substances (i.e. PFAS), lead, or other contaminants, or the public health commissioner's action levels on them.

After it receives the report, PURA must decide on it in 180 days or less. Within that time, PURA may hold a public hearing to solicit input. PURA must approve the report if it finds the company demonstrated that:

1. the projects adhere to the above criteria for determining eligible projects' priority;
2. any infrastructure projects for renewal or replacement are eligible projects; and
3. any addition, upgrade, improvement, or replacement projects provide public health benefits by improving water quality for customers.

Administrative Proceeding on Surcharge Amount

The bill prohibits water companies from imposing the water quality and treatment surcharge unless PURA has approved the surcharge amount through an administrative proceeding.

Process and Public Comment. After the water company files a surcharge approval application, PURA has 60 days to complete the proceeding and issue a decision. At the proceeding, PURA must receive and consider comments from interested persons and members of the public.

The bill specifies that the proceeding should not be considered a contested case under the Uniform Administrative Procedures Act or any regulation and PURA's decision on the application should not be considered an order, authorization, or decision for purposes of appeals to Superior Court.

Updated Assessment Report. As part its application filing, the water company must provide another water quality and treatment assessment report (referred to in the bill as an "updated" report). The report must detail any significant changes in its capital spending on water quality projects it plans to complete in the next 10 years. For each project that is an eligible project, as defined under the bill, the company must also provide a detailed capital spending plan for the three years following the filing.

WATER QUALITY AND TREATMENT SURCHARGE

If approved, the water company may recover, on an annual basis, its eligible expenses to date through a water quality and treatment surcharge. The surcharge must be billed in at least 12-month increments, starting on January 1, April 1, July 1, or October 1 of any year. (It is unclear if the recovery must be applied to bills as a single, yearly charge or may be spread across multiple billing cycles, as suggested by the calculation described below.)

The bill requires the company to notify customers, through a bill insert or other direct communication, when the surcharge is first applied.

Surcharge Calculation

The surcharge must be calculated as a percentage, based on (1) the eligible project's actual, PURA-authorized cost multiplied by the water company's rate of return (as approved in its most recent general rate case), plus associated depreciation, income tax, and property tax expenses related to the project and (2) any reconciliation adjustment calculated as a percentage of the retail water revenues approved in the company's most recent general rate case.

Surcharge Cap

The bill caps the surcharge amount relative to the company's annual retail water revenues that were approved in its most recent rate filings. The surcharge cannot exceed 15% of the company's water revenues across all years until its next rate filing and 7% in any 12-month period. The surcharge amount is in addition to any existing rates and charges that are authorized at the time of the filing.

Earnings Sharing Mechanism

If, after a revenue adjustment mechanism proceeding is held, the company's rate of return for the rolling 12-month period (ending with the two most recent financial quarters) exceeds what is authorized, PURA must allocate any excessive return according to any earnings share mechanism in effect that applies to the company's base rate revenues.

Surcharge Reset Following a New Rate Case

Under the bill, once the adjustment (i.e. surcharge) amount is included in the company's new base rate and the base rate goes into effect, the surcharge amount resets to zero. But the company may continue to impose the surcharge for costs it incurs for any eligible projects, including additional costs for multiyear projects. (Once the surcharge is incorporated into the base rate, it is unclear what expenses may be recovered under the surcharge.)

RECONCILIATION REPORT

By February 28 of each year, the bill requires the water company to submit to PURA an annual reconciliation report. The report must cover

any water quality and treatment surcharge the company applied to customer rates through December 31 of the prior year. The report must:

1. identify costs incurred on any eligible project,
2. demonstrate that the surcharge is limited to eligible projects,
3. compare the collected surcharge revenues to the applicable revenue requirement, and
4. include any other information PURA requires.

After reviewing the report, if PURA determines the company has over-collected or under-collected the surcharge, the bill requires the company to refund or recover, respectively, the appropriate amount as a reconciliation adjustment over a one-year period starting on April 1. With respect to carrying costs, the company must refund customers for over-collections at the company's authorized overall rate of return, but it may not recover carrying costs for under-collections.

BACKGROUND

Water Company Infrastructure and Conservation Adjustment

By law, PURA may authorize water companies to use a rate adjustment in the period between rate cases in order to recover the depreciation, property taxes, and related return, primarily for certain company capital projects they have completed (e.g., replacing worn out infrastructure, cleaning mains, purchasing energy efficient equipment for its operations).

COMMITTEE ACTION

Energy and Technology Committee

Joint Favorable Substitute

Yea 25 Nay 0 (03/13/2025)