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## **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)