

The Energy and Technology Committee

February 22, 2007

House Bill 7178: AAC Water Company Infrastructure Projects

Testimony of

The Office of Consumer Counsel

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The Office of Consumer Counsel (OCC) has serious concerns regarding House Bill 7178: AAC Water Company Infrastructure Projects.

While OCC supports a high level of service quality for all customers of Connecticut's investor owned water companies, House Bill No. 7178 proposes to create a rate surcharge mechanism that is not in the public interest. As a result, OCC opposes the creation of another rate surcharge mechanism for the following reasons: first, OCC has historically opposed surcharge or rate adjustment mechanisms as anti-ratepayer.

Second, the proposed bill drastically changes the landscape from traditional cost of service/rate of return ratemaking regulation. The bill as drafted would allow the state's regulated water companies to institute a surcharge mechanism that allows quarterly rate increases associated with all non-revenue producing capital expenditures. Under the bill such a surcharge would be implemented and increased in expedited proceedings that do not allow traditional regulatory review that includes investigating the necessity, prudence and cost effectiveness of proposed capital expenditures. OCC cannot support the establishment of any increase in rates that is done outside of a contested proceeding before the Department of Public Utility Control (DPUC).

Third, this bill would decrease rate stability for ratepayers of Connecticut's regulated water companies and lead to millions of dollars of premature rate relief. Not only will ratepayers see more frequent rate increases, but total dollars paid for water service over time will be higher. It should be noted that by the end of 2007, all of Connecticut's Class A Water Companies will have recently been through rate case proceedings. Given the magnitude of rate increases recently awarded to these water utilities, as well as the drastic increases in energy utility rates, now is not the time to burden the

citizens of Connecticut with mechanisms that allow for “drive-thru” rate increases.

Fourth, OCC notes that Connecticut’s investor owned water companies have floated the concept of this legislation to the Department of Public Utility Control (DPUC) for the past eight years. Back in 1999, the DPUC noted that many of the state’s water companies have not maintained adequate databases of their infrastructure and improvement in this area would be beneficial to both utilities and regulators for planning and prudence reviews, respectively. In the past eight years, Connecticut’s water companies have done little to improve these deficiencies. The lack of information is especially troubling in light of the proposal put forward and the potential for continuing rate increases to customers.

OCC notes that only a handful of states have adopted limited rate surcharge mechanisms for water infrastructure improvements similar to that proposed in this legislation. Connecticut’s water utilities have been able to effectively finance infrastructure improvements over the past decade without an increase in the frequency of rate proceedings before the DPUC. The need for this new rate mechanism has not been justified.