

NATIONAL ASSOCIATION OF REGULATORY UTILITY COMMISSIONERS

Summer Committee Meetings

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NARUC
Committee on Water

"Are Clauses Good for
Customers?"

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Clauses are Good For
Customers

Goals

Safe and Adequate Service

at

Just and Reasonable Rates

What Are Clauses?

- Formula to recover return on (ROR) and return of (depreciation) capital or expenses outside the context of a full rate case
- Examples
 - Infrastructure Surcharges (PA, OH, IN, IL, DE, MO, NY)
 - Purchased Water, Purchased Power Surcharges

Formula for an Infrastructure Surcharge

- $DSIC = \frac{Dep. + ROR * Qualifying\ Plant\ Revenue}{Revenue}$

What Does Good Mean?

- Rating Agencies Like Clauses
- Clauses Are Likely to Reduce the Cost of Capital, thus Reducing Rates
- Regulatory Lag Costs the Company Money
- Clauses Mitigate Rate Shock
- Rate Case Costs have been Increasing

INFRASTRUCTURE

Bad



Good



What Clauses Should be Considered?

- Expenses
 - Purchased Power
 - Purchased Water
 - Purchased Wastewater
 - Sludge Hauling
 - Property Taxes
- Capital
 - Infrastructure Surcharges
 - Safe Drinking Water Act Surcharges

Safeguards

- Company Earning $<$ Last Allowed ROR
- Challenge Expense
- Commission Approval of Expense
- Reconciliations +/-

CONSIDERATIONS

- Can the Company Control the Per Unit Cost of the Expense?
- Does the Commission or a Municipal Body Authorize the per Unit Cost Increases of the Expense?
- Will the clause maintain balance among the Revenue/Expenses/Rate Base Trilogy
- Will the clause maintain the financial picture of the water company during the period of time when rates will be in effect?

"Good" is ...

- Opportunity to Earn a Reasonable Return
- Mitigation of Regulatory Lag
- Allowance of Expense over Which There is No Dispute without Litigation
- Allowance of a Portion of, if Not All Approved
- Higher Credit Rating
- Financial Health
- Access to Capital at Lowest Rates Possible
- Utility Which Provides Top Notch Service

Environmentally and Socially Responsible

