

Public Utilities Commission of Ohio
Todd A. Snitchler, Chairman

House Bill 379 (Blessing)
House Public Utilities Committee

March 21, 2012

Chairman Stautberg and members of the House Public Utilities Committee, I am Todd Snitchler, Chairman of the Public Utilities Commission of Ohio (PUCO). I am here today to provide interested party testimony on House Bill 379, and to address the technical impacts this bill would have at the PUCO.

This bill has two main components that I would like to discuss today. The first is the System Improvement Charge (SIC). The second is changes to the regulatory process for water and sewer companies, which are analogous to what was passed by this committee and the Legislature with regard to natural gas companies in House Bill 95.

The SIC was created in 2003 as a mechanism to inject new investment into water systems. Currently, a Water and/or Sewer company can apply to increase its rates up to 3% in three different year's in-between rate cases. Under HB 379, a water company can now ask for a return of up to 4.25%. Once an application is filed at the PUCO, staff performs an in-depth analysis to make sure the investment fits within the scope of the Ohio Revised Code; which states that such an increase cannot allow a company to make more than their reasonable rate of return established in a previous rate case; and most importantly that the plant is used and useful. This means that only infrastructure that has been constructed, and is being used, can be approved for the SIC charge.

As you may know, the legislation before you slightly expands the definition of what can be approved through the SIC. Under HB 379, the SIC can now include items such as the cost of plant generators, motors, and chemical feed systems. The PUCO did not object to including these items to the SIC because these items can only help maintain or improve the *quality* of a water system. This does not increase revenue for the company, nor does it increase its customer base. The PUCO hears comments from ratepayers regularly on water quality issues, and my hope is that by including these items, those water quality issues can, and will, be addressed in a timely manner. Consequently, the PUCO has no objection to the expansion of the definition of a SIC project.

Finally, I would like to briefly talk about changes to the water and sewer regulatory process that are included in HB 379. This same process was approved for natural gas

companies in House Bill 95, which was passed last year out of this committee. During the legislative process for HB 95, we worked closely with legislators, interested parties, and stakeholders to relax regulation where appropriate and incentivize utility investment in Ohio, while preserving important safeguards to protect ratepayers. Like HB 95, we believe HB 379 strikes a delicate balance among these interests. Accordingly, I would like to touch on just a few of those changes included in HB 379.

Currently, rate cases use a “test year” as the period of time to determine the revenue and operating costs of a utility. Ohio statute provides that the test year shall be the 12 month period ending no later than nine months after the date the application is filed. Therefore, the utility can use three months of actual data and nine months of estimates to determine its costs and revenues. If a water or sewer utility has specific costs after the test year, current law allows recovery of those costs in a subsequent rate case. HB 379 allows utilities to capture those costs during the current rate case proceeding.

In addition, the “date certain” is the date that the property of the utility is inventoried. Current Ohio statute requires the date certain to be no later than the date the rate case application is filed with the PUCO. HB 379 changes this aspect to allow the date certain to be as late as the last day of the test year. This addresses the industry’s concerns pertaining to “regulatory lag.”

At the same time, HB 379 grants the PUCO the ability to true-up, or reconcile, the dollars water and sewer utilities actually spend. The bill also grants the PUCO sufficient time (150 days) to prudently review and verify utility dollars spent. More importantly, following the PUCO review, the bill mandates that once utility projections are reconciled, utility costs can only be adjusted downward, not upward. As a result, water and sewer distribution rates could not increase after the financial review conducted by the PUCO.

In short, like HB 95 before it, HB 379 gives the PUCO the tools we need to maintain sufficient regulatory oversight and ensure Ohioans adequate, safe and reliable utility service at a fair price. At the same time, the bill enables water and sewer companies to operate at the “speed of business.”

Thank you for opportunity to provide comments on HB 379. I would be happy to answer any questions you may have at this time.