

“Parting the Waters Within a Confluence of Issues”

****The Case for DSIC****

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Aging Infrastructure

- **Much of Pennsylvania's infrastructure is over 70 years old**
- **Safety and reliability concerns require an accelerated replacement schedule**
- **Massive and expensive undertaking**

Traditional Ratemaking

- **Does not allow utilities to recover replacement costs in a timely manner**
- **Infrastructure replacement is not revenue producing**
- **Revenues are decreasing (energy efficiency) and expenses and rate base are increasing**

ACT 11 of 2012

- On February 14, 2012, Act 11 of 2012 was signed into law which amended Chapter 3, 13 and of Title 66 of the Pennsylvania Consolidated Statutes a/k/a the Public Utility Code

Alternative Regulatory Mechanisms

- **Use of Fully Projected Test Year**
- **Automatic Adjustment Charge (DSIC)**
- **Combine Water and Wastewater Revenue Requirements**

Fully Projected Test Year

- Utilities' rates and costs will match the first year new rates are in effect
- Reduce Regulatory Lag
- Less frequent base rate case filings = less rate case expense

Automatic Adjustment Charge (DSIC)

- **Enables Recovery of Costs between Base Rate Cases**
- **Mitigates the Impact of Regulatory Lag**
- **Makes Projects Affordable for both Utilities and Ratepayers**
- **Phase-in of price increases**

DSIC: A case Study

- **Water industry without DSIC**
 - Replacing between 25 and 30 miles of mains a year
 - 5,600 miles of mains = 185 and 225 years
- **Water industry with DSIC**
 - Replacing 80 miles of main
 - 5,600 miles of mains = 70 years
 - Main replacement schedule more closely matched the actual service life of mains

Water/Wastewater Revenue Requirements

- **Utilities that provide both water and wastewater services will be able to combine their revenue requirements**
- **Spread the increasing costs of wastewater treatment and collection across a larger group of customers**

DSIC Customer Protections

- **DSIC unavailable if last allowed rate of return is exceeded**
- **Surcharge limited to maximum 5% or 7.5% of total bill**
- **Annual reconciliation audit**
 - **Over-collections refunded with interest**
 - **Under-collections billed into future rates without interest recovery**

DSIC Customer Protections cont.

- PUC audits DSIC filings on periodic basis
- Surcharge reset to zero at time of new base rates
- Customers receive notice of all changes
- All charges reflect used and useful plant
- Charges reflect additions placed in service during prior three-month period before DSIC effective date

Fully Projected Test Year

- Rates would be set based upon conditions expected to be in place at the time the rates take effect as opposed to conditions that were in place in a past time period
- Increase in the ability of the utilities to recover costs without incurring “regulatory lag”
- Will make it easier to attract financing on reasonable terms