



From Law to Policy: Working with the IURC to Address the State's Water Issues

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Landscape in Indiana

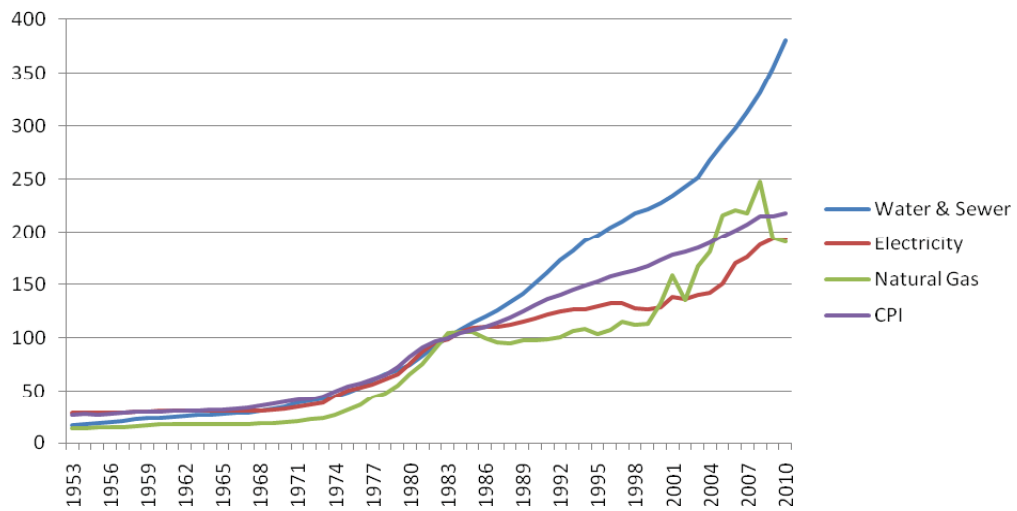


- Existing infrastructure is aging
 - Built following World War II
 - Combined sewer overflows, failing septic systems, and the construction or renovation of treatment and distribution facilities
 - Full-scale replacement is necessary
 - 30-year timeframe
 - Capital investment per \$ of revenue is high (\$3.81)
 - *Electricity* = \$2.06 *Gas* = \$1.18 *Telecommunications* = \$0.86
 - A funding shortfall exists
 - State and federal funding options aren't enough
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Pricing and Economics



Comparison of Utility Prices from 1953 to 2010
Index is set to 100 for 1982-1984



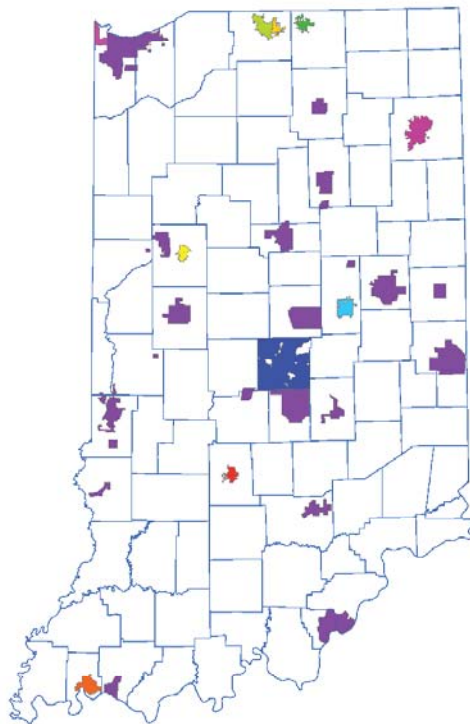
Source: IPU Research Note, February 2011, Janice Beecher, Ph.D., U.S. Bureau of Labor Statistics

Utility Characteristics



- More than 400 utilities have withdrawn from the IURC's jurisdiction
 - However, of the utilities the IURC regulates, they serve more than 90% of customers within the state
 - Control of utility water supply and infrastructure is local in nature, which presents challenges
 - Data is scattered and not located in one place
 - There is a fragmented picture of the industry
 - It is difficult to capture an accurate assessment
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Largest Regulated Utilities



- Indianapolis Water - 298,678
- Indiana American Water - 279,257
- Fort Wayne Municipal Water - 78,769
- Evansville Municipal Water - 60,722
- South Bend Municipal Water - 41,931
- Elkhart Municipal Water - 35,100
- Lafayette Municipal Water - 28,260
- Hammond Municipal Water - 26,405
- Bloomington Municipal Water - 22,961
- Anderson Municipal Water - 22,049
- Mishawaka Municipal Water - 14,898



Water Resources Study Committee

“While Indiana has been doing research and mapping of water resources, the institutional infrastructure that regulates and manages water resources may not be prepared to manage the serious economic effects of regional shortage.”

Taking Action



- Senate Enrolled Act (SEA) 132 is a first and necessary step towards achieving the goals outlined by the Water Resources Committee
 - The purpose of SEA 132 is to gather necessary data in a single place to enable policy makers to make informed decisions
 - The data needs to be comprehensive and all inclusive
 - The best approach is to begin the analysis with an open mind, free of bias – let the data lead us to reasonable solutions that can benefit everyone
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Intent of SEA 132



- The bill does not re-regulate or place withdrawn utilities back under the IURC's jurisdiction
 - Instead, it provides a means to aggregate information about water resources within the state
 - This responsibility was placed with the IURC due to it being a bipartisan, economic regulator
 - The Act defines a water utility for the purpose of data collection and requires each utility to submit data on six defined items
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Gathering the Data



- These items include:
 1. The number of Indiana customers served
 2. A description of the utility's service territory
 3. Total utility plant in service for the utility's Indiana customers
 4. Amount and location of water resources used to provide water service to Indiana customers
 5. The availability and location of additional water resources that could be used, if necessary, to provide service to Indiana customers
 6. The amount of funding received, including the purpose of the funding, from various sources
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Using the Data



- The IURC will review the data and use the information to make annual reports to the Regulatory Flexibility Committee of the Indiana General Assembly beginning in 2013
 - Data will be aggregated to protect confidentiality
 - The Commission is required to report on:
 - The efficient use of financial resources statewide
 - The need for infrastructure investment
 - Actions designed to minimize impact on customer rates and charges
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Navigating the Process



- To be successful, this must be a very inclusive and collaborative process
 - We want and need all stakeholders to be partners with us
 - The process will be fair and comprehensive:
 - Transparent
 - Inclusive
 - Collaborative
 - Efficient
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Developing Guidelines



- Data must be collected by the end of the year
 - This means the process must be laid out as soon as possible
 - A General Administrative Order (GAO) is the preferred way to implement the statute
 - Provides the necessary flexibility
 - Allows for stakeholder participation
 - Can be completed in less time than a rulemaking
 - Binding in terms of requirements and expectations
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Scheduling & Next Steps



- Each step of the process will inform the next step
 - Now through the end of May 2012, we are listening, communicating, and gathering information
 - Speaking engagements are scheduled for IRWA and AWWA
 - We will be developing a GAO as early as June 2012
 - There may be additional stakeholder meetings and GAO reviews by mid-summer
 - Communication of the final GAO is likely to occur by September 2012, but it could be sooner
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Additional Issues Affecting the Water and Wastewater Industries

Overview of HEA 1126



- House Enrolled Act (HEA) 1126
 - Involves situations where a water or sewer rate differential exists between outside-city and inside-city customers of a withdrawn municipal utility
 - If a municipal entity has an existing differential between 15% and 50%, the differential can be grandfathered if a filing is made with the IURC by September 30, 2012
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Application of HEA 1126



- The Act has a narrow application:
 - A municipal water or wastewater utility must be outside the jurisdiction of the IURC
 - The utility must have customers outside its corporate boundary
 - The outside-city customers must be charged rates that are at least 15% above inside-city customers (costs attributable to extend or connect service typically are not included)
 - HEA 1126 provides customers an option to petition the IURC instead of filing with the court system if they object to the rate differential
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Requirements of HEA 1126



- A petition requires the lesser of 10% of all outside-city customers or 25 users to file
 - The role of the IURC if it receives a petition is to determine whether the municipal rates are “nondiscriminatory, reasonable, and just”
 - IURC review is not required and rate differentials are not prohibited
 - The utility is not re-regulated
 - The proceeding is not a rate case, it’s a review
 - The review must be completed within 120 days
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Implementation of HEA 1126



- Filing procedures are being developed
 - The process for the filing to grandfather current differentials will likely be contained in a GAO
 - The process for the review petition will likely be a GAO initially but could eventually be a rulemaking
 - HEA 1126 was effective March 31, 2012, so it's possible we could receive a petition at any time
 - We hope to have more to communicate by June 2012
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Strategic Plan Highlights



- Recommendations include:
 - Lowering costs through regionalization
 - Consolidation, wholesale arrangements, shared facilities, cooperative purchasing, and equipment sharing
 - Annual workshops on how to file
 - Small utility rate applications, annual reports, 30-day filings (utility articles), and alternative regulatory plans
 - Providing more information on the IURC’s website
 - Standard operating procedures, best practices, maintenance plans, capacity development, emergency response, and conservation tips
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Strategic Plan Highlights



- New regulatory policies and potential rulemakings
 - *Rate cases:* Establish a new program to allow simplified annual rate increases calculated on a cost index
 - Delayed rate requests may result in rate shock; whereas, more frequent, gradual rate increases do not
 - Small utilities incur substantial costs to obtain rate increases relative to the increase requested and on a per customer basis
 - Complex process can intimidate and delay rate increase requests
 - *Main extension rules:* Study the three-year revenue allowance
 - Determine if it should be eliminated
 - System development charge (SDC) – currently used in the industry to support notion that growth should pay for growth
 - Current main extension rules conflict with this idea
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