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Rate Surcharges for Water Company Acquisitions

Sec. 16-262o-1. Definitions

For purposes of Sections 16-262o-2 through 16-262o-8 of the regulations:

(a) “Department” shall mean the Department of Public Utility Control.

(b) “Water Company” shall include every corporation, company, association, joint stock association, partnership, municipality, other entity or person, or lessee thereof, owning, leasing, maintaining, operating, managing or controlling any pond, lake, reservoir, stream, well or distributing plant or system employed for the purpose of supplying water to not less than fifteen service connections or twenty-five persons nor more than two hundred fifty service connections or one thousand persons on a regular basis.

(c) “Acquiring Water Company” shall mean the private entity determined by the Department of Public Utility Control, in consultation with the Department of Health Services, to be most suitable to acquire a water company pursuant to Section 16-262n and subsection (a) of Section 16-262o of the General Statutes of Connecticut.

(d) “Acquired Water Company” shall mean a water company that the Department of Public Utility Control determines, in consultation with the Department of Health Services pursuant to Section 16-262n and subsection (a) of Section 16-262o of the General Statutes of Connecticut, should or must be acquired by a private entity to assure the availability and potability of water and the provision of water at adequate volume and pressure to the persons served by the water company.

(e) “Acquisition Costs” shall include the amount of compensation for acquisition pursuant to Section 16-262q of the General Statutes of Connecticut, any administrative costs, legal expenses, any maintenance and repair costs expended prior to the date of transfer, and liabilities assumed, related to the acquisition of the acquired water company, and shall not include the original cost of the utility plant less accumulated depreciation.

(f) “Needed Improvements” shall mean the capital improvements necessary to rehabilitate the acquired water company’s system, pursuant to orders in the proceeding in which acquisition of the acquired water company is ordered by the Department of Public Utility Control, in consultation with the Department of Health Services.

(g) “Rate Surcharge” shall mean an amount, determined by the Department, applied to the rates of the customers of the acquired water company or of the customers of both the acquiring water company and the acquired water company, as determined by the department, that would recover on a current basis the revenues necessary to provide a net after-tax return on acquisition costs and expenditures for needed improvements at a rate of return equivalent to that authorized for the acquiring water company in its last general rate proceeding. A rate surcharge may be revised on a quarterly basis pursuant to subsection (b) of Section 16-262o-6 of these Regulations.

(h) “Current Basis” shall mean the time periods provided for surcharge applications in section 16-262o-6 of these regulations.

(i) “Purchase Price” shall mean, for the purpose of acquisitions ordered pursuant to Section 16-262n and subsection (a) of Section 16-262o of the General Statutes of Connecticut, and of the Uniform System of Accounts, as codified in Sections 16-27-4, 16-27-5, and 16-27-6 of the Regulations of Connecticut State Agencies, the amount of compensation for the acquired water company determined in accordance with Section 16-262q of the General Statutes of Connecticut, less the difference

between the assets and the liabilities per the books of the acquired water company, and less the sum of the administrative costs, legal expenses, and maintenance and repair costs expended prior to the date of transfer, related to the acquisition of the acquired water company.

(j) "Efficiency of Construction" shall include, for the purpose of determining whether any expenditures for needed improvements should be disallowed pursuant to subsection (g) of Section 16-262o-3 of these Regulations, the use of planned construction schedules, programmed budgeting, and an allowance for lead-lag times in the letting out of bids, and in the awarding of construction contracts.

(Effective March 22, 1990)

Sec. 16-262o-2. Surcharge to encourage acquisition

The Department may, in the case of any proposed acquisition of a water company, after providing notice of a hearing pursuant to Section 16-262n of the General Statutes of Connecticut, permit the acquiring water company to implement a rate surcharge to encourage and facilitate such acquisition.

(Effective March 22, 1990)

Sec. 16-262o-3. Surcharge to be permitted if acquisition ordered

(a) In the case of any proposed acquisition of a water company, if the Department orders such acquisition after providing notice of a hearing pursuant to Section 16-262n of the General Statutes of Connecticut, the Department shall permit the acquiring water company to implement a rate surcharge.

(b) Any rate surcharge and any revision of a rate surcharge shall be subject to the approval of the Department.

(c) Such surcharge shall be implemented and revised on a calendar quarterly basis.

(d) Only actual expenditures shall be included on a quarterly basis.

(e) The surcharge to be allowed shall be based on 100% of the acquisition costs, and 90% of the amount of construction expenditures for needed improvements as of the last date of the particular quarterly period, as confirmed on project work orders.

(f) The rate of return used in computing the surcharge shall be the same as that allowed in the last rate case of the acquiring company computed on a simple interest basis and not compounded or, if the rates of the acquiring company are set by the Department other than on the basis of rate base, the surcharge may be computed using the method employed by the Department in the last rate case of the acquiring water company, and the surcharge shall include a specific revenue adjustment to offset applicable state and federal taxes payable on the revenues collected pursuant to the surcharge.

(g) Ten (10) percent of the quarterly construction expenditures, and an amount calculated to provide a return on the construction expenditures at a rate of return equivalent to that authorized for the acquiring water company in its last general rate proceeding, shall be retained in "allowance for funds used during construction" (AFUDC), and the entire project shall be reviewed for efficiency of construction at the time the needed improvements are entered into service as being used and useful and any expenses resulting from inefficiency shall be disallowed for regulatory purposes.

(h) The rate surcharge arising from acquisition costs and inclusion of needed improvements in rate base shall be allocated across the board on a rate structure basis and shall appear as a separate item on the customer's bill until the acquisition costs and needed improvements are included in rate base.

(Effective March 22, 1990)

Sec. 16-262o-4. Application required; filing requirements

(a) Any acquiring water company which incurs acquisition costs, or which incurs expenditures for needed improvements, may apply to the Department for approval of a rate surcharge to customers based on the foregoing policy. The requirements set out in this section shall apply to proceedings and applications of acquiring water companies for an increase in rates based upon such a surcharge.

(b) The application shall include evidence of compliance with orders concerning needed improvements issued by the Department in the proceeding in which acquisition of the acquired water company is ordered by the Department of Public Utility Control, in consultation with the Department of Health Services; evidence that acquisition of the acquired water company precipitated the construction of any needed improvements; and evidence, preferably in the form of an engineering analysis, that the acquiring water company has selected the least costly solutions and that efficient and adequate engineering standards have been applied to the design specifications, except that an engineering analysis shall not be required to the extent that engineering work related to needed improvements is approved by the Department in the proceeding in which acquisition of the acquired water company is ordered.

(c) No application for the actual implementation of any rate surcharge with respect to expenditures for needed improvements shall be accepted, and no such surcharge shall be permitted to be collected, until the primary needed improvements project has been let, started and is progressing to the point of onsite contractor and crew set-up, and full construction has begun on major elements of the subject facility.

(d) An application for a surcharge with respect to acquisition costs may be filed as of the date that the acquisition has taken place, as determined by the Department in the proceeding in which the acquisition was ordered.

(Effective March 22, 1990)

Sec. 16-262o-5. Components of application

(a) Any acquiring water company applying for a rate surcharge shall submit to the Department the following:

(1) If not previously submitted, the documentation and evidence listed in Section 16-262o-4.

(2) A complete description of and supporting documentation for any acquisition costs to be recovered by the surcharge.

(3) Details of the results of open bidding on each component of the needed improvements and final bid prices and the basis for selection of the contractor(s); open bidding on each component of the needed improvements is encouraged, and shall be required for any component exceeding \$50,000.00 in actual construction costs, exclusive of the effects of federal and state taxes, unless the work is performed by the acquiring water company.

(4) For work performed by the acquiring water company, copies of invoices and other documentation, including time records, for actual expenditures on needed improvements.

(5) A complete description of the needed improvements, broken down by appropriate elements of work and cost, to permit demonstration of the percentage of completion as the work progresses; the description of the needed improvements shall be updated in each quarterly period when a revision in the amount of the surcharge is requested, including any additional work performed, the basis for the additional work, and associated costs, separately described for the applicable quarterly period or periods.

(6) A construction schedule for the entire project indicating appropriate construction phases, including a graphic representation of each component of each phase, with estimated start and completion dates for each phase as available.

(7) A summary of construction expenditures covering the applied for quarterly period as shown on the project work order or orders, and broken down into corresponding job element or elements of the construction schedule.

(8) A letter from the acquiring water company's independent accountant which states that the additions to the plant account during the affected quarterly period have been reviewed and found to be in accordance with the applicable uniform system of accounts.

(9) The computation of the total amount of the surcharge showing 100% of the acquisition costs and 90% of the amount shown in subdivisions (7) and (8) above, the rate of return allowed in the applicant company's most recent rate case, or, if the rates of the acquiring company are set by the Department other than on the basis of rate base, a computation using the method employed by the Department in the last rate case of the acquiring water company, and the appropriate revenue adjustments for state and federal taxes.

(10) The schedule of charges arising from the inclusion of acquisition costs and needed improvements in the rate base as allocated across the board on a rate structure basis, including a full explanation of the basis for allocation between classes of customers, with any background work papers used.

(b) The data and information required in subdivisions (1) and (2) of subsection (a) of this Section need be filed only with the initial filing for each needed improvement when plans are finalized.

(Effective March 22, 1990)

Sec. 16-262o-6. Time periods for initial application; decision; surcharge revision

(a) Any acquiring water company initially applying for a rate surcharge shall submit to the Department all documentation and evidence required in Section 16-262o-5 no later than the 25th day of the month following the end of the calendar quarter, or quarters, in which acquisition costs or expenditures for needed improvements are incurred. The Department shall hold a public hearing with respect to such application within 30 days of the filing date of the application and shall issue a decision on such application on or before the 80th day after the end of such calendar quarter unless the Department shall have notified the acquiring water company that the company has failed to comply with the filing requirements contained in these Regulations, including Section 16-262o-5, or that the Department otherwise requires a modification of the proposed surcharge.

(b) After initial implementation of a surcharge, any acquiring water company applying for a change in the rate surcharge with respect to any calendar quarter thereafter shall file with the Department, on or before the 25th day of the month immediately following the end of the calendar quarter, or quarters, in which acquisition costs or expenditures for needed improvements are incurred, all documentation and evidence described in Section 16-262o-5. The Department shall hold a public hearing, which shall encompass all prior quarterly proceedings concerning the rate surcharge imposed related to the acquisition of the acquired company, within 45 days of the end of such quarter. The Department shall issue a decision on or before the 80th day after the end of such calendar quarter unless prior to such date the Department shall have notified the acquiring water company that the company has

failed to comply with the filing requirements contained in these Regulations, including Section 16-262o-5, or that the Department otherwise requires a modification of the proposed surcharge.

(c) To the extent not specifically required by the provisions of Sections 16-262o-1 through 16-262o-8, the requirements of Sections 16-1-45 through 16-1-59B of the Regulations of Connecticut State Agencies shall not be applicable to applications and proceedings pursuant to this Section.

(Effective March 22, 1990)

Sec. 16-262o-7. Recovery of investment related to acquisition

A rate surcharge implemented pursuant to Sections 16-262o-2 or 16-262o-3 of these Regulations may be designed to recover one hundred per cent of the revenues necessary to provide a net after-tax return on investment actually made in the acquisition and improvement of the acquired water company, at a rate of return equivalent to that authorized for the acquiring water company in its last general rate case pursuant to Section 16-19 of the General Statutes of Connecticut, or, if the rates of the acquiring company are set by the Department other than on the basis of rate base, the surcharge may be computed using the method employed by the Department in the last rate case of the acquiring water company.

(Effective March 22, 1990)

Sec. 16-262o-8. Distinction between purchase price and acquisition costs

The definition provided in subsection (i) of Section 16-262o-1 of these Regulations is intended to distinguish between "Purchase Price" and "Acquisitions Costs," as defined in subsection (e) of Section 16-262o-1, for the purpose of accounting for an acquisition ordered by the Department of Public Utility Control, in consultation with the Department of Health Services, pursuant to Section 16-262n and subsection (a) of Section 16-262o of the General Statutes of Connecticut, by the acquiring water company, and may be employed by the Department in future proceedings pursuant to Section 16-262n and subsection (a) of Section 16-262o of the General Statutes of Connecticut.

(Effective March 22, 1990)