

***Resolution Supporting the Consideration of Regulatory Mechanisms and Policies Deemed
“Best Practices” for the Regulation of Small Water Systems***

WHEREAS, The United States Environmental Protection Agency estimates that more than eighty percent of the total water systems in the United States serve fewer than 3,300 people per system; *and*

WHEREAS, The NARUC Water Committee recognized that “small water company viability issues continue to be a challenge for regulators” in the *Resolution Supporting Consideration of Regulatory Best Policies Deemed as Best Practices* (2005); *and*

WHEREAS, It is acknowledged that the traditional cost-of-service regulatory model as applied to small water systems may result in regulatory costs that are disproportionately high on a per-customer basis, which ultimately impacts customers served by those systems; *and*

WHEREAS, A number of regulatory policies and mechanisms have been implemented by public utility commissions throughout the United States to specifically address the challenges of regulating small water systems; *and*

WHEREAS, In the regulation of small water systems, it is recognized that rate application processes and mechanisms that reduce or remove the need for use of outside counsel or consulting services, thus reducing rate application duration and costs, should be encouraged; *and*

WHEREAS, To meet the challenges of environmental compliance and continued capital investment required to deliver safe and reliable service to the customers served by regulated small water systems, the following practices have been identified as means to improve sustainable and continued investment in small water system infrastructure at cost-effective rates: a) simplified rate applications for small water systems; b) electronic filing procedures; c) use of the annual report provided by the utility to the public utility commission to provide a significant portion of the rate application; d) commission staff assisted rate cases including both direct commission staff involvement in the rate application process and site visits to reduce the need for formal discovery; f) simplified rate of return mechanisms that may include formulaic rate of return calculations or percentage increases in authorized returns indexed to recent water cases in the same jurisdiction; g) cost of living adjustments; h) rate mechanisms to facilitate emergency infrastructure funds; i) operating ratio rate mechanisms where there is very limited rate base; j) limiting the use of Contributions In Aid of Construction in situations where unsustainably low rates may be instituted as a result; and k) combining water and wastewater revenue requirements for purposes of rate cases, as appropriate, if the water and wastewater utilities are under the same ownership, which will reduce rate case expense and offer rate increase mitigation options driven by economies of scale that would be unavailable otherwise; *and*

WHEREAS, It is further recognized that there are regulatory policies and mechanisms that address the viability of newly operating small water systems, including: a) enforcing the technical, managerial, and financial requirements as defined by the United States Environmental Protection Agency; b) where applicable and beneficial to the customer, encouraging consolidation with a nearby water system; and c) in the case where the new system provides the

most benefit to the consumers, assuring adequate rates for infrastructure sustainability and emergency funding; *and*

WHEREAS, It is recommended that jurisdictions periodically evaluate classification criteria for defining which water systems qualify as small water systems; *now, therefore be it*

RESOLVED, That the National Association of Regulatory Utility Commissioners, convened in its 2013 Summer Meetings in Denver, Colorado, conceptually supports review and consideration of the innovative regulatory policies and practices identified herein as “best practices” in the regulation of small water systems; *and be it further*

RESOLVED, That NARUC recommends that economic regulators consider and adopt as many as appropriate of the regulatory mechanisms identified herein as best practices; *and be it further*

RESOLVED, That the Committee on Water stands ready to assist economic regulators with implementation of any of the best practices set forth within this Resolution.

Sponsored by the Committee on Water

Adopted by the NARUC Board of Directors, July 24, 2013