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COMMISSION REGULATION OF SMALL WATER UTILITIES: SOME ISSUES AND SOLUTIONS

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EXECUTIVE SUMMARY

Regulation of small water utilities is a growing concern for many state public utility commissions. Although water utility regulation is a small part of the responsibilities of most commissions, the number of water rate cases is increasing. Because regulated water companies are typically small and rural, setting appropriate rates often requires an effort disproportionate to the revenues involved and number of people served.

This report explores the problems of regulating small water utilities and analyses alternative solutions that state commissions have either adopted or seriously examined. The report is based on a survey of staff experts at all 45 commissions that currently regulate water utilities. The survey found that nearly all commissions with jurisdiction over small water utilities are making an effort to improve their regulation. Solutions that use a traditional regulatory perspective include stipulated proceedings (26 commissions), simplified or shortened forms (18 commissions), simplified procedures (22 commissions), and automatic adjustment clauses (11 commissions).

Despite their efforts, many commissions feel that the traditional solutions do not go far enough. Non-traditional regulatory solutions have been adopted by a number of state commissions. These include denial of certificates of convenience and necessity, deregulation, routinization of rate case applications, the provision of training for utility managers, regionalization of proposed and existing water utilities, changing the type of ownership, and the use of guidelines or "safe harbors" within which utilities may set rates without obtaining prior commission approval. Several of the non-traditional solutions use standard regulatory tools (e.g., issuing certificates of convenience and necessity), sometimes in a non-traditional manner.

The non-traditional solutions stem from a recognition that the fundamental problem of small water utilities -- namely that they are often not economically viable -- does not begin at the door of the commission. Problems experienced in a rate case, such as missing data, are more a result of the structural problems of small utilities than any inherent weakness in the rate case process. Some commissions have found their existing procedures adequate to handle these problems, whereas others have modified their rate case processes, or acted to improve the management structure or economic viability of small water utilities.

For illustrative purposes, the 22 solutions identified were assessed against several criteria: (1) preventing monopoly profits, (2) assuring adequate service, (3) start-up costs, (4) cost to the commission, (5) cost to the utility, and (6) cost to the ratepayer. Each individual commission, it is urged, should assign its own ratings in order to assess the most appropriate solutions for its needs.

Four strategies are identified that a commission could use in identifying and articulating its approach to adopting any of the solutions. The limited adjustment strategy focuses on those solutions not requiring basic statutory or institutional changes, such as the use of stipulated proceedings. A strategy of aggressive improvement is one of intervention that either prevents the establishment of nonviable water utilities or acts to make them as viable as possible. The use of land use controls and operator training could be components of this strategy.

The strategy of reduced authority has as its goal reducing or eliminating commission involvement with small water utilities. Deregulation and the transferring of regulatory responsibility to a local unit of government would be typical solutions based on this strategy. The fourth is a "safe harbors" strategy that permits utilities to act without prior commission approval to set rates and/or earn a rate of return within commission-specified limits.

Acknowledgements

Preparation of this report has depended on the help of experts in water utility regulation throughout the United States. The members of the NARUC Committee on Water and Staff Subcommittee on Water provided the impetus for the study and help in carrying it out. The Honorable John W. Winters, Sr., Gerald Tobia, and Robert Mulligan, in particular, are thanked for their assistance.

We appreciate the accessibility, patience, and openness of all the people who participated in the NRRI survey. The breadth and depth of their participation made possible a report that, we hope, is accurate, comprehensive, and useful.

Several people deserve special thanks for reviewing the report in draft form: John Winters of North Carolina, Gerald Tobia of New Jersey, Robert Mulligan of New York, William Ide of Illinois, Dale Knapp of Florida, and Frederick Allen of the National Association of Water Companies. The authors, of course, are responsible for the final contents of the report.

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Foreword

This report was prepared by the staff of The National Regulatory Research Institute (NRRI) using state-provided funding received by the NRRI from participating member commissions of the National Association of Regulatory Utility Commissioners (NARUC). The views and opinions of the authors do not necessarily state or reflect the views, opinions, or policies of the NRRI, the NARUC, or NARUC member commissions.

The bylaws of The National Regulatory Research Institute state that among the purposes of the Institute are:

> ...to carry out research and related activities directed to the needs of state regulatory commissioners, to assist the state commissions with developing innovative solutions to state regulatory problems, and to address regulatory issues of national concern.

This report helps meet those purposes, since the subject matter presented here is believed to be of timely interest to regulatory agencies and to others concerned with water utility regulation.

Douglas N. Jones
Director

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CHAPTER 1

INTRODUCTION

Purpose of This Report

The regulation of water utilities is placing an increased demand on public utility commissions across the United States. Although water utility regulation is a small fraction of most commissions' responsibilities, the number of water rate cases is increasing. As many regulated water companies are small and rural, setting appropriate rates often requires an effort disproportionate to the revenues involved and number of people served.

This report explores the problems of regulating small water utilities and offers a systematic analysis of alternative solutions. The report is intended to provide information to commissions on what is already being done and ideas about what might be done to deal with difficulties faced by many small water utilities in providing an essential service at a just price.

The report is based on a survey of all 45 commissions that currently regulate water utilities. At the request of the Committee on Water of the National Association of Regulatory Commissioners (NARUC), the National Regulatory Research Institute (NRRI) conducted a combined telephone and mail survey of commission staff experts on water utility regulation in the fall of 1982. The majority of the staffers said that, in their opinion, concern for water utility regulation was increasing at their commissions. Most commissions with jurisdiction over small water utilities reported they were making an effort to ease the burden of regulation. Equally important, most indicated an interest in and a need for additional ways to improve the

quality and cost effectiveness of their regulation of small water utilities.

This chapter presents a brief overview of the characteristics of small water utilities and the problems they face. The next chapter reviews existing commission regulation of small water utilities. The third discusses alternative ways of modifying existing regulatory procedures that have been used by a substantial number of commissions for small water utilities. Specific examples from current commission practice are used. The fourth chapter examines more basic or structural changes that have been examined or implemented by commissions to improve the operation and/or the regulation of small water utilities. The last chapter assesses the solutions reviewed in chapters 3 and 4 against several criteria, and suggests four strategies that a commission could use in identifying and articulating its approach to adopting any of the solutions.

It is not the intention of the authors to examine all of the regulatory reforms that might affect the regulation of small water utilities. The intention is to examine only those improvements or changes that survey respondents report have actually been implemented or seriously examined at their commissions. Some areas of regulatory reform, such as construction work in progress versus allowance for funds used during construction, and future versus historical test years, are not included in our examination as they were not viewed by commission staff as reforms or changes peculiar to small water utilities.

Problems of Small Water Utilities

There are some 35,000 utilities that supply water to 200 million residential customers, plus industrial and commercial users. Most

Americans get their water from large, publicly owned, water utilities. Publicly owned water utilities tend to be municipally owned, although some areas receive water through other local arrangements. Publicly owned water systems supply water to 84 percent of the population served by central water systems. The supply of water through small systems is mainly provided by numerous privately owned firms. They constitute 44 percent of all water systems, yet serve only 16 percent of the people who use central water systems.[1] The small water companies are often rural or suburban, tend to serve mobile home parks or housing developments, and began in conjunction with population movement into previously rural and semi-rural areas.[2]

Figure 1-1 illustrates how regulation of a small water utility might become a problem for a state public utility commission. The central problem illustrated is the effect of small size on capital acquisition, management efficiency, utility operations, and rate case processing.

Stage 1 is demand for creation of small water utilities. What often happens is that demand is created by land developers selling housing in rural or semi-rural areas where there may be no economically feasible way to provide water from the nearest existing water utility. Stage 2 is the establishment of a small water utility that is under-capitalized and run by a part-time manager with little or no experience in the operation of a water utility.

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[1]Patrick C. Mann, Water Service: Regulation and Rate Reform (Columbus: NRRI, 1981).

[2]In this report, we are considering small, regulated water utilities, most of which are investor-owned.

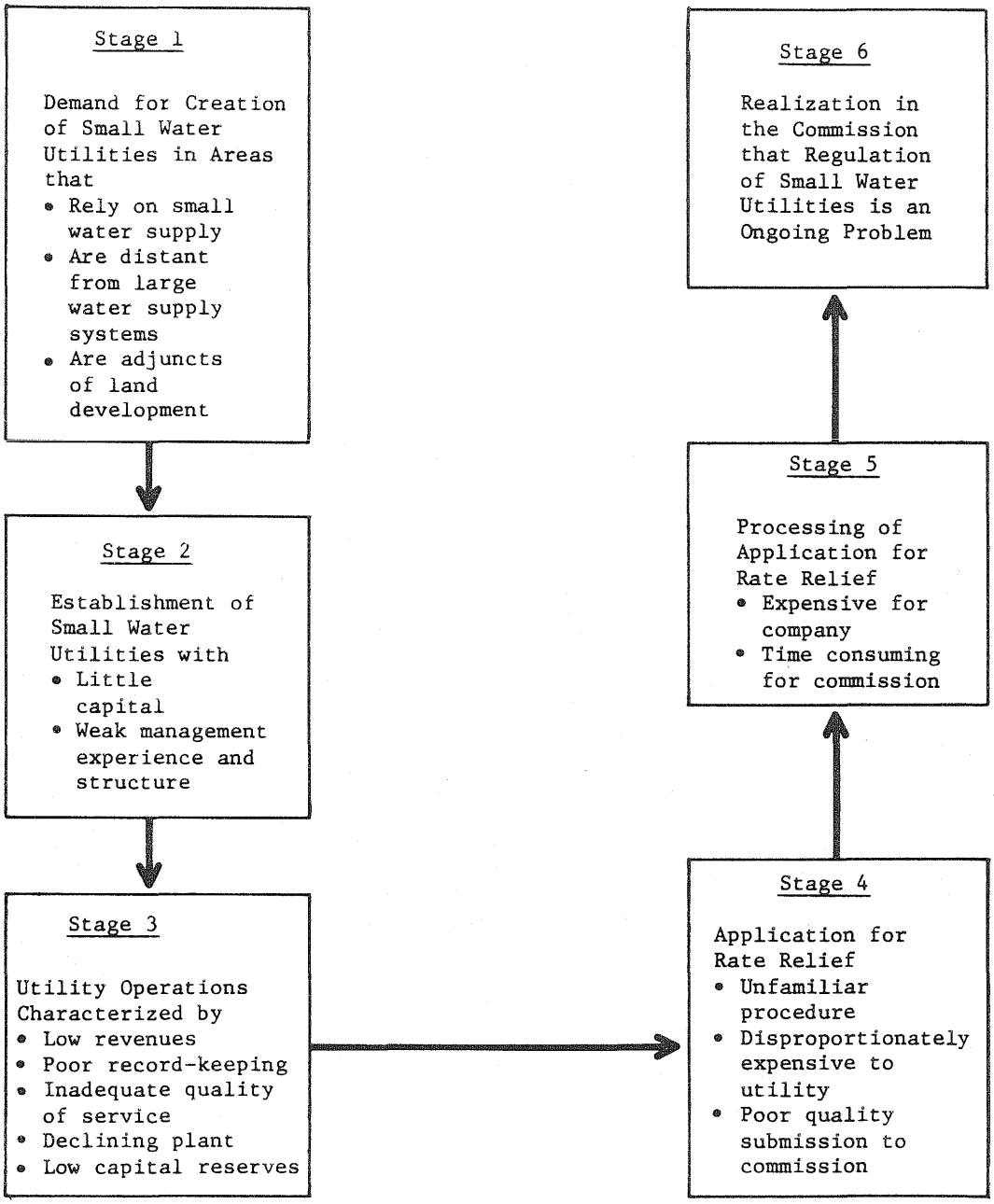

Fig. 1-1 How the Regulation of Small Water Utilities Becomes a Problem for Public Utility Commissions

The initial weaknesses of the utility cause or exacerbate the multiple deficiencies of stage 3. Revenues may be too low to cover legitimate costs. Records are badly kept. Service is poor. Maintenance and capital improvements are insufficient to keep up the plant and equipment. There is little capital available to fix, improve, or replace equipment. When the utility reaches stage 4 -- application to the commission for rate relief -- it is faced, from the utility's point of view, with an unfamiliar procedure that is far more expensive than its limited operations appear to justify. From the commission's point of view the application is often inadequate and incomplete. Processing the application (stage 5) is costly to the utility and takes far more time and effort to deal with than appears justified in the context of the commission's other responsibilities.

A commission might, in this illustration, experience frustration with an incomplete rate case filing (stage 5) and recognize this as a problem (stage 6), but the causes of the incomplete filing exist much earlier in the process. A commission may attempt to deal with the problem at stage 5, or it may start further back in the process and attempt to prevent incomplete filings before they occur by addressing more fundamental problems. This suggests the commissions may attack the problem at various stages, as we will see later.

Consider, for example, the problem many small water utilities face in obtaining adequate capital for their construction and maintenance activities. Like other types of public utilities, small water utilities are capital intensive, yet because of their small size and weak financial structure, they often lack the ability to attract capital through the same mechanisms available to large electric, gas, telephone, and water

utilities. Indeed, many small water utilities lack a significant rate base because the original cost of all or most of the water systems was included in and recovered in the purchase price of each property owner in a housing subdivision. Without a substantial rate base, equity, or physical assets to serve as collateral, small water utilities find it difficult and expensive to raise capital. Stories of the very small water utility owner faced with using his house or car as collateral are widely circulated and are, at least, illustrative of the capital acquisition problem.[3]

Inadequate capital for construction and maintenance activities is often accompanied by inadequate management, both financial and otherwise. The problem here is circular. Lack of funds, it is argued, leads to an inability to support a management structure adequate to maintain stringent financial records and to attract capital. Further, it appears that these small water systems are too small to command much high quality management effort. Managing a small water utility is usually a second job, and often more than the utility owner bargained for: he went into the business to sell land or housing, not water. The owner can tend to view his utility as an adjunct to his normal business and not as a regulated public service. Rather than feeling an obligation to serve, he may be concerned with recovering his money and moving on to other business opportunities.

The fear of regulators under such circumstances is of subsequent poor service and disproportionately high prices.

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[3]See also Loren D. Mellendorf, "The Water Utility Industry And Its Problems," Public Utilities Fortnightly, (March 17, 1983), pp. 17-20.

Service problems include water loss, poor pressure, and poor chemical quality. An inverse relationship has been found between system size and the percentage of unaccounted-for water.[4]

Owners and operators of small water utilities are often lax about keeping records. Receipts may be kept in shoe boxes or not at all. Meters may be read sporadically. Documentation to support rate requests thus is sometimes spotty and unreliable. The costs associated with commission requirements to be represented by an attorney or to hire an accountant to rectify a system of incomplete financial records in filing a rate change request may be a large part of the rate increase requested.

The problems described here do not apply equally to all small water utilities. There are well run and financially healthy small water utilities. The cluster of problems described here are those perceived by state commission staff to be affecting the viability and effective operation of many small water utilities.

Commission Concern and Actions

The NARUC Committee on Water and Staff Subcommittee on Water asked the NRRI to conduct a survey of the problems faced by commissions in regulating small water utilities. The NRRI mailed a questionnaire on September 30, 1982 to staffers at the commissions that regulate water companies. NRRI staff then contacted the staffers by telephone to review responses and explore the reasoning behind them. Questionnaires were completed for all 45 commissions.

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[4]Charles W. Keller, "Analysis of Unaccounted-for Water," American Water Works Association Journal 68, (March 1976), pp. 159-162.

The survey revealed a broad effort to expedite the processing of rate applications for small water utilities, much of it begun only recently. Many commission staffers felt they were unaware of what other state commissions were doing to improve commission regulation of water utilities and whether the actions of their commission were the most appropriate solution to the problem.

CHAPTER 2

COMMISSION REGULATION OF SMALL WATER UTILITIES

While nearly all state regulatory commissions and the District of Columbia commission regulate investor-owned electric, gas, and telephone utilities, only 45 of the commissions regulate investor-owned water utilities. These commissions also differ in their statutory authorities and organizational structure for regulating investor-owned water utilities. They differ further in their policies regarding the regulation of small, as opposed to medium or large, investor-owned water utilities.

The purpose of this chapter is to examine the regulation of small water utilities by state regulatory commissions. The examination focuses on the authority, the resources, and the policies commissions use in the regulation of small jurisdictional water utilities. This information provides a basis for understanding the origins and intent of the specific regulatory techniques and procedures described in chapters 3 and 4.

Authority

The authority of state regulatory commissions is established by state statutes and is subject to judicial interpretation and further policy elaboration by the rule-making and administrative powers of each commission. While there is a reasonable degree of similarity in the authority and responsibilities of the 51 regulatory commissions, there are some important differences. One of these differences lies in the responsibility and authority of the state commissions to regulate water utilities.

With the exception of Nebraska, all of the states have a regulatory commission responsible for the regulation of electric, gas, and telephone utilities. Water utilities are regulated, however, by only 45 of the 50 states. The water utility serving the District of Columbia is not regulated by the District's commission. The commissions differ further in their individual responsibilities for regulating water utilities, combined water and sewer utilities, and municipal water utilities.

As shown in table 2-1, all the commissions that regulate water utilities regulate investor-owned water utilities. More than half the commissions regulate combined water and sewer utilities and investor-owned sewer utilities. Thirteen commissions reported having responsibility for the regulation of municipal utilities. Listed in table 2-2 are the responsibilities of state commissions for the regulation of different types of water utilities. As will be shown in more detail in this chapter, nearly 50 percent of these utilities may be considered small.

In addition to the thirteen states regulating municipal utilities, several other states indicated a degree of at least partial responsibility for regulating government-owned water utilities or service districts. Connecticut, for example, does not regulate municipal water utilities, but the municipal utilities must submit an annual report to the commission. Florida regulates investor-owned utilities in 29 of 67 counties at the option of each county commission. Kentucky regulates water districts and water associations, but does not regulate municipal utilities. The Kansas commission must approve municipal water works improvements. Further, in some states, state regulation of municipal utilities occurs for customers served beyond municipal limits.

TABLE 2-1

TYPES OF WATER UTILITIES REGULATED
BY STATE COMMISSIONS IN 1982

Type of Regulated Water Utility	Number of Commissions Regulating
Investor-owned water utilities	45
Combined investor-owned water and sewer utilities	25
Investor-owned sewer utilities	25
Municipal water utilities	13

Source: 1982 NRRI Commission Water Survey.

Resources

Public utility commissions are typically organized on either a functional basis (i.e., accounting, legal, engineering) or along utility lines (i.e., electric, gas, water). Most utility commissions are organized on a functional basis. This information, however, does not tell how much of a commission's attention is devoted to the regulation of a specific utility type, such as water.

In the NRRI survey, the staff person identified as having the primary responsibility for the regulation of water utilities was asked to describe the allocation of his time between water utility regulation and other duties and assignments at the commission. As shown in table 2-3, 60

TABLE 2-2

STATE COMMISSIONS REGULATING WATER UTILITIES IN 1982

	Regulatory Commission	Investor-Owned Water Utility	Combined Water and Sewer Utility	Sewer Utility	Municipal Utility
1.	Alabama	X	---	---	---
2.	Alaska	X	X	X	X
3.	Arizona	X	X	X	---
4.	Arkansas	X	X	X	---
5.	California	X	X	X	---
6.	Colorado	X	---	---	---
7.	Connecticut	X	X	---	---
8.	Delaware	X	---	---	---
9.	Florida	X	X	X	---
10.	Hawaii	X	X	X	---
11.	Idaho	X	---	---	---
12.	Illinois	X	X	X	---
13.	Indiana	X	X	X	X
14.	Iowa	X	---	---	---
15.	Kansas	X	---	---	---
16.	Kentucky	X	X	X	X
17.	Louisiana	X	X	X	---
18.	Maine	X	---	---	X
19.	Maryland	X	X	X	---
20.	Massachusetts	X	---	---	---
21.	Michigan	X	---	---	---
22.	Mississippi	X	X	X	X
23.	Missouri	X	X	X	X
24.	Montana	X	---	X	X
25.	Nevada	X	X	X	---
26.	New Hampshire	X	---	---	X
27.	New Jersey	X	X	X	X
28.	New Mexico	X	---	---	---
29.	New York	X	---	---	---
30.	North Carolina	X	X	X	---
31.	Ohio	X	X	X	---
32.	Oklahoma	X	---	---	---
33.	Oregon	X	---	---	---
34.	Pennsylvania	X	X	X	X
35.	Rhode Island	X	---	---	X
36.	South Carolina	X	X	X	---
37.	Tennessee	X	X	X	---
38.	Texas	X	X	X	---
39.	Utah	X	---	X	---
40.	Vermont	X	---	---	---
41.	Virginia	X	X	X	---
42.	Washington	X	---	---	---
43.	West Virginia	X	X	X	X
44.	Wisconsin	X	X	---	X
45.	Wyoming	X	---	---	---

Source: 1982 NRRI Commission Water Survey.
X = Regulates; --- = Does not regulate.

percent of these staffers said they spent at least half their time on water utility regulation. In nearly 40 percent of the commissions, however, water utility regulation was not the primary area of responsibility for the person in charge of water utility regulation.

Commission staff were asked to indicate the level of staff effort expended in the regulation of water utilities. (See Table 2-4) While there clearly is variation in the number of man-years indicated, it does appear that most commissions do not have a large number of staff assigned to water utility regulation, especially when compared to an average 1981 total commission staff size of 165. Man-years assigned to water utility regulation represent approximately four percent of the total man-years of an average commission.

TABLE 2-3

PRIMARY AREA OF WORK RESPONSIBILITY
FOR COMMISSION STAFF RESPONDENT
TO 1982 NRRI COMMISSION
WATER SURVEY

Primary Area of Respondent's Work Responsibility	Number of Respondents	Cumulative Percentage
Water utilities only	5	11.1%
Water and sewer utilities only	4	20.0
Primarily water utilities	13	48.9
Half water utilities, half other	5	60.0
Mostly other than water utilities	17	97.8
Other	1	100.0
Total	45	100.0

Source: 1982 NRRI Commission Water Survey.

TABLE 2-4

MAN-YEARS OF COMMISSION STAFF DEVOTED TO THE REGULATION OF WATER UTILITIES IN 1982

Number of Man-Years Reported Devoted to Water Utility Regulation	Number of Commissions*	Average Number of Man-Years Reported Devoted to Water Utility Regulation*	Average Number of Jurisdictional Water Utilities*	Average Number of Total Commission Staff**	Average Number of Water Staff As a Percentage of the Average Number of Total Commission Staff
Less than one	15	0.5	17	109	0.5%
One up to five	11	2.6	38.7	166	1.6
Five or more	14	17.0	207	271	6.3
Don't know	5	----	59	99	----
Average for Each Column	---	6.7	80.4	161.3	3.8%

Source: *1982 NRRI Commission Water Survey.

**The staff figures cited include the 'public' staff in those states with public staff and include the staffs of both commissions in Texas and New Mexico. Data used here are from the 1981 Annual Report on Utility and Carrier Regulation, NARUC 1982.

Listed in table 2-5 are the total 1981 operating revenues for fixed utilities regulated by the 45 state commissions that regulate water utilities. The operating revenues for water utilities represent 0.6 percent of total utility operating revenues for jurisdictional fixed utilities. Compared to the average percentage of staff assigned to water utility regulation (table 2-4), it appears that the average water regulatory staff size is larger than its proportionate share of total utility operating revenues. This may be due in large part to the large number of water utilities with revenues that are low compared to the revenues of other types of fixed utilities.

One subject about which commission staff consistently expressed concern is the large number of regulated water utilities and the number of water utility rate cases. As shown in table 2-6, there are at least 3,904 water utilities under the jurisdiction of state commissions. They filed 701 rate cases with the state commissions in 1981. Water utilities are the most numerous of the fixed utilities regulated by state commissions and account for 43 percent of all rate cases filed by fixed utilities. Compared to the average percentage of staff assigned to water utility regulation (3.8 percent), it appears that an imbalance exists between staff size and number of rate cases filed. Of course, not all rate cases filed are of equal size and complexity.

As one looks at table 2-4 it appears that the level of effort devoted to the regulation of water utilities is relatively low when compared to the level of effort devoted to the regulation of other jurisdictional utilities. It cannot easily be determined from the data if the relatively

TABLE 2-5

A COMPARISON OF TOTAL OPERATING REVENUES
IN 1981 FOR JURISDICTIONAL FIXED UTILITIES
FOR ALL COMMISSIONS

Type of Utility	Total Operating Revenues in 1981 for Jurisdictional Utilities (000)	Operating Revenues For Each Utility Type as a Percentage of Total Jurisdictional Operating Revenues
Electric	$84,527,910	46.4%
Natural Gas	41,037,538	22.5
Telecommunications	55,367,160*	30.4
Water	1,098,670	0.6
Total	$182,031,278	99.9%

Source: NARUC, 1981 Report on Utility and Carrier Regulation (Washington, D.C., National Association of Regulatory Utility Commissioners, 1982), pp. 624, 668, 693, and 707.

Note: *This figure includes only the operating revenues for that part of Bell Telephone Companies regulated by state commissions. It does not include operating revenues from non-Bell companies.

TABLE 2-6

NUMBER OF JURISDICTIONAL FIXED UTILITIES
AND NUMBER OF 1981 RATE CASES
FOR ALL COMMISSIONS

Type of Fixed Utility	Number of Jurisdictional Utilities	Number of Jurisdictional Utilities of This Type as a Percentage of All Jurisdictional Utilities	Number of 1981 Rate Cases	Number of 1981 Rate Cases as a Percentage of All 1981 Rate Cases
Electric	3,850	33.2%	408	25.0%
Natural Gas	2,000	17.3	317	19.5
Telecom-munications	1,835	15.8	203	12.5
Water	3,904	33.7	701	43.0
Totals	11,589	100.0%	1,629	100.0%

Source: 1981 Annual Report on Utility and Carrier Regulation (Washington, D.C.: National Association of Regulatory Utility Commissioners, 1982), pp. 281-344 and p. 401.

small staff size is adequate for the large number of water utility rate case applications that are filed. An assessment of adequacy cannot rely on staff size alone. The suitability of existing regulatory techniques and procedures is equally important and is examined in more detail in chapters 3 and 4.

Policies

Of the 45 commissions that regulate water utilities, only 25 explicitly treat small water utilities differently from medium or large water utilities. Many federal and state regulatory agencies have used size as a criterion for exercising their regulatory duties. Traditionally size has been used to determine a criterion threshold for regulation. If a utility serves less than nine customers, for example, it may be exempted from regulation. The primary rationale here is that it is too costly for the regulatory agency, the regulated firm, and the ratepayer to comply with regulations. It is common for legislation to make exceptions on the basis of size. Businesses below a certain size, for instance, are exempted from the federal minimum wage law.

Exactly why regulatory agencies have chosen size as a criterion and what size is used to establish a threshold below which the smaller firms are not regulated is not always clearly stated. Regulatory agency staff often feel that it costs the regulatory agency almost as much to regulate a small utility (especially if all formal procedures are followed) as it does to regulate a large utility, and that the public interest is not served by

incurring regulatory costs that greatly exceed any anticipated regulatory benefit. Regulators also feel that there are limits on the degree to which regulation should intrude in a society's commercial life. Setting a size threshold enables a neighborhood or a very small business to provide needed services without the burden of complying with government regulations.

The small firm or utility that would otherwise be regulated, it is argued, benefits because it does not have to incur the costs of regulatory compliance. It is presumed that the managers of a small utility interact more with their customers and are more responsive to their needs than the management of a large utility. The face-to-face nature of utility-ratepayer interactions, it is thought, ensures that the very small utility will not take advantage of its monopoly status to the detriment of its customers. The ratepayer derives benefits from the "avoided costs" of the utilities' regulatory compliance and from the regulatory costs of operating the regulatory agency, which the ratepayer supports either as a part of his rates or as a taxpayer.

Recently, many states have used size to define a class of small water utilities that is subject to a set of regulatory policies and procedures different from those used for medium and large water utilities. Unlike the traditional use of size to define a class of "unregulated" water utilities, commissions fully intend the newly defined class of "small" water utilities to be regulated, but in a fashion commensurate with their small size.

In the survey of public utility commissions by the NRRI, it was found that 26 of the 45 commissions that regulate water utilities use size as a criterion for defining a class of small water utilities subject to

different regulatory rules than other water utilities. Thirteen commissions use one or more techniques that make the regulatory process simpler for small water utilities, but do not draw distinctions on the basis of size. Six more commissions do not distinguish on the basis of size.

Of the 13 commissions that are using a regulatory technique that eases requirements for small water utilities, but do not formally distinguish companies on the basis of their size, nine do not make such distinctions because all the water utilities under their jurisdiction are small. For three the techniques apply to water utilities of all sizes. New York distinguishes on the basis of impact of a requested rate increase, rather than the size of the utility requesting it.

Utilities have been classified according to size in a number of different ways by state commissions. Some have used the standard A, B, C, and D classification of water utilities established by the NARUC or the A, B, C, and D classification developed by the National Association of Water Companies. In both of these classification schemes, utilities classified as C or D are usually defined by states as small utilities. One state, for example, considers only type A water utilities as large and all B, C, and D utilities as small. All but the largest Class A water utilities are relatively small when their revenues are compared to those of the large electric, gas, or telecommunications utilities. A Class A water utility, for example, can have operating revenues as small as $750,000 whereas the smallest Class A electric utility must have a minimum of $2,500,000 in

operating revenues. A disadvantage in using these classifications is that inflation causes revenues to rise and some small utilities to be included in a higher classification.

Several states have developed their own classification system and define small size based on the number of customers or utility operating revenues. The range in number of customers is from nine to 5,000, with most clustering in the 100-200 customer range. The range in operating revenues for defining small size is from $25,000 to $100,000, with a number of states clustering at the $50,000 level.

The New York commission uses the relative increase in operating revenues requested to determine the type of proceeding. If the rate increase requested is less than $100,000 or a 2.5 percent increase, then different regulatory procedures are used. The New York commission also varies the complexity of its accounting and reporting requirements dependent on five specified levels of gross annual revenues. The Pennsylvania commission acts in a similar fashion, using a $100,000 rate increase request as its cut-off point. Both these states define size in terms of impact.

The reasons why commissions distinguish among utilities on the basis of size are varied. As seen in table 2-7, the two most frequent reasons are to permit a more efficient rate case process and to improve the quality of annual reports to the commission required of regulated water utilities. Both these reasons relate directly to two of the most important workflows of a typical commission -- rate case processing and monitoring mandated utility reporting. Other reasons given are to lower rate case costs for

the utility, to improve quality of service, and to distinguish between substantial and minor rate increases.

Commission staff interviewed by the NRRI said that the small water utilities frequently have little or no administrative capabilities and poor financial records. Small water utility rate cases are characterized by missing data, delays caused by incomplete filings, disproportionately high rate case costs for the applicant and for the utility commission, and often by a lack of understanding on the part of the applicant regarding regulatory processes in general. Many annual reports from the small water utilities are incomplete. Often they are not turned in at all.

TABLE 2-7

REASONS GIVEN FOR DISTINGUISHING
SMALL FROM MEDIUM OR LARGE
WATER UTILITIES (1982)

Reason Given	Number of Commissions
To permit a more efficient rate case process	9
To improve the quality of annual reports required of regulated water utilities	8
To lower the cost to the utility of a rate case application	3
To distinguish based upon the size of the rate request	2
To improve the quality of service	1
Total	23

Source: 1982 NRRI Commission Water Survey.

Further, these staffers believed that the utilities' small size makes it inappropriate for them to follow all of the formal rate case processes designed for large utilities. Formal hearings, public hearings, written testimony, representation of the utility by an attorney, and data filing requirements typical of a state commission's rate case process, it is felt, could be modified in accordance with a small utility's size, thereby producing a favorable cost/benefit ratio for all parties.

The commission experts gave several reasons for not distinguishing among water utilites on the basis of size. Some said that since all or most of their water utilities are small there does not appear to be a need to develop separate ways of handling them. Others stated that their state statutes do not permit them to treat small water utilities any differently from medium or large water utilities. Several noted that while their commissions do not presently draw distinctions on the basis of size, they expected this might occur in the near future as water rate case filings continue to increase.

State water regulatory staff were asked if the number of water rate cases before their commission was increasing or decreasing. Over 70 percent reported that water rate cases are increasing in number, with only two states indicating a decrease. (See table 2-8.) Two staffers reported that the number of water rate cases has doubled since 1978, and one reported a 500 percent increase since 1976.

Staffers from eleven states, or 24 percent, reported that the number of rate cases is constant. Four of those indicated that they have too few water utilites to draw any firm conclusion other than to say that the number of cases appears to be the same as in the past.

TABLE 2-8

NUMBER OF WATER RATE CASES
BEFORE STATE COMMISSIONS IN 1982

Change in Number of Water Utility Rate Cases	Number of Commissions
Increasing	32
Remaining the same	11
Decreasing	2
Total	45

Source: 1982 NRRI Commission Water Survey.

TABLE 2-9

CHANGES IN CONCERN
OF STATE COMMISSIONS ABOUT
WATER UTILITY REGULATION (1982)

Level of Concern	Number of Commissions
Increasing	27
Remaining stable	16
Decreasing	2
Total	45

Source: 1982 NRRI Commission Water Survey.

Sixty percent of the state water staff reported that water utility regulation is increasing as a concern for their commission. (See table 2-9.) Several reasons were given for the increased level of concern. First, commissions were seeing sharp and sustained increases in the cost of providing service and in the increase in rates requested. Some felt that the greater the increase requested, the more complicated and resource-consuming the rate case process became for all parties. Second, concern was expressed about the economic viability of small systems and the difficulty of applying traditional ratemaking principles when a water utility lacked any significant rate base. Third, quality of service was seen as low or deteriorating for some water systems. This included some older water systems with erratic maintenance and construction plans, as well as smaller utilities with apparently insufficient managerial or technical capacity to provide a consistent level of service and to respond to customer complaints. Fourth, given the relative ease with which land developers and trailer park owners can set up a small water system, some were concerned about the potential increase in new rate case filings. One respondent expressed the concern that bad economic conditions would cause the land developers to be more attentive to the operating costs of their utilities and appear more frequently before state commissions seeking rate relief. Lastly, several expressed a concern about the insufficient capacity expansion activities of water utilities.

Problems

In the NRRI survey, commission staff were asked to identify the most important problems facing them in water utility regulation. Although the question was addressed to regulation of all water utilities, many of the answers focused on problems faced by or caused by small utilities. Commission staff noted problems in four areas: the financial and operating problems of water companies, regulatory problems, commission staffing and training, and water quality and supply.

Financial and Operating Problems of Small Water Utilities

At the heart of the concerns about water utilities was a pervasive belief that many are simply too small to function efficiently as public utilities. The problems in finance, service, and management mentioned by the respondents often stemmed from this fundamental difficulty.

Financial problems facing the small water utilities were mentioned by twenty commission staffers. High operating costs, cash flow, and general lack of funds were listed. Four respondents blamed inflation for driving up operating costs. A number of respondents pointed to lack of capital as a major problem. Providing water is an investment-intensive business, they noted, but the smaller water companies have trouble gaining both initial and long-term financing, resulting in substandard and deteriorating plant. Declining plant was mentioned by five states as a serious problem.

Six respondents said that small water companies tend to provide poor service. One noted that the companies lack financial resources to upgrade service. Continuity and even abandonment of service were mentioned, plus water pressure problems and chemical quality. "Developing a sense of

obligation of system operators" was mentioned as a problem in two states. One respondent said "All too many operators are reluctantly in the water utility business in order to sell land and get out fast."

Lack of utility management expertise was a concern for many of the commission staff members participating in the survey, including management of municipal utilities. One commission staffer said that there was a shortage of competent, full-time people to run the water utilities despite a state licensing requirement. Two staffers suggested that training in business practices would be desirable for operators of small water utilities.

Poor record keeping, one aspect of poor management, was a problem that particularly concerned commission staffers. Seven of the water utility experts mentioned inadequate or non-existent company records as a major problem.

Regulatory Problems

Regulatory problems identified dealt with the applicability of traditional ratemaking techniques and procedures to small water utilities and their financial and managerial ability to comply with them. These concerns are examined in more detail in chapter 3 together with regulatory responses that simplify reporting forms, simplify procedures, and encourage the use of stipulated proceedings.

Commission Staffing and Training

The internal problem cited most often by the commission water utility staff was a shortage of personnel. One staffer questioned the costs versus the benefits of time spent on small water utility regulation. "The

commissioners' lack of knowledge about water utilities" was a concern at another commission, but the staffer ranked this problem second, after that of a general lack of concern towards water regulation by everybody, because of the small percentage of the population served by small water companies. Another staffer remarked on "the inertia of all actors" -- companies, regulators, and ratepayers. He said water supply was a low technology activity that people took for granted, with the result that nobody acted to make changes.

Water Quality and Supply

Eight survey participants mentioned problems related to water quality and supply. Four of them noted the impact of the federal Safe Drinking Water Act. "Water quality requirements for small utilities which, if instituted and included in rates of small utilities, would price the water out of the market" was a problem as far as one state staffer was concerned. Another remarked on the increased testing, reporting, and record-keeping required by the act. A third said the 100 percent local funding required for water treatment improvements by municipalities was a problem in his state. A fourth focused on environmental concerns while saying the Safe Drinking Water Act did not have a substantial impact on the water utilities in his state because it would rarely require extensive water treatment.

Putting additional water supply on line was a problem mentioned at another commission. Both treatment requirements and the red tape required to get municipal projects built were a concern there. Finally, one staffer

said a "better way to find water" is needed. He said costs of rehabilitating an old plant were becoming so great that sometimes the old plant would be dynamited and an attempt made to switch to groundwater, with the result that a whole new type of treatment system would have to be developed and lessons learned about its operating characteristics.

CHAPTER 3

STREAMLINING THE REGULATORY PROCESS

Most public utility commissions have modified their rate case procedures in some way for small water utilities. The commissions' solutions, which include use of stipulated proceedings, simplified forms, and simplified procedures, vary in their details, but share the same intent -- to reduce the cost of regulation for the utilities, the commissions, and the ratepayers.

This chapter identifies and analyzes commissions' efforts to tailor regulation to the capabilities of the small water utilities while assuring commission protection continues to be in effect for consumers. These efforts have largely been centered on improvements in the rate case process, but improvements in rate cases are not the only means of dealing with small water utilities. Solutions that go beyond rate case processing and often beyond traditional areas of commission authority may be considered as well and are already being used by a number of commissions. These approaches will be reviewed in chapter 4.

Stipulated Proceedings

Use of stipulated proceedings is the most widespread means of streamlining regulation of small water utilities. In a stipulated proceeding, the staff of the petitioning utility and the commission meet in advance of the formal commission hearing, agree on certain data and/or facts, and present the stipulated portion to the commissioners as an area where the

utility and the commission staff are in agreement. The commissioners are not bound by the stipulations, but where they accept them, time in formal hearings is saved for both regulators and the utility. A staffer in one state estimated that stipulated proceedings saved half a day of hearings for each water utility rate case in which they were used.

Twenty-six of the commissions that regulate water utilities use stipulated proceedings. The extent, formality, and degree to which stipulation is an official commission policy differs among the commissions.

For many of the commissions, stipulated proceedings have been a regulatory tool for a long time. Ten have initiated them in the last decade. For the most part, use of stipulation, a standard technique, has evolved internally. In New York, for example, parties in 1981 began agreeing on rate application issues informally and now do it regularly. Maine began the procedure for holding companies in the mid-1970s. Certain issues could be stipulated for the group, the commission found; then issues unique to each company could be taken up in hearing. The initiative to begin using stipulation was taken by the state consumer advocate in Hawaii and by a water company in Massachusetts in 1981. In New Jersey, use of stipulated proceedings was the result of a recommendation by a task force on small water utilities. The task force was composed of commission staff, staff of the state public advocate's office, and representatives of the water industry. No formal report was made, and use of stipulation was begun without a formal rule.

For 17 commissions using stipulated proceedings, the size of the utility makes no difference. In seven states stipulation is limited to rate case applications for small utilities, whereas, in New York and West

Virginia, stipulation is used for larger utilities. In almost all the states, stipulation is used for other utilities besides water. The simplified procedures in use for smaller utilities in those states is discussed below. Massachusetts is using stipulation experimentally for "one town" water companies, but has no formalized company size limits. The commission will consider stipulations of entire cases or individual issues. However, the Massachusetts commission believes that any proposed stipulation must not deviate from existing precedent and has ruled that stipulation is not binding on the commission.

The most substantial impact of stipulated proceedings has been on formal hearing time. Staffers at 23 commissions said stipulation had shortened hearings. Twenty-one said it had reduced utilities' cost. Eighteen said it had saved their commissions money overall, and fourteen staffers reported that staff time had been saved.

The commission staffers already using stipulated proceedings for the most part found them useful, but didn't see a need to expand their application further. "[We've] reached the optimum," commented one staffer. Nor did many have recommendations for improvement. A few staffers said better or more standardized data would be helpful. One said having good compliance audits would save time by producing the data needed for both parties to stipulate items. One commission staffer doubted there was much potential for standardization: "If there were some way to develop standard parameters, it might make them [stipulations] easier to arrive at," he said. "But every case seems unique." A staff member at another commission suggested the companies should be made to delay rate increases to make up for the savings from stipulated proceedings. Finally, a staffer said

stipulated proceedings did not go far enough towards minimizing costs. The commission staff should work up an entire application, he suggested, although this would need a statutory change in his state.

Of the commissions not using stipulated proceedings already, seven thought it would be useful to begin their use for small water utilities. One staffer said that except for something very simple it was better to have a written record. In a state where stipulated proceedings are not used, a staffer said accountants and lawyers there differed on whether to begin stipulating. The lawyers felt it would be contrary to commission policy, while the accountants considered it a good idea. One staff expert said stipulation had not been discussed for his state, but that stipulation would be difficult unless service issues could be isolated from other ones.

Two commissions were planning to begin use of stipulated proceedings, said staff experts. One said it could take at least two years. In the other, a study group had been established to look into the potential for having pre-hearing conferences. The outcome of that would be stipulated orders, he said.

Simplified Forms

In an effort to reduce the paperwork required of small water utilities, 18 commissions have simplified or shortened the forms required to be filed for a rate case. In addition, North Carolina was far along in the process of developing a short form at the time of the survey.

The authorization of a simplified form by a commission is an explicit recognition of the significant differences that exist in managerial structure, accounting systems, operating revenues, number of customers, and

the homogeneity of customer classes between small utilities and medium or large utilities. Most medium or large utilities achieve some economies of scale and tend to have fairly specialized organizational structures. One common, highly specialized, division in most utilities is the division or office of regulatory affairs, which has the primary responsibility for rate case applications and general compliance with commission orders. Small water utilities lack the size necessary to specialize and may have an owner-operator simultaneously serving as the chief executive officer, head engineer, accountant, and financial officer. Lacking a sufficient management and accounting system, the attention of the owner-operator tends to be on daily, operational concerns and not on compliance with regulatory forms and procedures. Accordingly, many small utility annual reports and rate case applications are incomplete or not filed at all.

A comparison of the states using simplified forms, stipulated proceedings, and simplified procedures reveals that the majority have used more than one of these approaches for small water utilities. In all but four of the states with simplified forms, paperwork reduction has been accomplished in tandem with simplification of the rate case process. (See table 3-1.) In table 3-2 it can be seen that half the 18 states with simplified forms also allowed stipulated proceedings.

TABLE 3-1

COMMISSIONS USING SIMPLIFIED
FORMS AND SIMPLIFIED PROCEDURES
FOR SMALL WATER UTILITIES IN 1982*

	Commissions Using Simplified Forms	Commissions Not Using Simplified Forms	Number of Commissions (Row Total)
Commissions Using Simplified Procedures	AZ, CA, CT, FL, IL, KY, MO, NV, OK, OR, PA, TX, WV, WI — 14	AR, ME, MT, NH NY, NC, UT, VA — 8	22
Commissions Not Using Simplified Procedures	DE, ID, NM, VT — 4	AL, AK, CO, HI, IN, IA, KS, LA, MD, MA, MI, MS, NJ, OH, RI, SC, TN, WA, WY — 19	23
Number of Commissions (Column Total)	18	26	45

Source: 1982 NRRI Commission Water Survey.

*See p. 132 for state abbreviations.

TABLE 3-2

COMMISSIONS USING STIPULATED PROCEEDINGS AND SIMPLIFIED FORMS FOR SMALL WATER UTILITIES IN 1982*

	Commissions Using Simplified Forms	Commissions Not Using Simplified Forms	Number of Commissions (Row Total)
Commissions Using Stipulated Proceedings	AZ, ID, MO, NV, NM, OR, VT, WI, WY 9	AL, AK, AR, CO, HI, ME, MA, MT, NH, NJ, NY, OH, RI, TN, UT, WA, WY 17	26
Commissions Not Using Stipulated Proceedings	CA, CT, DE, FL, IL, KY, OK, PA, TX 9	IN, IA, KS, LA, MD, MS, NC, RI, SC, VA 10	19
Number of Commissions (Column Total)	18	27	45

Source: 1982 NRRI Commission Water Survey.

*See p. 132 for state abbreviations.

Idaho's approach is a good example of what can be done when a commission wishes to simplify forms but not procedure. Idaho's form:

> . . . is not designed to include all details which may be required in rate proceeding . . . Furthermore, it is not intended to give the impression that all items will be allowed by the Idaho Public Utilities Commission. It is designed to furnish the small water utilities with the basis for a rate filing which will expedite the process and make it more efficient. It should reduce the cost to the utility for a rate proceeding by reducing the fees paid to outside experts and the time required to process the petition.[1]

The Idaho form provides a format for presenting a balance sheet, a schedule of operation and maintenance, a summary of earnings and rate base, revenues at existing and proposed rates, and explanations of other accounts and adjustments.

Commissions that have simplified regulatory procedures as well as simplified rate case documents do so to reduce the utilities' costs of hiring accountants and lawyers and to reduce or eliminate the costs to commissions and utilities of formal hearings. In most cases, the commissions rely on in-depth staff investigations, strict compliance with annual reporting requirements, and customer notification to assure commission review is sufficient to obviate the need for a hearing. In a few states the burden of preparing a rate case application and assessing the need for changing rates devolves almost entirely to commission staff. In cases where commission staff essentially prepares a rate case application, the forms that are used may be very short, but this does not mean that substantial documentation is not available to the commission either through staff investigation or reliance on thorough, up-to-date annual reports. The West Virginia commission's form is only one page long,

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[1]Idaho Public Utilities Commission, "Guideline for Filing a Rate Case for Small Water Utilities," undated.

for example, but a copy of the applicant's most recent tax return must be attached. The information is then analyzed by the West Virginia staff, which prepares its own recommendations.

Table 3-3 shows the titles of the simplified forms identified in the NRRI survey, their lengths, whether they are accompanied by written instructions, how simplification of forms was instituted at the commissions, and the applicability of the forms in terms of the types and sizes of utilities that may use them. Appendix C contains an example of a simplified form.

Some states limit the applicability of the "short forms" to the smallest water utilities while others with a different definition of "small" allow their use by almost all water utilities under their jurisdictions. Arizona's forms, for example, may be used by utilities with revenues of less than $25,000 per year. West Virginia, which regulates municipal water utilities as well as investor-owned ones, allows use of their form and procedure for all water utilities with less than $200,000 in annual revenues.

Ten states report using the NARUC classifications for the Uniform System of Accounts to set limits on the use of the forms. Under the NARUC categories, class A water utilities have annual gross operating revenues greater than $750,000; class B, $250,000-$750,000; class C, $50,000-$250,000; and class D, under $50,000. Six states allow use of their simplified forms by class D utilities; two by class C and D; and two by class B, C, and D. New Mexico and Wisconsin use simplified forms in all

TABLE 3-3

LENGTH, ORIGINS AND APPLICABILITY
OF SIMPLIFIED FORMS IN 1982

Name of State	Title of Form	Length of Form (in pages)	Written Instructions	Length of Instructions (in pages)	How Instituted	Applicability
Arizona	---	4	No	---	Internal Policy	Any utility with annual operating revenues less than $25,000
California	Standardized Procedure for Rate Request by Advice Letter	Small Class D -- 10 pages Other -- 30 pages	Yes	6	Commission rule	Water and sewer utilities, including districts of larger utilities with annual revenues less than $500,000
Connecticut	---	---	---	---	Commission rule	All water and sewer companies with revenues less than $100,000
Delaware	Minimum Filing Requirements. Part B Rate Case Application-Small Utilities	13	Yes	7	Commission rule	Small water, electric and gas utilities
Florida	Preliminary Information to Determine Eligibility for Short Form Rate Cases	9 (legal size)	No	---	Commission rule	All Class D utilities
Idaho	Guideline for Filing a Rate Case for Small Water Companies - Class C and Class D	9	Yes	3	Commission policy	Class C and D water utilities
Illinois	---	5	Yes	1	Commission rule	Class D water and sewer utilities
Kentucky	Application for Rate Adjustment	10	Yes	Included in form	Commission rule	Water, sewer and gas utilities with less than 400 customers and less than $200,000 in annual gross operating revenues
Missouri	Informal filing for Small Water and Sewer Company Rate Increases	6	Yes	2	Internally	Water, sewer, and gas companies with fewer than 1,000 customers: telephone companies with less than 5,000 access lines
Nevada	---	10	No	---	Statute	Water and sewer utilities serving 1200 persons or less with gross sales of $150,000 or less annually, that do not control any other business entity furnishing water or sewer service

TABLE 3-3 (continued)

LENGTH, ORIGINS AND APPLICABILITY
OF SIMPLIFIED FORMS IN 1982

Name of State	Title of Form	Length of Form (in pages)	Written Instructions	Length of Instructions (in pages)	How Instituted	Applicability
New Mexico	Checklist for Rate Cases	10	Yes	3	Informal	All water utilities
Oklahoma	---	5	Yes	3	Commission rule	Small water and gas utilities
Oregon	Guide for Filing of Rate Increase by a Water Utility	34	Yes	Included in form	Managerial decision	Class B, C, and D water utilities
Pennsylvania	---	7	Yes	10	Commission rule	Class D water, gas and telephone utilities
Texas	---	2	Yes	5	Statute	Water and wastewater utilities with up to 150 customers, not a member of a group filing a consolidated tax return and not under common control or ownership with another water or sewer utility
Vermont	Abstract: The M-Water Corporation	7	Yes	5	Informal	All small utilities (ad hoc determination of "small")
West Virginia	Notice of Application to Change Rates	1	No	---	Commission order	All water utilities with less than $200,000 in annual gross revenues
Wisconsin	---	---	Yes	6	Internal procedure	All water and combined water and sewer utilities

Source: 1982 NRRI Commission Water Survey.

water utilities in their jurisdictions. There are four class A investor-owned water utilities in New Mexico. The Wisconsin commission regulates three class A investor-owned water utilities and 25 municipal ones.

A few states limit use of their short forms to utilities with few customers, or supplement dollar limits with customer limits. Missouri sets an upper limit of 1,000 customers. In Kentucky a utility must have fewer than 400 customers and less than $200,000 in annual gross operating revenues to adjust rates using that state's simplified form. Nevada's limit is 1,200 persons and $150,000 or less in gross revenues. To qualify for use of a short form in Texas a water or sewer company must have fewer than 150 customers, not be a member of a group filing a consolidated tax return and not be under common control or ownership with another water or sewer utility. The guidelines and forms developed by Vermont and Oklahoma apply to "small" utilities, with a determination of which are small left up to the commission on a case-by-case basis.

Only water utilities may use the short forms developed by seven of the commissions to simplify rate case applications in their states. Four commissions use the simplified forms for water and sewer companies, three for all small utilities, and four for water plus specified other small utility companies.

Of the 18 commissions that have developed simplified forms, thirteen provide written instructions. Wisconsin gives out only instructions, not a separate form, although it does include specific suggestions on format of certain items. Kentucky and Oregon have included instructions for completing their forms in the forms themselves.

The length of the short forms and accompanying instructions varies considerably. Length is not, by itself, a good indication of how much information is being required. Many of the documents call for attachments, some leave considerably more space than others for filling in information. Oklahoma and Florida use legal size paper. Oregon has by far the longest form at 34 pages. The material is largely composed of easy-to-use sample testimony with blanks for the company to fill in. The rest of Oregon's written guidance is a sample tariff from a hypothetical water company.

The average length of the commissions' written guidance, including both forms and instructions, is 11.4 pages. The average length of forms alone is 8.9 pages. When Oregon is excluded, the average form length is 6.8 pages, and written instructions average 4.6 pages in length.

Commission rule-making has been the most frequent means of instituting simplified paperwork. Nine staffers said their commissions had begun to use shorter forms or written guidance to the utilities through commission rule or order. Another six commissions began using short forms informally through commission policy and staff decisions. A statutory requirement led to implementation at three commissions.

The adoption of short forms by the commissions is a fairly recent phenomenon. Eight commissions have started to use them in the last three years. Four more began their use between 1975 and 1979. Three commissions began using them before 1975. Staffers at three commissions were not certain when simplified forms were first used at their commissions.

Although the layout, amount of space provided, and exact specifications of the information called for in the simplified application forms varies considerably, there is substantial agreement on the general

type of information required. Table 3-4 shows the general contents of the forms and, where applicable, their accompanying documents such as a sample customer notice. The table does not show in detail all the information required in the forms. Where documentation is not called for, it may well be supplied through another medium. Annual reports may be required, and these often supply information that is not directly called for in the application.

The information most frequently solicited through the simplified forms is, not surprisingly, a rate schedule. All but two of the commissions using "short forms" ask for a schedule of rates, usually both current and proposed. Often current and proposed rates are to be presented in columns side by side. Thirteen commissions ask for basic, current company information such as the name and address of the person to contact about the application. Fifteen ask for a balance sheet showing income and expenditures. Kentucky's balance sheet information must be presented as adjustments from annual reports.

Fourteen commissions call for information on customers, including customer classes, billing practices, and complaints. Thirteen commissions require a presentation of information on the company's rate base and 10 on the cost of capital. Missouri asks for a description of major construction projects undertaken in the previous 12 months. New Mexico places strong emphasis on construction and depreciation. One page of the 10-page form is devoted to data on service lines, salvage rates, and depreciation rates for small water utilities (figure 3-1). This format was originally developed by NARUC's staff subcommittee on water.

TABLE 3-4

CONTENTS OF SIMPLIFIED FORMS IN 1982

State	Type of Information Requested*								
	Rate Schedule	Basic Company Information	Balance Sheet	Rate Base	Cost of Capital	Customer Information	Engineering Data	Customer Notice Form	Staff Analysis Form
Arizona	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes
California	No	No	Yes	Yes	No	Yes	Yes	No	No
Connecticut	Yes	Yes	No	No	No	Yes	Yes	No	No
Delaware	Yes	Yes	Yes	Yes	Yes	No	No	No	No
Florida	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Idaho	Yes	No	Yes	Yes	No	No	No	No	No
Illinois	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes
Kentucky	Yes	Yes	No	No	No	Yes	No	No	No
Missouri	Yes	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Nevada	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
New Mexico	Yes	No	Yes	Yes	Yes	Yes	Yes	No	No
Oklahoma	Yes	Yes	Yes	No	No	Yes	No	No	No
Oregon	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No
Pennsylvania	Yes	Yes	Yes	Yes	No	Yes	No	No	No
Texas	Yes	Yes	No	No	No	No	No	No	No
Vermont	Yes	No	Yes	Yes	Yes	Yes	No	No	No
West Virginia	Yes	Yes	No	No	No	No	No	No	No
Wisconsin	No	Yes	Yes	Yes	Yes	Yes	Yes	No	No

Source: Documents submitted by the commissions for the 1982 NRRI Commission Water Survey.

*The listed types of information may be required via other media than the simplified forms.

NARUC Account Number	Class of Plant	Average Service Life a/ Years	Net Salvage Percent	Depreciation Rate Percent
	Source of Supply Plant			
311	Structures and Improvements	35-40		2.9-2.5
312	Collecting & Impounding Reservoirs	50-75		2.0-1.3
313	Lake, River and Other Intakes	35-45		2.9-2.2
314	Wells and Springs	25-35		4.0-2.9
315	Galleries and Tunnels	25-50		4.0-2.0
316	Supply Mains	50-75		2.0-1.3
317	Other Source of Water Supply Plant	30-40		3.3-2.5
	Pumping Plant			
321	Structures and Improvements	35-40		2.9-2.5
324-7	Pumping Equipment	20		5.0
328	Other Pumping Plant	25		4.0
	Water Treatment Plant			
331	Structures and Improvements	35-40		2.9-2.5
332	Water Treatment Equipment	20-35		5.0-2.9
	Transmission and Distribution Plant			
341	Structures and Improvements	35-40		2.9-2.5
342	Reservoirs and Tanks	30-60		3.3-1.7
343	Transmission and Distribution Mains	50-75		2.0-1.3
344	Fire Mains	50-75		2.0-1.3
345	Services	30-50		3.3-2.0
346	Meters	35-45	10	2.6-2.0
347	Meter Installations	40-60		2.5-2.0
348	Hydrants	40-60	5	2.4-1.6
	General Plant			
390	Structures & Improvements	35-40		2.9-2.5
391	Office Furniture and Equipment	20-25	5	4.8-3.8
392	Transportation Equipment	7	10	12.9
393	Stores Equipment	20		5.0
394	Tools, Shop & Garage Equipment	15-20	5	6.3-4.8
395	Laboratory Equipment	15-20		6.7-5.0
396	Power Operated Equipment	10-15	10	9.0-6.0
397	Communication Equipment	10	10	9.0

a/ These lives are intended as a guide; longer or shorter lives should be used where conditions warrant.

Fig. 3-1 TYPICAL AVERAGE SERVICE LIVES, SALVAGE RATES, AND DEPRECIATION RATES FOR SMALL WATER UTILITIES IN NEW MEXICO

Source: Document submitted by the New Mexico Public Service Commission for the 1982 NRRI Commission Water Survey.

Engineering data are required on only five of the applications. Arizona and Illinois have developed forms for utilities to use in notifying customers of rate changes and forms for commission staff reports.

Fire protection and taxes are two categories not listed in table 3-4, but for which some commissions require detailed information. The California and Wisconsin commissions ask for considerable data on both topics.

The commissions that use simplified forms are nearly unanimous in their satisfaction with them. All the staffers at commissions with simplified forms or written guidance on filling out a rate application by a small water utility said the forms were useful. Fifteen staffers reported that the forms had shortened formal hearing time and lowered utilities' costs. Sixteen said costs to the commission had been reduced. Fourteen said that their commission's staff time had been saved by the simplification of paperwork. The staff contacts cited savings in payments to court reporters, hearing examiners, accountants and attorneys, and savings in travel costs to the utilities. The staff member in one state said short forms had improved the relationship between the commission and the water utilities. He said by reducing their workload and "giving them something they can actually handle, the company feels it can make more applications" to keep current with costs. The staffer's statement was reflective of an attitude found at several commissions: It was felt that small water utilities did not apply often enough for rate increases to keep up with their justifiable needs for revenues.

Some staff warned against setting expectations too high, however. One staffer cautioned commissions not now using short forms that the forms would never be as complete as they wanted. He said there is a need for more information on a case-by-case basis. Another noted that, due to the poor quality of data provided by the utilities, processing their rate requests was expensive no matter what aids were provided. It was felt too that while there had been savings in time and money because of the reduction in documentation required, the process was still very labor intensive. In another state it was felt that the forms had not always met the utilities' expectations as some small water companies expected to get rate orders immediately under the simplified system.

Few of the commissions that were using simplified forms had specific recommendations on how to improve them. Nine said the forms worked the way they were intended and changes were unnecessary. The Texas staffer identified the need for improving the understanding of the small utilities as to the purpose of the regulatory procedures.

There was considerable interest in simplified forms among commissions not currently using them. Eight staffers at commissions where short forms have not been adopted said that, in their opinion, their commissions were likely to start in the next two years. Seventeen staffers said they thought use of short forms would be helpful at their commissions. Some of the reasons given for why the forms would be useful included: (1) to help compensate for lack of expertise at the water utilities, (2) to ease the burden on commission staff, who were in some cases doing all the work of building a file and an application for the utilities, and (3) to improve the ability of commission staff to pursue rate case issues in detail.

In Florida, where a short form is used to initiate a case for a class D water utility, and the case itself is prepared by the commission staff, the spokesman said it would be useful to expand use of a short form to utilities that are larger than class D or had owners who were inexperienced in management of a water utility.

Five staff experts felt short forms would be of only little use or not useful at all in their states. Staff members from three states felt their commissions have so few water utilities to regulate that short forms are not needed. Staffers from two states said they did not want short forms because all the information they were presently requesting of the utilities was necessary to process rate cases.

The staffers from New York and New Hampshire said that their simplified procedures adequately dealt with the data problems of small water utilities. They felt no need to have a short form as well. In New York, extensive staff assistance is provided in filing the rate case application, often eliminating the need for legal or accounting assistance for the utility in the ratemaking process. In New Hampshire it was noted that the utility could always seek an exemption from a particular requirement if it wanted. The staff contacts from each state felt these approaches were of greater benefit than relying exclusively on either a long or short form.

Simplified Procedures

Clarifying and reducing the paperwork required of small water utilities helps them to prepare a rate application, but, by itself, does not relieve utilities of the burden of defending their request before the

commission. The utilities must still be ready to support their facts and figures through attorneys and accountants in formal hearings. Twenty-one commissions have changed the rate case process itself to make it less costly for small water utilities, and all but seven of these use simplified forms as well. And, all but nine use stipulated proceedings to facilitate the process. (See table 3-5.)

The largest costs of an ordinary rate case are in the formal hearing, including preparation for the hearing. The major change in water utility rate case procedures has been to reduce or eliminate the number of rate cases requiring a full-scale formal hearing. For almost all of the commissions using simplified procedures, the potential to waive a formal hearing is the essential departure from customary practice. In many states, a company may change water rates after a specified time period if certain conditions are met.

The responsibility of the commissioners themselves to regulate has been substantially delegated to their staff, and ratepayer input is more salient than normal. Simply put, if after sufficient public notice and/or public hearings few customer complaints are received, it is assumed that ratepayers consider the rate changes reasonable, and the commission authorizes the new rates.

Since each small utility has few customers, this relatively informal approach can give consumers adequate opportunity to be heard. Under the simplified procedures, commission staff and the utility's customers become a filter through which only problem cases reach the commissioners in a full-scale hearing process.

TABLE 3-5

COMMISSIONS USING STIPULATED
PROCEEDINGS AND SIMPLIFIED PROCEDURES
FOR SMALL WATER UTILITIES IN 1982

	Commissions Using Simplified Procedures	Commissions Not Using Simplified Procedures	Number of Commissions (Row Totals)
Commissions Using Stipulated Proceedings	AZ, AR, ME, MO, MT, NV, NH, NY, OR, UT, WV, WI — 12	AL, AK, CO, HI, ID, MA, NJ, NM, OH, RI, TN, VT, WA, WY — 14	26
Commissions Not Using Stipulated Proceedings	CA, CT, FL, IL, KY, NC, OK, PA, TX, VA — 10	DE, IN, IA, KS, LA, MD, MI, MS, SC — 9	19
Number of Commissions (Column Totals)	22	23	45

Source: 1982 NRRI Commission Water Survey.

Note: See p. 132 for state abbreviations.

Table 3-6 shows the characteristics of simplified procedures by state -- their origin, utilities to which they apply, whether they are accompanied by simplified forms, the type of staff involvement in the procedures, provision for public involvement, whether hearings may be waived under the procedure, and whether rates may go into effect after a specified time period.

Simplified procedures for rate case applications for small water utilities are a recent innovation. More than half the commissions using them have begun doing so since 1975. Nine have instituted simplified procedures since 1979. For the most part, they have originated through internal decisions rather than through official commission rules on statutory changes. Six began with a legislative change and four by commission order.

For most states that have simplified forms as well as procedures, the applicability of the procedures is the same as the forms and has been discussed previously. Wisconsin's guidance on preparing a rate case is specific to water and sewer utilities; while its practice of easing procedural requirements is applied to municipal electric utilities as well as water and sewer companies. (A form specific to municipal electric utilities is available for them.)

Arkansas, Maine, Montana, New Hampshire, New York, Utah, and Virginia are other states with commissions that use simplified procedures, but not simplified forms. New Hampshire, Utah, and Virginia simplify the application process only for small water utilities; Montana, for small water and gas companies; and Arkansas, for small and medium-sized water companies by ad hoc decision. In Maine, the simplified procedures are in

TABLE 3-6

CHARACTERISTICS OF SIMPLIFIED PROCEDURES IN 1982

State	Authority	Are Short Forms Used?	Applicability	Potential for Hearing Waiver?	Time Constraint for Completion of Procedure?	Staff Involvement	Public Involvement
Arizona	Statute	Yes	Any water utility with annual operating revenues less than $25,000	Yes	No	---	---
Arkansas	Practice	No	Ad hoc determination: small and medium-sized water utilities	---	No	---	---
California	Rule	Yes	Water and sewer utilities, including districts of large utilities with annual revenues of less than $500,000	Yes	Yes: 180 days	Review; may make field visit	Customer notice; May have public meeting
Connecticut	Rule	Yes	Water companies with less than $100,000 in annual revenues	No	Yes: 150 days	Assist and investigate	Public notice, customer notice, and public meeting
Florida	Rule	Yes	Water and sewer utilities with annual operating revenues of $50,000 or less, or $100,000 or less where the services are combined	No	No	Assist	Customer notice; informal customer meeting in service area
Illinois	Rule	Yes	Class D water and sewer utilities	Yes	Yes: 30 days	Field Investigation	Customer notice; may have public meeting
Kentucky	Rule	Yes	Water, gas and sewer utilities with less than 400 customers and less than $200,000 in annual gross operating revenues	Yes	Yes: 180 days	---	Customer notice
Maine	Statute	No	All municipal and quasi-municipal utilities	---	Yes: 30 days	---	Customer notice

TABLE 3-6 (Continued)

CHARACTERISTICS OF SIMPLIFIED PROCEDURES IN 1982

State	Authority	Are Short Forms Used?	Applicability	Potential for Hearing Waiver?	Time Constraint for Completion of Procedure?	Staff Involvement	Public Involvement
Missouri	Internal policy	Yes	Water, sewer, gas, and telephone utilities with fewer than 1,000 customers	---	Yes 45 days	Investigate	Customer notice, public meeting in service area if necessary
Montana	Management policy	No	"Small" water and gas companies	Yes	Yes: 30 days	---	---
Nevada	Statute	Yes	Water and sewer utilities serving 1,200 customers or less, with gross sales of $150,000 or less annually, that do not control any other business entity furnishing water or sewer service	Yes	Yes: 30 days, but commission may suspend for up to 150 days beyond effective date	Investigate	Customer notice; division of consumer affairs prepares report on service complaints
New Hampshire	Practice	No	Small water utilities	---	---	Assist and Investigate	---
New York	Statute	No	Water, gas and telephone utilities requesting rate increase less than the greater of $100,000 or 2 1/2 percent	Yes	Yes	Assist and Investigate	Public notice and public meetings
North Carolina	Statute	No	All water and sewer utilities at the discretion of the commission	Yes	No	Investigate	Public notice
Oklahoma	Policy	Yes	Small water and gas utilities	Yes	No	Investigate	Customer notice

TABLE 3-6 (Continued)

CHARACTERISTICS OF SIMPLIFIED PROCEDURES IN 1982

State	Authority	Are Short Forms Used?	Applicability	Potential for Hearing Waiver?	Time Constraint for Completion of Procedure?	Staff Involvement	Public Involvement
Oregon	Policy	Yes	Class B, C, and D water utilities	No	Yes: 30 days	Investigate	Customer notice
Pennsylvania	Rule	Yes	Class C and D water, gas and telephone utilities	Yes	Yes: 60 days if no objection	Investigate	Customer notice
Texas	Statute	Yes	Water and waste water utilities with up to 150 customers, not a member of a group filing a consolidated tax return and not under common control or ownership with another water or sewer utility	Yes	Yes: 30 days unless 10% of consumers complain	Investigate	Customer notice
Utah	Policy	No	Small water utilities	---	---	Compliance audit	---
Virginia	Practice	No	Class D water utilities	Yes	Yes: If 20 or more customers complain, goes to hearing	Investigate	Customer notice
West Virginia	Rule	Yes	All water utilities with less than $200,000 in annual gross revenues	Yes	No	Assist and Investigate	---
Wisconsin	Practice	Yes	All water, combined water and sewer, and municipal electric utilities	No	No	Assist and Investigate	Customer notice

Source: 1982 NRRI Commission Water Survey.

Key: --- = Missing data

water and gas companies; and Arkansas, for small and medium-sized water companies by ad hoc decision. In Maine, the simplified procedures are in effect for municipal and quasi-municipal companies. New York deviates from the usual criterion of annual revenues for applicability of the simplified procedures.

For 13 commissions, waiver of the requirement of a formal hearing is an integral part of the special procedure. Ten commissions set a time limit for completion of the procedures. In the absence of disagreement between company and commission staff, rates may go into effect 30 days after an application is filed in six states, after 45 days in Missouri, after 150 days in Connecticut, and after 180 days in California and Kentucky. In Pennsylvania, staff makes its recommendations within 60 days; and most water utilities agree to them. Thus, a hearing is usually avoided. Customer notice and staff review are essential components of these programs. With two exceptions states do not set a specific limit on the number of consumer complaints that must be received to stop the automatic increase and trigger a more formal investigation. Several states provide for public meetings as part of the modified rate case process, although they are sometimes optional. For some states staff review includes a field investigation of the utility company.

Although each process is different, an overall picture of simplified procedures at the commissions can be gained by dividing the 22 states into four groups, each representing a different approach. Within the groups, one example is selected and that commission's procedure discussed in detail. The first group includes commissions that assist water companies through the rate case process but do not waive the hearing requirement.

The second group of commissions, as represented by Illinois, provides for rate increases that go into effect without formal hearings or orders. The commissions in the third group allow hearing waivers but do not set a time limit or other constraint on the simplified procedure. The fourth group -- Florida, New York, and West Virginia -- use "staff assisted rate cases." In these commissions, the staff has essentially taken on the job of preparing rate applications for the small water utilities.

The first group of commissions identified here -- those that provide staff assistance but do not waive the requirement of a formal hearing -- includes Wisconsin, Arkansas, Connecticut, New Hampshire, and Utah.

The Wisconsin commission supplies water utilities and combined water and sewer utilities with an explanation of information required in a rate application and some suggestions on format. Commission staff then works informally with the utility to develop appropriate rates. A formal hearing is still required but "is usually not very involved," according to a staffer there.

In Arkansas and New Hampshire, which have not developed simplified forms, the actions taken to streamline regulation are highly informal. In Utah informal procedures are supplemented by a rigorous "compliance audit." Oregon has a simplified form and a policy of assisting small and medium sized water companies through rate cases.

Nine states allow increases in rates without formal hearings or orders. The procedure followed by the Illinois Commerce Commission is an example of this approach. The process starts when a water utility notifies the Illinois commission's Water Engineering Section that it requests a rate

increase. The commission mails the utility a six-page "short form" and instructions for filling it out. When the utility has completed the form and sent it back to the commission, the staff reviews the financial data it contains. If the staff is satisfied, a customer notice form is mailed to the utility. The turn-around time between commission receipt of the utility's completed short form and mailing of the customer notice requirement is 10 working days or less. The utility then mails a notice of the proposed rate change to each customer, plus a copy to the commission staff. Customers have 21 days to write or phone the commission's Chief Water Engineer to express concern about service quality, billing procedures, or other matters. Meanwhile, commission staff makes a field trip to the utility's service area to inspect the facilities and verify the financial data supporting the rate request and make sure the utility is complying with all applicable requirements. If there are many complaints, a public meeting is scheduled in the company's service area. After the staff's investigation is completed, the utility is notified by letter of the rates deemed acceptable for filing. The utility then files revised tariff sheets with the commission. These rates and the staff rate analysis are submitted to the commission with a "do not suspend" recommendation and filed if the commission finds them acceptable. If the commission does not suspend the tariff, it goes into effect.

The Illinois program, which originated by commission rule, was at first used only with water utilities with $15,000 or less in annual revenues. The trial program allowed commission staff to gain experience with the program and to assess its effectiveness. The program was expanded to all class D companies, which are 65 percent of the investor-owned water

utilities in the state. The commission staffer said they have been well satisfied with the simplified procedure, although efforts are still being made to reduce delays in processing such cases.

Illinois has been considering extension of the simplified procedure to companies with revenues up to $100,000. With real growth plus inflation, "small" companies have crept over the $50,000 limit in annual revenues. Additional staffing requirements and/or reassignments, the probability that formal intervention becomes more likely for larger companies, and the potentially larger size of public meetings were cited as important factors being considered prior to increasing the size of utilities allowed to use the procedure.

Kentucky, Maine, Missouri, Montana, Nevada, Oregon, Texas, and Virginia are other states besides Illinois where rate changes for small water utilities may go into effect if there is no substantial conflict. Texas and Virginia specify how many utility customers must complain if rates are not to go into effect.

In Texas, if 10 percent of the customers complain, the rate increase is reviewed in a hearing. In Virginia, 20 or more customers must complain before the rate application will go to a hearing. Virginia has no formal provision for public meetings as an intermediate step before a formal commission hearing. The Virginia staffer said their system works well in their state and could be revised to apply to companies with revenues greater than $50,000. Oregon schedules a hearing if there is "substantive or substantial" consumer complaint.

Nevada supplements the usual customer notification requirements with information from the commission's division of consumer affairs. The

division prepares a report on service complaints it has received for the utility requesting a rate change.

In a third group of states, rate changes do not go into effect after a set time period or in the absence of customer complaints, but a formal hearing may be avoided if staff and customers are satisfied with the company's performance and find the rate change acceptable. Arizona, California, North Carolina, Oklahoma, and Pennsylvania are states where a hearing may be waived after staff investigation.

North Carolina's simplified procedure was instituted by statute. The law states that "where there is no significant public protest received within 30 days of the publication of a proposed rate change for a water or sewer utility, the commission may decide the proceeding based on the record without a trial or hearing, provided said utility and all other parties of record have waived their right to any such hearing." A copy of the North Carolina statute is in appendix D.

Three commissions -- Florida, New York, and West Virginia -- have instituted comprehensive, systematic programs of staff assistance, the fourth program category to be considered here.

Florida's "staff assisted rate case," begun in 1976, allows water and sewer utilities with less than $50,000 in annual revenues, or $100,000 or less for combined water and sewer utilities, to receive aid from the commission. The utility petitions for help by submitting a "short form" rate case application. A committee composed of one member each from the commission's water and sewer, auditing and financial, and legal divisions, evaluates the application and decides whether the utility is eligible. A final determination of eligibility must await an examination of the

utility's books and records. To decide on eligibility, the committee must also consider whether the utility has filed annual reports, paid applicable taxes, submitted other relevant information, and "whether the petitioner has at least one year's actual experience in utility operations."

The New York procedure is less structured than Florida's. For a utility requesting less than the greater of $100,000 in increased gross annual revenues or a 2.5 percent revenue increase, there is no public hearing unless deemed in the public interest by the commission. The process, which was put into effect through legislation, does not rely on any special forms or rigidly specified process, but on extensive communication between staff and utility. The staff expert from New York said he prefers this method to a "short form" because it allows more flexibility.

Early involvement of staff is a key component in processing applications in West Virginia. The program there applies to all water utilities with under $200,000 in annual revenues. The utilities eligible for the procedure include almost all the 159 municipal and 144 public service districts under commission jurisdiction. The West Virginia staffer said they were highly satisfied with the procedure. A checklist of items to discuss with the utility might help to complete the rate setting process efficiently, he said.

Commissions using simplified procedures have found them highly useful overall. Almost all the staff experts said the procedures had saved staff time, formal hearing time, and costs to the commission. Utility costs were reportedly reduced in all states. The staff member from New Hampshire said commission costs had not been saved because the staff did the work for the utilities. But the staffer from New York said their early intervention

system saved staff time overall. Poor filings in the past had been even more costly, he said.

Twelve commissions had suggestions on how they could improve their simplified procedures. Two staffers suggested raising the revenue limits for companies allowed to use their procedures. Two other staffers suggested minimum filing requirements and other paperwork could be eased. One felt that the number of complaining customers needed to convene a public hearing should be increased. Interestingly, no commission staffer suggested that fewer utilities should be able to use their procedures or that the programs should be made in any way more restrictive. But, two state staffers did say they felt they had gone far enough. One said there were too few water utilities in his state to necessitate going further with simplified procedures, and the second felt that an expansion of his commission's program to include investor-owned utilities as well as municipals would be illegal.

Staffers at more than half the commissions not currently using simplified procedures thought they would be useful. Nine said they thought their commissions would begin using simplified procedures within two years of the NRRI survey. Two other staffers said that a simpler procedure would enable the commission to be more efficient and to take better charge of regulation of small water utilities. Another water staff expert said a simpler process for rate applications was desirable, but was unlikely to be implemented because it would require a change in state law. In one state it was felt they had gone far enough by using simplified forms and did not plan to pursue the effort to ease the regulatory process any further.

Finally, as with short forms, two staffers commented that there were simply not enough water utilities to make the development of simplified procedures a worthwhile effort.

CHAPTER 4

ALTERNATIVE SOLUTIONS TO THE PROBLEMS OF REGULATING SMALL WATER UTILITIES

The difficulties experienced by small water utilities do not begin at the door of the state public utilities commissions. The assistance provided by state commissions has typically centered on making it easier for small companies to pass through the ratemaking process, which helps them and their customers to some extent. But more basic solutions are also available and have been used by several state commissions. Some of these solutions require more resources than many commissions may be willing or able to devote to revising their approach to water utility regulation. Others may require a substantial effort to implement, but be cheaper and more satisfactory over time. A comprehensive look at these solutions may help an individual commission to evaluate its existing efforts to assist small water utilities and consider possible modifications.

In chapter 1, a figure (figure 1-1, p. 4) shows how a typical small water utility might become a problem for a public utilities commission. The stages of that diagram can be looked at as intervention points at which a commission can act to prevent or ameliorate difficulties. The problems experienced in the rate case application and rate case process often are the results of problems that occurred at an earlier stage. Commissions can and have focused on other stages. Figure 4-1, based on figure 1-1, shows the major types of action that a commission might take to deal with the financial, technical, and managerial problems of small water utilities. The actual and potential uses of each are discussed below.

In figure 4-1, the first stage by which regulation of water utilities becomes a problem for the commissions is settlement of an area that is not served by an existing water utility, with a resulting need for water. Land use controls, including the denial of a certificate of convenience and necessity, and the consolidation of existing water utility service areas can be used at this initial stage by a commission to prevent the demand for a new, small utility. Stage 2 is the establishment of water utilites that are under-capitalized and too small to support a sufficient management structure. Solutions or interventions at this stage by a commission can and have focused on infusions of capital, improving managerial skills, or pooling and sharing management resources. To the extent that this is achieved, the problems of the third stage -- low revenues, poor records, poor service, and declining plant -- would be significantly alleviated.

The fourth stage is the rate case application. Here a battery of alternatives, some of them used by only a few commissions, may be suggested. One action that can be taken is deregulation -- simply taking the commissions out of the business of regulating small water utilities. A number of commissions have exempted water utilities from regulation in whole or in part. A careful look needs be taken here to determine the justification for doing so and the conditions that must be met for deregulation to be an acceptable solution. The fifth stage shown in the diagram is the actual processing of rate applications by the commissions. Many commissions have experienced success using the stipulated proceedings, simplified forms, and simplified procedures examined in chapter 3. Stages 6 and 7 are the realization that a problem exists and the action that a commission takes to address the problem.

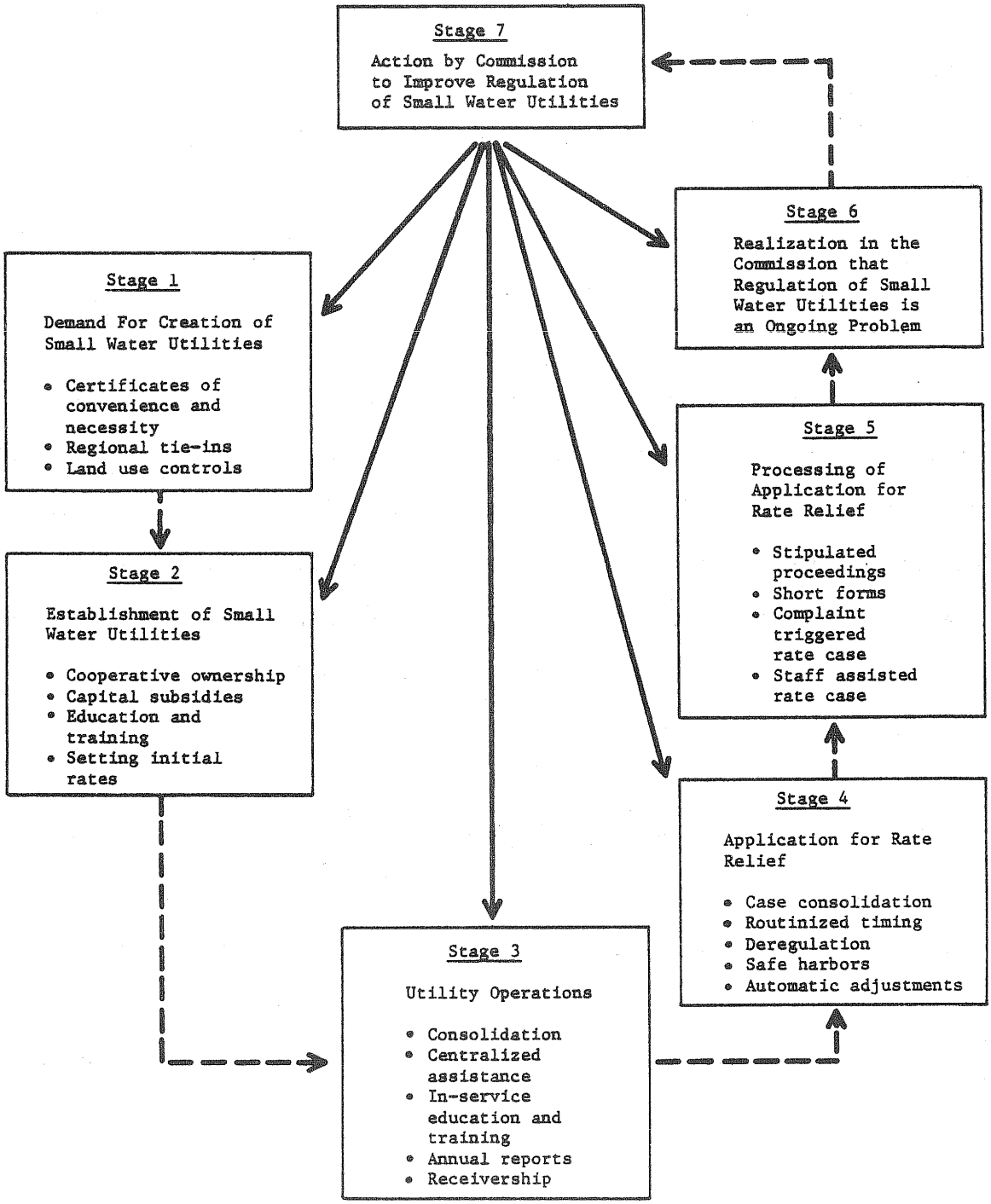

Fig. 4-1 How Commissions Can Deal With Problems of Regulating Small Water Utilities

The description and examination of these actions and intervention points are not taken from an advocacy perspective. Rather the intent is to analyze the broad spectrum of creative actions state commissions have undertaken in order to provide a menu from which an individual commission may choose those actions most appropriate to their needs.

The various ways that commissions can intervene to control initial demand for small water utilities (stage 1), enhance their ability to serve from the outset (stage 2), and improve their operations (stage 3) is discussed stage by stage. Actions that may be taken at stage 4 -- the rate case application -- are discussed in three separate sections. The first analyzes the potential for routinizing the timing of rate case applications for small water utilities; the second, intervention to deregulate them; and the third, reduction of a commission's responsibilities for small water utilities through establishment of "safe harbors" and automatic adjustments.

Stage 1: Intervention to Reduce the Demand for the Creation of Small Water Utilities

Where small water utilities do not exist, they cannot cause the commissions problems. Several tools are available to prevent the establishment of small investor-owned water utilities. Commission certification, promotion of regional water utilities, and state and local land use regulation are the major techniques for preventing the creation of small water utilities.

The commissions have at their direct command a very powerful tool for land use control -- certification of public utilities. The most direct application of commission authority to prevent the start-up of a small

water utility would be to withhold approval of a certificate of convenience and necessity. The California commission in 1979 began a policy of denying new certificates for privately owned water companies considered unlikely to be economically viable.[1] The commission said its policy was to:

- Deny certificates for proposed water systems likely to be nonviable, or marginally viable, or provide inadequate service, whether or not an existing entity can provide service in the area to be served
- Deny certificates for a system that might be viable if another entity can serve the proposed area
- Cancel unexercised certificates for operations unlikely to be viable systems if developed
- Grant certificates for proposed water systems only when both need and viability for the utility are demonstrated

Under the California policy, need is shown by the applicant demonstrating that present and/or future customer demand exists, and that no other entity is willing and able to serve the development. There are three tests for viability. First, proposed revenues must be generated at a rate level not greatly exceeding that of water utilities in a comparable service area. Second, the utility must be self-sufficient. Its expenses must be supported without being allocated between the proposed utility and other businesses. Third, the applicant must have a reasonable opportunity to derive a fair return on its investment, compared to returns the commission is currently granting to other water utilities. A staffer at the commission said the policy may have worked to the extent that it has probably discouraged some applicants. But he noted that the last few years have been poor ones for developers and suggested the policy may be more severely tested with the end of the current recession.

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[1]NARUC Bulletin, Sept. 10, 1979.

Certificates of convenience and necessity are the "stick" that commissions can use to keep inefficient utilities from being established. The "carrot" is the possibility of being allowed to extend existing service to a larger geographical area. Making an existing water utility service area larger by incorporating "new" areas into its authorized service territory will increase its ability to take advantage of some economies of scale, which should provide benefits to its existing and new customers. Illinois and Florida are examples of states with an active policy of promoting regional water systems. Developers are urged to join municipal water systems whenever possible, or to secure an extension of service from existing companies, or to have "satellite operations" established by existing companies.

A regional system may have a number of advantages compared to several small water systems serving the same area. Regional service enhances the prospects for quality control, reduces the unit cost of quality maintenance and improvement, and induces economies of scale with larger treatment plants. Other important considerations are potentially enhanced access to capital markets and increased ability to acquire additional sources of supply.

Looking at other potential techniques for influencing land use, few of the controls that exist are under even the indirect influence of the state commissions. Wide variation exists in land use regulation in the United States. Federal laws influence land use in federal lands, coastal zones, flood plains, and areas protected under water and air pollution laws. Traditionally, zoning authority has been delegated by the states to local government units. In the last two decades states have moved towards

taking a larger role in zoning. More than 40 states have adopted some form of state land use policy in one or more of the areas of (1) growth management, (2) siting of power plants, large scale development, or surface mines, or (3) natural areas.[2] Although there are few states where land use controls for any purpose apply statewide, in locations where such restrictions apply, the commissions could have other authorities than themselves as allies in managing creation of new water utilities. Municipal zoning is also a help, but zoning ordinarily covers only a small portion of a state's geographical area.

If a commission decided to use these land use agencies, then it might be necessary to change some existing staff assignments. Commission staff should be knowledgeable about restrictions on land use in their states and contact other local and state agencies to acquire maps, plans, and other documentation. They may also want to consider more formal efforts to pool resources with other agencies to prevent demand where adequate service cannot be provided at a reasonably low price.

Preventing the start-up of small water utilities faces a number of constraints. It may be politically difficult to put a check on land development where the economical delivery of water appears to be the only outstanding problem. The staff resources to put such a policy into effect and make it work may be more than a commission is able to commit. Tie-ins to municipal water systems, other existing investor-owned water utilities,

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[2]Alvin H. Mushkatel and Dennis R. Judd, "The States' Role in Land Use Policy," Policy Studies Review, Vol. 1, No. 2 (1981-2) p. 265.

or other steps to make a water utility larger when it begins operation are frequently not economically justified. Rural and semi-rural areas are characterized by low customer density. Making the service area larger can increase water delivery costs. With small concentrations of people over a large area, small water utilities for new small settlements may appear to be the most economically efficient short-term solution to the land developer and future property owners. Yet use of this short-term "solution" may ensure that the newly formed small water utility will eventually become a problem for the commission due to the utility's likely nonviable financial base.

Finally, and perhaps most important, limiting new demand in areas where a small water company is likely to be needed does not take care of problems posed by the utilities that already exist. In some states commissions have not even been called on to certify or franchise some water companies. A staffer in one state said that the land promotion boom of the early 1970s in his state produced numerous small water utilities that were under the public service commission's jurisdiction but of which the commission has only recently become aware.

To be able to keep nonviable water utilities from starting up, a commission's first step must be to make sure it is securing timely information on new developments within the state. This may require opening up new and non-traditional avenues of communication with other state, regional, or local government agencies. A commission may want to consider promoting or supporting legislation that coordinates and strengthens land use controls. Looking at its own operations, a commission may wish to pursue a strategy like California's, although in some cases this might

require a statutory change as well as development of a policy. Finally, the commission may want to review its allocation of staff time between old and new water supply operations. Where there is a choice of reviewing a request for a certificate versus a request for a rate increase by an existing company, it may pay off in the long run to simplify rate case procedures, for example, in order to devote extra resources to the former.

Stage 2: Intervention to Enhance Initial Viability

The suggestions reviewed thus far only apply where it is possible to prevent the creation of a new water utility serving few customers. Where provision of water through a small central source is necessary because there are few people to be served and they live too far from other communities to hook into existing systems, steps may be taken to assure that the company that starts off is economically viable. One way to do this is to promote a type of ownership that minimizes the need for further state oversight. Another is to improve the utility's initial financial base through loans or grants. Education of utility owners and operators is a third way.

If the customers themselves own and manage a small water utility, the potential for monopolistic abuse should be eliminated. The beneficiaries of water service become the decision-makers, setting rates among themselves. If there are problems, they are likely to affect those in charge as well as everybody else. If a housing development has within it people with adequate mechanical skill, they can operate the water system themselves. Certification of operators may end the state's interest in assuring a safely maintained water supply.

Promotion of cooperative ownership can be undertaken by the commission in conjunction with review of an application for certification. In Florida, the commission encourages formation of co-operative associations, homeowners' associations, and partnerships wherever feasible.

The Illinois commission informally seeks to keep ownership of a new water utility in the hands of professionals, rather than developers. A developer approaching the commission for certification is encouraged to explore three alternatives -- municipal ownership, ownership by a political sub-division, or cooperative ownership. Cooperative ownership is often mandatory under provisions of the lot sales contracts and recorded restrictive covenants. Restrictive covenants usually state that when a certain number of homes, usually six or eight, is sold, ownership of the water utility will be conveyed to the homeowners. The 200 or so "mutual companies" in Illinois are exempt from commission regulation by state statute, saving both the commission and the utilities the costs of regulation. The "mutual companies" are regulated by the Illinois Environmental Protection Agency, however.

Whatever the ownership type, the small and very small water utilities tend to have financial problems due to their lack of initial capital. Subsidization of a water system's construction, maintenance, or expansion through capital loans or grants can help to assure the financial viability and quality of service necessary for the system. Two states have attempted capital subsidization of water utilities. Recent legislation to establish such a "water bank" in West Virginia failed to pass. The state of Pennsylvania, however, has established a substantial fund to aid water supply systems. Voters in Pennsylvania in 1981 approved $300 million

in general obligation bonds for loans for water improvements, including $220 million for "community water systems." The other $80 million is for flood control and port facilities. The bonds are exempt from state and local taxes. The legislation created a "Water Facilities Loan Board" within the Department of Environmental Resources to manage the loan program. The 11-member Board is composed of seven state agency heads, including the chairman of the public utility commission, two state senators, and two state representatives. Members may appoint alternates to serve in their stead. The Secretary of Environmental Resources serves as chairman and that department provides the staff work for loans for community water suppplies and flood control. The Department of Transportation is responsible for staff support for loans to port facilities. The Board will cease to exist a year after all loan funds are disbursed, and its powers and duties are then to be transferred to the Environmental Resources Department for water supply and flood control projects and to the Transportation Department for port projects. A 15-member Water Facility Advisory Committee is appointed to assist the Board.

The community water systems eligible for loans under the Pennsylvania law include facilities for collection, treatment, or distribution of water from dams, reservoirs, and other sources where there are at least 15 service connections. Loans may be made for repair, construction, reconstruction, rehabilitation, extension, and improvement. The Commonwealth loan program can pay for 100 percent of costs for water projects requiring "$500,000 or less;" up to $500,000 for projects that cost between "$500,000 and $1,000,000;" and 50 percent, but no more than $5

million, for projects that cost over $1 million. An application must include a description, plan, rationale, and cost estimate. Organizational, financial, and engineering aspects of the project must be documented. Information to assess the effectiveness and importance of the project must be submitted, including data on the problem the project is expected to solve. The applicant must submit a statement of the current and projected financial status of the applicant, prepared by a public accountant. An organizational and financial plan is required, along with a certification that the applicant can reasonably be expected to repay the loan.

In reviewing applicants for eligibility to receive a loan, the Board considers whether the project will improve public health, safety and well-being; cost effectiveness; consistency with state and regional water and economic development plans; the applicant's credit worthiness; availability of other funding sources; and whether the proposed project will lead to an effective or complete solution to the problems it is intended to solve. Priority for loans to community water systems is based on public health benefits, benefits to public safety, improvement of compliance with federal and state statutes, improvement in adequacy or efficiency of the system, cost effectiveness, and the contribution to and impact of the project on economic, social, and environmental values.

The Pennsylvania water bond law provides for expedited approval of rate relief for regulated utilities to ensure repayment of principal and interest on the loans. The commission approves "necessary and appropriate" security issues, affiliated interest agreements, and rate increase requests under the bond program. The law requires the Commission to establish procedures to expedite repayment, but states that this obligation must not be construed as requiring approval of rate increases greater than that necessary to accomplish repayment of loans.

Water financing such as Pennsylvania's is an innovative solution to the problems of small water utilities in that it goes to the crux of a fundamental difficulty. With adequate capital from the beginning of its service life, a water utility should be better able to provide good service over a reasonable time period. A program of the magnitude of Pennsylvania's would appear to reflect a widespread concern and consensus about the need for ensuring the adequacy of existing water supply facilities.

From an economist's point of view, providing bonds for water supply improvement is not necessarily an efficient solution. By taking water projects out of the normal money markets, the state is making money available for them at an artificially low price. However, it seems that a crucial part of such a program is the assumption that subsidies are justified if benefits in public health and community development are equal to or greater than the costs incurred. From a public health and community development perspective, "buying into" an existing and proven water delivery system is a less expensive way to achieve public health and development goals than other alternatives and, therefore, well worth the loan subsidy. From a commission's perspective it may be useful in providing access to capital that would otherwise be unavailable to the small, low-asset, water utilities at reasonable rates.

Pennsylvania's program involves a large sum of money, a new government entity, and considerable inter-agency cooperation. It may be possible for a commission to institute something smaller, but targeted particularly at the smallest utilities. A program assuring traditional lenders of recovery of capital expenditures would require no substantial outlay of state funds. Where the commission was able to find that a water utility was needed, that it had a plan for providing adequate service, and that the utility met all

tests for certification, it could state its intention to permit rates that fully reflected the debt service required for the capital costs of the water utility as seen by the commission. Setting rates that allow recovery of the costs of capital, assuming regulatory oversight, is no more or less than correct ratemaking procedure. In the peculiar situation of small water utilities, lenders may not be certain of the borrower's worthiness for credit because they do not know whether adequate revenues will be generated. Statements to the lenders by the commissions need not change the commissions' responsibilities, but merely inform interested parties of the role of regulation.[3]

A third area where commissions can help small water utilities, besides promoting responsive ownership structure or supplying financial support, is education and training. At a minimum, a commission can supply written guidance to a developer to help him plan service. New Mexico, for example, has developed guidelines that tell developers what the requirements are for running a water utility. Establishment of minimum qualifications for operation of a water utility and testing would-be operators on their ability to handle a water supply system also bring to the new utility knowledge and professionalism that are sometimes lacking. Several commissions have developed seminars to help teach the water business to owners and operators. Their training devices are discussed in a later section of this report.

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[3]Preapproval of major utility expenditures has been suggested as a means of cost control for electric utilities. Such preapproval could involve a public service commission in providing a prospective guarantee that the utility's expenditures would be included in the rate base without any retrospective consideration of whether the expenditures were reasonable. See the NRRI report Commission Preapproval of Utility Investments (1981) by Russell J. Profozich, Robert E. Burns and Patrick J. Hess for a review of the issues involved in preapproval of major utility investment decisions.

Finally, in looking at what can be done to get water utilities properly started, one straightforward technique should be mentioned -- simply setting rates correctly from the beginning. Often the rates for new, small, investor-owned water utilities are artificially low when service is begun. This may be to make purchase of property more attractive to a prospective buyer. Just as likely is that the developer does not have a good idea himself of how much water service costs. It could be necessary for a commission to approve rates higher than those a utility requests if it suspects that artifically low rates are requested for promotional purposes and that inadequate attention has been paid to determining the future cost of maintenance and repair activities. In the long run, consumers, as well as the company, are best served by rates that reflect true total costs, assuming appropriate financial controls over the additional utility revenues are instituted.

Stage 3: Intervention to Improve the Operation of Small Water Utilities

For small water companies already in operation, a state commission can still reach out beyond the rate case process with devices to improve the utility's capacity to serve the public. Regionalization, training for owners and operators, and annual reporting requirements can mitigate some of the problems associated with the utilities' small size.

Where promotion of sufficiently large water companies or interconnection with systems was not possible at the outset, it still can be encouraged for existing ones. Economically advantageous hook-ups might not have been achieved when the companies began service, or population movement

may have occurred that now makes formerly unsatisfactory interconnections cost-effective. A commission should be alert to the potential for regionalization of existing systems.

Where physical interconnection remains inappropriate, it still may be possible to pool some resources. Economies of scale can be gained through regional management firms, central ownership of geographically dispersed companies, or centralized assistance through either a government or private organization. A central management services firm can provide functions such as billing, accounting, metering, and purchasing to physically separate water systems. In West Virginia, for example, public service districts occasionally contract with a company for management functions. Utilities pay a service fee, but save the costs of hiring someone themselves. The technique should save money and may improve service quality.

Not only regional management, but regional ownership has been encouraged in West Virginia. The West Virginia Water Company recently took over a financially troubled rural water company with the provision that they would be allowed to charge the same rates as in the main district of the water company. "Single tariff pricing" is another innovation in West Virginia policy which allows capital costs to be spread over the whole corporation and service area. The immediate beneficiaries are sparsely populated areas. Over the long run the major metropolitan area served by the company will benefit by having a larger number of people to pay for expensive capital improvements. The traditional regulatory task of determining a fair "single tariff" would be an important part of such a regional solution, with due care taken to avoid overcharging some areas at the expense of others.

The Florida commission, too, has worked with a large company that operates between 30 and 40 small systems in a six-county area to combine the systems for ratemaking. As in the West Virginia case, each small system has its own rates. The commission's goal was to develop uniform rates, reducing the record keeping required and the expense of rate cases for individual water systems.

Other forms of centralized assistance have also been provided in Connecticut and Maine. In Connecticut, people with accounting experience specializing in the needs of small water utilities have been identified and their use encouraged. In Maine, a counseling service for small water utilities was funded briefly through the federal government. The U.S. Environmental Protection Agency paid for an engineer and an accountant, who, among other duties, helped small water utilities determine whether they needed a change in rates, and then helped them put together their rate application. Maine's "Water Utility Assistance Program" was in effect for several years, and was successful, but was discontinued due to budgetary cutbacks.

A small firm providing financial and technical support to small water companies might effect relatively large savings. This approach might be particularly appropriate for states where commission staff is, in essence, providing a free consulting service to small water utilities. When a commission's staff prepares a utility's application and gives technical advice on the facts and figures therein, it amounts to a subsidy for one group of businesses. The costs of the subsidy are borne by either all taxpayers or ratepayers in the state. Providing such assistance outside the commission would mean a more appropriate assignment of its costs, and

it would remove the commission from an anomalous relationship. Ordinarily, commissions are not considered providers of a service to commercial ventures. To have staff shepherding a company through a rate case is a departure from the usual commission role. This is not to say that companies in states where staff gives extra assistance end up with higher profits or in any way are allowed to take advantage of their customers. Indeed, several commissions reported that in their experience the opposite is more likely to be true.

In states where commission staff is more involved with the operations of small utilities, their long run operations may well be more efficient than where they are ignored. Substitutes can justifiably be sought for a program that requires substantial commission effort in the penumbrum of its statutory authority. Switching from commission staff-provided assistance to assistance provided by specialized firms will likely increase the adversarial nature of the rate case process over what it presently is and increase commission rate case processing costs accordingly.

Regional or central services to small water utilities can improve its operations. An alternative is to develop internal capabilities through education and training.

Several states have seminars or special counseling services to help small water utilities. West Virginia, New York, Pennsylvania, and New Jersey have used training seminars for owners and operators of water utilities. These educational efforts improve the level of understanding of the role of regulation in a more systematic way than learning through the experience of a rate case. They encourage correct balancing of revenues and costs, including depreciation. Problems from lack of adequate capital

replacement may be avoided, and the quality of service and record keeping may be improved. The main disadvantages of seminars are that they require a substantial outlay of money and effort to prepare and conduct, and that a commission may need to repeat the seminars. It has even been reported that the seminars have produced a temporary increase in the number of rate case applications before a commission.

New York works closely with the National Association of Water Companies (NAWC) to promote knowledge of the regulatory process. A one-day seminar was recently organized by the state chapter of the NAWC using staff from the water division of the Department of Public Service, the New York commission's staff arm. The presentation by department staff started with an overview of the commission and the department and filing procedures for rate changes. The general discussion was followed by a detailed review of requirements for books and records, revenues, operation and maintenance expenses, depreciation, the rate base, capital structure, rate of return, and other issues. The staff took seminar participants through a typical rate filing by a small company to show exactly what is required.

In West Virginia, two-day seminars have been conducted since 1981 for public service district commissioners and managers. Training is conducted by public service commission staff. The costs of workbooks and hand-outs are borne by the State Department of Education. A commission staffer said the second day, which covers sewers, was going to be eliminated in future seminars, but that other educational sessions on water utility topics should be conducted. He said that, for example, a full day on accounting controls and a full day on dealing with ratemaking and customer problems would be justified.

In New Jersey, a yearly seminar is presented by commission staff, staff of the public advocate's office, and representatives from the water industry. The seminar lasts a day and has covered one topic. These have included guidelines for filing a rate case, financing, and service problems.

To improve the operations of small water utilities, the commissions are using a standard regulatory tool, but in a non-traditional manner. The annual report on utility company financial status is more than a source of basic information about the company. Filling it out properly is an education in regulation for the company and gives the commission an ongoing, routine means of oversight. The annual report serves as valuable documentation for a water case. Where it has been properly kept up, it can shorten the rate case process and save staff time. The NARUC has adopted a Model Simplified Annual Report for Small Water Utilities, developed by the Committee on Water. The model annual report is less detailed than those required for larger utilities, but still gives the utility regular practice in self-assessment and gives the commission the opportunity for routine monitoring. A sound annual reporting system forms the basis for many of the simplifications in rate application requirements discussed in chapter 3.

While the completion of annual reports for large utilities is not a problem because they have sufficient management and financial reporting structures, the lack of an adequate annual report is a good indicator of inadequate management and financial reporting. These deficiencies are outcomes of the nonviable basis many small water utilities start from and are lead indicators of the likelihood that the utility will have a problem complying with normal rate case application forms and procedures.

When all else fails, what might be needed by a commission is adequate powers of receivership. Connecticut recently strengthened its ability to deal with a failing water company and may determine, after notice and hearing, that a water company is unable or unwilling to provide adequate service to its customers. Upon such a determination, the department may petition the state superior court in the area where the company conducts its business for an order attaching the assets of the company. The company is placed under the control of a court-appointed receiver to "operate the company to preserve its assets and to serve the best interests of its consumers" (Connecticut Public Act No. 82-252).

Stage 4: Intervention in the Rate Case Process

The commissions can intervene to change the circumstances under which water utilities can apply for rate changes by routinizing the timing of rate cases, deregulating, or providing "safe harbors" or automatic adjustments.

Routinize the Timing of Rate Case Applications

Unlike the large electric, gas, and telephone utilities, which have been know to "pancake" their rate case applications or to file on at least an annual basis, many commission staff feel that small water utilities err in the opposite direction and file too infrequently and with irregular timing. The commission staffers interviewed by the NRRI said the companies often put off filing justifiable rate increase requests. Consequently, when they do apply for an increase, it is very large. The ratepayers, having grown accustomed to low and stable rates over the period

of years for which no rate relief was requested, feel the abrupt change unjustified and act accordingly. Commission staff urge frequent filings only if a corresponding increase in the cost of service has occurred. They feel that due to inadequate financial records and financial management skills a small water utility would frequently not realize it was in trouble until it was too late.

A natural belief, reinforced by traditional regulatory roles, probably exists that regards "no news" as "good news." Commissions are not established to encourage requests for rate relief by utilities and often feel beleaguered by the increase in rate cases over the last several years.[4] Some states have acted directly and indirectly to encourage more frequent and regularly timed rate relief requests, as supported by appropriate data documenting increased costs. Florida has acted most directly and has an "outreach" policy encouraging utilities to examine their present costs of providing service with the aid of commission staff. Most other states that provide indirect encouragement do so informally. These staff do not solicit rate case applications, but do provide extensive and free technical assistance in analyzing the adequacy of existing rate structures and impact of various cost factors. These states often supplement this assistance by developing simplified procedures, short forms, and encouraging the use of stipulated proceedings.

In the case of small water utilities, it may well serve the customers better to encourage their water supply companies to adjust rates as

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[4]An NRRI survey reported a 31 percent increase in rate case filings in 1980 over that for 1979. See Anthony Campagna, Mary Anne Decker, and Nat Simons, Jr., Commission Personnel Policy Assessment (Columbus: NRRI, 1981), p. 28.

frequently as needed to meet changing costs. They may wish to make sure that all costs are included at an adequate level. If the commission is to encourage the achievement of adequate revenues, it must also carefully monitor the companies between rate cases to make sure that funds are spent appropriately. They may wish to require escrow accounts or other means of assuring that funds meant to be used to maintain water service are reserved for that purpose.[5]

Encouragement by commissions for utilities to file rate case applications could, if poorly implemented, compromise the traditional adversarial role taken by commission staff in rate case proceedings. Further, the provision of "free" technical assistance by commission staff may retard the development of these skills by utility management or the purchase of these skills from the private sector. Connecticut encourages small water utilities to use inexpensive accounting witnesses with water utility regulation experience. The witnesses do not have to be certified public accountants, but do have to have experience with Connecticut's accounting system. If the technique is implemented correctly, the experience of these accounting witnesses can lower rate case preparation costs and, presumably, a responsible witness will be able to alert the utility management when its income and expenses are out of alignment.

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[5]The issue of escrowing funds for specific purposes has been considered on a much larger scale in the NRRI report Funding Nuclear Power Plant Decommissioning (1982) by Robert Burns, Stephen Henderson, William Pollard, Timothy Pryor, and Yea-Mow Chen. Several methods, and their advantages and disadvantages, are considered in this review of the financing of the removal of contaminant radioactive material at the time a nuclear plant is taken out of service. The funding arrangements discussed include prepayment, internal sinking funds, external sinking funds, and unfunded reserves. Varying degrees of state commission involvement are also presented and analyzed.

Adequate public notice, a standard regulatory practice, may provide a counterweight to any real or perceived weakening of the traditional adversarial role caused by these reforms.

One means of simplifying procedures that apparently has been used in Ohio for small municipal gas utilities is rate case consolidation. Consolidating water utility rate cases would allow a commission simultaneously to analyze, review, and decide several cases. Commission staff would be able to use the time devoted to similar rate cases more efficiently, and commissioners could decide similar cases in the same review. Commission workload would thus be reduced.

Case consolidation could be implemented through a commission rule. The rule could state that case consolidation is permitted when common questions of law and common questions of fact are to be considered and could be limited to small utilities. Consolidation could be allowed for cases filed during specified time periods. Application of the rule on consolidation would most likely occur for companies similar in size and geographically proximate. Legislation could be sought allowing a time schedule to be established that indicated when specified groups of small water utilities could petition the commission for a rate change.

Intervention to Deregulate Small Water Utilities

In some states water utilities are not regulated by public utilities commissions. For others, only those that meet certain conditions are regulated, often a condition of minimum size. Most commissions, however, regulate most non-municipal water utilities. Examined below are some actual actions already taken by some states and proposed actions that would

deregulate all or some of the water utilities presently under commission jurisdiction. The rationales for regulating and deregulating water utilities are also examined.

The major reason to regulate water companies is, of course, that, large or small, they are public utilities. Water supply is an essential service. It is economically efficient to have one supplier, and consumers are ordinarily unable to switch to another source to buy their water at a comparable price. Thus, as with other natural monopolies, there is potential for scale economies and excessive profits. Left unregulated, it is argued, owners of water utilities could well charge higher rates than those supported by actual costs or could reduce the quality of service. Admittedly, service can be poor even under regulation, but could be even worse without it. Under these circumstances, it can be argued that the regulation of a water utility having monopoly status is a legitimate responsibility of a state and one needed in order to protect the rights of ratepayers and the public interest in general.

The case for deregulation is based on the principle that adequate safeguards exist to protect the ratepayers and the general public without commission regulation, and that small water utilities are too costly to regulate. The cost argument has been used legitimately in areas of regulation other than water. If the costs of regulation exceed the benefits, it is argued that regulation is not justified. An examination of the experience of two states where the commissions do not regulate water utilities at all illustrates what these arguments amount to in practice.

In the first state, Georgia, a commission staffer said there was little evidence that the unregulated water utilities overcharge, and, in

fact, more cases of undercharging. He said supervision by the State Department of Natural Resources provides enough assurance of adequate service. Bills to extend commission authority to regulate water utilities came before the Georgia legislature in 1978 and 1980. They were not spurred by abuses by small, investor-owned companies, according to the commission staffer, but by complaints from people on the outskirts of Atlanta that the city was overcharging them. He said the bulk of the testimony in the Georgia legislature supported the position that the investor-owned utilities were not overcharging their customers. The commission staffer said it appeared that the developers who owned the small utilities were, if anything, undercharging in order to promote land or housing sales and would find rate-of-return regulation a useful change. It was also pointed out to the legislators that there are between 700 and 800 investor-owned utilities in Georgia and if the commission were told to regulate them, it would need more staff. After the hearings proponents of the legislation gave up the effort to regulate, said the staffer.

In Minnesota, the second state examined, there are almost no private water companies. A representative of the St. Paul Water Department said municipal ownership and an abundant water supply made it unnecessary to have regulation at the state level. He said one community had approached the commission in recent years requesting its intervention, but that differences had been resolved without formal commission action.

The experiences of Georgia and Minnesota suggest several factors that, when present, can make the absence of regulation acceptable to all parties:

Perceived fair price: Although there may be unreported objections to the practices of water utilities, the lack of widespread public outcry suggests that the unregulated utilities in these two states are not exacting revenues in excess of what the ratepayers perceive as a fair price for the service they receive.

High costs of regulation: To regulate numerous water systems not already under the aegis of the commission may not justify the expense of additional staff.

Size: The size of the utility may be a criterion for deciding which companies should be regulated.

Public ownership: Where water utilities are subject to community ownership through elected officials, regulation may not be necessary. In Minnesota almost all water utilities are owned and administered by municipal authorities, and in Georgia they are privately owned but administered by county and municipal officials.

Availability of substitutes: A water-rich state may permit individual consumers to drill wells or otherwise use surface water to meet their own individual needs. This countervailing power would offset the ability of an unregulated utility to charge and receive excessive profits.

Safeguards through other institutions: In Georgia, the commission staffer noted that the state department responsible for protection of natural resources appears to provide sufficient regulation to assure that public health standards for water supply are maintained.

Adherence to the status quo: In both Georgia and Minnesota there appears to be no need to depart from existing law and policy supporting

deregulation and to take on the political battle of placing previously unregulated water utilities under commission jurisdiction. The converse may also be true in states that regulate water utilities. That is, there may be no need to deregulate and no desire to take on the political battle of deregulating companies and leaving consumers unprotected.

Several of the factors affecting the need for regulation are examined below, beginning with utility size.

Size of Utilities

It is often thought that the larger the utility the more the effort that must be made to exchange information by ratepayers and to come to agreement with the utility management. As these "transactions costs" become higher and utility management is more distant from the customers, a utility can more easily make and enforce decisions that result in excessive monopoly profits. Where the number of people involved is small, direct negotiation with utility management is possible. As the number of customers increases, it is harder for them to get together and agree on a course of action. They may have to have an intermediary deal with the company's management. The commission is an intermediary for customers of utility companies, but it may be that for small water utilities the customers can represent themselves more efficiently than the commission can.

Other costs besides transactions costs may be considered in looking at the size and number of utilities to be regulated. Mitnick[6] argues that larger firms may be better able to handle regulatory directives than

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[6]Barry Mitnick, "Taking Advantage of Regulation and Deregulation," (Pittsburgh: Graduate School of Business, University of Pittsburgh, undated), p. 6.

smaller ones because (1) reporting requirements are proportionately more costly for small utilities, (2) there is greater potential that regulation will require substantial capital investments (like pollution control equipment), and (3) there is need for costly expertise to respond to commission orders.

Many exemptions from federal and state laws for small establishments of various kinds are based on the "burden" that regulation would impose and the high administrative costs that would be incurred. The federal minimum wage law does not apply to several kinds of small businesses, including small retail shops, restaurants, and gas stations. The Federal Fair Housing Act does not apply to owners with four or fewer units to rent. Auto makers producing less than 1,000 units are exempted from some federal air pollution emission requirements, although this cut-off is so low as to be almost inapplicable.

It should be noted that in the case of legislation to protect public health and safety, exemptions from laws have more often been aimed at simplifing regulation than eliminating it. The Occupational Safety and Health Administration (OSHA), for example, maintains that a business with even one employee must be in compliance with OSHA standards. Businesses with ten or fewer employees are, however, exempt from inspections. The general thrust of environmental legislation has been that if a company could not comply with regulatory requirements, it should go out of business.

For small water utilities, it may be argued that the administrative and legal expenses of meeting regulatory requirements are disproportionately high when compared to the revenues of small companies. Small companies consume commission time and money in greater amounts than are justified by the proportion of the public they serve.

Fourteen states have minimum limits for the number of customers a water or sewer utility must serve in order to be regulated (Table 4-1).

A staffer at the Virginia commission, which does not regulate companies serving fewer than 50 customers, said that most of the complaints the commission receives about water service from customers of the unregulated companies are related to water purity and are referred to the state health department. The staffer said his commission has not considered going to the legislature to ask for an increase in the customer limitation.

In Iowa, only those utilities with more than 2,000 customers are subject to commission authority under a 1981 law. A staffer at the Iowa commission said that in 1981 there were only 17 regulated, investor-owned water companies in the state, but their use of commission resources was comparatively high. He said the state departments of health and environmental quality were now responsible for the safe operation of the small water utilities. He was unaware of any complaints about the companies' rates since the new law went into effect. Three large water companies remain regulated for rates and service.

If a commission decides that it would be desirable to deregulate companies below a certain size, one problem it will face is determining the correct cut-off. If transactions costs and other types of costs necessary to provide ratepayers with a countervailing negotiation base go up as a utility gets larger, there is a justification for a cut-off. But this does not say what the cut-off should be. That other states have a cut-off and have found it worthwhile gives empirical weight to such a decision and suggests a number between 50 and 100 customers. The most important factor in making a decision on the minimum number of customers a utility must have

TABLE 4-1:

STATES HAVING MINIMUM SIZE CRITERIA
FOR THE REGULATION OF WATER UTILITIES (1982)

States with Minimum Criteria for Regulation	Minimum Number of Customers for Regulation
Alaska	10
Connecticut	50 (water) None (sewer)
Florida	101 persons; 30 connections
Iowa	2,000
Louisiana	10
Michigan	75
Missouri	2 (water) 25 (sewer)
Nevada	25 (and $5,000 revenue)
New Hampshire	10
North Carolina	10
Oregon	200 (or $20,000 revenue)
Virginia	50
Washington	60
West Virginia	None (water) 25 (sewer)

Source: National Association of Regulatory Utility Commissioners, 1981 Report on Utility and Carrier Regulation (Washington: NARUC, 1982), p. 704.

to be regulated is probably the configuration of utility sizes within a particular state. By displaying the sizes of the companies on a graph, a commission may be able to see the appropriate breakpoint. Where there is no clear separation of groups of utilities by size, or it occurs at a level that seems too high, deregulation by size may be seen as impractical and politically difficult to justify.

Both in making a decision on whether to deregulate by size and choosing a breakpoint, the commission should keep in mind that companies grow. The utility that is below the limit one year may be big enough to regulate the next--but it may not have maintained the sorts of records needed for regulatory oversight.

Based on theory, precedent, and experience, deregulation of small water utilities is an option that can be evaluated on the basis of the statutory constraints and the operating characteristics of jurisdictional utilities. State legislatures and state commissions, of course, can and will set their own policies based on the needs of their states.

Ownership Type

Distinguishing the regulated from the unregulated by ownership type rather than size avoids the problem of determining a minimum cut-off point for regulation and may go more directly to the heart of the problem of small, investor-owned utilities. The curable problem affecting them may not be so much that they are small but that their beneficiaries (i.e., ratepayers) have insufficient control over costs incurred and the price they pay. There may be no way to make them economically efficient. If they have to be small, they are simply not going to be able to achieve

scale economies thought to be typical of monopolies and correspondingly beneficial to ratepayers. Even if the customers of small utilities were also the owners of the utility, the problem would still exist: the trade-off between the inefficiencies due to small size and the presumed benefits of living in an area where economical water service is not available.

Municipal water utilities are the most commonly owned and managed by their publics. A variety of other methods of customer ownership and control are available for small utilities outside city boundaries. As an example, the "mutual companies" in Illinois have already been mentioned. Public service districts, such as those in West Virginia, may help to assure service that is responsive to consumers' needs with a minimum of commission intervention. The West Virginia districts are created by county commissions and run by commissioners who receive about $750 annually for their services. The Florida Commission also encourages public ownership. In Florida, the choice of whether to have commission or local regulation of investor-owned water utilities is a decision for the county commisioners. About half the counties have chosen regulation at the state level. The other half take the responsibility themselves.

All the ownership types discussed here do the same thing. In placing responsibility for water utility service at a lower level of cooperative endeavor than the state, the people paying for the service are the beneficiaries as well as being the owners or co-owners. In doing so they are buying into an operation that will be responsible to them as its "shareholders." At the same time, taxpayers outside their service areas do

not have to pay for something which gives them little benefit. However, some level of supervision by a public health agency may still be required.

An argument against deregulation at the state level where a local government takes over is that there is greater danger of self-interested behavior. Traditionally, county and other local government officials have been considered more open to political favoritism and other transgressions than state officials. A more serious problem may be that public managers of water utilities are no more experienced in the water utility business than their peers at investor-owned companies. State-sponsored educational programs of certification of operations may still be necessary to assure adequate performance even if commission regulation is dispensed with. West Virginia has an operator certification program that has attempted to deal with this problem.

Safeguards Through Other Institutions

Where investor-owned water utilities are excluded from public utility commission jurisdiction on the basis of size or type of ownership, they are ordinarily still responsible to state agencies that monitor and enforce standards of water purity. Thus, the state interest in protecting the health of its citizens will still be served. The state agency regulating water safety is likely to become involved in issues of concern to the commissions, such as capital needs and cost of service. To the extent that there is an overlap of water quality issues and financial issues, agencies other than the commissions may be providing just the sort of supervision that commissions do. Thus, deregulation of some companies may eliminate some duplication of effort at the state level and still provide technical assistance that the utilities need.

When rates become a problem with an unregulated company, customers still have some means of redress. The most direct is to invoke the threat of regulation. At the Virginia commission, a staffer said customers of the water utilities not under commission jurisdiction sometimes do contact commission staff to complain about rates. When that happens, the staffer may call the company and explain how regulated water utilities are expected to operate. This practice allows the commission to help out where and when assistance is needed. Implicit in the contact is the potential for a change in the law that would bring unregulated water utilities under commission authority.

If there were no public utility commission regulation of small water utilities, there would be nothing to deny customers access to the courts when they believed their rates were too high. The simplest way to assure court protection would be legislation giving customers the right to appeal utility actions. Without such enabling legislation, customers might still be able to sue under the doctrine of "unconscionability," a theory of state contract law holding that where one party is extremely weak and the other extremely strong, the latter cannot simply dictate the price of a commodity.[7] A contract found to do so "shocks the conscience of the court" and is void. The federal courts consider water a commodity as a matter of federal law. Whether water is defined as a commodity according to state law varies from state to state. If it is not viewed as a commodity in a particular state but as a service, the applicable law is common law and likely to be complex. If such a state were to deregulate

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[7]Uniform Commercial Code, Art. 2 Sec. 302. The Uniform Commercial Code is a uniform code of state contract law that has been adopted in some form in every state except Louisiana.

certain water utilities, it might be desirable to declare in the legislation deregulating them that water is a commodity.

The regulation of water utilities through independent state commissions has developed over many decades and provides a tested, thorough, even-handed means of assuring both that rates are set justly and that stockholders and ratepayers are protected. Leaving supervision of water utilities up to the courts or state agencies, it may be argued, would make control of rates intermittent and haphazard. Some abuses of monopoly power might not even reach the attention of these government bodies. Moreover, the courts and state environmental or natural resource agencies do not have the knowledge and experience of utility operations that the commissions presently command. In evaluating the advantages and disadvantages of deregulation, one key question for a commission to consider is the extent of the potential for monopoly abuse. The greater that potential, the less appropriate it is to shift responsibility on to other state agencies for which rate responsibility is at best tangential, or to the courts, which have comparatively little experience in this area.

Adherence to the Status Quo

Finally, in reviewing arguments for deregulation, it should be noted that regulation is the status quo for most states. It may be difficult to move to deregulation even if it appears to be successful elsewhere, and what seems like a good case can be made for doing so. Both companies and commissions may prefer a system that they understand to one they do not. In some states, regulation of small water utilities amounts to free technical assistance that the companies might not want to give up. Where there is movement, it may be towards more regulation rather than less.

New York and Texas are states that have been assigned the regulation of small water utilities in recent years.

The case of Iowa bears examination in looking at the potential for departure from the status quo. Movement towards deregulation was initiated by the commission through a memorandum saying small water companies should be deregulated because regulation was not cost-effective. A provision to deregulate them was included in a general utility reform bill in the state legislature. Small water utilities as a group had no lobbying capability and took no position on the bill. The provision to deregulate was in the first draft of the bill and stayed in it virtually unchanged as it went through a fairly busy legislative session and was signed into law. Commission support, backed up by a good analysis, thus appears to have played a role in the successful enactment of legislation to deregulate small water utilities in Iowa. Lack of controversy appears to have been at least as important. For other states considering deregulation, political feasibility must be an important part of the assessment leading to a decision on whether to go ahead.

Safe Harbor and Automatic Adjustments

A commission may wish to reduce its responsibilities for regulation of some or all water utilities, but not be convinced that it should eliminate water regulation entirely from its domain. An alternate approach is to lessen the amount of direct commission intervention. A "safe harbor" approach calls regulation into play only under certain conditions. As long as the utility's rates or other characteristic stays in a "safe harbor" it may operate free of commission intervention. The boundary of the "safe

harbor" might be set in terms of consumer complaints, rate-of-return, or rate increases. Automatic adjustment clauses are a second general means of reducing commission intervention. They allow a rate increase to cover specific increases in costs to go into effect without a formal hearing.

Some of the simplified procedures reviewed in chapter 3 contained "safe harbor" sorts of restraints. Customer objections to rate increases can trigger a formal commission hearing in several states. Two states (Texas and Virginia) set specific levels on the proportion of complaints that would bring a utility up against the boundary of its "safe harbor." New York sets a limit in annual revenues or revenue increases before a public hearing is required by law. Public hearings may still be held if consumer reaction is significant, or if service inadequacies exist. In all these cases, the commission maintains oversight of company activities and rate increases.

The Florida commission has developed a "safe harbor" approach that relies on the rate-of-return. Water and sewer companies may use the rate of return the commission authorizes annually, based on evidence presented in a public hearing. The commission's approach is to use a formula that specifies the rate of return that will be allowed. In particular, the allowed rate of return on equity increases in a linear fashion as the fraction of debt in the firm's capital structure increases, up to a limit of 60 percent debt. The purpose is to encourage firms to use debt to finance their investments, because of the tax advantage enjoyed by debt in comparison to equity financing. The 60 percent limit on debt represents a recognition by the commission that additional debt is beneficial to ratepayers only up to some limit.

The 1983 linear formula relating return on equity to the equity ratio was based upon two estimates. A financial model was employed to estimate an average return on equity of 16.35 percent associated with a 40 percent equity ratio. Using a risk-adjusted six-month average of Moody's Aaa utility bonds as a proxy for low-risk equity, a cost of equity of 14.38% was estimated for a 100 percent equity-financed firm. Thus, firms with 100 percent equity are allowed a 14.38 percent return on equity. The formula for the allowed return on equity for firms with equity between 40 and 100 percent is:

$$\text{Return on equity} = 13.07 + \frac{1.31}{\text{equity ratio}}$$

where

$$\text{Equity ratio} = \frac{\text{common equity}}{\text{common equity + preferred equity + debt}}$$

This allowed return on equity, which increases linearly as the equity ratio decreases, is intended to discourage very high levels of equity financing.

Florida has also instituted an indexing system. Under a law that took effect in 1981, the commission has allowed water and sewer companies to submit a filing that shows additional revenues based on operating and maintenance expenses multiplied by an indexing factor. The additional revenues shown to be needed are spread over the existing rate structure as equal percentage increases.

Florida's price index is established annually on or before March 31. The commission has discretion in selecting indexing factors. In 1981 and 1982 the commission allowed a factor of nine percent to be applied to operating and maintenance expenses, primarily wages. Operating costs

subject to automatic adjustments are excluded from the base used for indexing. The automatic adjustment items excluded are water purchases, sewage disposal costs, ad valorem taxes, and power purchases. Income taxes, depreciation expenses, interest expense, and rate case expenses may also be excluded. The utility must file an annual report and make an affadavit as to the accuracy of its figures. The company must state that the change in rates will not cause it to exceed its last authorized rate of return. If the commission determines within 24 months that the new rates cause the utility to exceed its authorized rate of return, it may order a refund of the difference to the ratepayers. The commission believes the indexing process will result in postponement of rate filings, saving time and money.

Automatic adjustment clauses have been used for water utilities. The NRRI survey of the commissions found that relatively few are using automatic adjustments. Where uncontrollable prices are changing rapidly, they can be a useful means of sparing a company and the public the costs of regulation.

Objections to use of automatic adjustment clauses have focused, first of all, on the sheer size of those adjustments for energy use by water utilities in recent years. Another complaint is that they remove incentives for utilities to control costs, improve their technology, or adapt to price increases by becoming more efficient. Automatic adjustments may give undue weight to one cost, such as fuel, while ignoring others, so that the relationship of rates to costs is in the end distorted.

Eleven commissions allow automatic adjustments for water utilities. Table 4-2 shows the number of commissions allowing automatic price increases for purchased water, chemicals, fuel, taxes, and other costs. Increases in the price of purchased water were most frequently allowed to be automatically passed through to customers, and the energy costs of pumping were the second most frequently allowed. Florida and Pennsylvania allow automatic adjustments to make up for tax increases. In the category of "other" automatic adjustments, North Carolina noted that it sometimes allows interim rate increases, and Florida allows increased costs of sewage disposal to be passed on by sewer companies.

TABLE 4-2

COMMISSION USE OF
AUTOMATIC ADJUSTMENT CLAUSES
FOR WATER UTILITIES IN 1982

Costs Subject to Automatic Adjustment	Number of Commissions
Purchased water	8
Chemicals	0
Fuel (pumping)	5
Taxes	2
Other	2

Source: 1982 NRRI Commission Water Survey.

Use of automatic adjustment clauses for water utilities began recently. Seven of the 11 commissions using them began doing so since 1979. Wisconsin began the practice in 1975 for purchasers of water from the city of Milwaukee. The practice was expanded thereafter. Only Connecticut and Florida said that their adjustment clauses were initiated by statute. Two adjustment clauses were started by commission rule; four, internally; and three states did not report the source of the use of automatic adjustments.

None of the states that use automatic adjustment clauses applies them strictly to small water utilities. In New Mexico, Delaware, and Virginia the adjustments apply only to large companies. A staffer in New Mexico said his commission is using an automatic adjustment for pumping for four large water utilities, but does not apply it to smaller ones. He said a coalition of smaller water companies had applied for an adjustment clause, but it had not been granted. He said that with automatic adjustments the commission might never see the small companies and not be able to adjust rates properly.

In commissions that were using automatic adjustment clauses, all but two staffers said the adjustments had saved money and time for the commission and the utilities. Staffers in two states said that incomplete filings were an irritation, however. One said companies had the feeling they could take advantage of the automatic adjustments and not submit enough information. The second said company records were the main problem with automatic adjustments. He said if they had good records there was "nothing to it."

Except for the West Virginia staff member, staffers did not think it would be very useful to expand use of automatic adjustment clauses. One staffer said the utilities would be glad to have automatic adjustments for every cost, but that the companies should do some cost control planning on their own. Wisconsin's staffer said he was not sure it would be appropriate to expand automatic adjustments beyond purchased water.

Among commissions that are not using automatic adjustment clauses, there appears to be doubt that their use would benefit customers. Nineteen staffers said it would not be beneficial to begin using automatic adjustment clauses in their states. Only five said it might be of some use. Of those commissions already using theirs, five staffers said it would not be a good idea to expand their use. Three thought there might be some benefits from increased reliance on automatic adjustment clauses. Only two people said their commissions were planning to begin use of automatic adjustments within the next two years. The staffer from Hawaii said that his commission was looking into automatic adjustments of certain costs for all utilities.

Objections to the idea of initiating automatic adjustments included increased need for monitoring, decreased incentives for the utilities to keep costs in check, and lack of need for automatic adjustment clauses because of the use of simplified procedures. The staffer in New York said his commission was skeptical of adjustment clauses and that they would need a considerable amount of monitoring. Automatic adjustments could easily get out of control, according to one staffer who said his commission was not interested in beginning their use. "The best laid plans to monitor can

slide," he said. Another staffer said that in his state he felt the results of automatic adjustments would be increased regulatory expenses. He said the companies were already "smart enough to have a rate case pending." He said that with automatic adjustments between rate cases, they would be increasing rates every year.

The spokesman from another state said his commission can already process pass through charges from a municipal system quickly using an administrative procedure and does not need to do more. Similarly, another staff member said simplified procedures for rate increases in his state already assured that legitimately higher costs would be covered speedily and with minimum commission involvement. Still another said automatic adjustments might be of some use, but noted the problem of reduced incentive for the utility to bargain with a supplier. The staffer from Texas said there were few small water utilities capable of applying the provisions of an automatic adjustment clause.

In the states where staff members thought automatic adjustments would be of some use, reduced rate proceedings and rapid price changes for purchased water and the ease of identifying rising power costs were factors said to favor their adoption.

CHAPTER 5

APPRAISAL AND SUMMARY

The 45 commissions with jurisdiction over water utilities have developed policies and procedures that allow effective regulation of jurisdictional water utilities. Recently, however, the level of concern at state commissions about the net benefits of existing methods for regulating small water utilities has risen sharply. While water utility operating revenues are less than one percent of the total operating revenues for all jurisdictional fixed utilities, water utility rate cases account for 43 percent of all rate cases before an average commission. Further, the small size of a typical regulated water utility often means the utility is marginally viable economically and lacks sufficient management capability. Weak management often results in incomplete rate case applications being filed.

A significant number of state commissions has acted to resolve the problem. Their solutions have relied on both traditional and non-traditional techniques. Traditional regulatory techniques have included simplified forms, stipulated proceedings, and simplified procedures. Non-traditional techniques include deregulation, regionalization, training, and capital subsidies. In all, some 22 techniques or solutions used by state commissions to improve their regulation of small water utilities have been identified in this report. To draw together the discussion of the many disparate techniques, this chapter first assesses them against achievement of six overall goals and then discusses four general strategies commissions can take, using groups of the techniques.

Evaluation of Techniques to Deal with Problems of Regulating Small Water Utilities

For each technique that has been identified to deal with problems of small water utilities, there are numerous variations, only some of which have been covered here in any depth. The techniques are not mutually exclusive. Often several may be combined to make up a regulatory program. To aid a commission in reviewing its current regulatory strategy, deciding whether changes might be in order, and taking an initial look at the range of alternatives available, the various techniques that have been suggested may be assessed against several criteria.

Table 5-1 contains an appraisal developed by the authors of techniques that have been reviewed for improving regulation of small water utilities. The techniques are judged against two types of benefits and four types of costs. The benefits are the traditional regulatory goals of preventing monopoly profits and assuring adequate service. Costs include start-up costs for use of a technique, the ongoing costs to commissions and utilities, and the cost to ratepayers.

Ratings are made for each benefit and cost. A "+" ("plus") rating means the technique would be "satisfactory" in achieving the particular goal under consideration; "++" ("double plus") means it would be "highly satisfactory." A "-" ("minus") means the technique is expected to be "unsatisfactory" as a means of meeting the goal; and a "--" ("double minus"), that it would be "highly unsatisfactory." A "0" for the impact of a particular technique on a particular benefit or cost goal means either that the technique does not address that goal, and that an evaluation is thereby not applicable; or that, on balance, the technique has no predictable net positive or negative impact.

TABLE 5-1

APPRAISAL OF TECHNIQUES
TO DEAL WITH PROBLEMS OF REGULATING
SMALL WATER UTILITIES

Stage of Intervention	Technique	Goals: Prevention of Monopoly Profits	Assurance of Service Quality	Low Implementation Cost	Low Ongoing Program Cost for Commission	Low Ongoing Program Cost for Utility	Low Ongoing Program Costs to Ratepayer
1. Demand for small water utilities	Certificates of convenience and necessity	+	+	++	+	-	+
	Regional tie-ins	+	++	+	+	+	+
	Land use controls	0	+	--	+	--	0
2. Initial viability of small water utilities	Cooperative ownership	++	+	-	++	+	+
	Capital subsidies	0	++	--	+	++	++
	Education and training	+	++	-	0	+	+
	Setting initial rates	+	+	+	+	-	-
3. Utility operations	Consolidation	+	++	-	+	+	+
	Centralized assistance	0	++	-	+	+	+
	In-service training	+	++	-	0	+	+
	Annual reports	++	+	+	-	+	+
	Receivership	0	+	-	0	-	-
4. Application for rate relief	Rate case consolidation	+	0	-	+	+	+
	Routinized timing	+	+	+	+	+	+
	Deregulation	-	-	--	++	+	0
	Safe harbors	-	+	-	++	+	+
	Automatic adjustments	-	0	-	+	+	+
5. Processing application for rate relief	Stipulated proceedings	+	+	++	+	-	-
	Short forms	+	0	+	0	+	+
	Complaint triggered rate case	++	+	-	-	-	-
	Staff assisted rate case	+	+	+	-	-	-
	Formal hearing procedure	++	+	0	--	--	--

Key: -- = highly unsatisfactory, - = unsatisfactory, 0 = neutral, + = satisfactory, and ++ = highly satisfactory.
Source: Authors' construct

The values assigned to techniques are meant to be suggestive, not definitive. A commission interested in revising its program of regulation of small water utilities might wish to assign its own values to the various benefits and costs, in light of its particular laws and circumstances. In doing so, the commission might also want to expand the list of costs, benefits, and techniques or to specify them more precisely.

Formal hearing procedures are the last technique listed in Table 5-1. As a fundamental tool of most commission regulation, they may to some extent be considered a baseline against which to judge alternative or supportive techniques. Formal rate hearings rank high in benefits, would not cost anything extra to implement for those commissions now using them, but are of relatively high cost to utilities, commissions, and ratepayers. In looking for an alternative to formal hearings, a commission will prefer to find a method that protects the public as well as the hearing process does, but that has lower program costs. Several techniques appear to have the potential for meeting these goals.

Techniques that score well for achieving all six goals are promotion of regional tie-ins instead of establishment of a new small water utility and routinization of the timing of rate cases for small water utilities. Both these techniques would have relatively low implementation costs, as well as low program costs and adequate benefits. If implementation costs are ignored, two other techniques rank well in all the remaining cost and benefit categories. Cooperative ownership eliminates costs of regulation for the commission yet guarantees that there will be no monopoly profits unwillingly accrued. Consolidation of existing separate water utility systems, which might be expected to cost more to implement than a program

of promoting regional tie-ins for water service to newly developed areas, scores as well as regional tie-ins on the other dimensions of cost and benefit addressed here.

Several of the techniques have no effect or, on balance, a neutral effect for only one of the benefit and cost categories, exclusive of implementation costs, and score well on all the other categories. Capital subsidies and centralized assistance have no impact on monopoly profits, but do help assure service quality and are low cost programs for the commissions, utilities, and ratepayers. Both initial and in-service education and training for water utility owners and operators may not save a commission money, but are low cost techniques for the utility and its ratepayers. They are also beneficial in setting boundaries on expectations of profit and instilling a commitment to quality of service. Rate case consolidation would not have an appreciable impact on service quality, but would otherwise be helpful. Short forms, strengthening annual reporting requirements, monitoring stipulated proceedings, and restrictive use of issuance of certificates of convenience and necessity are other techniques that score quite well across all goals.

Because a technique fails to do well in all or most benefit and cost categories does not suggest its rejection as an alternative to formal hearing procedures. Every technique listed would cost less, once implemented, than formal hearings, and most would allow nearly the same benefits. To gain more insight into the pros and cons of each technique, each benefit and cost will be considered separately.

Prevention of monopoly profits, the first benefit to be considered, is aided by any form of commission oversight. The more formal means of regu-

lation -- certificates, reports, forms, and procedures -- are presumably of greater effect in maintaining fair prices than the less formal ones, such as education and counseling. Any technique that requires communication between regulator and regulated is a medium for control of monopolistic behavior. Capital subsidies and centralized assistance do not address the issue of excessive profits. Applied under appropriate limitations both capital subsidies and centralized assistance should result in reduced costs that are passed on to consumers. Strengthened receivership power would do little by itself to inhibit profits.

Deregulation, of course, would remove the ability of a commission to assure fair rates. As has been noted earlier, it may be that for very small utilities there are intrinsic checks on profits. If so, the goal of prevention of monopoly profits is moot. Since empirical verification of the effects of deregulation is lacking, and reasonable people can disagree on its impact, deregulation was given a score of only one "-," where deregulation of large public utilities would have received a "--" score. "Safe harbors" and automatic adjustments also receive "-" scores. The "safe harbor" technique carries the risk that a company will stay barely within the boundaries set by the commission, perhaps engaging in "gold plating," as long as they take care not to cross the boundary. Automatic adjustments, unless closely supervised, also offer opportunities for behavior that are not in the best interests of consumers. With both "safe harbors" and automatic adjustments, there is thus more potential for abuse than with the normal rate case process.

Almost all the techniques provide assurance of service quality. Only deregulation received a "minus" score in this category. The goal of

assuring service quality is shared between commissions and other state agencies, such as departments of health, natural resources, and environmental protection. They, like the commissions, are concerned with maintaining a sufficient supply of potable water to the citizens of their state. If small water utilities were deregulated, there would thus continue to be some assurance of service quality. Difficulties in serving an area may be built into the initial choice of location and structure of the water system. Once service becomes erratic or substandard, it may be hard to upgrade. Techniques for reducing demand for small water utilities or enhancing their financial capabilities at the outset can prevent chronic service problems.

One technique for increasing initial viability that would not necessarily enhance service quality over that assured by the commissions is cooperative ownership. While the owners/users of cooperatives would not want to sell themselves bad water, without adequate training they may find it difficult to maintain water quality. Strengthened receivership powers would help assure service quality over the long run, but it can take a long time for this technique to take effect. Rate case consolidation was considered to have no overall impact on service quality. It may be argued that this technique should be rated with a "plus" because it allows comparison of cases by the commission. But one can also argue that rate case consolidation leads to less consideration of each case, especially for service issues. "Safe harbor" rules provide for service quality where the rule is that consumer complaints can activate commission oversight responsibilities, so they rate a "plus" designation. Automatic adjustments were given a "0," because the impact depends upon the design of the

adjustment clause being examined.[1] Short forms were also given a neutral ("0") rating. The critical factor here is whether or not the short form includes information on factors related to service. If it does, the rating would be a "plus."

Implementation of a technique not currently being used by a commission incurs both the costs of setting up a new program or practice and of program development, bargaining, and coordination by the affected utility companies, the governor's office, and other government, semi-public or private organizations involved in initiation of the program. The more a technique represents a departure from existing practice, the more complex and controversial it is, the greater the implementation costs. Because of social costs, the more a new technique is under direct commission control, the lower the overall implementation costs. There may be controversy over the new program within the commission, but staff will at least be dealing with relatively familiar ideas, and any resistance is subject to at least some hierarchical control.

A few of the techniques would require not much more than a change of emphasis to implement. Firming up certification requirements and use of stipulated proceedings were judged to be the least expensive techniques for a commission to implement. Other inexpensive techniques are setting initial rates correctly, encouraging routinized timing of rate applications, improving annual reporting procedures, short forms, and staff assisted rate cases. The existence of examples of short forms and

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[1]See also Kevin Kelly, Nat Simons, Jr., and Timothy Pryor, Electric Fuel Adjustment Clause Design (Columbus: NRRI, 1979).

simplified procedures should reduce the resource costs of putting a new practice into effect. Four techniques would be costly to execute. Programs of land use controls, capital subsidies, regionalization, and deregulation might all be quite high. They would require considerable effort in program design within the commission and a great deal of coordination with other interested parties.

In considering the actual program costs of a technique, a commission is making the fundamental choice of reducing commission involvement or increasing it. Once accomplished, several of the techniques can cut costs substantially by reducing commission responsibilities. Deregulation, changes in ownership types, and safe harbors accomplish the objective of reducing costs in this manner. Regionalization does too, by reducing the number of separate entities with which the commission must deal. As with assurance of service quality, preventive actions taken to reduce demand for small water utilities or to get them started with sufficient resources can be expected to be effective in reducing costs to the commissions.

Training, counseling, and other assistance in utility operations seem on the face of it to increase commission costs, when compared to the techniques that reduce commission authority. But, while reasonably expensive at the time they are used, they, too, are preventive devices. For example, counseling services of the various types identified herein may cut the costs of rate case proceedings later on, and are, therefore, rated as having no overall impact on commission costs.

Toughening up requirements for issuance of certificates of convenience and necessity, promotion of regional tie-ins, routinized timing, and stipulated proceedings all combine low program costs for the commission

with low implementation costs, and may be attractive for that reason. Any of the actions identified at the stage of application for rate changes are likely to reduce commission costs. Deregulation and safe harbors have already been mentioned. Rate case consolidation, routinized timing, and automatic adjustments would also reduce the time and effort of commission staff. Several of the techniques that have been discussed at length in this report are relatively costly for the commission. But those techniques -- annual reports, complaint triggered rate cases, and staff assisted rate cases -- are still cheaper than the formal hearing process.

Costs to the utilities would be reduced by all but a few of the proposed techniques. Land use controls would be very expensive for those prospective utility owners who were never able to go into business. Restrictions on issuance of certificates of convenience and necessity could add to prospective utility owners' costs, too. The threat of state initiated receivership could add to the costs of operating a water utility. If the water company were a side busines, however, and not an especially profitable one, a change in ownership type would not be a deterrent to the original owner. He would still be able to sell the lots or homes that were his principal reason for starting up a water utility. Methods of improving utility operations, such as counseling and assistance, might be perceived as somewhat costly in time and money by the water companies in a state. As with the commissions, the investment in training would pay off in better preparation for rate applications. Stipulated proceedings, complaint triggered rate cases, and staff assisted rate cases are all somewhat costly, but, as for the commission, less expensive than formal rate cases. A program of capital subsidies would be a financial boon to the small water utilities and is rated accordingly.

To a large extent the costs to ratepayers for the various techniques parallels the costs to the utilities. This is because it is assumed that any savings to the utilities will, under the supervision of the commission, be passed on to their ratepayers. The exceptions are land use controls and deregulation. Where restrictions on land use prevent a developer from starting up a water utility, it may be costly for him, but the costs to ratepayers are unknown. In the case of deregulation, it is not clear what costs would be to ratepayers. They might save money if the savings from deregulation were passed on to them. But deregulation might be costly to them if they had to make more effort themselves to oversee the operations of the water company rather than leaving it to the commission.

Strategies for Dealing with Problems of Regulating Small Water Utilities

Assessment of the general techniques for improving the regulation of small water utilities against several broad objectives has helped to delineate their advantages and disadvantages. Yet, while the evaluation helps to suggest the array of options open to a commission, it does not go very far in allowing hard conclusions about the relative advantages of one technique compared to others. Many of the techniques overlap. Many taken by themselves would do very little to solve the problems of small water utilities. To move beyond the delineation of methods to development of an overall strategy, the methods may be grouped into four categories: limited adjustment, aggressive improvement, reduced authority, and "safe harbor." Improvement, or change, under these categories is assumed to be based on departure from the formal rate case application process.

The limited adjustment approach would add to a commission's ability to manage regulation of small water utilities without substantially changing the resources required to do so or the legal and institutional framework within which regulation takes place. Stipulated proceedings, consolidated rate cases, short forms, strengthened receivership powers, and centralized assistance outside the commission fall into this category. All could reduce costs somewhat, although all except stipulated proceedings would require a moderate amount of effort to implement. Such an approach would, however, do little to solve fundamental problems of small, investor-owned water utilities.

For the commission that is able to muster the resources to do it, a strategy of aggressive improvement may be in order. Here a commission reaches out into the process by which small water utilities become problems to regulate and uses the tools at its disposal to improve the technical and managerial capabilities of the utilities. The means of carrying out this strategy include strict policies on certification of new water utilities, helping to set rates correctly when the utilities begin service, training and counseling water utility owners and operators, monitoring of annual reports, encouraging small water utilities to file rate applications as frequently as necessary, and staff assistance in rate cases. These methods require a commitment to solving the problems of small water utilities that is lacking in the strategy of limited adjustment. From the experience of states that have used this strategy, it is likely to produce benefits that justify the technique's substantial costs.

The strategy of reduced authority would take commissions out of the business of regulating small water utilities. Deregulation may be

justified on theoretical and practical grounds. Politically, this may be a difficult strategy to implement. If so, one way to temper opposition might be to combine a proposal for deregulation with creation of a program of loan subsidies such as that in use in Pennsylvania. Or, rather than deregulate, the commission can choose to move responsibility for owning and operating small water utilities to another, more local level of government. A final technique that could ultimately be used to reduce commission responsibility for small water utilities is land use controls that are primarily the responsibility of other state or local agencies. Again, implementation costs would be high, but the costs of regulation could be substantially reduced.

The last approach is the "safe harbor" strategy. Here, commission intervention would not come into play unless a water utility exceeded some limit, expressed in terms of customer complaints, rate increases, or another measure. The "safe harbor" principle is used to some extent in the simplified procedures of many states. Strictly interpreted, expansion of the principle would further remove commissions from the operations of small water utilities. The disadvantage of such an approach would be that when a water utility or its customers finally did come to the commission, problems might be much harder to resolve. A strategy of aggressive improvement combined with a "safe harbor" provision that allows avoidance of rate cases may be a better approach. It would reduce costs, assure the benefits of regulation to consumers, and assist the utilities in meeting their responsibilities to the public.

Strategies with different thrusts can be used as separate components of an integrated overall approach within one state. The Illinois

commission follows a strategy of reduced intervention by attempting to promote cooperative ownership at the stage of establishment of small water utilities, a strategy of aggressive intervention in utility operations through its annual reporting requirements and through staff investigations, and a limited adjustment strategy in attempting to avoid having rate increases reach the stage of a formal hearing.

Conclusions

The 1982 NRRI survey of the commissions revealed both widespread concern for, and a multiplicity of efforts to deal with, the problems of regulating small water utilities. Staffers at 60 percent of the commissions that regulate water utilities said their commissions were becoming increasingly concerned with water utility regulation; staffers at 71 percent said the number of water utility rate cases before their commissions was increasing. At 84 percent of the commissions, at least one technique aimed at reducing the burden of regulation of small water utilities is in use. Fifty-eight percent are using two or more methods; 31 percent, three or more methods; and five commissions, or 11 percent, are using four or more methods. The scope of their efforts ranges from use of stipulated proceedings in rate cases, a relatively minor departure from regulatory practices undertaken in 22 states, to Iowa's deregulation of all water utilities serving fewer than 2,000 customers. In between, there are numerous changes in rules, procedures, and documentation that attempt to solve aspects of the problems of small water utilities.

This report has reviewed, classified, and appraised a number of the techniques for small water utility regulation that are in use or are currently being considered by the commissions. There are techniques for commissions that would like to improve their programs somewhat over present practice, but remain within their stringent resource constraints. There are techniques for commissions looking for new solutions that will either take them more thoroughly and effectively into the process by which water utilities become problems for the commissions, or altogether remove them from the business of regulating small water utilities. And there are solutions for commissions that are generally satisfied with their programs and merely interested in fine tuning.

APPENDIX A

COMMISSION CONTACTS FOR WATER REGULATION

This appendix contains the names and addresses of commission staffers who participated in the NRRI Commission Water Survey conducted in the fall of 1982.

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APPENDIX B

TABULATION OF 1982 NRRI WATER SURVEY OF CURRENT PRACTICES IN REGULATION OF SMALL WATER UTILITIES

This appendix reproduces the survey on commission regulation of small water utilities conducted by the NRRI in the fall of 1982. The survey, conducted under the auspices of the NARUC Committee on Water and the NARUC Staff Subcommittee on Water, focused on commission practices in regulating small water utilities. Questions were also asked on research, information, and training in water utility regulation and the degree of concern at the commission for water utility problems.

Staffers from all 45 commissions that regulate water utilities responded to the survey. Their responses are given here. Their answers and comments may not necessarily represent the official position of the commissions, but, instead, their own opinions as experts in the field of water utility regulation.

KEY TO STATE COMMISSION ABBREVIATIONS

Alabama	AL
Alaska	AK
Arizona	AZ
Arkansas	AR
California	CA
Colorado	CO
Connecticut	CT
Delaware	DE
District of Columbia*	—
Florida	FL
Georgia*	
Hawaii	HI
Idaho	ID
Illinois	IL
Indiana	IN
Iowa	IA
Kansas	KS
Kentucky	KY
Louisiana	LA
Maine	ME
Maryland	MD
Massachusetts	MA
Michigan	MI
Minnesota*	
Mississippi	MS
Missouri	MO
Montana	MT
Nebraska*	
Nevada	NV
New Hampshire	NH
New Jersey	NJ
New Mexico	NM
New York	NY
North Carolina	NC
North Dakota*	
Ohio	OH
Oklahoma	OK
Oregon	OR
Pennsylvania	PA
Rhode Island	RI
South Carolina	SC
South Dakota*	
Tennessee	TN
Texas	TX
Utah	UT
Vermont	VT
Virginia	VA
Washington	WA
West Virginia	WV
Wisconsin	WI
Wyoming	WY

*Does not regulate water utilities.

October 1982

NARUC/NRRI SURVEY OF CURRENT PRACTICES
IN REGULATION OF SMALL WATER UTILITIES

The NARUC Water Committee and the NARUC Water Staff Subcommittee have asked The National Regulatory Research Institute to identify current commission practices in processing rate case applications for small water utilities. The results of the survey will provide you and other experts in water utility regulation with useful information about expediting this process. The NRRI will be conducting the survey by telephone using this questionnaire. The questionnaire is being provided to you ahead of time so that you can know what to expect when an NRRI staffer calls you to talk about regulation of small water utilities. The staffer will be contacting you within 10 working days of your receipt of this questionnaire to make an appointment for an interview. The interview itself will take about half an hour.

SECTION 1: GENERAL

Commission: _____

Name: _____

Title: _____

Division: _____

1. Your responsibilities at your commission are:
   1 - Only water utility regulation
   2 - Primarily water utility regulation
   3 - Mostly other than water utility regulation
   4 - All non-water utility regulation
   5 - All water and sewer regulation
   6 - Half water, half other
   9 - Other

Response	Total	Staffers' Commissions
1	4	IN, MD, NY, RI
2	13	ID, IL, ME, MO, MT, NV, NH, NJ, NC, OH, SC, UT, WV
3	17	AL, AK, AR, CA, CO, DE, IA, MA, KS, KY, LA, MA, MI, OK, TN, VT, WY
4	0	
5	6	AZ, CT, FL, PA, TX, WI
6	4	NM, OR, VA, WA
9	1	MS
Total	45	

2. Over the past year this commission devoted approximately _____ man-years to the regulation of water utilities.

Response (man-years)	Total	Staffers' Commissions
0 - 1.0	15	AL, AK, CO, HA, KS, MA, MI, MT, NM, OK, RI, TN, UT, VT, WY
1.1 - 5.0	11	ID, IA, IN, NH, ME, MD, MS, OH, OR, VA, WA
5.1 - 10.0	7	AZ, IL, KY, MO, NJ, NC, WI
10.1 - 15.0	2	NV, PA
15.1 - 20.0	1	TX
20+	4	CA, CT, FL, NY
Don't know	5	AR, DE, LA, SC, WV
Total	45	

3. Does your commission in any way manage regulation of small water utilities differently than large ones?
   1 - Yes
   2 - No

Response	Total	Staffers' Commissions
1	26	AK, AZ, AR, CA, CT, DE, FL, ID, IL, IA, KY, ME, MO, MT, NV, NH, NJ, NC, OH, OR, PA, TX, VA, WV, WI, WY
2	19	AL, CO, HI, IN, KS, LA, MD, MA, MI, MS, NM, NY, OK, RI, SC, TN, VT, UT, WA
Total	45	

3a. Please list the categories of size that you use to distinguish among water utilities.

See pp. 19-22 for discussion of responses to question 3a.

3b. For what regulatory purposes does your commission distinguish among sizes of water utilities?

See pp. 22-24 for discussion of answers to question 3b.

3c. Is the differentiation among water utilities by size of the utility
1 - a statutory requirement
2 - a commission rule
3 - an ad hoc determination
4 - other: please explain

Response	Total	Staffers' Commissions
1	6	AK, AZ, AR, ME, NV, TX
2	10	CA, CT, DE, FL, IL, KY, OH, OR, PA, WI
3	3	VA, WV, WY
1 and 3	1	NC
1, 3 and 4	1	MO
4	2	ID, NH
Not applicable	22	AL, CO, HI, IN, IA, KS, LA, MD, MA, MI, MS, MT, NJ, NM, NY, OK, RI, SC, TN, UT, VT, WA
Total	45	

3d. What is your commission's rationale for distinguishing/not distinguishing among water utilities by size for regulatory purposes?

See p. 24 for discussion of answers to question 3d.

4. Water utility rate cases before this commission are . . .
1 - increasing in number
2 - remaining stable
3 - decreasing in number

Response	Total	Staffers' Commissions
1	32	AL, AK, AZ, CA, CO, CT, DE, FL, HI, ID, IL, IN, KY, MD, MS, NH, NJ, NM, NY, NC, OH, OK, OR, PA, RI, SC, TX, UT, VT, VA, WV, WI
2	11	KS, LA, ME, MA, MI, MO, MT, NV, TN, WA, WY
3	2	AR, IA
Total	45	

5. Water utility regulation as a concern of this commission is . . .
   1 - increasing
   2 - remaining stable
   3 - decreasing

Response	Total	Staffers' Commissions
1	27	AL, AZ, CT, DE, FL, ID, IN, KY, ME, MD, MS, NV, NH, NJ, NY, NC, OH, OK, PA, RI, SC, TN, TX, VT, VA, WV, WI
2	16	AK, CA, CO, HI, IL, IA, KS, LA, MA, MI, MO, MT, OR, UT, WA, WY
3	2	AR, NM
Total	45	

SECTION II: SHORT OR SIMPLIFIED FORMS

6. Has your commission developed any short or simplified forms for the use of small water utilities in their rate applications?
   1 - Yes
   2 - No
   If you answered yes to question 6, please answer 6a through 6e.
   If you answered no, skip to 6f.

Response	Total	Staffers' Commissions
1	18	AZ, CA, CT, DE, FL, ID, IL, KY, MO, NM, NV, OK, OR, PA, TX, VT, WV, WI
2	20	AR, CO, FL, HI, FL, IN, LA, ME, MA, MI, MS, MT, NH, NJ, NY, OH, RI, SC, TN, WA, WY
Under discussion	6	AL, AK, MD, NC, UT, VA
Not applicable	1	IA
Total	45	

6a. Name of Short or Simplified Form — Date Initiated/Revised
(Use a separate sheet to list more if required)

** **
(Please send a copy of each form to the NRRI)
** **
See Table 3-3, p. 40, for names of forms.

6b. Are these shortened or simplified forms used exclusively for small water utilities?
1 - Yes
2 - No, they also apply to _____

Response	Total	Staffers' Commissions
1	5	CT, ID, NM, OR, WV
2	13	AZ, CA, DE, FL, IL, KY, MO, OK, NV, PA, TX, VT, WI
Not applicable	27	AL, AR, AK, CO, HI, IN, IA, KS, LA, ME, MD, MA, MI, MS, MT, NH, NJ, NY, NC, OH, RI, SC, TN, UT, VA, WA, WY
Total	45	

6c. Has the use of shortened or simplified forms for small water utilities:

Yes	No	
1	2	Saved commission staff time
1	2	Shortened formal hearing time
1	2	Lowered the commission's cost of processing rate cases
1	2	Lowered the utilities' cost of applying for rate relief
1	2	Other: _____

Effect	Response	Total	Staffers' Commissions
Saved commission staff time	1	14	CA, CT, DE, ID, IL, KY, MO, NM, OK, PA, TX, VT, WV, WI
	2	3	AZ, NV, OR
	No answer	28	AL, AK, AR, CO, FL, HI, IN, IA, KS, LA, ME, MA, MI, MS, MO, MT, NH, NJ, NY, NC, OH, RI, SC, TN, UT, VA, WA, WY
	Total	45	

6c. (continued)

Effect	Response	Total	Staffers' Commissions
Shortened formal hearing time	1	15	CA, CT, DE, ID, IL, KY, MO, NV, OK, OR, PA, TX, VT, WV, WI
	2	2	AZ, NM
	No answer	28	AL, AK, AR, CO, FL, HI, IN, IA, KS, LA, ME, MD, MA, MI, MS, MT, NH, NJ, NY, NC, OH, RI, SC, TN, UT, VA, WA, WY
	Total	45	
Lowered commission cost	1	16	CA, CT, DE, ID, IL, KY, MO, NV, NM, OK, OR, PA, TX, VT, WV, WI
	2	1	AZ
	No answer	28	AL, AK, AR, CO, FL, HI, IN, IA, KS, LA, ME, MD, MA, MI, MS, MT, NH, NJ, NY, NC, OH, RI, SC, TN, UT, VA, WA, WY
	Total	45	
Lowered utilities' costs	1	15	CA, CT, DE, ID, IL, KY, MO, NV, NM, OK, OR, PA, TX, WV, WI
	2	2	AZ, VT
	No answer	28	AL, AK, AR, CO, FL, HI, IN, IA, KS, LA, ME, MD, MA, MI, MS, MT, NH, NJ, NY, NC, OH, RI, SC, TN, UT, VA, WA, WY
	Total	45	

6c. (continued)

Effect	Response	Total	Staffers' Commissions
Other	1	2	MO, WV
	2	1	NM
	No answer	42	AL, AK, AZ, AR, CA, CO, CT, DE, FL, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, MT, NV, NH, NJ, NY, NC, OH, OK, OR, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY
	Total	45	

6d. Do you have any specific recommendations that you feel would improve the use of short or simplified forms for small water utility rate case applications?

Recommendations	Totals	Staffers' Commissions
No	9	AZ, ID, NV, NM, OK, PA, VT, WV, WI
Yes	6	CA, DE, IL, KY, MO, TX
No answer	3	CT, FL, OR
Not applicable	27	AL, AK, AR, CO, HI, ID, IN, IA, KS, LA, ME, MD, MA, MI, MS, NH, NJ, NY, NC, OH, OK, RI, SC, TN, VT, WA, WY
Total	45	

6e. When and how was use of a short form for small water utilities implemented at your commission?

	Statute	Order	Internally	Other	Totals
1979-1982	NV, TX	FL, OK, WV	ID, KY, OR		8
1975-1979		IL, PA, VT	MO		4
Earlier than 1975		CA	CT, WI		3
Undated			AZ, NM	DE	3
Subtotals	2	7	8	1	18

No response or not applicable:	AL, AK, AR, CO, HI, ID, IN, IA, KS, LA, ME, MD, MA, MI, MS, NH, NJ, NY, NC, OH, OK, RI, SC, TN, VT, WA, WY	
Subtotal		27
Total		45

6f. Is it/would it be useful for your commission to have a short form for applications for rate changes for water utilities?
1 - not useful
2 - of some use
3 - very useful
4 - don't know
Why? _____

	Response	Total	Staffers' Commissions
Is useful	1	0	-----
	2	2	NM, TX
	3	14	AZ, CA, DE, FL, ID, IL, KY, MO, NV, OR, PA, VT, WV, WI
	No response	2	CT, OK
	Subtotal	18	

	Response	Total	Staffers' Commissions
Would be useful	1	5	CO, KS, MT, NY, SC
	2	7	AK, AR, HI, LA, ME, MI, WA
	3	10	AL, MD, MA, MS, NJ, NC, OH, TN, UT, VA
	4	4	IN, NH, RI, WY
	No response	1	IA
	Subtotal	27	
	Total	45	

6g. If your commission is not now using short forms for small water utilities, is it planning to do so within the next two years?
1 - Yes
2 - No

Response	Total	Staffers' Commissions
1	8	AL, AK, FL, HI, MD, MA, TN, VA
2	14	AR, CO, IN, LA, ME, MI, MS, MT, NH, NJ, OH, RI, SC, WA
Maybe	1	UT
No response	22	AZ, CA, CT, DE, ID, IL, IA, KS, KY, MO, NV, NM, NY, NC, OK, OR, PA, TX, VT, WV, WI, WY
Total	45	

SECTION III: SIMPLIFIED PROCEDURES

7. Has your commission developed any simplified procedures for the use of small water utilities in their rate applications?
1 - Yes
2 - No

Response	Total	Staffers' Commissions
1	22	AZ, AR, CA, CT, FL, IL, KY, ME, MO, MT, NV, NH, NY, NC, OK, OR, PA, TX, UT, VA, WV, WI
2	19	AK, CO, HI, ID, KS, LA, MD, MA, MI, MS, NJ, NM, OH, RI, SC, TN, VT, WA, WY
Under discussion	3	AL, DE, IN
Not applicable	1	IA
Total	45	

7a. Please describe the simplified procedures.

See Table 3-6, p. 53, for responses to question 7a.

7b. Are these simplified procedures used exclusively for small water utilities?
1 - Yes
2 - No, they also are used for _____

Response	Total	Staffers' Commissions
1	7	AZ, AR, CT, ME, OR, UT, VA
2	15	CA, FL, IL, KY, MD, MO, MT, NV, NY, NC, PA, TN, TX, WV, WI
Not applicable	23	AL, AK, CO, DE, HI, ID, IN, IA, KS, LA, MD, MA, MI, MS, NJ, NM, OH, OK, RI, SC, VT, WA, WY
Total	45	

7c. Has the use of simplified procedures for small water utilities:

Yes	No	
1	2	Saved commission staff time
1	2	Shortened formal hearing time
1	2	Lowered the commission's cost of processing rate cases
1	2	Lowered the utilities' cost of applying for rate relief
1	2	Other: _____

Effect	Response	Total	Staffers' Commissions
Saved commission staff time	1	17	AZ, CA, CT, FL, IL, KY, MO, MT, NH, NY, NC, PA, TX, UT, VA, WV, WI
	2	3	AR, NV, OR
	No response	25	AL, AK, CO, DE, HI, ID, IN, IA, KS, LA, ME, MD, MA, MI, MS, NJ, NM, OH, OK, RI, SC, TN, VT, WA, WY
	Total	45	

7c. (continued)

Effect	Response	Total	Staffers' Commissions
Shortened formal hearing time	1	18	AZ, CA, CT, FL, IL, KY, MO, MT, NV, NH, NY, OR, PA, TX, UT, VA, WV, WI
	2	1	AR
	No response	26	AL, AK, CO, DE, HI, ID, IN, IA, KS, LA, ME, MD, MA, MI, MS, NJ, NM, NC, OH, OK, RI, SC, TN, VT, WA, WY
	Total	45	
Lowered commission cost	1	16	AZ, CA, CT, FL, IL, KY, MO, MT, NV, NC, OR, PA, TX, VA, WV, WI
	2	3	AR, NH, NY
	No response	26	AL, AK, CO, DE, HI, ID, IN, IA, KS, LA, ME, MD, MA, MI, MS, NJ, NM, OH, OK, RI, SC, TN, UT, VT, WA, WY
	Total	45	
Lowered utilities' cost	1	19	AZ, AR, CA, CT, FL, IL, KY, MO, MT, NV, NH, NY, NC, OR, PA, TX, VA, WV, WI
	2	0	
	No response	26	AL, AK, CO, DE, HI, ID, IN, IA, KS, LA, ME, MD, MA, MI, MS, NJ, NM, OH, OK, RI, SC, TN, UT, VT, WA, WY
	Total	45	

7c. (Continued)

Effect	Response	Total	Staffers' Commissions
Other	1	3	CA, NC, WV
	2	0	
	No response	42	AL, AK, AZ, AR, CO, CT, DE, FL, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, OH, OK, OR, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY
	Total	45	

7d. Do you have any specific recommendations that you feel would improve the use of simplified procedures for small water utility rate case applications?

Recommendations	Totals	Staffers' Commissions
No	7	AR, KY, MT, NH, PA, WV, WI
Yes	12	AZ, CA, CT, FL, IL, MO, NY, NC, OR, TX, UT, VA
No response	26	AL, AK, CO, DE, HI, ID, IN, IA, KS, LA, ME, MD, MA, MI, MS, NV, NJ, NM, OH, OK, RI, SC, TN, VT, WA, WY
Total	45	

7e. When and how was use of simplified procedures for small water utilities implemented at your commission?

	Statute	Order	Internally	Other	Subtotals
1979-1982	AZ, NV, NC, TX	CA, WV	OK, OR, UT		9
1975-1978			FL, MO, PA, VA		4
Earlier than 1975	NY	CT, IL		MT	4
Undated			AR, NH		2
Subtotals	5	4	9	1	19

No response or not applicable: AL, AK, CO, DE, HI, ID, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, NJ, NM, OH, RI, SC, TN, VT, WA, WI, WY

Subtotal	26
Total	45

7f. Is it/would it be useful for your commission to have simplified procedures for applications for rate changes for water utilities?
1 - not useful
2 - of some use
3 - very useful
4 - don't know
Why? _____

	Response	Totals	Staffers' Commissions
Is	1	0	-----
	2	3	ME, TX, VA
	3	15	AZ, CA, CT, FL, IL, KY, MT, NV, NY, NC, OR, PA, UT, WV, WI
	4	0	-----
No response		4	AR, MO, OK, NH
	Subtotal	22	
Would be useful	1	4	AK, ID, KS, SC
	2	5	CO, LA, MI, MS, WA
	3	10	AL, DE, HI, IN, MD, MA, NM, NJ, OH, TN
	4	3	RI, VT, WY
No response	9	1	IA
	Subtotal	23	
	Total	45	

7g. If your commission is not now using simplified procedures for small water utilities, is it planning to do so within the next two years?
1 - Yes
2 - No

Response	Total	Staffers' Commissions
1	9	AL, DE, HI, IN, MD, NM, OH, TN, WI
2	12	AK, CO, ID, LA, ME, MI, MS, NH, NJ, SC, VT, WA
Maybe	1	MA
No response/ not applicable	23	AZ, AR, CA, CT, FL, IL, IA, KS, KY, MO, MT, NV, NY, NC, OK, OR, PA, RI, TX, UT, VA, WV, WY
Total	45	

SECTION IV: STIPULATED PROCEEDINGS

8. Does your commission allow the use of stipulated proceedings in a rate case application by a small water utility?
   1 - Yes
   2 - No

Response	Total	Staffers' Commissions
1	26	AL, AK, AR, AZ, CO, HI, ID, ME, MA, MO, MT, NV, NH, NJ, NM, NY, OH, OR, RI, TN, UT, VT, WA, WV, WI, WY
2	17	CA, CT, DE, FL, IL, IN, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VA
No response	1	KS
Not applicable	1	IA
Total	45	

8a. Does the use of stipulated proceedings in a rate case application for a small water utility differ in any way from the use of stipulated proceedings in rate cases of large utilities?
   1 - Yes (please describe):
   2 - No

Response	Total	Staffers' Commissions
1	7	AK, MA, NY, TN, WA, WV, WY
2	17	AL, AZ, AR, CO, HI, ID, ME, MO, MT, NV, NH, NJ, NM, OH, OR, RI, UT
No response	2	VT, WI
Not applicable	19	CA, CT, DE, FL, IL, IN, IA, KS, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VA
Total	45	

8b. Are these stipulated proceedings used exclusively for small water utilities?
1 - Yes
2 - No, they also apply to _____

Response	Total	Staffers' Commissions
1	1	MA
2	23	AL, AK, AZ, AR, CO, HI, ID, ME, MO, MT, NV, NH, NJ, NM, NY, OH, OR, RI, TN, UT, WA, WV, WY
No response	2	VT, WI
Not applicable	19	CA, CT, DE, FL, IL, IN, IA, KS, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VA
Total	45	

8c. Has the use of stipulated proceedings for small water utilities:

Yes	No	
1	2	Saved commission staff time
1	2	Shortened formal hearing time
1	2	Lowered the commission's cost of processing rate cases
1	2	Lowered the utilities' cost of applying for rate relief
1	2	Other: _____

Effect	Response	Total	Staffers' Commissions
Saved commission staff time	1	14	AK, AR, HI, MA, MO, MT, NV, NJ, NM, NY, OH, UT, WA, WY
	2	9	AZ, CO, ID, ME, NH, OR, RI, TN, WV
	No answer	22	AL, CA, CT, DE, FL, IL, IN, IA, KS, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VT, VA, WI
	Total	45	

8c. (continued)

Effect	Response	Total	Staffers' Commissions
Shortened formal hearing time	1	22	AK, AR, CO, HI, ID, ME, MA, MO, MT, NV, NH, NJ, NM, NY, OH, OR, RI, TN, UT, WA, WV, WY
	2	1	AZ
	No answer	22	AL, CA, CT, DE, FL, IL, IN, IA, KS, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VA, VT, WI
	Total	45	
Lowered commission cost	1	18	AR, HI, ID, MA, MO, MT, NV, NH, NJ, NM, OH, OR, RI, TN, UT, WA, WV, WY
	2	5	AK, AZ, CO, ME, NY
	No answer	22	AL, CA, CT, DE, FL, IL, IN, IA, KS, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VA, VT, WI
	Total	45	
Lowered utilities' costs	1	21	AK, AR, HI, ID, ME, MA, MO, MT, NV, NH, NJ, NM, NY, OH, OR, RI, TN, UT, WA, WV, WY
	2	2	AZ, CO
	No answer	22	AL, CA, CT, DE, FL, IL, IN, IA, KS, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VA, VT, WI
	Total	45	
Other	1	2	MA, MO
	2	0	
	No answer	43	AL, AK, AZ, AR, CA, CO, CT, DE, FL, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MI, MN, MS, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, PA, RI, SC, TN, UT, VT, VA, WA, WV, WI, WY
	Total	45	

8d. Do you have any specific recommendations that you feel would improve the use of stipulated proceedings for small water utility rate case applications?

Recommendations	Total	Staffers' Commissions
No	14	AZ, AR, ID, MA, MT, NV, NH, NJ, NM, OR, TN, WA, WV, WY
Yes	6	HI, ME, MO, NY, OH, UT
No answer	6	AL, AK, CO, RI, VT, WI
Not applicable	19	CA, CT, DE, FL, IL, IN, IA, KS, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VA
Total	45	

8e. When and how was use of stipulated proceedings for small water utilities implemented at your commission?

	HOW					
	Statute	Order	Internally	Other	Don't Know No Response	Totals
1979-1982		WV	NY, NM		NH, RI	5
1975-1979			NJ, UT	HI, MA	ME, OR	6
Earlier than 1975		WY	MT		AK, AR, NV OH, TN, WA	8
Undated			ID		AL, AZ, CO, MO, VT, WI	7
Subtotals	0	2	6	2	16	26

No response or not applicable:	CA, CT, DE, FL, IL, IN, IA, KS, KY, LA, MD, MI, MS, NC, OK, PA, SC, TX, VA	
Subtotal		19
Total		45

8f. Would it be useful for your commission to begin/expand use of stipulated proceedings for small water utilities?
1 - not useful
2 - of some use
3 - very useful
4 - don't know
Why? _____

	Response	Total	Staffers' Commissions
Begin	1	6	FL, IL, MD, OK, PA, SC
	2	7	CA, CT, DE, KY, LA, NC, TX
	3	0	
	4	4	IN, MI, MS, VA
	No answer	2	IA, KS
	Subtotal	19	
Expand	1	7	AK, AL, AR, ID, MO, MT, NH,
	2	5	TN, MA, NV, NM, WV
	3	8	AZ, HI, OH, OR, NY, UT, VT, WA
	4	3	CO, ME, WY
	No answer	3	NJ, RI, WI
	Subtotal	26	
	Total	45	

8g. If your commission is not now using stipulated proceedings for small water utilities, is it planning to do so within the next two years?
1 - Yes
2 - No

Response	Total	Staffers' Commissions
1	2	DE, KY
2	12	CA, CT, FL, IN, LA, MD, MI, MS, NC, SC, TX, VA
No answer	31	AL, AK, AZ, AR, CO, HI, ID, IL, IA, KS, ME, MA, MO, MT, NV, NH, NJ, NM, NY, OH, OK, OR, PA, RI, TN, UT, VT, WA, WV, WI, WY
Total	45	

SECTION V: AUTOMATIC ADJUSTMENT CLAUSES

9. Does your commission allow the use of any of the following automatic adjustment clauses for small water utilities?

Yes	No	
1	2	Purchased water adjustment clause
1	2	Chemicals adjustment clause
1	2	Fuel (pumping) adjustment clause
1	2	Tax adjustment clause
1	2	Other: _____

If you answered yes to any or all of question 9, please answer questions 9a through 9f. If you answered no to all of the items in question 9, go to 9f.

Effect	Response	Total	Staffers' Commission
Purchased water adjustment clause	1	8	CT, FL, IN, KY, PA, TX, WV, WI
	2	33	AZ, AR, CA, CO, DE, HI, ID, IL, KS, LA, ME, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, UT, VT, VA, WA, WY
	No answer	4	AL, AK, IA, MD
	Total	45	
Chemicals adjustment clause	1	0	
	2	41	AZ, AR, CA, CO, CT, DE, FL, HI, ID, IL, IN, KS, KY, LA, ME, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, PA, RI, SC, TN, TX, UT, VT, VA, WA, WV, WI, WY
	No answer	4	AL, AK, IA, MD
	Total	45	

9. (Continued)

Effect	Response	Total	Staffers' Commission
Fuel (pumping) adjustment clause	1	5	AR, FL, HI, PA, WI
	2	36	AZ, CA, CO, CT, DE, ID, IL, IN, KS, KY, LA, ME, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, TX, UT, VT, VA, WA, WV, WY
	No answer	4	AL, AK, IA, MD
	Total	45	
Tax adjustment clause	1	2	FL, PA
	2	39	AZ, AR, CA, CO, CT, DE, HI, ID, IL, IN, KS, KY, LA, ME, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, TX, UT, VT, VA, WA, WV, WI, WY
	No answer	4	AL, AK, IA, MD
	Total	45	
Other	1	2	FL, NC
	2	33	AZ, CO, CT, DE, HI, IL, IN, KS, KY, LA, MA, MI, MS, MO, NV, NH, NJ, NM, NY, OH, OK, OR, PA, RI, SC, TN, TX, UT, VT, WA, WV, WI, WY
	No answer	10	AL, AK, AR, CA, ID, IA, ME, MD, MT, VA
	Total	45	

9a. Name of authorizing order or document — Date Initiated/Revised
(Use separate sheet if required)

** **
Please send a copy of each form to the NRRI
** **

9b. Are the automatic adjustment clauses used exclusively for small water utilities?
1 - Yes
2 - No, they also apply to _____

Response	Total	Staffers' Commissions
1	0	
2	10	AR, CT, FL, HI, IN, KY, PA, TX, WV, WI
No answer	35	AL, AK, AZ, CA, CO, DE, ID, IL, IA, KS, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, UT, VT, VA, WA, WY
Total	45	

9c. Has the use of automatic adjustment clauses:

Yes	No	
1	2	Saved commission staff time
1	2	Shortened formal hearing time
1	2	Lowered the commission's cost of processing rate cases
1	2	Lowered the utilities' cost of applying for rate relief
1	2	Other: _____

Effect	Response	Total	Staffers' Commissions
Saved staff time	1	9	CT, FL, HI, IN, KY, PA, TX, WV, WI
	2	1	AR
	No answer	35	AL, AK, AZ, CA, CO, DE, ID, IL, IA, KS, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, UT, VT, VA, WA, WY
	Total	45	

9c. (continued)

Effect	Response	Total	Staffers' Commissions
Shortened hearing time	1	7	FL, HI, IN, KY, PA, TX, WV
	2	2	AR, WI
	No answer	36	AL, AK, AZ, CA, CO, CT, DE, ID, IL, IA, KS, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, UT, VT, VA, WA, WY
	Total	45	
Lowered commission cost	1	9	AR, CT, FL, HI, IN, KY, PA, TX, WV
	2	1	WI
	No answer	35	AL, AK, AZ, CA, CO, DE, ID, IL, IA, KS, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, UT, VA, VT, WA, WY
	Total	45	
Lowered utility cost	1	10	AR, CT, FL, HI, IN, KY, PA, TX, WV, WI
	2	0	
	No answer	35	AL, AK, AZ, CA, CO, DE, ID, IL, IA, KS, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, UT, VA, VT, WA, WY
	Total	45	

9c. (Continued)

Effect	Response	Total	Staffers' Commissions
Other	1	0	
	2	0	
	No answer	45	AL, AK, AZ, AR, CA, CO, CT, DE, FL, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, PA, RI, SC, TN, TX, UT, VT, VA, WA, WV, WI, WY
	Total	45	

9d. Do you have any specific recommendations that you feel would improve the use of automatic adjustment clauses for small water utility rate case applications?

Recommendations	Total	Staffers' Commissions
No	6	AR, CT, FL, TX, WI, WV
Yes	4	IN, HI, KY, PA
Not applicable/ no answer	35	AL, AK, AZ, CA, CO, DE, ID, IL, IA, KS, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, RI, SC, TN, UT, VT, VA, WA, WY
Total	45	

9e. When and how was use of automatic adjustment clauses for small water utilities implemented at your commission?

WHEN \ HOW	Statute	Rule	Internal	No response	Subtotals
1979-1982	CT, FL	IN, WV	KY, PA	HI	7
1975-1978	--	--	WI	--	1
Earlier than 1975	--	--	--	--	0
Undated	--	--	TX	AR, NC	3
Subtotals	2	2	4	3	11

Not applicable:	AL, AK, AZ, CA, CO, DE, ID, IL, IA, KS, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, OH, OK, OR, RI, SC, TN, UT, VT, VA, WA, WY	
Subtotal		34
Total		45

9f. Would it be useful for your comission to begin/expand use of automatic adjustment clauses for small water utilities?

1 - not useful
2 - of some use
3 - very useful
4 - don't know

Why?_____

	Response	Total	Staffers' Commissions
Begin	1	19	AL, CA, CO, DE, ID, IL, LA, MD, MI, MO, MT, NV, NH, OH, SC, UT, VT, WA, WY
	2	5	ME, NJ, OK, TN, VA
	3	3	AZ, NM, NY
	4	5	AK, MS, NC, OR, RI
	No response	3	IA, KS, MA
	Subtotal	35	
Expand	1	5	HI, IN, KY, TX, WI
	2	2	AR, CT
	3	1	WV
	4	1	FL
	No response	1	PA
	Subtotal	10	
	Total	45	

9g. If your commission is not now using automatic adjustment clauses for small water utilities, is it planning to do so within the next two years?
1 - Yes
2 - No

Response	Total	Staffers' Commissions
1	2	HI, NY
2	22	AK, CA, CO, DE, ID, IL, ME, MD, MA, MI, MS, MT, NV, NJ, NM, OH, OR, SC, TN, VA, VT, WA
No answer	21	AL, AR, AZ, CT, FL, IN, IA, KS, KY, LA, MO, NH, NC, OK, PA, RI, TX, UT, WI, WV, WY
Total	45	

SECTION VI: OTHER WAYS OF DEALING WITH SMALL WATER UTILITIES

10. Has your commission developed any other practices or procedures for dealing specifically with small water utilities other than those discussed in sections II, III, IV and V?
1 - Yes
2 - No

If you answered yes to question 10, please answer 10a through 10e. If you answered no, skip to 10f.

Response	Total	Staffers' Commissions
1	9	CT, FL, KY, MO, NJ, NY, OH, OR, WV
2	30	AL, AK, AZ, AR, CA, CO, DE, HI, ID, IL, IN, LA, ME, MD, MS, MT, NV, NH, NM, NC, OK, SC, TN, TX, UT, VT, VA, WA, WI, WY
No answer	6	IA, KS, MA, MI, PA, RI
Total	45	

10a. Please describe the other practices or procedures your commission has developed to deal specifically with small water utilities.

10b. Are these other practices or procedures used exclusively for small water utilities?
1 - Yes
2 - No, they also apply to _____

Response	Total	Staffers' Commissions
1	4	CT, FL, NJ, WV
2	3	MO, OH, OR
No answer	38	AL, AK, AZ, AR, CA, CO, DE, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, MT, NV, NH, NM, NY, NC, OK, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY
Total	45	

10c. Has the use of these other practices or procedures for small water utilities:

Yes	No	
1	2	Saved commission staff time
1	2	Shortened formal hearing time
1	2	Lowered the commission's cost of processing rate cases
1	2	Lowered the utilities' cost of applying for rate relief
1	2	Other: _____

Effect	Response	Total	Staffers' Commissions
Saved staff time	1	4	FL, NY, OH, WV
	2	2	NJ, OR
	No answer	39	AL, AK, AZ, AR, CA, CO, CT, DE, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NM, NC, OK, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY
	Total	45	

10c. (Continued)

Effect	Response	Total	Staffers' Commissions
Shortened hearing time	1	6	FL, MO, NY, OH, OR, WV
	2	2	CT, NJ
	No answer	37	AL, AK, AZ, AR, CA, CO, DE, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, MT, NV, NH, NM, NC, OK, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY
	Total	45	
Lowered Comm. Cost	1	6	FL, MO, NY, OH, OR, WV
	2	1	NJ
	No answer	38	AL, AK, AZ, AR, CA, CO, CT, DE, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, MT, NV, NH, NM, NC, OK, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY
	Total	45	
Lowered utility cost	1	6	CT, FL, NY, OH, OR, WV
	2	1	NJ
	No answer	38	AL, AK, AZ, AR, CA, CO, DE, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MO, MT, NV, NH, NM, NC, OK, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY
	Total	45	

10c. (Continued)

Effect	Response	Total	Staffers' Commissions
Other	1	1	WV
	2	0	
	No answer	44	AL, AK, AZ, AR, CA, CO, CT, DE, FL, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MS, MO, MT, NV, NH, NJ, NM, NY, NC, OH, OK, OR, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY
	Total	45	

10d. Do you have any specific recommendations that you feel would improve the use of other practices or procedures for small water utility rate case applications?

Recommendations	Total	Staffers' Commissions
No	2	NJ, OH
Yes	2	CT, WV
No answer	5	FL, KY, MO, NY, OR
Not applicable	36	AL, AK, AZ, AR, CA, CO, DE, HI, ID, IL, IN, IA, KS, LA, ME, MD, MA, MI, MS, MT, NV, NH, NM, NC, OK, PA, SC, RI, TN, TX, UT, VT, VA, WA, WI, WY
Total	45	

10e. When and how was use of these other practices and procedures for small water utilities implemented at your commission?

	Statute	Rule	Internal	No Response	Totals
1979-1982	CT	--	FL, WV	--	3
1975-1978	--	--	NJ	--	1
Earlier than 1975	--	--	MO	--	1
Undated	--	--	OH	KY, OR, NY	4
Subtotals	1	0	5	3	9

No response or not applicable:	AL, AK, AZ, AR, CA, CO, DE, HI, ID, IL, IN, IA, KS, LA, ME, MD, MA, MI, MS, MT, NV, NH, NM, NC, OK, PA, RI, SC, TN, TX, UT, VT, VA, WA, WI, WY	
Subtotal		36
Total		45

10f. Is it/would it be useful for your commission to have these other practices or procedures for small water utilities?

1 - not useful
2 - of some use
3 - very useful
4 - don't know

Why? _____

	Response	Total	Staffers' Commissions
Is	1	0	
	2	1	CT
	3	3	FL, OH, WV
	4	1	OR
	No answer	4	MO, NJ, NY, PA
	Subtotal	9	

10f. (Continued)

	Response	Total	Staffers' Commissions
Would	1	9	AR, CA, CO, IL, MD, NH, VA, WA, WI
	2	4	ID, MI, MS, TX
	3	3	IN, NC, TN
	4	1	DE
	No answer	29	AL, AK, AZ, FL, HI, IL, IA, KS, KY, LA, ME, MA, MO, MT, NV, NJ, NM, NY, OH, OK, OR, PA, RI, SC, TN, UT, VT, WV, WY
	Total	45	

10g. If your commission is not now using these other practices or procedures for small water utilities, is it planning to do so within the next two years?
1 - Yes
2 - No

Response	Total	Staffers' Commissions
1	2	ID, TN
2	18	AK, AR, CO, DE, IL, KY, ME, MD, MI, MS, MT, NH, NC, TX, VT, VA, WA, WI
No answer	25	AL, AZ, CA, CT, FL, HI, IN, IA, KS, LA, MA, MO, NV, NJ, NM, NY, OH, OK, OR, PA, RI, SC, UT, WV, WY
Total	45	

SECTION VII: IMPROVEMENTS AND RESEARCH

11. What one change would you recommend to improve your commission's handling of small water utility rate case applications?

Response	Total	Staffers' Commissions
Major change	3	ID, NM, NC
Simplified forms or procedures	11	AL, AK, DE, FL, IN, ME, MD, MA, OH, TN, UT
Modify existing procedures	11	AZ, CA, HI, KY, MS, MO, NJ, SC, TX, VA, VT
Improve water utility management	3	CO, CT, OK
Improve commission capability	4	IL, NV, OR, WI
Other	1	HI
No change	10	AR, KS, LA, MT, NH, NY, PA, RI, WV, WY
No response	2	IA, WA
Total	45	

12. Based upon your experience in regulating small, medium, and large water utilities, what kind of research ON ANY TOPIC would be useful to you?

Response	Total*	Staffers' Commissions
Rate design	15	AZ, CA, DE, FL, ID, IL, ME, MT, NC, OH, OR, PA, RI, VT, WI
Rate base issues	11	AL, AK, FL, HI, IA, ME, OK, PA, TN, TX, WY
Financing	3	NH, RI, TX
Customer usage	3	AR, DC, WI
Water supply and quality	3	MD, RI, VA
General	1	OH
Other	6	DE, FL, IA, MO, OR, PA

*Total does not add to 45 because of multiple responses.

13. What are the three biggest problems facing you today in water utility regulation?

Response	Total*	Staffers' Commissions
Size of utilities	3	AR, MI, WI
Utility finances	16	AK, AR, DE, FL, IN, IA, KY, ME, MD, MT, NH, NY, OH, VT, WV, WY
Poor utility service	8	CT, MD, NY, NC, OH, SC, WV, WY
Lack of utility management expertise	9	CT, IN, KY, NH, TN, TX, VA, WV, WI
Poor record keeping	8	AK, AZ, CT, IN, LA, NC, VA, WA,
Problems in regulation	10	AZ, DE, HI, ID, IA, MD, NH, OR, TN, WI
Commission resources	9	FL, IL, NC, OR, PA, TN, TX, VA, WI
Water quality and supply	8	FL, IN, IA, ME, MA, MT, OH, VT

*Total does not add to 45 because of multiple responses.

SECTION VIII: INFORMATION

14. What kind of information about the activities of other state commissions would you like to have on a regular basis that you do not now regularly receive?

Response	Total*	Staffers' Commissions
Regulation of small water utilities	9	CA, CT, FL, HI, MA, NM, OR, WA, WV
Rate base	7	AK, IN, IA, KY, MO, NY, WY
Rate of return	2	KY, MO
Rate design	4	AK, CA, ME, OK
Costs	5	CO, DE, KY, MD, NC
Consumption patterns	2	CA, CO
Service quality	1	WV
Utility management	3	IN, WA, WV
Water quality and supply	3	HI, IN, RI
Any	2	PA, RI
None	3	AR, MS, NV
Not currently receiving any	5	AZ, OH, TN, UT, VA

*Total does not add to 45 because of multiple responses.

15. What are your primary sources of information on the regulation of water utilities?

Response	Total*	Staffers' Commissions
NARUC and NARUC products	27	AL, AZ, CA, CO, CT, DE, HI, IL, IA, ME, MD, MA, MS, MO, NV, NH, NJ, NY, OR, PA, RI, SC, TN, VT, VA, WV, WI
NRRI	5	CO, HI, NY, OH, WV
Trade associatons and their publications	21	AZ, CA, CT, DE, HI, IA, ME, MD, MS, MO, MT, NH, NM, OH, OR, PA, TN, VT, VA, WV, WI
Own state	11	AL, AR, CO, FL, IL, IN, KY, MA, MT, NM, SC
Publications	5	AK, CA, DE, OK, WV
Other	4	AR, CO, PA, WV

*Total does not add to 45 because of multiple responses.

16. The National Regulatory Research Institute (NRRI) publishes on a quarterly basis a Quarterly Bulletin recently expanded to include information about recent water utility rate cases and water research projects. Please circle the statement that most accurately describes your use of the Quarterly Bulletin.

1 - I have used the Quarterly Bulletin in a commission proceeding.
2 - I have used information in the Quarterly Bulletin to contact a staff person in another commission for information.
3 - I have kept informed of other states' regulatory activities through the Quarterly Bulletin.
4 - I have seen the Quarterly Bulletin but never used it.
5 - I have never seen the Quarterly Bulletin.

Response	Total	Staffers' Commissions
1	0	
2	1	KY
3	5	HI, MD, TX, VT, WY
4	9	AL, LA, MS, MT, NH, NM, NC, OK, OR
5	24	AK, AR, CA, CO, CT, DE, FL, ID, IL, IN, IA, ME, MI, MO, NV, NJ, OH, PA, SC, TN, VA, WA, WV, WI
No response	6	AZ, KS, MA, NY, RI, UT
Total	45	

17. If you do not receive the NRRI Quarterly Bulletin, would you like to?

_____Yes, I would like to receive the Quarterly Bulletin at no charge. Mail it to:

Response	Total	Staffers' Commissions
Yes	23	AL, AR, CA, CT, DE, ID, IL, IN, IA, KS, MS, MO, NV, NM, OH, OR, PA, RI, SC, VA, WA, WV, WI
No	3	FL, OK, TN
No response	19	AK, AZ, CO, HI, KY, LA, ME, MD, MA, MI, MT, NH, NJ, NY, NC, TX, UT, VT, WY
Total	45	

SECTION IX: TRAINING

18. Do you or your staff need advanced training that would improve your ability to deal with issues in water utility regulation?
1 - Yes
2 - No

18a. If you answered yes, what issues and what kind of training?

Response	Total	Staffers' Commission
1	28	AL, AZ, CA, CO, CT, DE, FL, IN, KY, LA, MA, MS, MO, MT, NV, NJ, NM, NY, NC, OH, RI, SC, TX, UT, VA, WV, WI, WY
2	16	AR, HI, IA, ID, IL, KS, ME, MD, MI, NH, OK, OR, PA, TN, VT, WA
No answer	1	AK
Total	45	

18b. If you answered yes, would your commission be willing to pay for:

Yes	No	Don't Know	
1	2	3	Tuition
1	2	3	Travel

	Response	Total	Staffers' Commissions
Tuition	1	18	AL, AZ, CA, CT, DE, IN, KY, LA, MO, MT, NV, NM, NY, SC, TX, UT, VA, WV
	2	4	CO, FL, NC, OH
	3	4	MA, MS, NJ, WI
	No answer	19	AK, AR, HI, ID, IL, IA, KS, ME, MD, MI, NH, OK, OR, PA, RI, TN, VT, WA, WY
	Total	45	
Travel	1	18	AL, AZ, CA, CT, DE, IN, KY, LA, MO, MT, NV, NM, NY, SC, TX, UT, VA, WV
	2	4	CO, FL, NC, OH
	3	4	MA, MS, NJ, WI
	No answer	19	AK, AR, HI, ID, IL, IA, KS, ME, MD, MI, NH, OK, OR, PA, RI, TN, VT, WA, WY
	Total	45	

19. You have been identified as the person to contact for general issues in water utility regulation at your commission. Who would be the correct person to contact if we wanted to obtain information specifically on water rate design?
1 - Me
2 - Other (name and title):_____
3 - Me & Other _____

Response	Total	Staffers' Commissions
1	21	AL, AZ, AR, CO, CT, IN, LA, ME, MD, MI, MT, NH, NC, OR, PA, SC, TX, UT, VT, VA, WI
2	17	AK, CA, DE, FL, HI, ID, IA, KY, MA, NV, NM, NY, OH, TN, WA, WV, WY
3	5	IL, KS, MO, NJ, OK
No answer	2	MS, RI
Total	45	

APPENDIX C

ILLINOIS COMMERCE COMMISSION
SIMPLIFIED FORMS

Illinois allows rates to go into effect for small water utilities if they pass a staff review. The "short form" and customer notice form to be filled out by the companies are reproduced here. (See p. 57-59 for discussion of Illinois' simplified procedures.)

FORM PUD 13-A (7 sheets)

INSTRUCTIONS FOR SIMPLIFIED RATE PROCEDURES

1. Complete Form A with appropriate financial and operational data. Report information for the calendar year ending December 31, 19__.

2. Return one copy of Form A to:

   Chief Water Engineer
   Illinois Commerce Commission
   527 East Capitol Avenue
   Springfield, Illinois 62706

3. Retain one copy of Form A for your records.

NOTICE

1. Filings are processed generally in the order that they are received. You will receive an acknowledgement of the receipt of Form A.

2. Acceptable accounting and property records must be maintained.

3. Failure to have obtained approval of affiliated interest transactions may result in certain operating expenses or capital expenditures being excluded from rate consideration.

4. Staff assistance may be obtained by writing to the above address or phoning (217) 785-5436.

FORM PUD 13-A-1

COMPANY INFORMATION

1. Trade name used for utility business _____
2. Name of owner (if different from trade name) _____
3. Business mailing address _____
   City and State _____ Zip Code _____
4. Business street address (if different from mailing address) _____
   _____
5. Business Telephone number _____
6. If corporation, list the following:
   President _____ Vice President _____
   Secretary _____ Treasurer _____
   Other Officers _____
   In what state is firm incorporated? _____ What Yr.? _____
   List three (3) largest stockholders, and percent of voting shares held by each: _____
   _____
7. If partnership, list the owners, and percent of ownership held by each: _____
   _____
8. Year company first began utility service: _____

PERSONS TO CONTACT

	NAME	ADDRESS	TELEPHONE
General Manager			
Complaints or Billing			
Engineering Operations			
Emergency Service			
Accounting			

CUSTOMERS SERVED	Water	Sewerage
Residential customers (end of year)		
Non-residential customers (end of year)		

PROPOSED RATES

In the space below show the rates you are requesting.

CERTIFICATION

I hereby certify that the information contained in this report is true to the best of my knowledge and belief.

_____ _____

Date Signature

Utility_____

Balance Sheet
Historical Test Year ended December 31, 19__
Assets and Other Debits

Line No.	Title of Account	Page No.	Balance End of Year
1	UTILITY PLANT		$ x x x x x x
2	Utility Plant (101-107) (117)	113	
3	Less Accumulated Provisions for Depr., Amort.,		
4	and Depletion (111-116, 118)	113	
5	Net Utility Plant		
6	Other Utility Plant Adjustments (119)		
7	OTHER PROPERTY AND INVESTMENTS		x x x x x x x
8	Nonutility Property (121) (less Accum. Depr.		
9	and Amort. included in (122), ($)		
10	Investments in Associated Companies (123)	201	
11	Other Investments (124)	201	
12	Special Funds (125, 126, 128)	203	
13	Total Other Property and Investments		
14	CURRENT AND ACCRUED ASSETS		x x x x x x x
15	Cash (131)		
16	Special Deposits (132-134)	204	
17	Working Funds (135)		
18	Temporary Cash Investments (136)	201	
19	Notes and Accounts Receivable (141-143) (Less		
20	Accum. Provision for Uncollectible Accounts,		
21	Credit (144) ($)	205	
22	Receivables from Associated Companies (145-146)	208	
23	Material and Supplies (151-163)	209	
24	Prepayments (165)	210	
25	Interest and Dividends Receivable (171)		
26	Rents Receivable (172)		
27	Accrued Utility Revenues (173)		
28	Miscellaneous Current and Accrued Assets (174)	210	
29	Total Current and Accrued Assets		
30	DEFERRED DEBITS		x x x x x x x
31	Unamortized Debt Discount and Expense (181)	212	
32	Extraordinary Property Losses (182)	211	
33	Preliminary Survey and Investigation		
34	Charges (183)	213	
35	Clearing Accounts (184)	214	
36	Temporary Facilities (185)		
37	Miscellaneous Deferred Debits (186)	215	
38	Total Deferred Debits		
39	Total Assets and Other Debits		

Note: The utility may substitute this form with an appropriate copy of the utility's "Balance Sheet" from its annual report.

Utility_____

Balance Sheet
Historical Test Year ended December 31, 19__
Assets and Other Debits

Line No.	Title of Account	Page No.	Balance End of Year
1	PROPRIETARY CAPITAL		$ x x x x x x x
2	Common Stock Issued (201)	216	
3	Preferred Stock Issued (204)	216	
4	Capital Stock Subscribed (202,205)	217	
5	Stock Liability for Conversion (203,206)	217	
6	Premium on Capital Stock (207)	217	
7	Other Paid-In Capital (208-211)	218	
8	Installments Received on Capital Stock (212)	217	
9	Discount on Capital Stock (213)	219	
10	Capital Stock Expense (214)	219	
11	Earned Surplus (215,216)		
12	Reacquired Capital Stock (217)		
13	Total Proprietary Capital		
14	LONG-TERM DEBT		$ x x x x x x x
15	Bonds (221)(Less $_____(Reacquired)(222)	220	
16	Advances from Associated Companies (223)	220	
17	Other Long-Term Debt (224)	220	
18	Total Long-Term Debt		
19	CURRENT AND ACCRUED LIABILITIES		$ x x x x x x x
20	Notes Payable (231)	221	
21	Accounts Payable (232)		
22	Payable to Associated Companies (233,234)	222	
23	Customer Deposits (235)		
24	Taxes Accrued (236)	224	
25	Interest Accrued (237)	223	
26	Other Current and Accrued Liabilities (238-242)	223	
27	Total Current and Accrued Liabilities		
28	DEFERRED CREDITS		$ x x x x x x x
29	Unamortized Premium on Debt (251)	212	
30	Customer Advances for Construction (252)	223	
31	Other Deferred Credits (253)	225	
32	Unamortized Investment Credit (254)	225	
33	Total Deferred Credits		
34	OPERATING RESERVES		$ x x x x x x x
35	Property Insurance Reserve (261)	226	
36	Injuries and Damages Reserve (262)	226	
37	Pensions and Benefits Reserve (263)	226	
38	Miscellaneous Operating Reserves (265)	226	
39	Total Operating Reserves		
40	CONTRIBUTIONS IN AID OF CONSTRUCTION		$ x x x x x x x
41	Contributions in Aid of Construction (271)	227	
42	ACCUMULATED DEFERRED INCOME TAXES		$ x x x x x x x
43	Accelerated Amortization (281)	228	
44	Liberalized Depreciation (282)	228	
45	Other (283)	228	
46	Total Accumulated Deferred Income Taxes		
47	TOTAL LIABILITIES AND OTHER CREDITS		

RECORDED COST OF UTILITY PROPERTY IN SERVICE
Historical Test Year

(Note: List the total original cost to construct and establish the system whether or not paid for by the present owner.)

Line No.		Test Year Balance at Dec. 31, 19___
	Water Property in Service (If none on item, write "None")	
1.	Intangible Plant	$
2.	Source of Supply Plant	
3.	Pumping Plant	
4.	Water Treatment Plant	
5.	Transmission & Distribution Plant	
6.	General Plant	
7.	Total Water Property in Service	$
	Sewerage Property in Service (If none on item, write "None")	
8.	Intangible Plant	$
9.	Collection Plant	
10.	Pumping Plant	
11.	Treatment & Disposal Plant	
12.	General Plant	
13.	Total Sewerage Property in Service	$
	Common Plant In Service (If none on item, write "None")	
14.	Office Equipment, Trucks, etc.	$
15.	Total utility property (Line 7, 13, 14)	$
16.	Less: Accumulated Depreciation	
	Tap on Fees and Contributed Plant	
	Customer Advances	
17.	Net Investment in Utility Property in Service	$

Utility _____
Statement of Income
For Historical Test Year ended December 31, 19__

Line No.	Account	Test Year Water	Test Year Sewer
1	UTILITY OPERATING INCOME		
2	Operating Revenues (Account 400)	$	$
3	Operating Expenses:		
4	Operation Expense (401)		
5	Maintenance Expense (402)		
6	Depreciation Expense (403)		
7	Amortization of Limited-Term Utility Plant (404)		
8	Amortization of Other Utility Plant (405)		
9	Amortization of Utility Plant Acq. Adj. (406)		
10	Amortization of Property Losses (407)		
11	Amortization of Investment Credit - Credit (407.1)		
12	Taxes Other Than Income Taxes (408)		
13	Income Taxes - Federal (409)		
14	Other Income Taxes (409)		
15	Provision for Deferred Income Taxes (410)		
16	Income Taxes Deferred in Prior Years - Credit (411)		
17	Total Operating Expenses		
18	Net Operating Revenues		
19	Income from Utility Plant Leased to Others (412,413)		
20	Utility Operating Income		
21	OTHER INCOME		
22	Income from Merchandising, Jobbing and Contract		
23	Work (415,416)		
24	Income from Nonutility Operations (417)		
25	Nonoperating Rental Income (418)		
26	Interest and Dividend Income (419)		
27	Miscellaneous Nonoperating Income (421)		
28	Total Other Income		
29	Total Income	$	$
30			
31	MISCELLANEOUS INCOME DEDUCTIONS	$	$
32	Miscellaneous Amortization (425)		
33	Other Income Deductions (426)		
34	Total Income Deductions		
35	Income before Interest Charges		
36	INTEREST CHARGES		
37	Interest on Long-Term Debt (427)		
38	Amortization of Debt Discount and Expense (428)		
39	Amortization of Premium on Debt - Credit (429)	( )	
40	Interest on Debt to Associated Companies (430)		
41	Other Interest Expense (431)		
42	Interest Charged to Construction - Credit (432)	( )	
43	Total Interest Charges		
44	Net Income		

Note: The utility may substitute the above form with an appropriate copy of its "Statement of Income for the Year" from its annual report.

Utility_____
Supplementary Information to the Statement of Income
For Historical Test Year ended December 31, 19__

	Revenues	Test Year Water	Test Year Sewerage
1.	Residential service	$_____	_____
2.	Non-residential service	$_____	_____
3.	Other revenues (describe in remarks below)	$_____	_____
4.	Total Revenues	$_____	_____

	Expenses	Number of Employees	Total Annual Wages
5.	Total office salaries (except owner/manager)	_____	$_____
6.	Total field salaries (except owner/manager)	_____	$_____
7.	Salaries paid to owner/manager	_____	$_____

Remarks

Optional
Expected Changes to Plant and
Expenses Listed on Forms 13-A-2 Through 4
Which the Company Seeks to be Considered

1. List below known and/or expected changes to the balance sheet - FORM PUD 13-A-2.

   1)

   2)

   3)

   4)

   5)

2. List below known and/or expected changes to plant in service amounts listed on FORM PUD 13-A-3.

   1)

   2)

   3)

   4)

   5)

3. List below known and/or expected changes to expenses incurred during the test year as set forth on FORM PUD 13-A-4.

   1)

   2)

   3)

   4)

   5)

FORM PUD 13-B

SAMPLE CUSTOMER NOTICE

Dear Customer:

This letter is to provide Notice to you that (Name of Utility) intends to request an increase in (water/sewer) rates from the Illinois Commerce Commission. The total increase we will be requesting is approximately _____% more than the rates presently charged by the company. For your information, we have compared our present rates to those which we will be seeking from the Commission. Tabulated below are the principal rates presently in effect compared with those we intend to request. Our present rates have been in effect since _____.

RATES
(Present and Proposed Rates to be Typed In)

Section 36 of the Illinois Public Utilities Act states that no utility may raise its rates without filing such rates with the Illinois Commerce Commission and giving the Commission 30 days notice of the proposed change(s) in rates. The burden of proof of justifying the requested rates rests upon us.

You may wish to call to the Commission's attention any problems you have experienced concerning (water/sewer) service, billing procedures or other factors pertaining to the determination of reasonable charges for our service. You must contact the Commission by phone or letter within 21 days. The Commission staff will investigate matters brought to its attention in the course of its evaluation of our proposed rates. Address all correspondence concerning this company to:

Chief Water Engineer
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, Illinois 62706

or call (217) 785-5436.

You will not receive any further notice concerning this request for a rate increase unless you indicate your interest by contacting the Illinois Commerce Commission.

Very truly yours,

_____
(Company officer and title)

APPENDIX D

NORTH CAROLINA UTILITIES COMMISSION
STATUTE PROVIDING FOR
SIMPLIFIED RATE PROCEDURES

North Carolina permits rate changes to go into effect for small water utilities in the absence of strong consumer objection (see p. 60). The statute instituting North Carolina's simplified procedure is reproduced in this appendix.

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 1981
RATIFIED BILL

CHAPTER 439

HOUSE BILL 530

AN ACT TO MAKE RATE-SETTING HEARINGS NONMANDATORY WHEN THERE IS NO SIGNIFICANT PUBLIC PROTEST AND ALL PARTIES ARE IN AGREEMENT.

The General Assembly of North Carolina enacts:

Section 1. G.S. 62-81 is amended by adding a new subsection to read:

"(f) Notwithstanding the provisions of this section, or other provisions of this Chapter which would otherwise require a hearing, where there is no significant public protest received within 30 days of the publication of notice of a proposed rate change for a water or sewer utility, the commission may decide the proceeding based on the record without a trial or hearing, provided said utility and all other parties of record have waived their right to any such hearing. Any decision made pursuant to this subsection shall be made in accordance with the provisions of G.S. 62-133 or G.S. 62-133.1."