Iowa-American Water Company’s
Comments In Response to Policy Charrette #1 Discussion

Iowa-American Water Company (Company or Iowa-American) appreciates the opportunity to participate in this docket, NOI-2023-0001, and the discussion that occurred on August 20-31st regarding comments received on Policy Charrette #1. The procedural schedule provides the option to file additional comments by September 7, 2023. Iowa-American provides additional commentary below on a few key discussion points.

**WATER SPECIFIC QUESTIONS - ADDITIONAL COMMENTS**

Day one prompts allowed for discussion on water specific issues. Iowa-American will address each of those specific questions below.

1.) **What specific criteria should be used to evaluate the ratemaking procedures for water utilities with respect to the policy objectives?**

   a. **What makes the water industry similar or different enough from the electric or gas industries to justify having similar or separate ratemaking procedures?**

   The Company continues to support those statements included in its comments filed on August 23, 2023 and takes this opportunity to reiterate Iowa-American’s commitment to the
quality and reliability of its service, with water being the only utility ingested by utility customers. Accordingly, the increasingly stringent water quality standards are a critical consideration in how the Company operates its business, are unique to the water and wastewater industry, and must be considered as part of this utility ratemaking review.

Any ratemaking procedure needs to consider the specialized issues in not just water and wastewater utilities, but all the differences of the various utility services. Water and wastewater regulation continues to involve more stringent standards at the local, state, and federal levels. To effectively and efficiently accomplish continued compliance in these matters while mitigating impacts to customers, the adoption of more dynamic riders and trackers can help promote these objectives. The electric and natural gas industries have implemented and are utilizing multiple mechanisms to address the needs of those industries. However, similar mechanisms have not been utilized or approved for the water and wastewater industries to the same extent. Iowa-American believes recognizing this disparity and addressing it will allow the Board to apply these or similar tools to the water and wastewater industries based on their distinct needs for both customers and the Company.

2.) Should water utilities be required to submit long-term plans for expanding service areas, investing in infrastructure changes, and other services, and why?

Capital investment and asset management planning are important parts of Iowa-American’s ongoing operations and those of the utility business generally. However, requiring water utilities to submit long-term plans for expanding service areas, investing in infrastructure changes, and other services to the Board is not necessary. Iowa-American files regular rate cases which provide the Board and interested stakeholders insight into the investments the Company is making to support the provision of safe and reliable service. The long-term plans for electric
utilities, in particular, often focus on the costs of generation to evaluate generation resource alternatives from a cost perspective. Water utilities do not face the same types of options in relation to their supply of water. A capital infrastructure mechanism that includes approval of a multi-year capital plan would provide benefits to both a water utility and its customers. Future looking capital modeling and recovery provides transparency in capital planning and an opportunity for stakeholders to gain a greater appreciation for the planning involved in selecting and prioritizing capital projects. Water utilities benefit from timely recovery to support future, efficient capital deployment. Proactive investment deployment is less expensive than reactive capital spending. Future test years and multi-year rate plans also provide insight into a utility’s future plans for expansion and investment.

Additionally, because planning information contains sensitive data regarding security and other safety-related issues, it is important for utilities to control access to information about existing supplies, facilities and plans for new facilities. Any legislative change to require utilities to submit long-term plans should recognize the confidential nature of those plans and should explicitly limit access and protect the confidentiality that protects the utility, the areas the utility serve, and the customers.

3.) Comments in the responses to the charrette prompts proposed that advance ratemaking mechanisms should be adopted for water utilities. What specific
investment categories do you believe should be covered by advanced ratemaking mechanisms for water utilities?

Iowa-American believes that advance ratemaking mechanisms should be adopted for water and wastewater utilities, especially in the areas of capital investments in infrastructure (those not intended to produce additional revenues), acquisitions, and certain expenses.

○ Please explain why this aligns with the legislative intent of advanced ratemaking?

The Iowa Legislature urged the Board to review the current laws and procedures to verify that the current policy objectives of ensuring safe, adequate, reliable, and affordable utility services provided at rates that are nondiscriminatory, just, reasonable, and based on the utility’s cost of providing service to the customer of Iowa.¹ Advance ratemaking associated with infrastructure investments supports these policy objectives by more efficiently and timely reflecting new capital investments in customer rates and more accurately reflecting the cost of providing service to customers. Rate cases are important regulatory tools in balancing the interests of customers and public utilities. However, aging infrastructure and increasingly stringent regulatory standards in the water industry are requiring larger capital investments to help ensure reliable service can be maintained. This growing capital investment, absent advance ratemaking mechanisms, requires frequent rate cases primarily to reflect the incremental capital investment that is in service providing benefits to customers. Rate cases are costly and require significant resources to pursue and recover these costs—both financial and human resources— which should not need to be expended when the primary driver of rate cases is reflecting new capital investments in a utility’s system that are serving customers. Additionally, these costs can be smoothed into rates, in a fashion

¹ House File 617, Section 1.1.
that has much smaller impacts on customers over time, through an infrastructure mechanism. Iowa-American is not advocating adoption of infrastructure mechanisms in order to extend the periods between rate cases, but because they are in the long-term best interests of customers, in that they support the efficient deployment of capital investments to help reduce or otherwise mitigate costs over time.

Policy objectives in water compliance for acquisitions is another area that needs review. Iowa-American believes that for small community systems that are no longer interested or able to provide water and wastewater services, Iowa needs a streamlined acquisition process to help protect the public health and safety of its citizens through the provision of safe and reliable water and wastewater service.

- **What would be the benefit and potential consequences from adopting advance ratemaking mechanisms? How would this change align with the policy objectives in House File 617.**

Iowa has been a leader in adopting advance ratemaking initiatives for the non-water and wastewater utilities. Trackers and mechanisms are widely used for pass-through costs (like fuel and production), energy efficiency programs, renewable programs, and several others. Iowa-American is requesting consideration of applying those tools to the water and wastewater industry. By implementing a tracker for costs such as production costs, the customers pay no more and no less for expenses incurred to support the continued provision of safe and reliable service to customers as required by federal and state regulations. This aligns the water and wastewater industry with the policies and mechanisms already deemed appropriate in the electric and gas industries. The water and wastewater industry and its customers should not be any different. Enhancing the current Qualified Infrastructure Plan (QIP) surcharge mechanism to include both
debt and equity and to do away with the spend threshold, while expanding it to include other critical categories such as above ground infrastructure, is another opportunity that should be explored. Environmental riders for more specific water regulation driven policies like lead and copper rule compliance, as well as PFAS (polyfluoroalkyl substances) and other “forever” chemicals is another area that needs to be considered. Iowa-American will provide additional information on specific ratemaking laws or procedures in other states or proposals in subsequent both Charette #2 and Charrette #3 discussions.

4.) In Written Comments, we saw a proposal that the threshold for Board approval of an asset acquisition should be higher than the current $500k threshold for water utilities. What would be the expected benefits and/or potential negative consequences of the threshold being increased? How would such a change complement the policy objectives in the House File?

The legislative intent of this acquisition statute\(^2\) was to create an avenue for cities to sell their water and wastewater systems to a regulated entity. The reasons a city wants to sell can be vast. For example, they may no longer have operators; they may no longer desire to operate the system; they may have received notice of violations from the Iowa Department of Natural Resources; the systems are aging and there is not enough money to repair it, to name a few. Before an application to approve the acquisition is filed with the Board, the city has taken the sale of the system to a vote and the customers of that system have voted to sell their system. Likewise, the utility has made the decision to add these customers into its rate base and to take over operations, maintenance and invest in these systems the city wants to sell. It is a negotiated transaction where the municipality and the utility are in agreement.

\(^2\) Iowa Code Section 476.84.1
The next step in the process is filing an application with the Board. The statute as written applies to all municipalities. In practice, this means that a system with just 100 customer connections receives the exact same treatment as a system with 1000 customers. The current statute does not include a timeline for a decision from the Board. While the acquisition application proceeds through the application process, the cities are likely not investing into the system they no longer desire to operate. The citizens are waiting for action to be taken on the vote they made. On the other hand, the regulated utility is spending time and resources moving the application through the process, and trying to plan its investment both if the acquisition is approved and if it is not. Investment planning is critical in the utility business.

The materiality of adding a small number of connections or customers should be part of the process to implement the policy and a consideration of increasing the threshold. A prolonged and indefinite timeline for a utility system that a municipality no longer wants to operate fails to meet the legislative intent of giving the municipality a way out, and unnecessarily hinders the process, especially for smaller systems. Further, a prolonged timeline for systems with a few hundred customers involving a low purchase price bogs down the regulatory process. A higher threshold would make the process smoother for the smaller systems and allow for a more efficient use of resources by the Board, the Office of the Consumer Advocate (“OCA”), and the acquiring utility. It would also provide the citizens who voted to sell the system assurance. The Board still must approve the tariffs related to a streamlined process for systems below the threshold, and the Board has the opportunity to decide on rates during a rate case where all relevant factors are considered. Treating the systems equally in every situation does not encourage the best use of resources for Iowa-American, the Board, the city, and the OCA.
The one acquisition that has been approved since the statute was enacted took approximately one year before tariffs were in effect. A rate case for an entire utility system has a 10-month limitation. This does not seem equitable or efficient when the utility has committed to the future of the systems which the municipalities are looking to transfer, especially when the health and safety of that community’s water and wastewater system can be an issue. The delay likely pauses the city’s plans to move forward without operating a utility system. This delay in process also causes other cities who might be interested in selling their utility systems to pause before moving forward in future acquisitions. Allowing smaller systems to be acquired in an accelerated process makes sense for Iowa, supports a more stable regulatory environment, and furthers the legislative intent.

5.) In Written Comments, we read a proposal that transaction costs and external expenses in acquisition be included in approval cases for water utilities. How would such inclusions align with the policy objectives in the House File?

In the current statute, the Board must find that the rates are just and reasonable for new and current customers in order to approve an acquisition. The Board must make the same determination in a rate case. Since the burden is the same, recovery should also be the same. Additionally, acquisitions are a cost of doing business and the utility should be able to recover the reasonable costs of doing business in its rates. This is particularly true when the transaction is furthering a policy decision from the legislature. Further, allowing the transaction costs and external expenses in the acquisition to be recoverable holds the Company, the Board, the Office of Consumer Advocate and any other intervenor accountable for the issues raised and positions taken. The Legislature intended to provide cities a path to get out of the utility business and sell the system to a regulated utility. Cost recovery provides an opportunity for those costs to be considered in
proportion to the issues raised and the materiality of those costs. Those costs would be reviewed by the Board for prudence or reasonableness and would help determine whether all stakeholders are upholding the legislative intent of the statute.

**ADDITIONAL COMMENTS REGARDING DAY TWO OF CHARRETTE #1**

During the breakout sessions on Day 2 of the Charrette the following questions were asked in which Iowa-American would like to add additional input:

1.) **Should the Board require reviews of a utility’s cost of service to its customers at certain intervals, such as every 2 or 5 years? Why or why not?**

   The Board should not require a review of a utility’s cost of service to its customers at certain intervals. While a cost-of-service study (COSS) may be an important part of a base rate case, customers receive few if any benefits from incurring the cost of preparing a COSS outside the context of a general rate case. Reallocating rates outside of rate case may cause significant distortions, as the costs being allocated would not be representative of the basis for the updated COSS since the Board would be reallocating the revenue requirement previously found to be appropriate. Furthermore, a COSS can be controversial and generate significant disagreements among customer classes. Given the significant challenges in effectively implementing a revised COSS outside the context of a base rate proceeding, the costs of performing a COSS outside of a base rate case on some other prescribed schedule does not support the efficiency the legislature has called for in setting rates. Evaluating the COSS is best done at the time of a base rate case, when the costs being allocated are being reviewed.

   - **Should there be a limit to how many years a utility can stay out of a rate case?**

   There should not be an arbitrary limit on how many years a utility can stay out of a rate case. A myriad of reasons may exist to justify delaying filing a rate case, including timing around...
significant capital investments, customer affordability, customer growth, etc. An arbitrary time frame locks utility customers into incurring significant costs to pursue a rate case that may be unnecessary. The Board already has the authority to initiate an investigation of any utilities’ rates at any time it sees fit under current regulations.

2.) Multiple comments from the charrette prompts proposed implementing the option for utilities to file for multi-year rate plans (“MYRP”). Under an MYRP, a utility does not file a request for rate changes during an agreed regulatory term (e.g., 5 years). Since the utility’s costs do not remain the same during this regulatory term, attrition relief mechanisms (“ARMs”) serve as a mechanism to recoup costs. Depending on the ARMs used, rates could change during the regulatory term based on either (i) an approved formula (such as an “i-x”), (ii) forecasted costs and revenues, or (iii) a hybrid of these two.

- What are the advantages and disadvantages of using MYRPs? Would the proposed MYRPs from stakeholders follow a cost forecast model or an I-X model? What would be the advantages and disadvantages of each type for Iowa?

Neither Iowa-American nor its affiliates have significant experience with MYRPs. Consequently, Iowa-American does not have a basis to provide significant comments on this question. While MYRPs can strike an appropriate balance between customers and the utility, the proper design of an MYRP is critical to that balance and the MYRP’s effectiveness. Poorly designed MYRPs can shift this balance in ways that are not just and reasonable. Iowa-American may choose to comment on specific proposals related to MYRP designs because of this risk.

3.) How has the introduction of a future test year approach to ratemaking benefited or negatively impacted ratepayers?
The use of future test years for setting rates benefits utility customers over the long-term. The purpose of a test year is to select a period over which to evaluate utility revenues and expenses that are representative of expected ongoing levels for the period during which rates are in effect. Historical test years are fundamentally flawed in that they rely on a historical viewpoint of expenses to set future rates. Change is bound to occur as soon as the historical test year closes, and for that reason jurisdictions that have used historical test years have inevitably allowed numerous adjustments to the historical test year in an effort to correctly estimate future costs and revenues. A properly designed future test year avoids these problems by allowing utilities and their customers to base rates on expected ongoing levels of expenses and revenues. Utilities benefit because they are not forced to wait long periods of time to start recovering the cost of the capital they have invested in infrastructure that is serving customers. Customers benefit because the future period, if designed appropriately, provides more predictability and stability for utilities which supports efficient capital deployment and a financially healthy utility that can attract capital on reasonable terms, which help maintain affordability over time and are in the long-term best interest of customers.

- **In your opinion, what policy objective do the use of future test year address?**

The use of a future test year provides a more reasonable alignment with the actual timing of capital and operating expense, in addition to other objectives. A future test year better matches customer rates with the costs incurred and investments made to provide service to customers.
during the period rates are in effect. It also helps provide rates that are sufficient to recover the reasonable cost of providing service, including a reasonable return of and on capital invested.

  - **Have there been any unintended consequences of using the test year that can be ameliorated with further changes?**

    Iowa-American is not aware of any unintended consequences of using a future test year.

4.) **Should the Board’s authority over rate cases and general rulemaking be expanded?**

   If so, what additional authority or responsibilities should the board be given and why.

   **IF not, please explain?**

   Iowa-American views the Board’s authority to be broad and expansive enough to continue to support the policies of the State of Iowa. The Company believes the Board’s current authority over rate cases and general rulemaking does not need to be expanded, but suggests that the Legislature consider and the Board utilize more mechanisms and trackers to support the utility operations in Iowa.

5.) **Are they regulatory frameworks, ratemaking procedures or legislation in use by other states that would benefit Iowa that the Board should consider?**

   The Company provided specific examples in its initial comments to Policy Charrette #1. Further, we understand that this will be discussed in more detail in Policy Charrette #2 and will reserve our comments for that time.
Respectfully submitted,

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